ICR Review
Operations Evaluation Department

Report Number: ICRR10878

1. Project Data:		Date Posted:	04/26/2001	
PROJ ID:	P001348		Appraisal	Actual
Project Name:	Parastatal Reform Ta	Project Costs (US$M)	31.82	21.64
Country:	Kenya	Loan/Credit (US$M)	23.32	21.64
Sector(s):	Board: PSD - General information and communications sector (30%), General transportation sector (30%), Central government administration (24%), Crops (15%), Capital markets (1%)	Cofinancing (US$M)	5.54	0.15
L/C Number:	C2440			
		Board Approval (FY)		93
Partners involved:	UNDP, EEC, Netherlands	Closing Date	06/30/1998	06/30/2000

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2. Project Objectives and Components

a. Objectives

The objectives in the SAR were to: (i) enhance the efficiency of the PE sector; (ii) reduce the financial burden of public enterprises on the public sector budget; and (iii) enable public enterprises to operate on the basis of market principles by enforcing financial discipline, promoting operational autonomy and enhancing accountability. The key measurable outcomes of the project included: (i) privatization of at least 20 public enterprises out of the 207 earmarked for divestiture, and the liquidation of uneconomic enterprises; (ii) improvements in efficiency, profitability and accountability of the remaining ones by phasing out subsidies, establishing an improved corporate governance system, and dealing with excess indebtedness; (iii) adoption and implementation of restructuring plans for five of the largest PEs; and (iv) improvements in the efficiency and effectiveness of the Nairobi Stock Exchange.

These project objectives were revised twice. The first revision was undertaken in 1996/97 and the second in June 1998. In 1996/97 project objectives were focused on (i) privatization of companies by number and name (as in the Bank's SAC and the IMF's ESAF program) and (ii) restructuring, preparing for privatization and commercialization of specific parastatals, Kenya Railways Corporation (KRC), Kenya Posts and Telecommunications Corporation (KPTC), Kenya Tea Development Authority (KTDA), Kenya Ports Authority (KPA), and the National Cereals and Produce Board (NCPB); and (iii) support for implementing agencies such as the Department of Government Investment and Public Enterprises (DGIPE) and the Executive Secretariat and Technical Unit (ESTU), responsible, for financial oversight of public enterprises and for managing the privatization process.

The second set of revised objectives were focused on *completing* preparations underway for the restructuring, commercialization and privatization of KPTC, KRC and the KPA. The objective was to capitalize on the progress made in the Parliamentary passage of the Communications Bill of 1998 into separate and privatizable companies and to help the Govt follow through in its commitment to private KRC and KPA made by the MOF in his 1998 budget speech. The TA would now help to develop a strategy to award concessions and management contracts for their operations.

b. Components

The project had two main components. (i) privatization and divestiture component and (ii) a PE reform component. The privatization component would support expenditures for the development of ESTU, privatize or bring to the point of sale at least 20 PEs and liquidate a number of non-viable PEs, support the development of capital markets and implement special studies, training and investment promotion activity. The PE component financed TA to strengthen the DGIPE, restructure 5 large enterprises (KPTC, KRC, KPA, KTDA and NCPB), design and implement a safety net. The project components were revised in 1996/97 and in 1998 in line with revisions to project objectives. The components would support KRC, KPA, NCPB, KTDA and KPTC privatization and commercialization .

c. Comments on Project Cost, Financing and Dates

Project cost for the privatization component at appraisal was $ 13.14 million with latest estimate of $5.81 million. The PE component was $18.68 million with latest estimate of $15.83 million. The original credit amount was $23.32 million. At the end of the project, $21.13 million had been disbursed. The remaining balance of $2.19 million was canceled.

3. Achievement of Relevant Objectives:

Some project objectives from the *original* project objective were achieved but little progress was made in the revised objectives. Financial burden of the public enterprises on public expenditures (in the original project objectives) was reduced. Many small companies were privatized or liquidated but the ambitious privatization program that was expected to be launched did not materialize despite several studies . As of 2001, all five remained in state hands. Few efficiency improvements were registered.

There was some strengthening of the implementation agencies ESTU and DGIPE but significantly more capacity was needed for the privatization process to be implemented . Also the agencies did not have the capacity or the legal mandate to privatize certain agencies. The Government perception remained that the performance of strategic enterprises would improve merely by restructuring and establishing performance contracts .

4. Significant Outcomes/Impacts:

The financial burden of the enterprises on the state budget was reduced .

5. Significant Shortcomings (including non-compliance with safeguard policies):

None of the envisaged big five privatizations came through . The program was donor driven and there was no serious political commitment on the part of the highest levels of government, and efforts were not made by the Bank to lay the groundwork, consensus and commitment . During preparation and appraisal, dialogue focused primarily on achieving consensus at a narrow technocratic level in the Ministry of Finance and the implementing agencies (ESTU and DGIPE). Public awareness-raising and communications with the private sector, employees and civil society were also not included in the dialogue as originally planned . Clear objectives and formal agreements on outputs and outcomes were not specified including measurable and monitorable performance indicators . The institutional capacity to undertake complex transactions was not there . Obligations to retrenched employees of PEs were not fulfilled as envisaged in the original project objectives .

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Unsatisfactory	Unsatisfactory	
Institutional Dev .:	Negligible	Negligible	
Sustainability :	Unlikely	Unlikely	
Bank Performance :	Unsatisfactory	Unsatisfactory	
Borrower Perf .:	Unsatisfactory	Unsatisfactory	
Quality of ICR :		Satisfactory	

NOTE: ICR rating values flagged with ' * ' don't comply with OP/BP 13.55, but are listed for completeness.

7. Lessons of Broad Applicability:

(i) A broad participatory project preparation process with clear M&E indicators is important . (ii) Infrastructure privatization is substantially more difficult, and sensitive in comparison to privatizing small and medium firms . It requires defining competition policy and establishing new regulatory frameworks and institutions . (iii) Visible clear high level support is necessary for a privatization program focused on politically important strategic enterprises . (iv) Work programs and timetables should be stakekeholder and government driven and realistic .

8. Assessment Recommended? ○ Yes ● No

9. Comments on Quality of ICR:

The ICR is good quality.