FACTORS HINDERING THE IMPLEMENTATION OF THE PRIVATIZATION PROGRAM IN KENYA

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DECLARATION:

This research proposal is my original work and has not been presented for the award of a degree in any other university.

Signed. ....Date ..11/10/02..........

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This project has been submitted for examination with my approval as University Supervisor.

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ANGELA KITHINJI

DEDICATION:

This Project is dedicated to my late father Mr. Mutuku Muthusi who understood the need of a good Education and my mother Mrs. Kathoki Mutuku who stood firm and helped me complete my studies thereafter.

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LIST OF ABBREVIATIONS

1.	MIGA	Multilateral Investments Guarantee Agency
2.	KENGEN	Kenya Electricity Generating Company
3.	KPLC	Kenya Power & Lightning Company
4.	PE's	Public Enterprises
5.	SOE's	State Owned Enterprises
6.	ESTU	Executive Secretariat & Technical Unit
7.	PRPC	Parastatal Reform Programme Committee
8.	DGIPE	Department of Government Investments and Public Enterprises
9.	IMF	International Monetary Fund

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ABSTRACT

For the last 10 years or so, many Developing Countries have embarked on Public Sector Reforms aimed at making Public Enterprises profitable and shifting the responsibility for Production and delivery of products and services from the Public to the Private Sector.

Privatization has become very important in many Governments and the IMF and World Bank has been in the forefront in the support of Privatization in many developing countries. This study therefore endeavored to establish what factors have hindered the Implementation of the Privatization program in Kenya.

The Research Methodology was based on Systematic Sampling method. Data was collected from both Primary and Secondary sources. Primary data was collected through Questionnaires and Secondary sources included the Treasury, Journals, Textbooks and Company Annual Reports.

The Findings were that the Privatization Program in Kenya is slow. Many factors were sighted as contributing to this slow pace. They included Lack of proper Guidelines to the process, political interference, lack of Equal playing field in the bidding process, Undeveloped Capital Markets, Conflicts by the Officials involved in the process with the bidders and lack of Government Commitment. Out of all the above factors, 80% of the respondents sighted Political Interference has the major factor contributing to the Privatization Process in Kenya being slow.

CHAPTER ONE

INTRODUCTION

1.1 BACKGROUND:

Privatization refers to the offloading part or all of government ownership from initially publicly owned enterprises. Privatization in Kenya falls under the Public Sector Reform Programs.

According to *MIGA & World Bank, (2001),* the aim of these programmes is to improve efficiency of wholly owned government institutions. These Reforms were started in 1992 in Kenya as outlined by the sessional paper of 1992 on public enterprise reform and privatization

In 1994, Kenya started to implement the Parastatal Reform Program. The Objective of this project financed by the World Bank, was to support parastatal reform as a means of reducing the role of the Government in the economy. More Specifically there were three main components, which included enhancing the efficiency of Public Enterprises (PE) sector, reducing the financial burden of PE on the public sector budget, and enabling PE's to operate on the basis of market principles, promoting operational autonomy and enhancing accountability.

The Parastatal Reform program was expected privatize at least 20 Public enterprises out of 207 earmarked for divestiture, and the liquidation of uneconomic PE's, improve the efficiency, profitability and accountability of the remaining PE's by phasing out subsidies, establishing an improved corporate governance system, and dealing with excess indebt ness, adoption and implementation of restructuring plans for five of the largest PE's which included partial privatization; and improve efficiency and effectiveness of the Nairobi Stock Exchange.

During the first phase of the privatization program, the government privatized a large number of small and medium enterprises, but progress in privatizing key utilities and transportation enterprises has been slow. For this reason the government planned to accelerate the second phase of its privatization program on the basis of a new privatization strategy that emphasizes limiting the role of the government in commercial activities, putting in place an appropriate regulatory framework and using competitive bidding and other modalities to ensure transparency and fairness *(GOK, 1992).*

1.2 STATEMENT OF THE PROBLEM:

In 1991, the Parastatal Reform Program Committee (PRPC) was constituted to supervise and coordinate the parastatal reform program, including privatization. The Management, coordination and implementation of the divestiture program, as approved by the PRPC, was to be the responsibility of the Executive Secretariat and Technical Unit (ESTU), which acts as the secretariat of the PRPC. ESTU was established as an autonomous executing agency and it was to be insulated from any Government or political interference. Apart from formulating and recommending policies, procedures, programs and operation guidelines for divestiture, it was to prepare target lists of candidates for privatization for approval by the PRPC. The Government also created the Department of Government Investments and Public Enterprises (DGIPE) within the Ministry of Finance to represent the Government and to oversee the reform process of public enterprises. *(GOK, 1992.)*

Among the non-strategic PE's, the Government was to fully or partially divest or close 168 enterprises of the original 207 PE's slated for divestiture. Of these, 54 were to be divested through preemptive rights, 22 through receiverships, 16 through liquidation, 16 through competitive bidding, 10 through public floatation, one through a management buy-out and 29 tea factories were to be sold to tea farmers. Eleven Enterprises were to be partially divested.

Progress has been slow with respect to the reform of the core and more strategic PE's, although the completion of the privatization of Kenya Airways in 1996, KCB, and Progress on the Privatization of Telkom Kenya (which has altogether stalled/stopped) were notable successes on the strategic public front then. However few efficiency improvements have accrued in the railways, ports, power and telecommunications sectors despite the extensive technical work performed and sector reforms made. Because the companies in these sectors play a significant role in the economy, the lack of progress in privatizing these companies accounts for the limited overall impact of the program in the economy. *(MIGA and World Bank, 2001)*

Indeed the overall impact of the privatizations was rather modest, at least in relation to the potential. This is because the more ambitious privatization program adopted in 1997/1998 is still largely at the level of intentions.

The two Stages of the program as outlined in the Sessional paper of 1992 on Public Enterprises Reform and Privatization which was to be completed by FY 2002/03 and included KPLC Privatization, KENGEN, Kenya Oil Refinery etc, only Mumias Sugar has been privatized.

This study is aimed at making an assessment of the privatization process in Kenya and identifying possible hindrances to its Implementation.

1.3 OBJECTIVES OF THE STUDY:

1. The aim of this study is to determine the factors hindering the successful implementation of the privatization program in Kenya.

1.4 IMPORTANCE OF THE STUDY:

The study will be a useful material for use as a source of information for students carrying on research, the Government through making policy documents and all the stakeholders involved in Privatization and Public Sector Reform as a whole.

The study will show what role the Government, the Development Agencies and all other stakeholders have played in the privatization program and what lessons they can draw from this experience.

This study will be important for all the investors and Companies who are interested in buying a stake at these companies earmarked for Privatization.

The study will also be a useful material for Academicians and bodies of knowledge in coming up with other Researches of the same nature as well as providing reference material on issues relating to privatization.

1.5 SCOPE OF THE STUDY

The Scope of the study covered only Hindrances to the Privatization program in Kenya therefore it has not exhaustively covered the whole privatization process. Various Improvements to the program were suggested for it to be successfully implemented in Kenya and the privatization success factors present. Thirty (30) companies were interviewed out of a sample of forty (40). Out of the total companies earmarked for privatization, the companies, which were to be privatized by liquidation, were eliminated because most of them have already closed down and therefore it was not possible to collect information from them.

The first chapter encompasses the Objectives and the importance of the study. The literature review is covered in chapter three. The review discusses in length the privatization process, financial sector reforms and public sector reforms.

Chapter three of the study explains the methods of data analysis and procedures, which comprise the research design. The findings and discussions are the contents of chapter four. The fifth chapter covers the conclusions , limitations and recommendations.

CHAPTER TWO

LITERATURE REVIEW

2.1 PUBLC SECTOR REFORMS

GOK (1992) observes that the public sector reforms were aimed at:

Enhancing the role of the Private sector in the economy by shifting more of the responsibility for production and delivery of products and services from the public to the private sector, to create a more level playing field by eliminating preferential treatment including monopoly rights, and to enable the private sector to enter the areas of activity of the public enterprises on equitable grounds.

Reducing the demand of the PE's on the exchequer so as to improve the use of Kenya's scarce resources, and to enhance the returns on those resources by achieving greater efficiency in both private and public enterprises through grater responsiveness to market signals and commercial criteria.

Improving the Regulatory environment by selecting more economically rational means of regulation, thereby reducing regulatory and commercial functions of PE's that are consistent with Government policy.

Broadening the base of ownership, reducing the role and nationalizing the operations of PE's, and enhancing capital market development.

Prerequisites for a Successful Public Sector Reform:

Hamed (1997) and World Bank (1996), identify the following as the prerequisites for a successful public sector reform program:

A well functioning financial sector-There has to be Financial sector reforms, which involves enhancing the development of appropriate financial institutions which include commercial banks that are financially healthy, competitive environment among commercial banks and the government should avoid over protection of state owned banks. Well functioning capital markets should be in place together with a functioning Capital Markets Authority, brokerage firms which are active and well managed should be present as well as other institutions in the sector like investment banks, an active stock exchange, non restrictive rules where the government should avoid interference. Laws and Regulations should be in place to encourage as many companies as possible to be quoted at the exchange.

A Stable Macro Economic Environment- Predictable interest rates, controlled inflation, well managed public (government) debt, fairly stable exchange rates, fairly predictable macroeconomic factors in general should be present. Too high interest rates discourage savings and investments, high inflation tend to erode the value of money and discourage financial development and deepening.

A Well Endowed Population with the Ability to Save. Savings are necessary for creating demand of quoted company's shares both during floatation and trading. Savings help investors in investing in the Public Enterprises, which are being privatized. This goes down to the well being of the population who will participate in these reforms.

Conducive Investment Climate to Enable Businesses to Thrive. This includes an economy experiencing economic growth and also where the necessary economic policies (monetary and fiscal) are in place. Conducive investment climate will encourage foreign investors and also local investors will have confidence and therefore will be encouraged to invest.

*Supportive Government Policies-*There should be no conflicting government policies. These policies should be supportive of the process. They should be well stipulated by Professionals with know how Public Sector Reforms. These policies should be also devoid of political interference to satisfy a few.

Properly Trained Personnel for Managing the Privatized Institutions. One of the reasons why many Parastatals were to be privatized was because of inefficient management. It is important to ensure that well trained personnel will run these institutions after they are privatized.

2.2 FINANCIAL SECTOR REFORMS

Serious and wider financial reforms have been taking place in many African countries including Kenya. Financial systems in Africa have been shackled with extensive, imprudent regulations operated on inefficient grounds and dominated by few institutions, mainly commercial banks. According to *Hamed (1997),* Common under most of these systems are statutory interest ceilings, accommodation of government borrowing and the existence of informal financing. The generally restrictive financial systems were known to have hindered efficient mobilization and allocation of financial resources and impended monetary control and policy.

Logically the recently introduced modest financial reform measures strive to establish gradually more open credit markets, achieve flexible and eventually liberal interest rates and enhance financial intermediation among other things.
In Kenya Financial sector reforms has been seen in the introduction of new financial institutions and instruments and measures concerning the adequacy of bank regulation and legislation. *(World Bank, 2001).*

World Bank (2001), Hamed (1997), Guislain (1997) and GOK (1992) Observe that various conditions are necessary for an effective financial sector reform, which include:

Commitment to Reforms-These reforms will have little chance of being carried out successfully if political commitment is relenting or vague. Courage and determination may be undermined if its not accompanied by sincere and active efforts by the political leadership to sell reforms to the affected segments of the population at large and economic operators in particular.

The Economic Environment-There should be an enabling macro-economic environment. Such an environment must be free of destabilizing inflationary pressures and other adverse aspects of macroeconomic policies, and in which formal financial transactions must also prevail.

The Logistical Framework-An enabling regulatory framework should be present which consist of a Central Bank, Banks and Non Bank Intermediaries. Those coupled with implementing this regulatory framework should be well trained and understand well the goals of the framework.

Financial reforms are very important to a privatization program because they help in reducing exchange restrictions on currencies. This helps in increasing domestic savings, which is a prerequisite for a successful privatization program.

Failure to contain inflation also has a similar effect because of eroding incentives for investments.

A successful financial reform program must precede the privatization program if the program has to succeed. *Guislain, (1997).*

2.3 PRIVATIZATION

Kerf and Smith (1996), Megyery and Sader (1996), Boubak (1999), Donaldson and Wagle (1995) observe that Privatization is a response to the unsatisfactory performance of State Owned Enterprises (SOE's) and to an increasingly competitive international environment. Privatization has also been referred to as the transfer of ownership to the private sector from the Government. The sale of SOE's should not be the end in itself but rather an instrument of economic policy among others. These enterprises initially started to enhance the process of economic development, performed disappointingly in most developing countries. Financial losses resulting from inefficient management, antiquated technologies and bloated workforces often posed a major burden for already hard-pressed public budgets. Eventually economic realities became too pressing to be ignored and an increasing number of developing countries began to privatize their SOE's. It was the hope of the government that the change in ownership would decrease the financial demands made by SOE's on strained government budgets, and that it could improve the efficiency of the economy, resulting in an overall net positive effect on the country's economic and social development. *GOK (1992).*

Guislain (1997) and GOK (1992) categorize the Objectives of a privatization program as follows:

Financial Objectives –These are aimed at maximizing the net proceeds of divestiture, reducing or eliminating the financial drain of State Owned Enterprises (SOE's) on the state and limiting the potential future demands to provide capital for expansions and upgrading or rescuing of SOE's in financial difficulties.

Efficiency and Economic Development Objectives- These Objectives aim at enhancing the domestic private sector economy, attracting foreign capital and expertise, improving the level and quality of goods and services produced, promoting the economy's efficiency and competitiveness, promoting innovation through better access to new technologies and development of efficient capital markets.

Distributional Objectives-They foster broader, widespread capital ownership combined with the development of national middle class, encourage economic development of a particular group in society, promote employee ownership to elicit public support for initially costly liberalization policies, and restore fully property rights to previous owners.

Political Objectives- These are aimed at reducing the size and scope of the public sector, reorienting public administration efforts away from public production towards engaging in enabling and regulatory activities, reducing opportunities for corruption and exploitation of public assets by government officials and SOE managers, reducing the influence of particular pressure groups such as parties, the bureaucracy or labor unions and reducing the possibility for a successor government to reverse the privatization process.

Other Objectives-Efficiency and development of the economy, Efficiency and development of the enterprise, Budgetary and Financial Improvements, Income Distribution or redistribution and Political considerations.

Guislain (1997) identifies the following as the hindrances to a successful privatization program:

Underdeveloped Financial Sector-Zombie financial institutions, in active capital markets, rules and regulations not appropriate for the development of the financial sector hinders privatization.

Political Interference of Privatized Institutions- Most Governments still wants to control the institutions even after substantially offloading its share of ownership. In Kenya for example, the role of the Government doesn't appear to be clearly defined as has been signaled in attempts to privatize certain institutions such as Telkom Kenya and Kenya Re-Insurance company which have been faced with a lot of controversies.

High Cost of Implementing the Process- Some organizations opt for a strategic partner, which is a cheaper way because it reduces the floatation costs. This strategic partner helps the company in getting a wider market, qualified and better management and also efficiency is introduced in the operations of the company.

*Low Savings and Investments by Locals-*A big number of these corporations ends up in the hands of foreigners because the locals are not investing. In most of the developing countries, majority of the locals are not endowed with a lot wealth and in most countries like Kenya, 50% of its population lives below poverty line. This makes the locals interested in the investment of these privatized institutions very few indeed.

There are different methods of Privatization including change of ownership, commercialization of services e.g. water services, liberalization etc.

Infrastructure privatization refers to a broad range of options for involving the private sector in infrastructure services, from management contracts and leases to concessions, demonopolization and full divestiture of enterprises according to *Kerf and Smith, 1996.* Challenges in infrastructure include concerns on market size, affordability and payment risks; establishment of adequate legal and regulatory frameworks; addressing non-commercial risks and mobilization of local finance.

In Kenya, privatization of state-owned enterprises has seen some loss making institutions turn to profit making. E.g. Infrastructure services such as telecommunications, transport, electricity and airport services have been partially privatized, while water, railroads, pipeline and port services are in the current schedule for privatization *(GOK, 2000)*

Approaches to Privatizing Companies in Kenya:

According to the ESTU, any of the following methods will be used in the Privatization program *(GOK, 1992 and World Bank, 2001).*

i) Public offering of shares on the Nairobi Stock Exchange.

ii) Sale of shares by Private placement

iii) Negotiated sales insofar as preemption rights exists and have been exercised
iv) Sale of enterprise assets (including liquidation)
v) New private investments in enterprises
vi) Employee/management buy-out; and
vii) Leasing or award of management contract.

According to *(GOK, 1992 and World Bank, 2001)*, the choice of option will be determined by the ESTU according to the following criteria:

- Objectives pursued by the Government for each sale;
- Record of Performance and economic prospects; and
- Size of the enterprises and the ability to mobilize funds

Privatization Outlook and Program Status in Kenya:

- **Kenya Post and Telecommunications Corporation (KPTC)**: specific outcomes for the KPTC agenda have been it separation into a telecommunications company (TELKOM), a postal Corporation (POSTA), and a regulatory body (CCK) is a newly established authority aimed at strengthening the regulatory framework. Because of the importance of the privatization of TELKOM, IDA granted the Government's request to extend the project based on a timetable for privatization activities, which was to be completed with the sale of TELKOM, initially by June 2000, and later delayed to December 2000. Preparatory, legal and investment banking support has been provided. In March 2001, TELKOM had been well prepared for final sale, and the Government was considering attractive bids for the sale of the Company. The project also provided support to the government allowing the development and sale to Vodafone of a second cellular telephone license.
- **Kenya Railways Corporation (KRC):** About 10 contracts were let to pursue the privatization of KRC including those focused on preparing for a major downsizing of the company to 14,500 workers. These Contracts included a detailed study and cabinet paper on the financial and social costs and possibilities

for splitting the railway into freight and passenger services. This included a divestiture study by Gulf Marine services. In addition, there were several local contracts for the internal reorganization, briefing of staff, development of staff reduction plans and counseling for those who would lose their job. These studies were carried out by the Federation of Kenya Employers, pre-retirement counseling was carried out by a consortium including Kenya Institute of Management, and a management of change workshop was carried out by Manpower services Ltd of London. In addition, a contract to undertake locomotive maintenance was let to General Electric. A contract to study privatization options was undertaken by CPRC Transcom. This detailed preparatory work, however, did not progress adequately to allow completion of a concession arrangement with a private operator.

- **Kenya Ports Authority:** The Parastatal Reform project supported development of a performance contract to bring in new private management at the port resulting in a notable increase in the ports activities. Eventually the managers withdrew at the end of their contract because of difficulties in achieving the level of day-to-day control from Government for management and maintenance which they felt was necessary to implement agreed improvements. The Government did, however respond by changing the entire Board at the port. Despite tremendous vested interests opposed to privatization of the port/container terminal's management, financial and operational improvements continued to be achieved as a result of Governments replacing management on an ad hoc basis. However, there is still need for major investments in the container terminal.
- **National Cereals and Produce Board (NCPB):** A Contract with Agriconsult of Australia was reached. The contract allowed the advisors to sell the NCPB silos and to undertake a retrenchment program, which has improved the environment for grain production in the country. *(World Bank, 2001).*

The GoK adopted a strategy and policy framework, which outlines a clearly defined, and time-bound program of privatization focused on the country's largest and most significant enterprises. The framework includes additional institutional and process features, overcoming weaknesses identified in the first-phase program. Specifically, a centralized institutional framework, led by the minister of finance is empowered to undertake all privatization transactions and to ensure that the privatization policy is enforced consistently and transparently. A transparent, competitive divestiture process, including an active communications, information, and public relations effort, will be undertaken with respect to principal stakeholders. A privatization fund held by the minister of finance and Planning will be subject to regular audit and reports provided to the cabinet, parliament and any donor depositing monies into the fund. The Attorney General has issued a legal opinion confirming the adequacy of the legal and legislative framework to permit implementation of the privatization program and has indicated that a Privatization Bill is not necessary. *(GOK, 1992).*

The Interim Poverty Reduction Strategy Paper (2000-2003) outlines the proposed privatization transactions during the period as follows:

Stage 1 (12-24 months to be completed by FY 2001):

(i) Completion of the privatization of Telkom Kenya through the sale of 49 percent shareholding to a strategic partner and commercialization of postal services.

(ii) Award of a concession for the operation of Kenya Railways through competitive bids to a company jointly owned by domestic investors and strategic partners. Rolling stock for freight and passenger services will be transferred to the concessionaire, while all infrastructures will remain under public ownership.

(iii) Concessioning of the Container Terminal. The noncore services of the port will be contracted to the private sector for better management and efficiency. Kenya Ports Authority will be converted into a landlord port.

(iv) Full privatization of Kenya Commercial Bank (KCB) by a trade sale of the remaining 35 percent of the government shareholding or part thereof to a strategic investor.

(v) Full privatization of Kenya Reinsurance Company (KCR) through trade sale to a strategic investor and flotation of the remaining shares on the Nairobi Stock Exchange (NSE).

(vi) Partial privatization of Mumias Sugar Company and of Chemelil Sugar Company through flotation of shares on the NSE and, if necessary, the sale of a portion of shares to a strategic investor.

(vii) Privatization of Agro-Chemical and Food Company Ltd. (ACFC) by modalities that are under studies.

Stage 2 (18-36 months) to be completed by FY 2002/03.

(i) Privatization of electricity distribution through Kenya Power and Lighting Company.

(ii) Partial privatization of Kenya Electricity Generating Company (KENGEN) through an initial public offering.

(iii) Partial privatization of Kenya Pipeline Company.

(iv) Privatization of Kenya Oil refinery through modalities to be developed.

(v) Privatization of Kenya Seed Company through sale of shares to a strategic investor.

(vi) Privatization of Kenya National Trading Corporation (KNTC) through liquidation.

(vii) Privatization of East African Portland Cement Company through the sale of government shares on the NSE.

CHAPTER THREE

RESEARCH METHODOLOGY:

This Chapter outlines the plan of procedures for population of the study, Sampling technique, data collection and data analysis.

3.1 POPULATION

The Population of the study includes all the Companies, which have been earmarked for privatization since 1992.

3.2 SAMPLE

Systematic sampling method was used for purposes of selecting the companies to be interviewed. The Population of all companies earmarked for privatization was divided in to two samples; companies that were successfully privatized, and companies that were not privatized, Systematic sampling was then used to select 20 companies from each sample for this study.

3.3 DATA COLLECTION

Both Primary and secondary data was collected for this study. Primary data was collected by use of a semi-structured questionnaire which was administered to the Chief Executive Officers of the sampled companies, Capital Markets Authority, The Treasury, Nairobi Stock Exchange and the Top Officials dealing with Privatization at the World Bank Kenya Office.

Secondary data was collected from the Treasury, Journals, Textbooks and Company Annual Reports.

3.4 DATA ANALYSIS

Data was analyzed using Frequencies, tables and percentages. All responses were tabulated then analyzed using SPSS tool.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION OF RESEARCH FINDINGS

4.1 DATA ORGANIZATION

Before processing the responses, the completed questionnaires were edited for completeness and consistency. Data was then tabulated and classified according to their common characteristics. Frequency distribution and percentages were used after which factor analysis was used to identify significant factors explaining the slowness of the Privatization process.

4.2 DATA ANALYSIS

Thirty questionnaires representing 75% of the response rate were returned. The Findings are summarized below.

Table 1: Achievement of Objectives of Privatization:

Objective	Frequency	Percent
Enhancing the efficiency of the Public Enterprise (PE) Sector?	23	77%
Reducing the Financial burden of PE's on the Public Sector Budget?	6	20%
Enabling PE's to operate on the basis of Market Principles, promoting operational autonomy and enhancing accountability?	1	3%
Others	0	0%
	30	100%

Source: Research Data

Table 1 indicates that 77% of the respondents believe that the efficiency of Public Enterprises was enhanced after privatization, 20% believe that the financial burden of PE's on the Public Sector budget was reduced, while 3% believe that Privatizations has enabled PE's to operate on the basis of Market principles, operational autonomy and enhancement of accountability.

Table 2: Progress of the Privatization Program:

Progress of the Privatization Program	Frequency	Percent
Slow	30	100%
As per Plan	0	0%
Fast	0	0%
	30	100%

Source: Research Data

All the Respondents felt that the Privatization program was slow and below the anticipated phase.

Various reasons were put forward to explain the slow pace as summarized in Table 3 below:

Table 3: Why the Privatization Program is Slow:

Reasons why the Privatization Program is Slow	Frequency	Percent
Lack of proper Guidelines to the Process	2	7%
Political Interference	24	80%
Lack of Equal Playing field in the bidding process	1	3%
Undeveloped Capital Markets	1	3%
Conflicts by the Officials involved in the process	1	3%
Lack of Government Commitment	1	3%
	30	100%

Source: Research Data

Political Interference was sighted as the most important factor in contributing to the slow pace of the privatization process. Lack of Proper Guidelines to the Process was ranked second while lack of Equal playing field in the bidding process; Conflicts by the officials involved in the process with the bidders and lack of Government commitment were all ranked third.

The following table summarized the Success factors of a privatization program, which are present in the Kenyan scenario.

Table 4: Success Factors

Success Factors	Frequency	Percent
A Well functioning Financial sector	1	3%
A Stable Macro Economic Environment	4	13%
A Well endowed population with the ability to save	1	3%
Conducive investment climate to enable business to thrive	1	3%
Supportive Government policies	0	0%
Properly trained personnel for managing privatized institutions	0	0%
All above Factors	23	77%
	30	100%

Source: Research Data

77% of the respondents felt that all the factors which makes a privatization program successful, were present in the Kenyan scenario and they are very important. These factors included, a well functioning financial sector, a stable macro economic environment, a well endowed population with the ability to save, conducive investment climate to enable business to thrive, supportive government policies and properly trained personnel for managing institutions. Whereas it was felt that a stable macro economic environment was given the highest rating as a success factor, all the other factors were given the same rating.

The following response was received as regards hindrances to the successful implementation of the privatization program in Kenya.

Table 5: Hindrances to the Privatization Program

Hindrances to Successful Implementation of Privatization Program	Frequency	Percent
Underdeveloped financial sector	1	3%
Political interference of Privatized Institutions	24	80%
High Cost of implementing the Process	3	10%
Low savings and Investments by Locals	2	7%
	30	100%

Source: Research Data

80% of the respondents sighted political interference of privatized institutions as the most important hindrance to the successful implementation of the privatization program. High cost of implementing the process was ranked second while low savings and investments by the locals and underdeveloped financial sector followed in third and fourth position respectively.

The support of the financial sector was to the privatization process was deemed to be present and important:

Table 6: Support by the Financial Sector

Whether the Financial Sector is Supportive	Frequency	Percent
Yes	22	73%
No	0	0%
Indifferent	7	23%
	29	97%
No Response	1	3%
	30	100%

Source: Research Data

The Financial Sector was sighted as supportive by 73% of the respondents, 23% were indifferent while 3% did not respond.

Various factors were put forward on what need to be done so that the Privatization process in Kenya can be improved, as summarized below in Table 7.

Table 7: Improvements to the Privatization Process in Kenya

Improvements to the Process	Frequency	Percent
Less dependency on IMF & World Bank	2	7%
Appoint competent people to manage and oversee the process	4	13%
There should be political will and Government commitment	18	60%
Stability in the macro Economic Environment	1	3%
Education on the Importance of Privatization to stakeholders	1	3%
Process to be based on Financial Implications and transparency	3	10%
	29	97%
No response	1	3%
	30	100%

Source: Research Data

60% of the respondents sighted Political will and Government commitment to be the most important factor which will improve the Privatization process in Kenya. 10% stated that the privatization process need to be based on financial implications and transparency while 7% felt that less dependency on IMF and World Bank would improve the process. 3% of the respondents felt that Education on the importance of privatization to stakeholders and stability in the macro economic environment would improve the process.

The research findings revealed that, out of the total respondent companies 56.7% had majority Government shareholding, and 40% had a minority Government shareholding and were locally owned.

The companies interviewed represented almost all important sectors of the economy has shown by Table 80 below. The other respondents were the Capital Markets Authority, Treasury and the Nairobi Stock Exchange.

Table 8: Nature of Business of the Respondents

Nature of Business	Frequency	Percent
Agribusiness	6	20%
Airline	1	3%
Automobiles	1	3%
Banking	2	7%
Engineering	1	3%
Financial services	1	3%
Industry	1	3%
Insurance	1	3%
Manufacturing	3	10%
Metals	1	3%
Retail	3	10%
Shipping	1	3%
Textiles	3	10%
Tourism	3	10%
	28	93%

Source: Research Data

20% of the Respondents were from the Agribusiness Sector. Textiles, Tourism, Retail and Manufacturing represented 10%. The Banking Industry had two respondents representing 7%. Airline, Automobiles, Engineering, Shipping, Metals, Financial Services and Insurance represented 3% each.

The following Table 9 summarized the different methods, which were used in the privatization of these companies.

Table: 9 Methods pf Privatization Used

Method of Privatization used	Frequency	Percent
Bid	4	13%
Foreign Investor	3	10%
Local Investor	6	20%
Public offer	7	23%
Sale of Shares	1	3%
Various Investors	8	27%
	29	97%

Source: Research Data

Out of all respondents, 27% were privatized by various investors coming together to buy a stake in the companies, 23% through Public Offer, 20% through Local Investors, 13% through Bidding, 10% through Foreign Investors and 3% through Sale of Shares.

CHAPTER FIVE

CONCLUSIONS, LIMITATIONS AND RECOMMENDATIONS:

5.1 SUMMARY OF FINDINGS AND CONCLUSIONS

The objective of the study was to identify hindrances to the privatization program in Kenya. The study found that the process is slow and various reasons were put forward as contributors to that effect.

Political interference and lack of Government commitment was seen has the main hindrance to the privatization program in Kenya. It is felt that most of these public enterprises have not been privatized because there is a "hidden hand " from interested political individuals who have interests in these enterprises in terms of business dealings e.g. tenders hence the process taking long. Lack of Government commitment has been seen in the transfers of officials taking part in the process without replacements.

Many respondents felt that there is lack of a proper guidance to the privatization process and even if there is a unit in Treasury, which deals with the process, there lacks well defined procedures.

An equal playing ground for the bidding process is lacking, many bidders have been disqualified on very flimsy reasons causing suspicions from the public. It has been felt that there is favourism in the bidding process and bidders with political connections have been seen to win most tenders.

There has been a lot of conflicts by officials involved in the process. There has been "taking of sides" leading to a lot of stagnation in the process due to a lot of re-negotiations taking place. There have been incidences where meetings have been postponed even after consultants for the bidders have arrived in the country.

Undeveloped capital markets have also been an issue. Investors have been shying off because they do not want to invest in a country where the capital markets are still at an infant stage raising doubts on availability of capital when needed.

Other factors identified as hindering the successful implementation of privatization program in Kenya include high cost of implementing the process, low Savings and investments by locals and underdeveloped financial sector.

Various improvements were suggested to be put in place. These includes the following:

There should be political will and Government commitment. The Government should be seen as leading the process fairly and transparently. Unfavorable happenings like transfers and the government at this crucial moment should avoid sacking of officials in the privatization team.

Competent personnel should be appointed to spearhead this process. This will avoid unnecessary delays due to incompetence. Consultants with the necessary know how should also be appointed.

The process should be based on financial implications and transparency and not as a way of raising cash for other purposes. Sale of these public enterprises should be driven by market indicators and financial turn around of these enterprises.

Equally important is the stability in the macro environment in order to attract investors and also there should be education on the advantages of privatization to the various stakeholders involved.

5.2 LIMITATIONS OF THE STUDY

1. The respondents took a lot of time to respond to the Questionnaires and infact some questionnaires were not returned.
2. The Companies, which were privatized through liquidation, were omitted from the study thus the findings should be interpreted with caution
3. Secondary data to back up the primary data collected was not readily available.
4. Time within which the project was to be completed and resources available were limited.

5.3 RECOMMENDATIONS

1. An Independent Committee should be put in place to oversee the Privatization program in Kenya other than it being left to Civil Servants who take instructions from interested parties.
2. The Kenyan Parliament should be involved in the ratification of resolutions arrived by the PRPC. This will avoid situations where Public Enterprises are sold at prices, which are deemed low than their value. The Parliament should be mandated to stop such sales.
3. The PRPC should include representatives of the Private sector so that many stakeholders are involved in the Privatization program.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

1. The scope of this study should be widened to cover other countries and especially in the developing world like Africa in order to see whether the said factors that hinder successful implementation of privatization are the same.
2. A Study should be done to establish whether the objectives of privatizing institutions in Kenya have been achieved.

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Appendix 1

QUESTIONNAIRE

1) Do you think the Privatization Program in Kenya has achieved the following Objectives?

-Enhancing the efficiency of the Public Enterprise(PE) Sector ?	Yes	No
-Reducing the Financial burden of PE's on the Public Sector Budget?	Yes	No
-Enabling PE's to operate on the basis of Market Principles, Promoting Operational autonomy and enhancing accountability ?	Yes	No

-Others , Specify..

....

....

2) How do you rate the Progress of the Privatization program in Kenya? | Slow | as per plan | Fast |

What factors do you think have contributed to this ?

....

....

....

....

....

....

....

....

....

3) Do you think the the following success factors have been present , Please rank them according to their level of Importance to the Privatization Program (Rank 1 as the most important, 7 Least important)

			Rank
- A well functioning financial sector	Yes	No	
- A stable Macro Economic Environment	Yes	No	
- A well endowed population with the ability to save	Yes	No	
- Conducive investment climate to enable business to thrive	Yes	No	
- Supportive Government policies	Yes	No	
- Properly trained personnel for managing privatized institutions	Yes	No	
-All Factors	Yes	No	

....

....

4) To what extent do you think the following factors have hindered the successful Implementation of the the Privatization Program in Kenya ?

- Underdeveloped financial sector	Less Critical	Critical	Most Critical
- Political interference of Privatized Institutions	Less Critical	Critical	Most Critical
- High Cost of implementing the Process	Less Critical	Critical	Most Critical
- Low savings and Investments by Locals	Less Critical	Critical	Most Critical

-Others , Specify..

....

....

5) Do you think the financial sector has been supportive of this program | Yes | No | Indifferent |

6) In your opinion , what do you think needs to be done for the process to be improved

....

....

....

....

....

The following to be answered only by the Companies privatized and the ones earmarked for Privatization but not yet privatized

7) How is the ownership of your company(in %)

	Govt	Local	Foreign
(%)			

8) What is the nature of your business ?

....

....

9) How long have you been in operation ?

....

10) Which Method of Privatization was used for your company ?

Appendix 2

Companies earmaked for Privatization

Privatized Organizations

African Tours and Hotels Ltd.
Ark Ltd.
Associated Vehicles Assembly Ltd.
CMC Holdings
Dawa Pharmaceuticals Ltd.
East African Industries Ltd.
East Africa Oxygen Ltd
Eveready Batteries Kenya Ltd
Firestone (E. A.) Ltd
General Motors (Kenya) Ltd.
Golf Hotel Ltd.
Homa Bay Hotel Ltd.
Housing Finance Company of Kenya(HFCK)
Infusion Kenya Ltd.
Kenatco Taxis Ltd.
Kenchic Ltd.
Kenya Airways Ltd.
Kenya Commercial Bank Ltd.
Kenya Commercial Financial Corporation (R)
Kenya Flourspar Co. Ltd.
Kenya Fruit Processors Ltd.
Kenya Meat Commision
Kenya National Assurance Co. Ltd. (R)
Kenya National Capital Corporation
Kenya National Properties Ltd.
Kenya National Shipping Lines.
Kenya Vehicle Manufacturers Ltd. (Ex Leyland)
Kerio Valley Ginnery Ltd.
Kisii Bottlers Ltd.
Maralal Safari Lodge Ltd.
Marsabit Lodge Ltd.
Meru Mulika Lodge Ltd.
Milimani Hotels Ltd.
Minet ICDC Insurance Brokers Ltd.
Mt. Elgon Lodge Ltd.
Mt. Kenya Bottlers Co. Ltd.
Mumias Sugar Co. Ltd.
Mwea Ginnery Ltd.
National Bank of Kenya Ltd.
Polysynthetic E. A. Ltd.
Nestle Foods Kenya Ltd
Private Cellular License
Rift Valley Bottlers Ltd.
Sunset Hotel Ltd.
Tourism Promotions Services Ltd
Uchumi Supermarkets
Utalii Investment Co. Ltd.
Wanachi Saw Mills Ltd.
Warehousing & Forwarding Co. Ltd. (WAFCO)
Wire Products Ltd.
Y-Fashions

Appendix 3

Companies earmaked for Privatization

Not Privatized Organizations

Agro-Chemical and Food Corporation
Bomas of Kenya Ltd.
Buffalo Springs Lodge Ltd.
Busia Hotel Ltd.
Clarkson Notcut Ltd.
Consolidated Bank of Kenya Ltd.
C.M.B. Packaging Ltd. (Ex Metal Box)
East African Portland Cement Co. Ltd.
East Africa Sugar Industries Ltd.
Elson Plastics of Kenya
Galana Game Ranching Ltd.
Game Lodges Ltd.
Grindlays Bank International (K) Ltd.
Hola Ginnery Ltd.
Horti Seed Co. Ltd.
Hotel Investors Ltd.
Hotel Span Ltd.
Industrial Promotion Services Ltd.
International Hotels (Kenya) Ltd.
Kencom House Ltd.
Kenya Airfreight Handling Co. Ltd.
Kenya Bixa Ltd.
Kenya Bowling Centres Ltd.
Kenya Electricity Generating Company (KENGEN)
Kenya Film Corporation Ltd.
Kenya Fishnet Indusries Ltd.
Kenya Industrial Plastics Ltd.
Kenya National Trading Corporation
Kenya Oil Refinery
Kenya Pipeline Company
Kenya Posts Authority
Kenya Power and Lighting Company(KPLC)
Kenya Railways Corporation
Kenya Reinsurance Corporation
Kenya Re-Properties Ltd.
Kenya Safari Lodges & Hotels Ltd.
Kenya Seed Driers Co. Ltd.
Kenya Shipping Agency Ltd.
Kenya Tea Packers Co. Ltd. (KETEPA)
Kenya Wine Agencies Ltd.
Lion Hill Camp Ltd.
Loncom Ltd.
NAS Airport Services Ltd.
Pearl Drycleaners Ltd.
Telkom Kenya
Thika Cotton Mills Ltd.
Uplands Bacon Factory (R)
Wedco Ltd.

Appendix 4

Privatization Transaction Data									
Source: World Bank, 2000 (amounts in US$ millions)									
Year	**Country**	**Company**	**Sector**	**Share sold (%)**	**Sale Amount**	**Foreign exchange earned on transaction**	**Financial Notes**	**Purchaser(s)**	**Name of purchaser(s)/Additional details**
1988	Kenya	Kenya Commercial Bank	Banking	20.0	8.0	..	public offer		
1990	Kenya	Kenya Commercial Bank	Banking	10.0	12.0	...		...	
1991	Kenya	The Tea Hotel, Kerich	Hotel	60.0	0.5	..	direct sale joint venture	preemptive rights	
1992	Kenya	Housing Finance Company	Financial Services	50.0	3.9		Public offer		
1992	Kenya	Nairobi Oil Products	Manufacturing	29.0	0.3				
1992	Kenya	Y-Fashions	Manufacturing	75.0	0.1	0.0	Sale of	local investor	
1992	Kenya	Uchumi Supermarkets	Retail	90.0	7.2		public offer		
1993	Kenya	Kenchick	Agribusiness	12.0	0.1				
1993	Kenya	Salt Manufacturers Ltd.	Chemicals	56.0	0.8				
1993	Kenya	CMC Holdings	Engineering	20.0	0.3		public offer		
1993	Kenya	Avon Rubber Co. Ltd.	Manufacturing	20.0	0.2				
1993	Kenya	E.A. Oxygen Ltd	Manufacturing	15.0	0.7		public offer		
1993	Kenya	Kisumu Cotton Mills	Manufacturing	80.0	3.0		Receivership		
1993	Kenya	Yuken Textiles Ltd	Manufacturing	100.0	0.2		Receivership		
1993	Kenya	Avon Marketing Ltd.	Services	18.0	0.1				
1993	Kenya	Kenya Drilling Co.	Services	100.0	0.4		Receivership		
1993	Kenya	Panafric Hotel Ltd	Tourism	31.0	1.1				
1993	Kenya	Pollman's Tours and Safari Ltd.	Tourism	49.0	0.4				
1993	Kenya	Robinson Baobab Hotel Ltd.	Tourism	10.0	0.9				
1993	Kenya	Sirikwa Hotel Ltd	Tourism	21.0	1.2		Receivership		
1993	Kenya	Nestle Foods Kenya Ltd.	Trade	14.0	0.3				
1993	Kenya	Tiger Shoes	Trade	16.7	0.2		Receivership		
1994	Kenya	National Bank of Kenya	Banking	20.0	7.1	0.0	public offer	local investors	

Privatization Transaction Data

Source: World Bank, 2000 (amounts in US$ millions)

Year	Country	Company	Sector	Share sold (%)	Sale Amount	Foreign exchange earned on transaction	Financial Notes	Purchaser(s)	Name of purchaser(s)/Additional details
1994	Kenya	CPC Industrial Products Ltd.	Agribusiness	18.0	0.5				
1994	Kenya	Kenya Cashewnuts Co. Ltd.	Agribusiness		1.4				
1994	Kenya	Associated Battery Manufacturers Ltd.	Automobiles	20.0	0.5				
1994	Kenya	African Marine General Engineering Co. Ltd.	Engineering	33.0	0.5				
1994	Kenya	Firestone (E.A.) Ltd.	Rubber	20.0	1.8		Preemptive rights		
1994	Kenya	Chloride Exide Ltd.	Services	18.0	0.1				
1994	Kenya	Milling Corporation of Kenya	Agribusiness	100.0	2.7		Bid		
1994	Kenya	Pan Vegetable Processors Ltd	Agribusiness	100.0	1.7				
1994	Kenya	African Diatomite Industries Ltd	Mining	100.0	0.8		Bid		
1994	Kenya	Mepal Plastics Kenya	Plastics	100.0	0.3		Bid		
1994	Kenya	Seracoating Kenya	Plastics	34.0	1.5				
1995	Kenya	Pan Vegetable Processors	Agribusiness	100.0	1.8	0.0			
1995	Kenya	Kenya Fruit Processors Ltd	Agroindustry	35.0	0.2	0.0			
1995	Kenya	Kerio Valley Ginnery Ltd.	Agroindustry	100.0	0.2	0.0			
1995	Kenya	Mwea Ginnery Ltd	Agroindustry	100.0	0.3	0.0			
1995	Kenya	Hola Ginnery Ltd	Industry	100.0	0.2	0.0			
1995	Kenya	Kenya Furfural Ltd	Industry	55.0	1.1	0.0			
1995	Kenya	Kenya Taitex Mills	Industry	81.0	1.6	0.0			
1995	Kenya	Synthetic Fibre (K) Ltd.	Industry	100.0	1.0	0.0			
1995	Kenya	Booth Manufacturers Ltd	Metal Fabrication	29.0	0.2	0.0			
1995	Kenya	Uchumi	Retail	18.5		0.0			
1995	Kenya	Homa Bay Hotel Ltd	Services	99.0	0.4	0.0			
1995	Kenya	Golf Hotel Ltd.	Services	80.0	1.4	0.0			
1995	Kenya	East African Fine Spinners	Textiles	100.0	3.5	0.0			
1995	Kenya	Synthetic Fibre (K) Ltd.	Textiles	100.0	1.0	0.0			

Privatization Transaction Data									
Source: World Bank, 2000 (amounts in US$ millions)									
Year	**Country**	**Company**	**Sector**	**Share sold (%)**	**Sale Amount**	**Foreign exchange earned on transaction**	**Financial Notes**	**Purchaser(s)**	**Name of purchaser(s)/Additional details**
1995	Kenya	Wire Products Ltd.	Metals	30.0	0.2	0.2	direct sale	foreign investor	foreign joint venture
1996	Kenya	Kenya Airways	Airlines	54.0	46.3	0.0	Public offer	Local investors	Retail and institution investors
1996	Kenya	Kenya Airways	Airlines	54.0	46.3	0.0	Public offer	Local investors	Retail and institution investors
1996	Kenya	Kenya Airways	Airlines	26.0	26.0	26.0	Direct sale	Foreign investor	KLM (Netherlands)
1996	Kenya	Kenya National Assurance	Insurance	100.0	..	..	Liquidation		
1996	Kenya	Kenatco Taxis Ltd.	Transport	100.0	..	..	Receivership		
1996	Kenya	Kenya National Capital Corporation	Banking	20.0	10.5		Public Offer	various investors	Retail and institution investors
1996	Kenya	Kisii Bottlers Ltd.	Industry				Pre-emptive rights		
1996	Kenya	Raymond Woollen Mills	Industry	6.0			Pre-emptive rights		
1996	Kenya	Wananchi Sawmills Ltd.	Industry	45.0	0.3		Pre-emptive rights	local investors	Shareholders
1996	Kenya	Rift Valley Bottlers	Industry	45.0			Pre-emptive rights		
1996	Kenya	Kibos Cotton Ginnery	Manufacturing		0.1		Bid		
1996	Kenya	Kenya Fluorspar Co. Ltd	Mining	50.0	1.3		Competitive Bid		M/s Minerals and Chemicals Manufacturers Ltd.
1996	Kenya	Brollo Kenya Ltd	Steel	10.0	0.6		Pre-emptive rights		Zambezi Establishment

Privatization Transaction Data									
Source: World Bank, 2000 (amounts in US$ millions)									
Year	Country	Company	Sector	Share sold (%)	Sale Amount	Foreign exchange earned on transaction	Financial Notes	Purchaser(s)	Name of purchaser(s)/Additional details
1996	Kenya	Ark Ltd.	Tourism		0.1		MEBO		Utalii Staff Investments Co.
1996	Kenya	Associated Vehicle Assemblers	Vehicle Assembly	51.0	2.7		Pre-emptive rights		Kenya Motor Handling Co. Ltd., Marshalls
1996	Kenya	Kenya Vehicle Manufacturers LTd	Vehicle Assembly	35.0	2.9		Pre-emptive rights	local investors	Shareholders
1997	Kenya	Rehabilitation Advisory Services	Services	29.2	..	..	Liquidation	Local investor	
1997	Kenya	Utalii Investment Company	Financial	100.0	..	..	Liquidation	Local investor	
1997	Kenya	Nyayo Bus Services Corporation	Transport	100.0	..	..	..	Local investor	
1997	Kenya	Mt. Kenya Textiles Limited	Textiles	49.0	1.4	..	Direct sale	Local investor	Nyanza Spinning Weaving Mills
1997	Kenya	Kenya National Properties	Real estate	34.1	2.1	..	Direct sale	Local investor	ICDC Investment Company
1997	Kenya	Polysynthetic E.A.	Chemicals	30.0	0.9	..	Direct sale	Local investor	Hoechst E. A.
1997	Kenya	Dawa Pharmaceuticals	Pharmaceuticals	40.0	0.1	..	..	Local investor	Other shareholders
1997	Kenya	General Moters	Automobiles	31.0	5.7	..	..	Local investor	Other shareholders
1997	Kenya	Minet-ICDC Insurance Brokers Limited	Insurance	21.0	0.4	..	..	Local investor	Other shareholders
1997	Kenya	East Africa Industries (EAI)	Industry	9.0	3.4	..	..	Local investor	Other shareholders
1997	Kenya	Eveready Batteries Kenya Limited	..	4.0	0.4	..	..	Local investor	Other shareholders
1997	Kenya	Milimani Hotel Limited	Hotel	49.1	1.4	..	..	Local investor	Other shareholders
1997	Kenya	Warehousing & Forwarding Company	clearing and forwarding	25.0	0.0	..	..	Local investor	Other shareholders

Privatization Transaction Data									
Source: World Bank, 2000 (amounts in US$ millions)									
Year	Country	Company	Sector	Share sold (%)	Sale Amount	Foreign exchange earned on transaction	Financial Notes	Purchaser(s)	Name of purchaser(s)/Additional details
1997	Kenya	Kenya National Shipping Lines Ltd	Shipping	24.9		..	Direct sale	Local investor	Mediterranean Shipping Company
1997	Kenya	Infusion Kenya Limited	Pharmaceuticals	13.0	0.1	..	Direct sale	Local investor	Ever Investments Company
1997	Kenya	Stanbic Kenya Limited	Banking	17.0		..	Direct sale	Local investor	Sinclair (SBIC)
1997	Kenya	Maralal Lodge	Tourism	..		..	..	Local investor	Other shareholders
1997	Kenya	Kenya Vehicle Manufacturers Limited	Automobiles	35.0	1.0	..	..	Local investor	Other shareholders
1997	Kenya	Mount Kenya Bottlers Limited	Bottling	..		..	..	Local investor	Other shareholders
1997	Kenya	Kisii Bottlers Limited	Bottling	..	0.4	..	..	Local investor	Other shareholders
1997	Kenya	Safari Lodges & Properties (K) Limited	Tourism	33.0	2.9	..	Public floations	Various investors	Individuals and institutional investors
1997	Kenya	Tourism Promotions Services Limited	Tourism	11.0	0.8	..	Public floations	Various investors	Individuals and institutional investors
1997	Kenya	Sunset Hotel Ltd	Hotel	95.0	1.8	..	Bid	Local investor	Piedmont Investment limited
1997	Kenya	Kibos Cotton Ginnery	Hotel	..	0.1	..	Bid	Local investor	Salome Farmers Group
1997	Kenya	Meru Mulika Lodge Ltd	Hotel	91.7	0.4	..	Bid	Local investor	Block Hotels Limited
1997	Kenya	Mt. Elgon Lodge Ltd	Hotel	72.9	0.3	..	Bid	Local investor	Jayesh Auto Spares

Privatization Transaction Data									
Source: World Bank, 2000 (amounts in US$ millions)									
Year	**Country**	**Company**	**Sector**	**Share sold (%)**	**Sale Amount**	**Foreign exchange earned on transaction**	**Financial Notes**	**Purchaser(s)**	**Name of purchaser(s)/Ad ditional details**
1997	Kenya	Homa Bay Hotel Ltd	Hotel	99.3	0.3	...	Bid	Local investor	Piedmont Investment limited
1997	Kenya	Marsabit Hotel	Hotel	...	0.2	...	Bid	Local investor	Herola Investments
1998	Kenya	Rift Valley Textiles (RIVATEX)	Textile/ Industry	81.9	0.0		Liquidation	Local investor	
1998	Kenya	Marsabit Hotel	Hotel and Tourism	...	0.2	0.2	Competitive bidding	Foreign investor	Herola Investments
1998	Kenya	Kenya Commercial Bank	Financial	25.0	29.4		Public Offer	Various investors	
1998	Kenya	African Tours & Hotels Limited	Tourism	80.0	n.a.		Liquidation	Local investor	
1998	Kenya	Kenya Meat Commission (KMC)	Meat processing	...			Liquidation	Local investor	
1998	Kenya	Mumais Sugar Corporation	Agroindustry	70.0			Public Offer	Various investors	
1998	Kenya	Kenya Commercial Finance Corporation	Banking	75.0			Public Offer	Various investors	Individual and other investors
1999	Kenya	Kenya Housing Finance	Manufacturing		6.6		Public offering		
1999	Kenya	Private Cellular license	Telecommunic ations		55.0	55.0	Trade sale or competitive sale	Foreign	Vivendi Telecom International - division of Vivendi of France

Appendix 5

SUMMARY OF FINDINGS

Objective	Frequency	Percent
Enhancing the efficiency of the Public Enterprise(PE) Sector ?	23	77%
Reducing the Financial burden of PE's on the Public Sector Budget?	6	20%
Enabling PE's to operate on the basis of Market Principles, promoting operational autonomy and enhancing accountability	1	3%
Others	0	0%
	30	100%

Progress of the Privatization Program	Frequency	Percent
Slow	30	100%
As per Plan	0	0%
Fast	0	0%
	30	100%

Reasons why the Privatization Program is Slow	Frequency	Percent
Lack of proper Guidelines to the Process	2	7%
Political Interference	24	80%
Lack of Equal Playing field in the bidding process	1	3%
Undeveloped Capital Markets	1	3%
Conflicts by the Officials involved in the process	1	3%
Lack of Government Commitment	1	3%
	30	100%

Success Factors	Frequency	Percent
A Well functioning Financial sector	1	3%
A Stable Macro Economic Environment	4	13%
A Well endowed population with the ability to save	1	3%
Conducive investment climate to enable business to thrive	1	3%
Supportive Government policies	0	0%
Properly trained personnel for managing privatized institutions	0	0%
All above Factors	23	77%
	30	100%

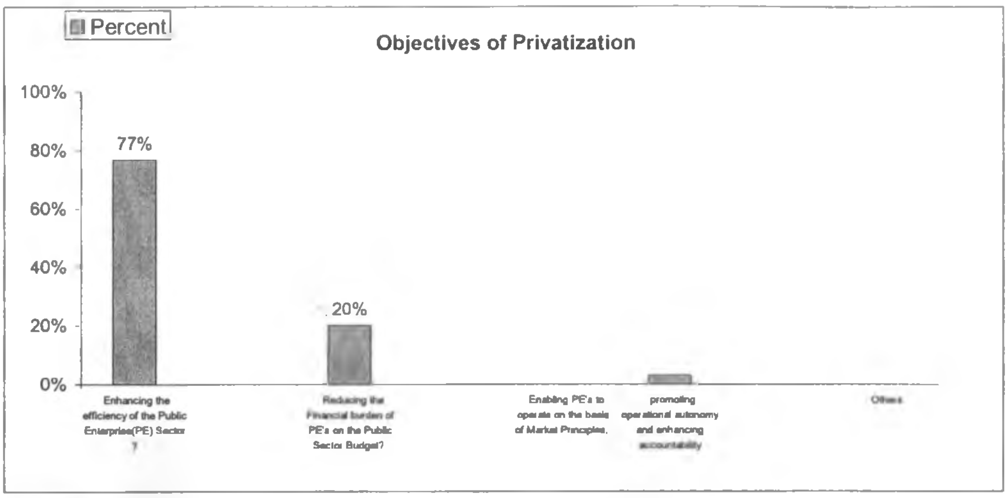
Hindrances to Successful Implementation of Privatization Program	Frequency	Percent
Underdeveloped financial sector	1	3%
Political interference of Privatized Institutions	24	80%
High Cost of implementing the Process	3	10%
Low savings and Investments by Locals	2	7%
	30	100%

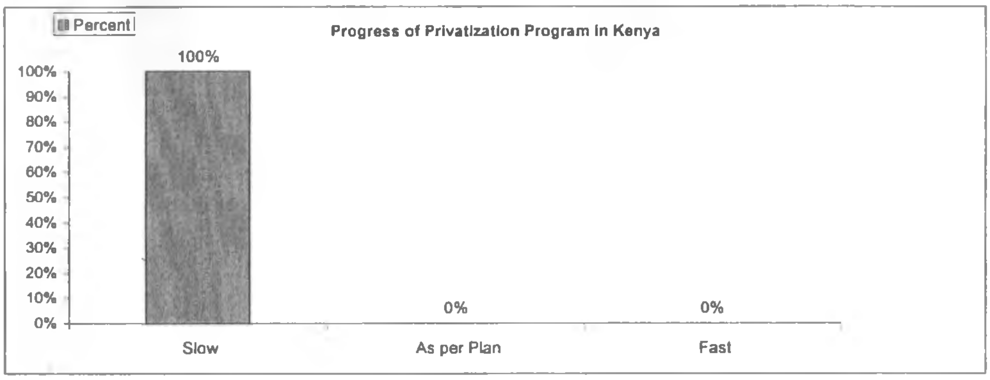
Whether the Financial Sector is Supportive	Frequency	Percent
Yes	22	73%
No	0	0%
Indifferent	7	23%
	29	97%
No Response	1	3%
	30	100%

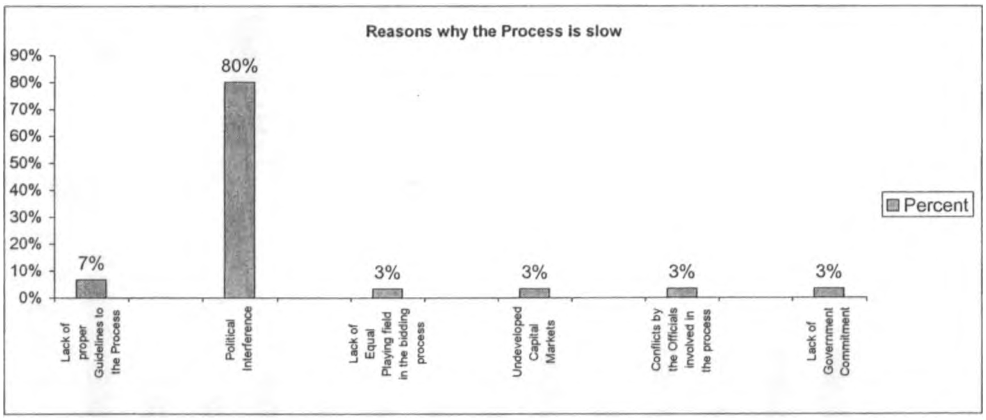
Improvements to the Process	Frequency	Percent
Less dependency on IMF & World Bank	2	7%
Appoint competent people to manage and oversee the process	4	13%
There should be political will and Government commitment	18	60%
Stability in the macro Economic Environment	1	3%
Education on the Importance of Privatization to stakeholders	1	3%
Process to be based on Financial Implications and transparency	3	10%
	29	97%
No response	1	3%
	30	100%

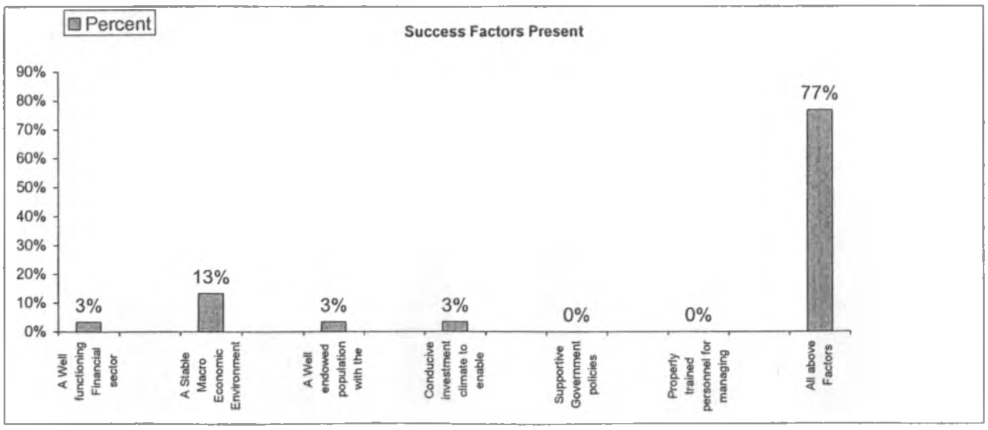
Nature of Business	Frequency	Percent
Agribusiness	6	20%
Airline	1	3%
Automobiles	1	3%
Banking	2	7%
Engineering	1	3%
Financial services	1	3%
Industry	1	3%
Insurance	1	3%
Manufacturing	3	10%
Metals	1	3%
Retail	3	10%
Shipping	1	3%
Textiles	3	10%
Tourism	3	10%
	28	93%

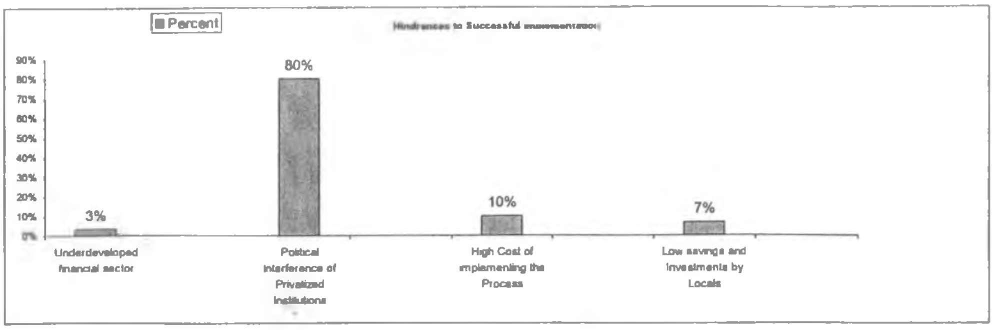
Method of Privatization used	Frequency	Percent
Bid	4	13%
Foreign Investor	3	10%
Local Investor	6	20%
Public offer	7	23%
Sale of Shares	1	3%
Various Investors	8	27%
	29	97%

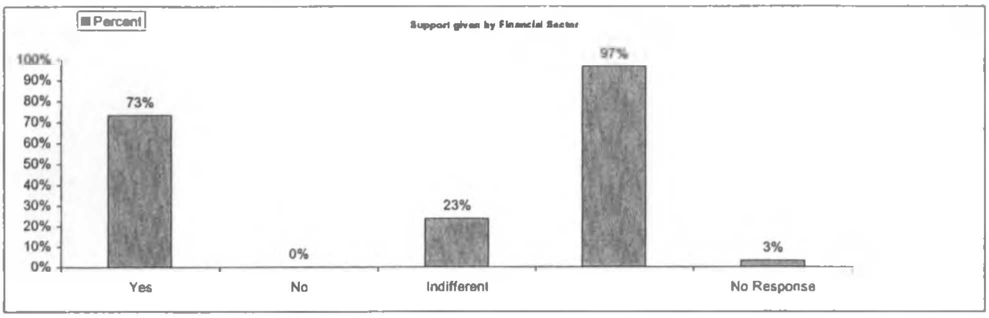

Percent
Objectives of Privatization
100%
80%
60%
40%
20%
0%
77%
20%
Enhancing the efficiency of the Public Enterprise(PE) Sector ?
Reducing the Financial burden of PE's on the Public Sector Budget?
Enabling PE's to operate on the basis of Market Principles.
promoting operational autonomy and enhancing accountability
Others

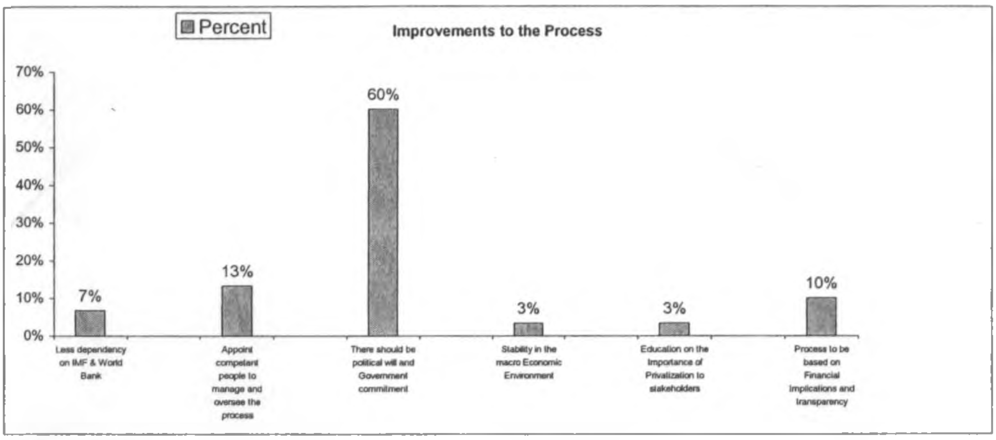

Percent
Progress of Privatization Program in Kenya
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
100%
0%
0%
Slow
As per Plan
Fast

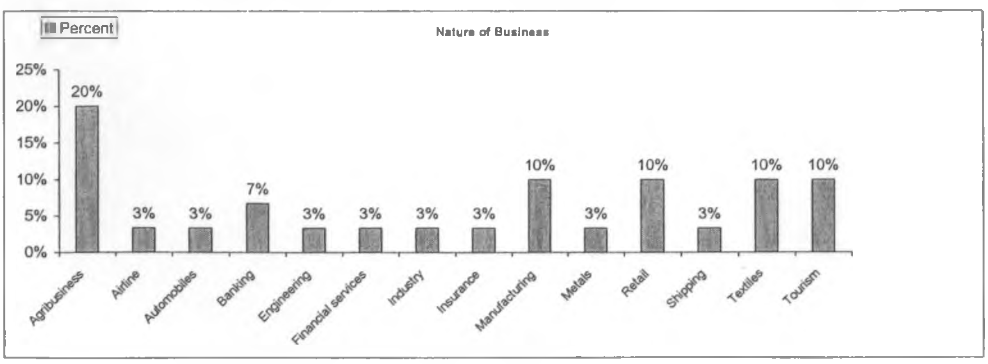

Reasons why the Process is slow
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
7%
80%
3%
3%
3%
3%
Percent
Lack of proper Guidelines to the Process
Political Interference
Lack of Equal Playing field in the bidding process
Undeveloped Capital Markets
Conflicts by the Officials involved in the process
Lack of Government Commitment

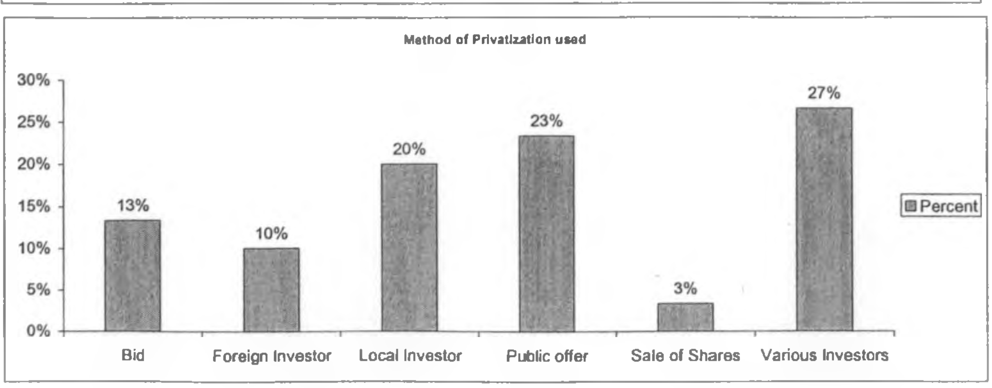

Percent
Success Factors Present
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
3%
13%
3%
3%
0%
0%
77%
A Well functioning Financial sector
A Stable Macro Economic Environment
A Well endowed population with the
Conducive investment climate to enable
Supportive Government policies
Properly trained personnel for managing
All above Factors


Percent
Hindrances to Successful
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
3%
80%
10%
7%
Underdeveloped financial sector
Political interference of Privatized Institutions
High Cost of implementing the Process
Low savings and Investments by Locals


Percent
Support given by Financial Sector
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
73%
0%
23%
97%
3%
Yes
No
Indifferent
No Response


Percent
Improvements to the Process
70%
60%
50%
40%
30%
20%
10%
0%
7%
13%
60%
3%
3%
10%
Less dependency on IMF & World Bank
Appoint competent people to manage and oversee the process
There should be political will and Government commitment
Stability in the macro Economic Environment
Education on the Importance of Privatization to stakeholders
Process to be based on Financial implications and transparency


Percent
Nature of Business
25%
20%
15%
10%
5%
0%
20%
3%
3%
7%
3%
3%
3%
3%
10%
3%
10%
3%
10%
10%
Agribusiness
Airline
Automobiles
Banking
Engineering
Financial services
Industry
Insurance
Manufacturing
Metals
Retail
Shipping
Textiles
Tourism


Method of Privatization used
30%
25%
20%
15%
10%
5%
0%
13%
10%
20%
23%
3%
27%
Percent
Bid
Foreign Investor
Local Investor
Public offer
Sale of Shares
Various Investors