REPUBLIC OF KENYA

MINISTRY OF FINANCE

Policy Paper On Public Enterprises Reform And Privatization

Issued by:

Department of Government Investments
and Public Enterprises together with
the Executive Secretariat and Technical Unit

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I INTRODUCTION

1. The Government of Kenya (GOK) is implementing a comprehensive Public Enterprise[1] Reform Programme with the overall aims of:

   (a) *enhancing the role of 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 enter the areas of activity of the Public Enterprises (PE's) on an equitable basis;

   (b) *reducing the demand of the Public Enterprises 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 greater responsiveness to market signals and commercial criteria,

   (c) *reducing the role and rationalizing the operations of public enterprise sector*;

   (d) *improving the regulatory environment* by selecting more economically rational means of regulation, thereby reducing conflicts of interest between the regulatory and commercial functions of public enterprises, that are consistent with Government policy, and

   (e) *broadening the base of ownership* and enhancing capital market development.

2. The two instruments that will be used to achieve these aims are a public enterprise reform programme (PERP), and a privatization programme. This policy paper sets out the objectives, principles, scope and other significant aspects of the Public Enterprise Reform Programme in PART I, and the principals and procedure that will guide the Parastatal Reform Programme Committee (PRPC) and its Executive Secretariat and Technical Unit (ESTU) to facilitate the privatization process in PART II.

3. While the PRPC and the ESTU will coordinate the privatization components of the programme, The Department of Government Investment and Public Enterprises (DGIPE) will be responsible for those aspects of the reform Programme that are related to strategic parastatals which are to remain in State hands.

II SCOPE OF THE REFORM PROGRAMME

4. There are two hundred and forty (240) commercially oriented public enterprises with direct, or indirect government ownership through ICDC, IDB, KTDA, KTDC, and other entities. Of these the Government has designed thirty three (33) PE's (see Annex 1) as "strategic enterprises" and intends to retain its ownership and active Board participation in them for the time being. The remaining two hundred and

[1]NOTE: Although stricktly speaking a " public enterprise " or a " parastatal " is an enteprise in which the Government of Kenya has all or majority of the equity, for the purposes of this paper the terms " public enterprise ":, "PE" and " parastatal " will also include an enterprise in which the government owns a minority equity interest. Where a distinction in relative ownership need to be made, the terms " majority owned PE " is used to denote an enterprise in which the government has a controlling shareholder interest.

seven (207) PEs (see Annex 2) have been classified as "non-strategic enterprises" and they constitute the Government's privatization Programme. Of these enterprises the PRPC has selected 45 PEs (see Annex 3) to begin the first phase of the privatization Programme, leaving one hundred and sixty two (162) PEs to be processed for subsequent privatization.

5. The scope of the PERP will cover the following:

(a) The 33 PEs deemed to be strategic, the core of which will be retained in the public sector. Of this total, 5 enterprises with major impact on the economy and the government finances will be selected for early restructuring, and

(b) The 162 non-strategic PEs, as mentioned above, are targeted for later privatization and will meanwhile be made as efficient as possible.

6. In this context, GOK defines PEs as a "strategic" if they provide essential services or are considered to play a key role from the view points of national security, health and protection of environment.

7. Companies where the government has minority holdings are not strictly parastatals, but are to be divested through the ESTU for reasons of active portfolio management by the Development Financial Institutions (DFIs) and for budgetary resource mobilization for the Government.

8. Grounded projects in which the Government or DFIs have a majority or minority shareholding will be divested by the ESTU to encourage private sector to complete the projects and thereby create employment opportunities.

9. Privatization is an integral and visible element of the Government's overall parastatal reform programme and it should not be viewed as an end in itself, but as a progressive effort to promote productive efficiency, to strengthen competitive forces in the economy and to support entrepreneurial development.

PART I

POLICIES PRINCIPLES AND GUIDELINES OF PUBLIC ENTERPRISE REFORM

III POLICIES, PRINCIPLES AND GUIDELINES OF PE REFORM

Objectives of the PERP

10. The PERP will have the following primary objectives:

a) to enhance the efficiency and performance of the PE sector;

b) to reduce the financial burden of the sector on Government; and

c) to achieve these objectives through the introduction of reforms that will enforce financial discipline, mobilize managerial and financial autonomy and set up adequate accountability and appropriate incentives, all toward the aim of having PEs operate on commercial principles.

Principles of PE Reform

11. All actions of the PERP will be based on the following principles:

a) The operations of PEs will include only viable commercial activities, except for certain cases where GOK directs the PE to also undertake activities for other than commercial reasons. However, such non-commercial activities will only be retained on a separate operational and accounting basis and with contractual arrangements giving the PE full compensation for the activity through transparent budgetary provisions. Where PE operations now include regulatory functions related to other than public services, they will be separated and either eliminated or assigned to another non-commercial PE entity.

b) PEs will operate on a self-sustaining basis and a hard-budget constraint that will oblige them to institute and maintain adequate financial discipline. Subsidies will be phased out except for those relating to non-commercial activities as mentioned under (a) above.

(c) A major goal of PEs is profitability through efficient operations in a competitive environment. Over the longer term, a crucial reform objective is to move to market pricing whenever competition is possible. This goal will be promoted through the break-up of monopolies, reduction of trade barriers, and elimination of barriers to private entry. In order to facilitate PEs' achievement of these aims, their managements will be provided with the maximum autonomy over key operational variables (such as prices, procurement and salary levels) that is compatible with prevailing conditions.

(d) Public service PEs operating under monopolistic conditions will, in common with private entities of similar nature, be regulated as needed to protect the public interest, primarily through review and approval of tariffs, maintenance and replenishment of all kinds of capital resources, and cost containment. Such regulation will be implemented through autonomous, specialized bodies operating independently from the government line structure, thus insulating them from political interference.

(e) It is the function of the legal and regulatory framework to provide a "level playing field", i.e., facilitate an equitable and fair basis for the efficient functioning of both private and public sector enterprises under competitive and freely market-based conditions, and to provide protection to consumers when necessary. With this objective, the legal framework applicable to the private sector, including, inter-alia, the Companies Act, will be made applicable to PEs.

(f) GOK's ownership functions over majority-owned PEs include the same rights and responsibilities as the analogous functions in the private sector. In its ownership role GOK will thus: (i) select and appoint competent and qualified persons to PE boards according to a widely publicized and transparent process; (ii) provide PE management with clear, non-conflicting objectives; (iii) agree with management on the strategy and corporate instruments reflecting it; (iv) leave management as free as needed to achieve the objectives; (v) oblige management to full and transparent accountability; and to this purpose (vi) perform ex-post evaluations of management performance. All of these principles are incompatible with political interference in PE management matters.

g) All aspects of PE business will be performed in a commercial and transparent manner. The fact of being a PE will not constitute an acceptable reason for directly or indirectly according favorable treatment to PEs, e.g., through exemption from taxes or fiscal charges and preferential access to imported and domestic inputs.

Institutional Arrangements

12. Relations between Government agencies and PEs will be clearly defined to ensure transparency and accountability. They will avoid multiple PE accountability. The Government has established the Department of Government Investments and Public Enterprises (DGIPE) within the Ministry of Finance (MOF), charged with specific functions and powers which will render it as autonomous as possible. DGIPE will be headed by a person of Permanent Secretary rank reporting to the Permanent Secretary, Ministry of Finance, and will be given adequate authority to enable it to carry out effective oversight and leadership of the public enterprise reform process. Sector ministry functions in relation to PEs will be limited to developing sector-wide policies and programmes. PEs boards of directors will be responsible for setting corporate operational policies and to ensure that executive managements carry them out. These respective roles are detailed below.

Roles and Functions of DGIPE

13. DGIPE will:-

a) represent GOK's ownership function in regard to PEs and other investments in all sectors; and

b) exercise oversight and leadership functions in setting majority-owned PEs' strategic objectives and ensuring that those objectives are met.

14. DGIPE's major tasks will essentially fall into two categories;

a) the temporary task of designing and implementing the PE reform process; and

b) the permanent tasks of: (i) centrally monitoring and supervising the performance of majority-owned PEs and monitoring of all other investments; (ii) carrying out effective PE debt management; and (iii) controlling, and ensuring PEs' accountability for all budgetary allocations to PEs as well as funds by PEs to GOK.

15. In addition, DGIPE will have a special function related to the social safety net that is summarized in paragraph 18 below.

16. *Spreading the PE reform process* will give DGIPE the lead role in designing and supervising the introduction of: (i) sector-wide reform measures which will not only enhance the efficiency and performance of the PEs to be retained in the public sector (either permanently or pending their privatization) but also reduce their burden, both direct and indirect, on Government finances; and (ii) other measures that are aimed at improving the structure and efficiency of selected major PEs whose ability to achieve and sustain improved performance is crucial to the PE sector's global results and

impact on the economy. In furtherance of this task, DGIPE will:

a) carry out diagnostic studies that will identify the nature, extent and impact of the reform measures to be taken, and determine implementation strategy including action plans as well as the appropriate instruments to be used (decree, instruction, directive, etc.);

b) coordinate reform implementation action with: (i) sector ministries and PE boards in respect of all PEs to be retained at any given time, and (ii) PRPC/ESTU, with regard to PEs designated to enter the privatization/divestiture process in the future ("pipeline PEs");

c) design and implement system for: (i) the settlement of indebtedness and adoption of measures to prevent its repeat buildup; (ii) ensuring PE financial discipline, operational autonomy and responsiveness to market signals in regard to both inputs and outputs; (iii) reforming, where necessary, the financial and organizational structures of majority-owned PEs to enable them to operate on a sound commercial basis; (iv) selection and appointment of competent and qualified persons to PE boards according to a transparent process, and providing logistic and other support to the boards' selection and appointment of such persons to senior executive management positions under a similar process; and (v) monitoring and evaluating PEs and other investment performance including processes for specific remedial action when necessary.

d) develop and implement plans for rationalizing GOK investments in enterprises in which GOK holds a majority equity interest;

e) in coordination with the Attorney General's Office, assist in reviewing and, if necessary, modifying the regulatory and legal framework to: (i) create competitive environment; (ii) separate PEs commercial from their non-commercial (including regulatory) functions, and (iii) strengthen regulation by appropriate independent bodies whenever this is required to protect the public's and particularly consumers' interests; and

f) ensure that the timing of reform measures is effected in sequence that maximizes their impact and effectiveness. Sequencing will *inter-alia* respect the top priority of: (i) measures to improve the enabling environment within which the PE sector operates since such measures will have an across-the-board impact on the ability of the entire sector to act in an efficient and competitive manner, and (ii) measures that will improve the performance of selected key PEs.

17. ***In its permanent function, DGIPE will:***

(a) set strategic business objectives, key performance indicators and targets for majority-owned PEs;

(b) set up and maintain a database of qualified candidates for PE board and senior executive management posts, recommend all PE board member appointments from the database in accordance with the principle of transparency as per para. 8(f)(i) above and ensure that boards appoint senior managers in accordance with the same principle.

(c) in accordance with Treasury guidelines, review and approve (i) PE corporate plans, budgets, investments, capital restructuring proposals, and commitments, which have actual or contingent implications for the Government's budget: (ii) specific subventions and subsidies in accordance with approved votes; and (iii) PE borrowings which involve Government guarantees;

(d) participate in drafting, negotiating and administering performance contracts for majority-owned PE's;

(e) monitor and evaluate PE performance and financial flows against agreed targets;

(f) reward or sanction board members of majority-owned PEs according to their contribution to overall results (executive managers will be similarly dealt with by the board);

(g) determine dividend policy for majority-owned PEs and approve dividend payment proposals submitted by PE boards;

(h) aggregate and analyze PE performance on a sector wide basis and report to the Minister of Finance on sector financial performance, commitments and trends;

(i) for each majority owned PE, nominate independent qualified auditors for appointment by the Auditor-General (Corporations):

(j) ensure that majority owned PE's publish their audited accounts within three months of their being approved by the board;

(k) carry out PE debt management including recording, preparing and signing on-lending agreement; liaison with creditors; issuance of statement and reconciliation's; and recovery and arrears management; and

(l) control and ensure PE accountability on all GOK allocation of funds to PEs and control and account for funds due to GOK and recieved from PEs; track these and all other financial flows to and from PEs, flag and provide early warning on undesirable situations as necessary, and issue appropriate reports on both activities.

DGIPE s role as Administrator/Manager Social Safety Net:

18. GOK recognizes that the social impact of the parastatal reforms will require unified action in designing and administering the substantive and institutional scheme for social safety net arrangements that will address labour redundancies resulting not only from privatization/divestiture but also from rationalization of the remaining PE sector entities. The likelihood that there will be redundancy from both parastatal reform and privatization has led GOK to the administrative decision to have the system not only designed, but also for an initial period administered by DGIPE. It is expected that the arrangements will largely consist of various forms of cash benefit to protect workers' minimum consumption levels.

Role of Sector Ministries

19. Sector ministries will develop sectoral policies and programmes in their respective sectors. In the context of such policies and programmes they will: (i) provide critical reviews of PE reform measures introduced and implemented by DGIPE, and (ii) receive corporate plans and other key documents of PEs operating in the respective sector ministries' sectoral subject area. This will enable sector ministries to contribute to the initiation and implementation of the PERP and its component parts.

20. The primary interest of sector ministries in PEs and in the documents summarized in the preceding paragraph is to ensure consistency between the PEs' actual or projected activities as reflected in those documents and the sector ministries' respective policies and programmes. The sector ministries will therefore send to DGIPE any comments they may have that have a bearing on such consistency and if necessary will make any relevant suggestions towards enhancing such consistency.

Roles of PE Boards and Executive Management

21. A basic purpose of PERP is to introduce major changes in corporate governance so as to achieve (i) separation between ownership and management functions, and (ii) enhanced management autonomy and accountability. PE boards' functions and composition will therefore be redefined to reflect their character as the top organ of the PE that also provides the interface with its owners. Boards will be actively and closely committed to and involved with supervision of management and its operations; individual board members will be limited as to the number of boards they may serve on.

22. Starting early in the reform process, boards will be expected to: (i) participate in the design of reform measures so as to make them effective in corporate practice; and (ii) cause executive managements to introduce relevant reform measures into day-to-day operations in a smooth and expeditious manner so as to produce the corresponding benefits as early as possible. Moreover, just as it is up to DGIPE to ensure that the right PE boards are in place to preside over the introduction of the reform measures, it is up to the boards to have the right PE managers in place to produce improved performance.

23. Principal functions of PE boards and of executive managements will be as follows:

(a) *Corporate policy and strategy*: set by board, carried out by management;

(b) *Corporate plans and budgets*: proposed by management, approved by board;

(c) *Staffing and employment*: The system for board and top management appointments will be determined on the basis of corporate governance study being undertaken internally by GOK. Management salary levels and other employment terms and conditions decided by board,others proposed by management, approved by board. All of these variables will be determined and applied according to best commercial practice not to Civil Service rules, standards and terms and conditions;

(d) *Pricing, procurement and other operational variables*: decided by management up to stated limits, above which board must approve;

(e) *Investments within approved plans and targets, asset sales in connection with approved restructuring plans*: proposal initiated by board or management, elaborated by management, approved by board;

(f) *Monitoring monthly/quarterly performance*: by board;

(g) *Annual reports*: approved by board. Dividends proposed by board, approved by DGIPE;

(h) *Rehabilitation/restructuring*: Management/board participate in proposal with help from DGIPE's technical assistance; for majority- owned PEs, endorsed by DGIPE, approved by Minister of Finance; and

(i) *Performance contracts* (applicable to majority-owned PEs): Drafted by management, draft endorsed by board; negotiated by board/management with DGIPE, other involved GOK agencies if and as coopted; signed on government side by DGIPE/Minister of Finance, on PE side by board co-signed by management. Followed and monitored by a committee comprising all the above chaired by DGIPE.

The above attributions for approval authority are modified as per para 14(c) above whenever Government budgetary implications exist.

Holding Companies

24. For various historical and other reasons, the patterns of GOK equity holding in PEs is complex. PEs may be held directly or through other PEs which thus have a holding company role. The main conclusion to be drawn from this situation in the context of the PERP is the need to establish and preserve direct accountability to GOK (as personified by DGIPE) by all majority-owned PEs, whether directly or indirectly held. This means that the functions of holding companies will be limited to holding the shares of subsidiary PEs as designed by GOK. It also means that they will not act as surrogate of the GOK as owner; as made clear in the preceding sections, that function will henceforth be vested in DGIPE for purposes of: (i) instituting the reform measures, and (ii) carrying out supervision and related functions as defined earlier. Above all, it would be impossible for DGIPE to carry out its work if its direct access to PEs for operational and control purposes were to be impaired by interposition of holding companies; hence the above stated limitation on the holding companies' future connection with the PEs in its portfolio.

PART II

PRINCIPLES, PROCEDURES AND GUIDELINES FOR PRIVATIZATION

IV PRINCIPLES, PROCEDURES AND GUIDELINES FOR PRIVATIZATION

Institutional Arrangements

25 In order to achieve the Government's objectives in the above mentioned programme, the President has appointed a high level policy-making body, the Parastatal Reform Programme Committee (PRPC) under the Chairmanship of the Vice-president and Minister for Finance. The functions of the PRPC are:

(a) to supervise and coordinate the implementation of the Parastatal Reform Programme in general;

(b) to prioritize and determine the timing of the sale for each non-strategic PE;

(c) approve the operational guidelines for privatization to be followed by the Executive Secretariat and Technical Unit (ESTU), including the criteria and procedures to be followed in the divestiture decisions;

(d) give final approval or rejection for the sale of public assets. In the event of a rejection, the reasons justifying the action will be recorded in the Minutes of the said meeting;

(e) to monitor and evaluate the progress of implementing the programme; and

(f) to provide political impetus for privatization and participate in building public awareness and the national consensus in support of the government programme.

26. The management, coordination and implementation of the divestiture programme, as approved by the PRPC, will be the responsibility of the ESTU, which acts as the secretariat of the PRPC. ESTU has been established as an autonomous executing agency and it will be insulated from any Government or political interference. The functions of the ESTU are:

(a) to formulate and recommend policies, procedures, programmes and operation guidelines for divestiture;

(b) to prepare, with the collaboration of the holding companies where applicable, target lists of candidates for privatization for approval by the PRPC;

(c) to prepare, with the collaboration of the holding companies where applicable, PEs for privatization and monitor all technical privatization matters undertaken by consultants, including: valuation, selection of optimal privatization method and sale techniques; preparation of prospectus or offering memorandum; elaboration of marketing plan; identification of financing options; etc., and

(d) to organize bidding process, receive, evaluate offers and proposals and prepare recommendation to PRPC. In collaboration with the Capital Markets Authority (CMA) carry out all activities required for public issues of share as required, including appointments of intermediaries, lawyers; etc.

27. In order to facilitate the divestiture process, the ESTU will establish Privatization Implementation Teams (PITs) to undertake the necessary technical work for each PE. The PITs will consist of a group of short term consultants (local or international) consisting of financial analysts, valuers, accountants, lawyers, engineers and industry specialists as required. Where applicable, the PITs will also include technical officers nominated by the holding companies. The PITs will be responsible for managing the detailed aspects of the divestiture operations, including inter-alia, asset valuation, choice of sale technique, marketing plans, labour redundancy, offering price for the sale of shares through the stock exchange, review and appraisal of offers and proposals. Alternatively, ESTU may contract a merchant

bank or any other specialized financial institution to implement the overall privatization process for selected PEs. In the event of the latter option, the contracted agency, reporting directly to the ESTU, will be given the full mandate for preparing all the necessary steps to enable the successful implementation and conclusion of the transaction.

28. The PRPC and the ESTU are mandated to ensure that the highest level of transparency and accountability is maintained in the entire privatization programme in accordance with the principles and procedures outlined in the latter section of this document.

Principles of Privatization

29. The principles guiding the privatization process will be:

(a) enterprises will be divested into competitive markets; purchasers will not obtain an intact or unregulated monopoly.

(b) purchasers will not be accorded special protection or access to credit on concessionary terms.

(c) in cases where Government retains a minority share-holding, it will not exercise any special or extraordinary voting rights, except in a limited, predetermined and well defined policy areas.

(d) excluding financial and operational (but not physical) restructuring that are necessary to prepare state enterprise for sale, there will be a moratorium on new government investments in enterprises that are to be privatized.

(e) all privatized sales will be on a cash-only basis, with the possible exception of shares sold to the workforce of the affected firms.

(f) no specific class of potential purchasers will be excluded from participating in the process.

(g) all transactions will be conducted in an open and transparent manner, consistent with normal standards of commercial discretion. Unless justified by the existence of legal rights, no predetermined direct sale or negotiations by private treaty will be entertained except after publicly solicited bids have been obtained. At the completion of the sales, all aspects of the transaction will be In the public domain where appropriate, this means:

- a prospectus or offering memorandum will be prepared and publicized for each firm to be sold;
- a full body of financial, management and other information will be available for disclosure to the investing public;
- fair and equitable bidding procedures will be established;
- criteria for ranking bids will be established and publicized;
- bids will be opened in public;
- upon completion of the sale, the names of the purchasers, the price paid, and the conditions of sale will be made public; and
- the valuation of the assets and the details of all offers received will be placed in the public domain.

(h) To promote and ensure the competitiveness of the markets in which privatized companies will operate, the Government will continue to build upon existing anti-monopoly legislation and the institutional capacity to implement it in a transparent manner, including publicizing it. The Government will also continue its efforts to liberalize import controls and rationalize tariffs, and continue the process of price decontrol and the removal of marketing restrictions in all sectors.

A more specific review of the regulatory framework will be carried out as and when enterprises, currently classified as strategic are offered for sale.

(i) The sale of a PE or portion thereof to another PE or public institution will not be considered as privatization.

(j) No new parastatals will be established in the productive sector, except for investments made purely for venture capital assistance through the restructured DFIs.

Enterprise Selection Criteria

30. Selection Criteria for parastatals to be divested, which are listed below, have been identified for use by the ESTU. These will ensure that the whole enterprise selection process is objective and fully transparent.

(a) *Majority Government Ownership*: The Government will give preference to privatizing firms in which it has a majority ownership.

(b) *Minimal restructuring*: To achieve implementation of divestiture programme, priority will be given to parastatals that will not require extensive operational, financial or legal restructuring prior to sale.

(c) *Profitability*: To facilitate the process of divestiture, preference will be given to parastatals that have generated an operating profit (before depreciation and debt service) for at least the past two years, excluding subsidies and subventions. Other complimentary indications will also be reviewed to select enterprises that are attractive to the private sector including: rate of return on assets and equity; debt and debt to equity rate; inventory turnover and accounts receivable collection periods.

(d) *Sector diversity*: Enterprises will be drawn from diverse sectors of the economy.

(e) Availability and reliable enterprise data: Operational and financial records and accounts should be reasonably accurate, up-to-date and readily available to the privatization implementation team and to potential investors.

(f) *Minimal regulatory adjustments*: In the interests of implementation speed, enterprises in the initial list of PEs for privatization will not be selected if there is a need for time-consuming, costly regulatory adjustments prior to divestiture, as is likely to be the case with monopolies.

(g) *Minimal staff redundancies*: Preference will be given to parastatals that are not severely over-staffed, so as to avoid the necessity of undertaking significant lay-offs as part of the divestiture process. This is particularly important in the early stages of the programme, before a fully funded safety net is in place.

(h) *Reduction of budget drain*: Parastatals that have needed large Treasury support will be considered for dilution of ownership with management and financial restructuring pending full divestiture.

Guidelines for the Divestiture Process

31. In addition to the selection criteria, the ESTU will use a set of operating guidelines that will also guide their consultants when implementing a divestiture transaction. The guidelines given below will ensure that each divestiture transaction adheres to a standard set of procedures that is transparent and subject to public scrutiny. Each divestiture transaction is likely to have certain aspects which differ

from all others and, therefore, the guidelines will be used flexibly rather than a fixed set of rules and regulations.

32. The divestiture process will involve two distinct phases: preparation and execution. The first phase will entail a detailed review of the parastatal (covering operational, financial and legal issues) in order to determine its current condition, its strengths, weaknesses, potential, and financial restructuring requirements, if any. This is followed by constructing a computerized, operational and financial model, for the enterprise to project likely results and their expected variances under several scenarios. These steps lead to valuation of the enterprises as a going concern, which forms the basis for establishing a range of values that can be used in negotiations with prospective investors and in setting the share price for a public offering. For comparative purposes, an asset valuation will also be conducted to ascertain the value from both a replacement and a liquidation perspective. This phase will also include a preliminary determination of prospective investor groups, and will conclude with the preparation of a " privatization action plan" that fully documents the results of all the analysis conducted up to this stage. The action plan also includes a detailed set of recommendation on how to proceed to execute the transaction. At this stage the key decision makers at the ESTU will fully review and approve the analysis that has been conducted, as well as the contents of the action plan.

33. The second and final stage, execution, will entail implementation of the transaction. By this stage, all key decision makers will have approved the privatization action plan. Tasks to be performed during this stage include, where necessary, the preparation of the sales documentation (e.g. prospectus, information memorandum), completion of any financial and operational restructuring required prior to divestiture, resolution of all outstanding legal issues that affect the sale; the design and implementation of a public relations campaign to inform the public of the impending sale, and finally execution of the sale itself.

34. *Preparation*: The objective of this phase is to set the stage for the divestiture by conducting an analysis of the enterprise so as to determine a realistic range of values for the targeted enterprise and developing a credible sales strategy.

35. The bulk of the work is carried out on-site by the Privatization Implementation Team (PIT) and will include, gathering the necessary information, meeting regularly with key members of the management and operating team of the enterprise, and interviewing other decision makers that have a stake in the outcome of the transaction, such as tax authorities and union representatives. This preparatory work will also draw on the support of DGIPE and the DFIs as appropriate. Some of the most important components of this analysis will include:

(a) prospects for the industry in which the enterprise operates;

(b) the quality and competitiveness of the enterprise's products/services;

(c) potential for performance enhancement, such as increasing and/or diversifying output, reducing costs or restructuring debt;

(d) market assessment and analysis of enterprise strengths, weaknesses and potential;

(e) preliminary design of an appropriate financial structure for the enterprise, once privatized;

(f) evaluation of management/employee relations and identification of outstanding human resource issues, such as the competitiveness of the compensation structure, over-staffing, etc.; and

(g) identification and assessment of investor demand, both domestic and foreign.

36. The preparation phase will result in a number of written reports that serve both as a guideline for future action and as documentation verifying to the ESTU and PRPC that the analysis is thorough

and complete. This "paper trail" is the raw material that will ensure that the transaction has been prepared and executed in a transparent manner. Among the documents that may be produced during this preparation stage are:

a) *Technical issues memorandum*: In virtually all cases the PIT will include an industry specialist who will concentrate on a technical appraisal of the enterprise's operational strengths, weaknesses and potential. This appraisal will include, for example, an assessment of the plant and equipment, the competitiveness of the operating cost structure and the quality of the work force. Any observations about the need for financial and management restructuring prior to divestiture would be raised at this time, along with an estimate of costs and timing, bearing in mind that these will be DGIPE's responsibility. The results of this appraisal will normally be written in the form of a memorandum and key aspects will later be incorporated in a more comprehensive enterprise appraisal report.

b) *Financial issues memorandum*: A similar exercise will be undertaken by the financial analysts, resulting in a report that will raise key issues surrounding the financial performance of the enterprise as well as the need, if any, for financial restructuring prior to divestiture, including specifically any proposals on the treatment of debt.

c) *Asset valuation report*: This report, prepared by technical experts, will present the appraised value of the parastatal's plant, equipment and real estate. The aggregate net value of the assets, minus the transaction costs associated with the divestiture and the aggregate net amount of the enterprise's debt, normally indicate a floor price for the sale.

(d) *Legal issues memorandum*: This report will usually be prepared by the attorney assigned to the privatization team. It will identify outstanding legal issues and claims, such as preemption rights, that must be resolved or noted prior to putting the enterprise up for sale. Also it will recommend strategies for overcoming any legal constraints to the transaction.

(e) *Operational and financial projections and sensitivity analysis*: Financial projections will be developed, based on expected operating performances and forecast prices for the key inputs. Projections will be carried out to take into account various scenarios (e.g. selling prices increase/ decrease by x%, cost of vital raw material increases/decreases by x%). The cash flows that result from these projections serve as the basis for valuing the enterprise as a going concern.

(f) *Valuation memorandum*: This report will present the range of values derived by the privatization team, along with all relevant assumptions and documentation. The report will review and discuss the main inputs used for valuation, such as asset values, projected cash flows, country risk considerations, rationale for selection of discount rates, and the value attached to intangible assets, if any.

(g) *Marketing memorandum*: A preliminary review will be presented of the most likely prospective investors, alternative share-holding structures and strategies describing how investor groups should be approached. This report also will clarify the privatization method(s) to be used.

37. In most cases, some of these memoranda can be consolidated into a single written report. However, in almost every case the end result of these preliminary written reports will constitute a comprehensive document *(the privatization action plan)* that synthesizes the information from the preparation phase that will be most relevant to decision makers at the PRPC. This document is the prime deliverable document presented by the privatization team to the ESTU and constitutes the initial blue print to be followed during the execution stage.

38. *Execution*: The objective of this final phase of the work programme is to complete the sale of the enterprise at an optimal value, within a reasonable time-frame and in a manner that is fully transparent, which therefore will engender public confidence in the privatization process.

39. The essence of transparency and public confidence in the privatization process is the manner in which the key documents associated with the transaction are prepared and disseminated. Although in some instances there may be a need to maintain confidentiality of some issues until the transaction is completed, the Government will eventually subject the process for each transaction to public scrutiny. The key documents prepared during this phase will include:

    (a) *Information memorandum*: The information memorandum, or prospectus in the case of a public offering, contains information about the enterprise and the proposed transaction that is of interest to prospective investors. The information contained in the information memorandum is almost totally derived from the enterprise appraisal report, the valuation report and other relevant information gleaned from the privatization action plan. This is a sales document that is written so as to elicit interest from targeted investors who have either been identified by the privatization team or have already demonstrated an interest in participating in the purchase of the enterprise.

    (b) *Bidding documents*: An open, transparent bidding process begins with the preparation of the public notice requesting bids, which will be published in newspapers, trade journals and other publications. The announcement will provide a brief description of the enterprise, the bidding requirements, time frame for submitting a bid and the assurance that those who respond to the announcement will receive a copy of the information memorandum upon request. The nature of this announcement will vary widely depending on the size and complexity of the enterprise. The criteria to be used to evaluate the bids will be consistent and will be well publicized. Since the ESTU will play a pivotal role on the evaluation and the selection process, there will be a clear and well documented set of procedures in place that fully describe how the winning bidder will be selected.

    (c) *Government permits and approvals*: Although each transaction is likely to be different, in virtually every case, a number of government ministries, under the coordination and supervision of the ESTU, will become involved and require that the proposed transaction meet specific regulatory requirements (e.g. tax compliance, labour law, industry-specific regulations). If the transaction includes a debt restructuring involving foreign creditors (e.g. debt-for-equity swaps, debt-for-debt swaps, debt buy outs), the Central Bank of Kenya must be consulted and its approval must be obtained before reaching any final agreement on the terms and conditions of the financial restructuring. Any debt repurchases that are conducted either by the enterprise itself or the Central Bank will be carried out in a fully transparent manner.

    (d) *Agreement related to the transfer of ownership*: Depending on the method of sale, legal sales agreements must be prepared and executed. The documentation required for a public offering of shares, will differ from that required for a private placement or an employee buy-out. But regardless of the method, usually the services of a Kenyan merchant bank or other privatization specialists, working closely with local legal counsel, will be used to prepare the documents outlining the terms and conditions of the sale.

    (e) *Public relations documents*: Mobilizing public support for the privatization programme will be a major responsibility of ESTU management. Part of this process will involve generating broad public interest in the public share offerings that are anticipated. With the active assistance of local and foreign public relations specialists, a public relations campaign will be designed and executed so as to elicit the broadest possible public participation in the process and keep the public informed of all stages as they progress.

Publication of Tender Notice

40. (a) The Tender Notice for the sale of assets will be published in at least 2 major newspapers twice a week for a period of three weeks. In the case of companies that require foreign expertise, finance, technology and marketing, notices will also be placed in one or more foreign publications. In the case of the latter, mail-out letters will also be sent to Kenya Embassies and High Commissions in major commercial countries as well as local Embassies and High Commissions of major industrial countries.

(b) Notice will provide necessary information on the scheduled date of bidding and will invite prospective bidders to obtain the Sales Prospectus.

(c) Interested parties will be invited to visit the PE and inspect its operations.

(d) Sufficient lead-time, ideally 60 days, will be provided from the initial announcement of tender to closure date for prospective bidders to prepare their bids.

(e) The financial and technical bids will be submitted in two separate sealed envelopes marked only with the name of the PE being tendered.

(f) Bids must be accompanied by a banker's cheese or bank guarantee for an amount representing 10% of the total offer.

(g) Bids must remain valid for at least 60 days after the closing date.

Pre-Qualification of Bidders

41. In order to facilitate the evaluation of tenders, the following factors will among these be taken into consideration for the purpose of pre-qualifying prospective bidders:

(a) The bidder's proven history of sound management and expertise to improve the performance of the enterprise;

(b) The bidder's financial strength not only to purchase the enterprise, but also to undertake any necessary additional capital investment;

(c) The bidder's ability to bring in new technology, including international marketing knowledge and experience;

(d) Bidder's intention to offer expanded or related services;

(e) Bidder bringing in foreign exchange for the investment.

Tender Evaluation Committee

42. The Parastatal Reform Programme Committee has appointed a Tender Evaluation Committee that is composed of representatives of the following institutions:

- The Executive Director, ESTU - *Chairman*
- The Treasury,
- The Parent Ministry of the enterprise,
- The Holding Company of the enterprise,
- Any other Professionals the ESTU may deem necessary to co-opt.

Public opening of Tender Bids

43. The PRPC Tender and Evaluation Committee will be responsible for the public opening of all bids on a date to be announced and notified to all interested parties.

44. For the purpose of ensuring transparency, the PRPC has directed that interested parties should be invited to witness the official opening of all bids.

Evaluation of Tender Bids

45. A reputable consulting firm will be contracted by the ESTU for the purpose of undertaking a professional evaluation of all tenders.

46. Tenders from pre-qualified bidders will be evaluated on the basis of the following criteria:

(a) The financial value of the offer.

(b) The bidder's commitment to continue operating the business.

(c) Feasibility of the bidder's business plan for the PE.

(d) The extent to which the proposal offers job protection to the maximum permissible economical level.

Award of Sale

47. On the basis of the recommendation of the Tender Evaluation Committee, the final decision of the sale will rest solely with the Parastatal Reform Programme Committee.

Method of Privatization

48. The ESTU will use any of the privatization methods including:

(a) public offering of shares on the Nairobi Stock Exchange;

(b) sale of shares by private sector placement;

(c) negotiated sales insofar as preemption rights exist and have been exercised;

(d) sale of enterprise assets (including liquidation);

(e) new private investments in enterprises;

(f) employee/management buy-out; and

(g) leasing or reward of management contract.

49. Unless justified by the existence of legal rights, no predetermined direct sale or negotiation by private treaty will be entertained except after publicly solicited bids have been obtained.

50. The choice of the option will be determined by the ESTU according to the following criteria:

(a) objectives pursued by the Government for each sale; and

(b) record of performance and economic prospectus; and

(c) size of the enterprises and the ability to mobilize the private funds.

Redundancies and the Safety Net

51. It is evident that a number of PEs are grossly over-staffed and some of these enterprises are insolvent or non-viable and will have to be liquidated. The public sector in many countries, including Kenya to

a certain extent, has for a long time functioned as an employer of last resort and continued to expand until their marginal product of labour reached zero or become negative. There is no economic justification for these types of actions.

52. Since Kenya does not have a social security to cater for redundant employees, the momentum with which implementation of the parastatal programme proceeds will be greatly influenced by the establishment of a "safety net" fund to underwrite compensation claims arising from the anticipated redundancies. DGIPE together with the ESTU, will develop and implement, a safety net and labour redeployment programme.

Public Awareness of the Privatization Process

53. On conclusion of a sale agreement, the ESTU will issue a press statement giving complete particulars of each transaction, including the terms of sale, the offers received, the price at which the sale is executed and the valuation of assets.

54. These guidelines may be amended from time to time as and when the need arises.

55. This document has been designed to provide a framework of reference to the interested public. In the event of anyone wishing to obtain more specific data on particular procedures, the ESTU will be happy to accommodate any requests for additional information. Queries should be addressed to :

The Executive Director,
Executive Secretariat and Technical Unit,
Parastatal Reform Programme Committee,
7th Floor Anniversary Towers,
P. O. Box 34542,
NAIROBI,

OR

The Investment Secretary,
Department of Government Investments and Public Enterprises,
Ministry of Finance,
P. O. Box 30007,
NAIROBI

ANNEX 1

ANNEX 1

STRATEGIC COMMERCIALLY ORIENTED STATE ENTERPRISES TO BE RETAINED IN THE PUBLIC DOMAIN

1. Agricultural Development Corporation.
2. Agricultural Finance Corporation.
3. Development Finance Company of Kenya.
4. Development House Limited (AFC).
5. East African Development Bank.
6. Industrial Development Bank of Kenya Limited.
7. Industrial & Commercial Development Corporation.
8. Jomo Kenyatta Foundation.
9. Kenya Broadcasting Corporation.
10. Kenya Industrial Estate ltd
11. Kenya Literature Bureau.
12. Kenya Petroleum Oil Refineries.
13. Kenya Pipeline Co. Ltd.
14. Kenya Ports Authority.
15. Kenya Post Office Savings Bank.
16. Kenya Posts & Telecom. Corporation.
17. Kenya Power Co. Ltd.
18. Kenya Power & Lighting Co. Ltd.
19. Kenya Railways Corporation.
20. Kenya Seed Co. Ltd.
21. Kenya Tea Development Authority.
22. Kenya Tourist Development Corporation.
23. Kenya Veterinary Vaccine Production Institute.
24. National Cereals & Produce Board.
25. National Housing Corporation.
26. National Oil Corporation of Kenya.
27. Nyayo Buses Corporation.
28. Nyayo Tea Zones Development Authority.
29. Post Bank Credit Ltd.
30. Rehabilitation Advisory Services Ltd.
31. School Equipment Production Unit.
32. Small Enterprise Finance Co. (SEFCO)
33. Tana River Development Co. Ltd.

ANNEX 2

ANNEX 2

PUBLIC OWNERSHIP (DIRECT AND INDIRECT) IN NON-STRATEGIC COMMERCIALLY-ORIENTED ENTERPRISES

1. African Diatomite Industries Ltd.
2. African Marine General Engineering Co. Ltd.
3. African Tours and Hotels Ltd.
4. Agro-Chemical and Food Corporation.
5. Ark Ltd.
6. Associated Battery Manufacturers Ltd.
7. Associated Vehicle Assembly Ltd.
8. Avon Export Ltd.
9. Avon Marketing Ltd.
10. Avon Rubber Co. Ltd.
11. Bamburi Portland Cement Co. Ltd. (Div)
12. Bomas of Kenya Ltd.
13. Booth Manufacturers Ltd.
14. Brollo Kenya Ltd.
15. Buffalo Springs Lodge Ltd.
16. Busia Hotel Ltd.
17. B.A.T Development (K) Ltd. (D)
18. Chebut Tea Factory Ltd.
19. Chemelil Sugar Co. Ltd.
20. Chinga Tea Factory Ltd..
21. Chloride Exide (K) Ltd.
22. Clarkson Notcutt Ltd.
23. Consolidated Bank of Kenya Ltd.
24. C.M.B Packaging Ltd.(Ex Metal Box)
25. C.M.C. Holdings Ltd.
26. C.P.C Industrial Products Ltd.
27. Dawa Pharmaceuticals Ltd.
28. East Africa Industries Ltd.
29. East African Fine Spinners Ltd.
30. East African Oxygen (Kenya) Ltd.
31. East African Portland Cement Co. Ltd.
32. East African Sugar Industries Ltd.
33. Embu Hotel Ltd. (Izaak Walton Inn)

34. Eslon Plastics of Kenya Ltd.
35. Everready Batteries Ltd.
36. ESA Bookshop Ltd.
37. Firestone (EA) Ltd.
38. Galana Game Ranching Ltd.
39. Game Lodges Ltd.
40. Gathuthi Tea Factory.
41. Gatunguru Tea Factory Ltd.
42. General Motors (Kenya) Ltd.
43. Githambo Tea Factory Ltd.
44. Githongo Tea Factory Ltd.
45. Gitugi Tea Factory Ltd.
46. Golf Hotel Ltd.
47. Grindlays Bank International (K) Ltd.
48. Highlands Paper Mills Ltd.
49. Hola Ginnery Ltd.
50. Homa Bay Hotel Ltd.
51. Horti Seed Co. Ltd.
52. Hotel Investors Ltd.
53. Hotel Span Ltd.
54. Housing Finance Company of Kenya Ltd.
55. ICDC Investment Co. Ltd.
56. Ikumbi Tea Factory Ltd.
57. Imenti Tea Factory Ltd.
58. Industrial Promotion Services Ltd.
59. Infusion Kenya Ltd.
60. International Hotels (Kenya) Ltd.
61. Iriani Tea Factory Ltd.
62. Kabarnet Hotel Ltd.
63. Kagwe Tea Factory Ltd.
64. Kambaa Tea Factory Ltd.
65. Kangaita Tea Factory Ltd.
66. Kanyenyaini Tea factory Ltd.
67. Kapkoros Tea Factory Ltd.
68. Kapset Tea Factory.
69. Kebirigo Tea Factory Ltd.
70. Kenatco Taxis Ltd.
71. Kenchic Ltd.
72. Kencom House Ltd.

73. Kenya Airfreight Handling Co. Ltd.
74. Kenya Airways Ltd.
75. Kenya Bixa Ltd.
76. Kenya Bowling Centres Ltd.
77. Kenya Breweries Ltd.
78. Kenya Cashewnuts Co. Ltd.
79. Kenya Chemical & Food Corporation (R).
80. Kenya Coffee Auctions Ltd.
81. Kenya Commercial Bank Ltd.
82. Kenya Commercial Finance Corporation.
83. Kenya Cooperative Creameries Ltd.
84. Kenya Drilling Co. Ltd.
85. Kenya Engineering Industries Ltd.
86. Kenya Fibre Corporation Ltd. (R)
87. Kenya Film Corporation.
88. Kenya Fishnet Industries Ltd.
89. Kenya Flamingo Airways Ltd.
90. Kenya Flourspar Co. Ltd.
91. Kenya Fruit Processors Ltd.
92. Kenya Furfural Ltd. (R)
93. Kenya Grain Growers Cooperative Union.
94. Kenya Horse Studs Ltd. (R)
95. Kenya Hotel Properties Ltd.
96. Kenya Industrial Plastics Ltd.
97. Kenya Meat Commission.
98. Kenya National Assurance Co. Ltd.
99. Kenya National Capital Corporation.
100. Kenya National Properties Ltd.
101. Kenya National Shipping Lines.
102. Kenya National Trading Corporation.
103. Kenya Peanut Co. ltd.
104. Kenya Reinsurance Corporation.
105. Kenya Re-Properties Ltd.
106. Kenya Safari Lodges & Hotels Ltd.
107. Kenya Seed Driers' Co. Ltd.
108. Kenya Shipping Agency Ltd.
109. Kenya Taltex Mills Ltd.
110. Kenya Tea Packers Co. Ltd. (KETEPA)
111. Kenya Vehichle Manufactures (ex-Layland)

112. Kenya Wine Agencies Ltd.

113. Kerio Valley Ginnery Ltd.

114. Kiamokama Tea Factory

115. Kibos Ginnery Ltd.

116. Kiegoi Tea Factory Ltd.

117. Kimunye Tea Factory Ltd.

118. Kinoro Tea Factory Ltd.

119. Kisii Bottlers Ltd.

120. Kisumu Cotton Mills Ltd. (KICOMI)

121. Lands Ltd.

122. Lion Hill Camp Ltd.

123. Litein Tea Factory Ltd.

124. Loncom Ltd.

125. Makomboki Tea Factory Ltd.

126. Makueni Ginnery Ltd.

127. Malindi Fruit Processors Ltd. (D)

128. Maralal Safari Lodge ltd.

129. Marsabit Lodge Ltd.

130. Mataara Tea Factory Ltd.

131. Mepal Plastics Ltd.

132. Meru Ginnery Ltd.

133. Meru Mulika Lodge Ltd.

134. Milimani Hotels Ltd.

135. Milling Corporation of Kenya Ltd.

136. Minet ICDC Insurance Brokers Ltd.

137. Mogogosiek Tea Factory Ltd.

138. Motor and Pedal Cycles Ltd.

139. Mountain Lodge Ltd.

140. Mt. Elgon Lodge Ltd.

141. Mt. Kenya Bottlers Co. Ltd.

142. Mt. Kenya Textile Mills Ltd.(MOUNTEX)

143. Mumias Sugar Co. Ltd.

144. Mungania Tea Factory Ltd.

145. Mutuality Investment Trust Ltd.

146. Mwea Ginnery Ltd.

147. Mwea Rice Mills Ltd.

148. Nairobi Oil Products Ltd.(R)

149. Nakuru Chrome Tanning Co. Ltd.(VL)

150. NAS Airport Services Ltd.

151. Nation Printers and Publishers Limited.
152. National Bank of Kenya Limited.
153. National Agricultural & Chemical Fertilizer Corporation.(D)
154. Ndima Tea Factory.
155. Nestle Foods (K) Ltd.
156. Njunu Tea Factory Ltd.
157. Notcutt Longaroni Ltd.
158. Nyamanche Tea Factory Ltd.
159. Nyankoba Tea Factory Ltd.
160. Nyansiongo Tea Factory Ltd.
161. Nzoia Sugar Co. Ltd.
162. Ogembo Tea Factory Ltd.
163. Pan Vegetable Processors Ltd.
164. Panafric Hotel Ltd.
165. Panafrican Paper Mills (EA.) Ltd.
166. Pearl Drycleaners Ltd.
167. Pollman's Tours and Safaris Ltd.
168. Polysynthetic EA. Ltd.
169. Ragati Tea Factory Ltd.
170. Raymond Woollen Mills Ltd.
171. Rift Valley Bottlers Ltd.
172. Rift Valley Textile Mills(RIVATEX)
173. Robinson Hotels (Msa) Ltd.
174. Rukuriri Tea Factory Ltd.
175. Safari Lodges & Properties (K) Ltd.
176. Salt Manufacturers (K) Ltd.
177. Sanganyi Tea Factory Ltd.
178. Sanyo Armco Ltd.
179. Savings and Loan (K) Ltd.
180. Seracoatings Kenya Ltd. (R)
181. Simpson and Whitewall Ltd.
182. Sirikwa Hotel (Kenya) Ltd.
183. Sokoro Fibre Boards Ltd.
184. Sonotels (K) Ltd.
185. South Nyanza Sugar Co. Ltd.
186. Sunset Hotel Ltd.
187. Synthetic Fibre (K) Ltd.
188. Tegat Tea Factory Ltd.
189. The Tea Hotel Ltd.

190. Theta Tea Factory Ltd.

191. Thika Cotton Mills Ltd.

192. Thumaita Tea Factory Ltd.

193. Tiger Shoes Co. Ltd. (R)

194. Tombe Tea Factory Ltd.

195. Tourism Promotion Services

196. Town Properties Ltd.

197. Transport and Tourism Services Ltd.

198. Uchumi Supermarkets Ltd.

199. United Finance Company of Kenya.

200. Uplands Bacon Factory. (R)

201. Utalii Investment Co. Ltd.

202. Wananchi Saw Mills Ltd.

203. Warehouse & Forwarding Ltd. (WAFCO)

204. Wedco Ltd.

205. Wire Products Ltd.

206. Yuken Textiles Ltd. (R)

207. Y-Fashions Ltd.

NOTE: (R) - In Receivership.
(D) - Dormant company not trading.
(Div) - Divested

ANNEX 3

ANNEX 3

ENTERPRISE APPROVED FOR THE FIRST PHASE OF DIVESTITURE BY THE PARASTATAL REFORM PROGRAMME COMMITTEE

1. African Diatomite Industries Ltd.
2. Associated Vehicle Assembly Ltd. (AVA)
3. Bamburi Portland Cement Co. Ltd.
4. B.A.T. Development (K) Ltd.
5. C.M.B. Packaging Ltd. (Ex Metal Box)
6. C.M.C. Holdings Ltd.
7. East Africa Industries Ltd.
8. East African Fine Spinners Ltd.
9. East African Oxygen (Kenya) Ltd.
10. East African Portland Cement Co. Ltd.
11. Everready Batteries Ltd.
12. ESA Bookshop Ltd.
13. Firestone (EA.) Ltd.
14. General Motors (Kenya) Ltd.
15. Grindlays Bank International (K) ltd.
16. Highlands Paper Mills Ltd.
17. Housing Finance Company of Kenya Ltd.
18. Industrial Promotion Services Ltd.
19. Kenya Airways Ltd.
20. Kenya Bixa Ltd. (NCPB)
21. Kenya Cashewnuts Co. Ltd.
22. Kenya Engineering Industries Ltd.
23. Kenya Film Corporation.
24. Kenya Reinsurance Corporation.
25. Kenya Taitex Mills Ltd.
26. Kenya Tea Packers Co. Ltd. (KETEPA)
27. Kenya Wine Agencies Ltd.
28. Kisumu Cotton Mills Ltd. (KICOMI)
29. Milling Corporation of Kenya Ltd.
30. Mt. Kenya Textile Mills Ltd. (MOUNTEX)
31. Mumias Sugar Company
32. Nairobi Oil Products Ltd. (R)
33. Nakuru Chrome Tanning Co. Ltd. (VL)

34. National Bank of Kenya Ltd.
35. Pan Vegetable Processors Ltd.
36. Panafric Hotel Ltd.
37. Raymond Woollen Mills Ltd.
38. Safari Lodges & Properties Kenya Ltd.
39. Salt Manufacturers (K) Ltd.
40. Seracoatings Kenya Ltd. (R)
41. Synthetic Fibre (K) Ltd.
42. Tiger Shoes Co. Ltd. (R)
43. Tourism Promotion Services
44. Uchumi Supermarkets Ltd.
45. Yuken Textiles Ltd. (R)

(R) - In Receivership,

(D) - Dormant Company not trading,

(VL) - Voluntary Liquidation

ANNEX 4

Executive Secretariat & Technical Unit

Parastatal Reform Programme Committee

STATUS OF PRIVATISATION PROGRAMME, 30TH SEPTEMBER, 1998

A. LIQUIDATIONS

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. Nakuru Chrome Tanning Co. Ltd.	1992	20	0	Leather	Voluntary Winding Up	800,000
2. Kenya Peanut Co. Ltd.	1992	46	0	Agri-Processing	—	—
3. Kenya Horse Studs Ltd.	1992	50	0	Livestock	—	—
4. Kenatco Transport Ltd.	1992	100	0	Transport	–	–
4. Horti Seed Kenya Ltd.	1992	100	0	Agriculture	—	—
5. Seed Driers Ltd.	1992	100	0	Agriculture	—	—
6. Simpson & Whitelaw Ltd.	1992	100	0	Agriculture	—	—
7. BAT Development (K) Ltd.	1993	20	0	Poultry	—	—
8. Town Properties Ltd.	1994	100	0	Services	—	—
9. Motor & Pedal Ltd.	1995	40	0	Transport	F. X.. Co. Ltd.	500,000
10. Uplands Bacon Factory Ltd.	1995	100	0	Agri Processing	—	—
11. Kenya Film Corporation	1995	100	0	Entertainment	—	—

B. RECEIVERSHIPS

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. Nairobi Oil Products Ltd.	1992	29	0	Oil Recycling	Various Individuals	8,750,000
2. Tiger Shoes Ltd.	1993	16.7	0	Leather	Lento Agencies Ltd.	9,000,000
3. Yuken Textiles Ltd.	1993	100	0	Textile	Yuken Mills Ltd.	14,000,000
4. Sirikwa Hotel Ltd.	1993	21	0	Tourism	Akamba Invest. Ltd.	70,000,000
5. Kenya Drilling Co. Ltd.	1993	100	0	Services	Kenatco Taxis Ltd & various individuals	21,700,000
6. Kisumu Cotton Mills Ltd.	1993	80	0	Textiles	Caneland Ltd	174,961,000
7. Seracoating Kenya Ltd.	1994	34	0	Plastics	Local Shareholders	82,000,000
8. Pan Vegetable Processors Ltd.	1994	100	0	Agri-Processing	Homegrown (K) Ltd.	95,000,000
9. Kenya Taitex Mills Ltd.	1995	81	0	Textiles	Kifaru Mills Ltd.	81,000,000
10. Kenya Furfural Co. Ltd.	1995	51	0	Chemical	Various Shareholders	55,800,000
11. Kenya Engineering Industries Ltd.	1995	50	0	Engineering	Ashut Engineers Ltd	52,505,555
12. Synthetic Fibres Kenya Ltd.	1995	100	0	Textile	Sunrise Textile Mills Ltd.	50,000,000
13. East African Fine Spinners Ltd.	1995	74	0	Textile	Bedi Invest. Ltd	282,000,000*
14. Kenatco Taxis Ltd.	1996	100	0	Transport	—	

* *This figure will increase by the value of inventories.*

C. PRE-EMPTIVE RIGHTS

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. Tea Hotel Kericho**	1991	60	0	Hotel & Tourism	Sololo Invest.Ltd.	15,000,000
2. Highland Paper Mills Ltd.	1992	17	0	Pulp & Paper	Shareholders	875,000
3. Y-Fashions	1992	75	0	Textiles	Shareholders	4,000,000
4. Panafric Hotel Ltd.	1993	31	0	Hotel & Tourism	Sarova Hotels Ltd.	63,855,000
5. Robinson Baobab Hotel Ltd.	1993	10	0	Hotel & Tourism	Robinson Hotels Intl	50,234,274
6. Avon Marketing Ltd.	1993	18	0	Services	Existing Shareholders	8,078,400
7. Avon Rubber Co. Ltd	1993	20	0	Rubber	Existing Shareholders	11,949,470
8. Avon Export Ltd	1993	14	0	Services	Existing Shareholders	55,000
9. Nestle Foods (K) Ltd.	1993	13	0	Food & Beverages	Nestle S. A. of Switzerland	18,347,750
10. Pollmans Tours & Safari Ltd.	1993	49	0	Tourism	Touristik Union Intl	25,024,895
11. Salt Manufacturers Kenya Ltd.	1993	56	0	Chemical	Saltec International	43,922,724
12. Kenchick	1993	12	0	Poultry	NAS Airport Services, Credit Finance Corp., Mawara Investment	4,600,000
13. Firestone (E.A.) Ltd.	1994	20	0	Rubber	Sameer Invest Ltd.	100,000,000
14. Chloride Exide (K) Ltd	1994	18	0	Services	NAS Holdings Ltd	5,154,125
15. Associated Battery Manuf. Ltd.	1994	20	0	Automobile	NAS Holdings Ltd.	28,141,200
16. Kenya Fishnet Industries Ltd.	1994	43	0	Textile	Afro Meat Co.Ltd.	2,418,750
17. CPC Industrial Products Ltd.	1994	18	0	Agri-Processing	CPC International	29,523,530
18. Kenya Cashewnut Ltd.	1994	76	0	Agri-Processing	Kilifi District Co-op Union	78,023,446
19. African Marine and General Engineering Co. Ltd.	1994	33	0	Engineering	First Chartered Securities Ltd.	30,712,500

C. PRE-EMPTIVE RIGHTS

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
20. Sanyo Armco Ltd.	1995	34	0	Electronics	i) Former Employees	2,251,080
					ii) Sanyo Electric Company of Japan	
21. Booth Manufacturing (A) Ltd.	1995	29	0	Engineering	Kenya Aluminium Industries Ltd	9,993,060
22. Wire Products Ltd.	1995	30	0	Engineering	Industrial Promotion Services	8,336,250
23. Carnaud Metal Box Ltd.	1995	19	0	Packaging	C.M.B. of U.K.	39,188,000
24. Kenya Bixa Ltd.	1995	51	0	Food & Beverage	Kenya Plantations and Products	35,598,000
25. Sokoro Fireboard Ltd.	1995	26	0	Timber	Other shareholders	22,007,700
26. Embu Hotel Limited	1995	29	0	Tourism	Other shareholders	3,117,690
27. Kenya Bowling Centres	1995	26	0	Entertainment	Other shareholders	3,220,000
28. Lion Hill Camp	1995	30	0	Hotel & Tourism	Sarova Hotels Ltd	14,500,000
29. Kenya Fruit Processors Ltd.	1995	35	0	Agri-processing	Passi Limited	8,645,000
30. NAS Airport Services Ltd.	1995	27	0	Services	Other shareholders	62,920,000
31. Elson Plastics	1995	17	0	Plastic	Other shareholders	
32. Associated Vehicle Assemblers	1996	51	0	Vehicle Assembly	Kenya Motor Handling C. Ltd & Marshalls (EA) Ltd	154,336,000*
33. Wananchi Sawmills Ltd.	1996	45	0	Saw Milling	Other shareholders	15,444,707*
34. Broilo Kenya Limited	1996	10	0	Steel Rolling	Zambezi Establishment	35,666,631*
35. Kenya Shipping Agency Limited	1996	80	0	Transport	Southern Credit Finance Limited	38,416,000
36. Kenya Industrial Plastics Limited	1996	33.3	0	Plastic	Caramel Chemicals	4,224,438*
37. Raymond Woolen Mills	1996	11	0	Textile	Other Shareholders	94,023,438
38. Kenya National Properties	1997	34.1	0	Real Estate	ICDC Investment Co.	124,850,000

C. PRE-EMPTIVE RIGHTS

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
39. Polysynthetic E. A.	1997	30	0	Chemical	Hoechst E.A.	50,289,030
40. Dawa Pharmaceuticals	1997	40	0	Pharmaceuticals	Other Shareholders	4,988,382
41. General Motors	1997	51	20	Motor vehicle	Other Shareholders	333,492,750
42. Minet-ICDC Insurance Brokers Ltd	1997	47	26	Insurance	Other Shareholders	21,275,880
43. East African Industries (EAI)	1997	29	20		Other Shareholders	200,214,974.85
44. Eveready Batteries Kenya Limited	1997	24.87	20.87	Battery	Other Shareholders	23,041,200
45. Milimani Hotel Limited	1997	49.12	0	Hotel Industry	Other Sharreholders	80,010,000
46. Warehousing & Fowarding Company	1997	25	0	Clearing & Fowarding	Other Shareholders	2,437,360
47. Kenya National Shipping Lines Ltd	1997	70	45.12	Shipping	Mediterranean Shipping Company	—
48. Infusion Kenya Limited	1997	13	0	Pharmaceutical	Ever Investments Co.	8,000,000
49. Stanbic Kenya Limited	1997	40	23	Banking	Sinclair (SBIC)	Share dilution
50. Maralal Lodge	1997			Tourism	Other Shareholders	—
51. Kenya Vehicle Manufacturers Ltd	1997	35	0	Automobile	Other Shareholders	57,750,000
52. Mount Kenya Bottlers Limited	1997			Bottling	Other Shareholders	—
53. Kisii Bottlers Limited	1997	26.1 *	Bottling		Other Shareholders	23,848,470

** Price still under negotiation (this is the offer price)*

*** Pre-programme transactions*

D. PUBLIC FLOATATIONS

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. Bamburi Portland Cement Co. Ltd.**	1991	26		Mining	NSSF	–
2. E.A. Oxygen Ltd.	1993	15	0	Chemical	Various Investors	42,472,080
3. CMC Holdings	1993	20	0	Services/ Vehicle Assembly	Various Investors	20,074,810
4. National Bank of Kenya	1994	(1st Issue - 100)	42.5	Banking	Individuals & other investors	400,000,000
5. Kenya National Capital Corporation#	1996	(2nd Issue - 42.5)	22.5	Banking	Individuals & other investors	600,000,000
6. Kenya Airways	1996	100 (GOK)	20	Transport	Individuals & Institutional Investors	2,643,750,000 + US$ 26 million
7. Kenya Airfreight Handling Co. Ltd#						
8. Kenya Flamingo Airways Ltd#						

*** Pre-programme transactions*
Kenya Airways subsidiaries

E. COMPETITIVE BIDDING

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. ESA Bookshop	1993	49	0	Services	Mr. N. M. Rajani	75,000
2. Mutuality Investment Trust (Golden Beach Hotel)	1993	100	0	Hotel & Tourism	—	—
3. African Diatomite Industries Ltd.	1994	100	0	Mining	Crown Berger Kenya Ltd.	45,000,000
4. Mepal Plastics Kenya Ltd.	1994	100	0	Plastics	Minolta Limited	17,000,000
5. Milling Corporation of Kenya Ltd.	1994	100	0	Agri-Processing	Premier Flour Mills Ltd.	150,000,000
6. Hola Cotton Ginnery	1995	100	0	Textile	Malindi Cotton Ginneries Ltd.	10,000,000
7. Salawa Cotton Ginnery	1995	100	0	Textile	Kerio Farms Ltd.	10,000,000
8. Mwea Cotton Ginnery	1995	100	0	Textile	Rift Valley Products Ltd.	15,000,000
9. Homa Bay Hotel Ltd.	1995	99	0	Hotel & Tourism	Samvir Management Services Ltd.	22,000,000
10. Golf Hotel	1995	80	0	Hotel & Tourism	Buvika Corporation Ltd.	70,000,000
11. Meru Ginnery Ltd.	1995	49	0	Textile	Mugongai Farmers Co. Ltd.	30,000,000
12. Kenya Fluorspar Co. Ltd.	1996	50		Mining	M/s Minerals & Chemicals Manufacturer Ltd. (In Fomation)	72,500,000
13. Sunset Hotel Ltd.	1996	95	0	Hotel & Tourism	Travel Handling Services Ltd.	115,000,000
14. Kibos Cotton Ginnery	1996			Cotton Ginning	Salome Farmers Group	8,000,000

F. MANAGEMENT/EMPLOYEE BUYOUT

COMPANY	YEAR	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. Ark Limited	1996			Tourism	Utalii Staff Investment Co. Ltd	8,500,000

Price being negotiated

G. PARTIAL DIVESTITURES

COMPANY	YEAR	METHOD OF PRIVATISATION	PUBLIC SHARE BEFORE (%)	PUBLIC SHARE AFTER (%)	SECTOR	BUYER	PROCEEDS (KShs)
1. Kenya Commercial Bank Ltd** a) Kencom House Ltd# b) Kenya Commercial Finance Corporation# c) United Finance Company of Kenya# d) Notcutt Longaroni# e) Savings and Loan Kenya Ltd# f) Ilnvestment Promotion Services#	1998/ 90/97/98 1998 (GOK)	Public Floatation	100	35	Banking	Individuals & other investors	447,000,000 + 594,000,000 + 1,820,000,000
2. Mt. Kenya Textile Mills	1992	Receivership	100	48.5	Textile	DFCK & DEG	Share dilution
3. Uchumi Supermarkets Ltd.	1992 (ICDC)	Public Floatation	90	44	Retail Trading	Individuals & other investors	232,000,000
4. General Motors (K) Ltd	1992 (IDB)	Pre-emptive rights	51	46.5	Vehicle assembly	ITOH & ICDC Investment	Share dilution
5. Housing Finance Company of Kenya	1992 (GOK)	Public Floatation	50	30	Housing Finance	Individuals & other investors	126,000,000

*** Pre-programme transaction*
 # Subsidiaries and associated companies

TEA FACTORIES

Divestiture of 39 Tea Factories owned by KTDA has been completed in addition to the enterprises listed above.

KEY

KTDC	—	Kenya Tourist Development Corporation
ICDC	—	Industrial Commercial Development Corporation
IDB	—	Industrial Development Bank
KTDA	—	Kenya Tea Development Authority
GOK	—	Government of Kenya
CBK	—	Cotton Board of Kenya
KNTC	—	Kenya National Trading Corporation
NCPB	—	National Cereals & Produce Board
KCB	—	Kenya Commercial Bank