

See discussions, stats, and author profiles for this publication at: <https://www.researchgate.net/publication/46452226>

Kenya Airways: A Case Study of Privatization

Article · January 2002

Source: RePEc

CITATION

1

READS

3,908

1 author:



Samuel Oyieke

Jaramogi Oginga Odinga University of Science and Technology

7 PUBLICATIONS 1 CITATION

SEE PROFILE

Kenya Airways: A case study of privatization

By

Samuel Oyieke
University of Eastern Africa
Baraton

AERC Research Paper 119
African Economic Research Consortium, Nairobi
August 2002

© 2002, African Economic Research Consortium.

Published by: The African Economic Research Consortium
P.O. Box 62882
Nairobi, Kenya

Printed by: The Regal Press Kenya, Ltd.
P.O. Box 46116
Nairobi, Kenya

ISBN 9966-944-86-9

Table of contents

List of tables

List of figures

List of abbreviations

Abstract

Acknowledgments

1.	The research problem and objectives	1
2.	The process of privatization	4
3.	The privatization of Kenya Airways	8
4.	Review of related literature	12
5.	Conceptual framework and research methodology	14
6.	Findings	19
7.	Conclusions and policy relevance	22
	References	24

List of tables

1.	Summary of privatization methods used in Kenya	5
2.	Important events in the privatization of Kenya Airways	8
3.	Kenya Airways change of ownership	10
4.	Theoretical model of Boycko, Schleifer and Vishny	17
5.	Paired samples test	19
6.	The fiscal effect of privatizing Kenya Airways	20

List of figures

1: Mapping organizational movements	14
-------------------------------------	----

List of abbreviations

AfDB	African Development Bank
CETA	Capital expenditure to assets
CESA	Capital expenditure to sales
DIVSAL	Dividend to sales
EFI	Efficiency
ESOP	Employee share ownership
GOK	Government of Kenya
IATA	International Association of Travel Agencies
IFC	International Finance Corporation
KLM	KLM Royal Dutch Airline
KIM	Kenya Institute of Management
LEV1	Debt to assets
LEV2	Long-term debt to equity
PAYOUT	Dividend payout
ROA	Return on assets
ROE	Return on equity
ROK	Republic of Kenya
ROS	Return on sales
SOE	State owned enterprise

Abstract

Various commissions and Kenya's Comptroller and Auditor General consistently point to the inefficiency and mismanagement of parastatals (state-owned enterprises). Consequently, their advice has been to divest and privatize.

The main reasons advanced by the Kenyan government for embracing privatization were to reduce the fiscal burden, develop the private sector, broaden ownership of wealth and raise revenue for the cash-strapped government. As these goals are mutually exclusive, achieving them, especially in a poor country like Kenya, is problematic. This has made privatization a rather unpopular process in the country.

Presenting a case for privatization requires documentary evidence of successful privatization. It is in this respect that Kenya Airways was selected as a case study. The findings of the study demonstrate clearly that successful privatization is possible. The study concludes that privatization can achieve its objectives if conducted systematically and transparently. The support of the general public is possible in an atmosphere free of suspicion and with a free flow of information before and after privatization.

Acknowledgements

It is not possible to acknowledge individually all those who assisted in one way or the other in this research. I would, however, like to acknowledge specifically the financial assistance of the African Economic Research Consortium (AERC) that enabled me to carry out the research. They were prompt, courteous and in most cases willing to go an extra mile to assist. The staff at the Consortium were very supportive. I also want to register my appreciation to the members of the network. They made valuable comments and provided valuable references right from the proposal stage. To the independent reviewers who guided the work to this stage, I express my sincere appreciation. Last but not least, I thank my research assistants and typist. The views expressed in this paper are the independent views of the author. They in no way reflect those of the sponsoring institution.

1. The research problem and objectives

The rapid growth of state-owned enterprises (SOEs) in Kenya was a conscious policy choice by the government. As early as 1901, the colonial government set up SOEs for very specific reasons to facilitate governance (Grosh, 1994). According to Brutton and Hill (1996), public enterprises were a deliberate choice by the public to allow the government to provide certain goods and services that the household and the market could not provide for efficiently. In them the state sought to take charge of the commanding heights of the economy so as to spur economic growth, achieve distributive justice, reduce poverty and provide public goods for the economically disadvantaged masses. This led to the rapid expansion of such enterprises in numbers as well as across sectors. By 1995, there were 240 public enterprises cutting across all sectors of the economy (ROK, 1996a). Of these, the government directly owned 51; in 36 the government had controlling shares and in 153 the government owned shares through holding companies.

The Ndegwa Commission's report of July 1982 and the reports of the Comptroller and Auditor General revealed gross inefficiency in resource utilization in these enterprises (ROK, 1994, 1998). Their operation led to distortions in incentive structures and resource allocation, which had serious negative impacts on fiscal and monetary policies. Their rapid expansion in numbers and across sectors placed serious burdens on the government in terms of equity participation, loan grants and guarantees, subsidies, and role conflicts. This poor performance was demonstrated by their low contribution to GDP for the period 1984–1990, which was 11.06% per annum; in terms of employment it was 8%. In contrast, their share in external debt as a percentage of GDP was 15.5% per annum (World Bank, 2000a).

In turning SOEs over to private ownership, is the government abdicating its responsibility to the public? Privatization should lead to economic and financial improvement. Such an improvement will enable the government to reduce budgetary support for the firm, as well as government borrowings and loan guarantees. This assumes that privatization generates sufficient funds and that the privatized enterprise, apart from being large, continues to operate efficiently post privatization. It also assumes that the divestiture price at least equals the government's investment in the enterprise and that the proceeds are used for repaying a corresponding amount of public debt. As privatization involves change of ownership, this change ought to lead to improved efficiency. Despite the advantages, privatization in Kenya has been a slow and painful process to the government and the public. Privatization would gain public support and confidence if information on successful cases were documented. In the absence of such information, suspicion, scepticism and outright opposition are common. The research problem is to fill this information gap by the use of a case study.

Research objectives

The study intends to analyse the efficiency gains resulting from privatization and how such gains affect the enterprise's debt and tax flows, as well as their impact on the public sector's borrowing requirements.

Specifically, the study will:

- Review the trends of Kenya Airways' debt as a public enterprise and hence government's debt as a result of subsidizing the airline.
- Assess the pre- and post-privatization performance of the airline in terms of profitability, capital investment, leverage and efficiency in resource utilization.
- Assess the fiscal effect.
- Analyse the changes in the airline's leverage post privatization.

Hypothesis

The research responds to the following broad hypothesis: That privatization has a positive effect on enterprise efficiency, leading to improved performance, reduction in government subsidies, increase in tax flow to the government, and reduction in the public sector's stock of debts and borrowing requirements.

The study will also consider whether:

- Privatization leads to an improvement in the firm's net worth through efficiency improvement.
- Privatization leads to a reduction in the stock of debts by using the sale proceeds to retire the debts.
- Privatization increases liquidity through the sale proceeds and tax flows, which leads to an overall reduction in budgetary requirements and hence reduction in the budget deficit.
- Privatization reduces the burden on the exchequer to subsidize the enterprise and reduces the need to borrow by the same magnitude.

Justification of the study

The performance of public enterprises in Kenya has been less than satisfactory. This is in spite of the massive budgetary allocation to these enterprises, which places a heavy financial burden on the government's meagre resources and on the interest rates. Privatization was seen as a way of relieving this burden and the pressure of running such enterprises. Privatization in Kenya has come under extreme criticism from all quarters. The criticism has related to the efficiency, timeliness and transparency of the process, along with the commitment on the part of the government to privatize. The major question raised is whether those firms, once privatized, have performed better than their public counterparts and whether they have made significant contributions to the exchequer.

These are fundamental issues that need to be adequately addressed in order to justify privatization.

It is in this regard that Kenya Airways was selected as a case study. Its privatization has been dubbed the largest single offer to date at the Nairobi Stock Exchange (NSE). The sale proceeds were in excess of Ksh4 billion in cash. The deal provides rich lessons of experience to draw from for both academia and policy makers.

The pertinent issue in Kenya's privatization should therefore be how to privatize successfully, and not whether to privatize.

2. The process of privatization

Privatization can be defined as the process of transferring productive operations and assets from the public to the private sector. It is much more than selling an enterprise to the highest bidder (World Bank, 1995b). From the structural/action perspective, it represents marketization of enterprises. This can be achieved through ownership changes, organizational changes and operational changes (Ramanadhan, 1993). From the substantive/content angle, it involves privatization of ownership, management and institutional discipline. It is fundamentally a political as well as a commercial and economic process. This gives rise to the need to:

- Balance privatization to achieve certain political gains.
- Choose enterprises in a way that meets political goals.

These goals fall under two broad categories: broad social or macroeconomic goals, and enterprise-specific or microeconomic goals.

According to the guidelines given by the World Bank and International Monetary Fund (IMF), privatization is only deemed to have occurred when the government reduces its shareholding to 25% or less (World Bank, 1995b).

Methods of privatization

There are a number of ways to privatize state-owned enterprises, including sale of shares, sale of assets and others. These are described briefly below. As can be seen in Table 1, the Government of Kenya has used many of these methods in its ongoing privatization exercise.

Sale of shares

A sale may result in the government remaining the majority shareholder or becoming a minority shareholder. This can be done through:

- **Competitive sale:** In this method, shares owned directly or indirectly by the government are offered for sale to private investors through competitive means. This usually involves open public tender. Occasionally it can involve pre-qualification of potential investors.

- **Public floatation:** In this method, shares are offered to the general public through the stock market. Sometimes this is referred to as “initial public offering” or simply as “public offering”. Such an offer increases the likelihood that enterprises will be fairly priced and so can help de-politicize privatization. “If effected through the local stock markets, it allows for local investor participation, diversifying ownership of the economy’s resources and contributing to the credibility of privatization” (World Bank 2000a: 168; see also Leeds, 1991).
- **Pre-emptive rights:** Shares are offered for sale to existing shareholders in accordance with the rules set out in the enterprise’s charter. Pre-emptive right sales are non competitive. They assign certain legal rights to the existing private shareholders, which precludes competition.

Table 1: Summary of privatization methods used in Kenya

Method		No. of enterprises
Sale of shares	Competitive sales	13
	Pre-emptive rights	96
	Public floatation	16
Sale of assets	Liquidation	36
	Competitive sales	17
	Direct sales	4
Other methods	Management contract	2
	Debt/equity swap	1
	Others	3
TOTALS		188

Source: World Bank, 2000a.

Sale of assets

A sale of assets is used as a method when an enterprise has become dormant or financially distressed and its shares are considered not saleable. Assets offered for sale comprise only the physical assets included in the enterprise’s balance sheet as fixed assets or stock. At times they may include exploration and mining rights, copyrights, and patents. Strictly speaking, the assets are privatized but the enterprise is not. The enterprise as a legal entity continues to exist. A formal winding up process is therefore required.

A sale of assets may take the following forms:

- **Open tender:** This is done through press advertising and other means of communication. The price is normally the determining factor in selecting the successful bidder.

- **Public auction:** This is done through press advertising and other means of communication; the public is notified of the date of the public auction on which the assets are to be sold to the highest bidder.
- **Direct sales:** This is the direct sale of assets to a private investor. This method has been criticized on the grounds of transparency and fairness.
- **Liquidation:** This involves the appointment of a liquidator who realizes all assets and applies the proceeds towards settling the enterprise's liabilities according to legal preference. Contingent liabilities, notably employee end-of-service benefits, become actual liabilities when the resolution to put the enterprise into liquidation is passed.

Other methods

Privatization can also be accomplished by a variety of other means, ranging from employee buyouts to share transfers to management contracts. These are described briefly below.

Management or employee buyouts. These involve the acquisition by management, or by employees generally, of the shares or principal assets of an enterprise.

Transfer of assets. This may be considered appropriate when a public enterprise is involved and therefore has usable assets while another enterprise is in need of such assets but lacks the funds to purchase them. The transferred enterprise undergoes partial divestiture. Strictly speaking, privatization would not have occurred since the transferee would almost certainly be a public enterprise.

Transfer of shares. This occurs when a government cedes ownership to another institution without financial consideration. Normally, shares are transferred to a trust or a privately managed investment fund. Such transfers are considered to represent change of ownership if the government ceases to exercise any ownership rights.

Equity dilutions. This occurs when an enterprise's share capital is increased with the new share capital subscribed by private shareholders. The equity held by the government, though unchanged, becomes a smaller proportion of the total. This can be achieved through:

- **Debt equity swaps:** Government held equity is diluted when the privately held debt of an enterprise is converted to equity. No funds are transferred nor is additional capital necessarily introduced into the enterprise. The government does not receive any proceeds. This method can be useful where sales of shares might be politically difficult and when reducing an enterprise's debt ratio. It cannot be used as the sole method of privatization if the enterprise requires additional investment capital.

- ***New capital issues:*** Private shareholders subscribing additional capital to the enterprise increase the share capital of an existing enterprise. The government does not sell the shares it holds. The enterprise continues to operate as a legal entity.

Joint ventures. This is a new company whose share capital is subscribed partly by the government in the form of assets transferred from the existing but financially distressed public enterprise. The existing public enterprise ceases operation and the new successor company takes over. There is terminal pay to the employees of the existing SOE due to change of legal status. The company continues operations without a break.

Restitution. This is a return of assets or shares to former owners from whom they had been acquired by the government through nationalization or confiscation without adequate compensation. It is normally regarded as full privatization.

Management contracts. These place a public enterprise under private management for a specific period of time, during which the contractor is paid a fee. Such a fee may partly be based on performance. Ownership of assets remains with the enterprise and ownership of shares remains unchanged. This method is often used in situations where there is a need to turn around a company in readiness for eventual privatization (Oliver and Bhatia, 1998; ROK, 1996a; Vuylsteke, 1988; Leeds, 1991; Nicos and Katsoulacos, 1993; Berg, 1994; AfDB, 1995, 1997; Nankani, 1993).

Objectives of privatization in Kenya

The broad objectives of privatization in Kenya, as stated, are to:

- Reduce the fiscal burden.
- Develop the private sector.
- Broaden ownership.

3. The privatization of Kenya Airways

The chronology in the transfer of Kenya Airways to private ownership is shown in Table 2. Table 3 summarizes the evolution of share ownership.

Table 2: Important events in the privatization of Kenya Airways

Date	Event	Outcome
1981	IATA study and recommendations completed.	Government invested equity in the airline.
June 1982	Working party on government expenditure (Ndegwa Commission) completed.	Recommendations for divestiture from some SOEs and privatization
1986	Sessional Paper No. 1 on Economic Management for Renewed Growth passed by Parliament.	Analysis of the role of the private sector.
April 1991	New board of directors appointed by GoK.	Turnaround of the airline begins.
February 1992	Speedwing Consulting commissioned.	
July 1992	Policy paper on public enterprise reform and privatization completed.	The objectives, principles, scope and procedure for privatization established.
	Parastatal Reform Programme Committee (PRPC) established.	Establishment of an entity to manage, coordinate and implement privatization.
	Executive secretariat and technical unit (ESTU) appointed as the secretariat to PRPC.	Appropriate management, coordination and implementation of privatization.
	Service Agreement with Speedwing Consulting concluded.	Appointment of a new management team headed by Brian Davis.

cont. next page

Date	Event	Outcome
1992–1994	Restructuring process under the new management team begun. Economy-wide, price and import controls removed, exchange rate freed, and the economy liberalized.	Complete review of routes, fare structure; modernization of aircraft; management restructuring, staff training and layoffs; strong accounting system; quality improvement; debt conversion.
1993		Decline in after tax losses by 62%.
1994	Privatization committee appointed comprising members of the board, management and the government.	Restructuring of the airline's balance sheet. Improvement in earnings per share, return on investment.
1994	IFC appointed as the principal adviser on privatization of the airline.	
1994	Government's debt rescheduled by the Paris Club and Kenya Airways released from its debt obligation by creditors on loans incurred up to 31 December 1993 as a condition for the rescheduling. Kenya government assumes responsibility as a primary debtor for an amount in foreign currency equivalent to Ksh4.3 billion.	
24 February 1995	Some 80,364,082 shares of Ksh20 each in the capital of Kenya Airways subscribed by the Kenya government through the Ministry of Finance.	Conversion of Ksh1.6 billion debt into equity.
30 March 1995	Agreement concluded between the government, Kenya Airways, Credit Lyonnais Bank and the Netherlands where the government assumed responsibility for debts outstanding of US\$12,961,794.	
7 April 1995	Agreement signed between Kenya government, Kenya Airways and Export Development Corporation of Canada under which the government assumed liability for outstanding debt by 31 December 1993 of US\$1,526,127.50.	

Date	Event	Outcome
6 July 1995	Debt assumption agreed by Kenya government, Kenya Airways and Midland Bank PLC (British banking syndicate). The government assumed liability for outstanding debt by 31 December 1993 of Ksh90,175,000.	Assumption by the Kenya government of debt outstanding by the airline as at 31 December 1993 of Ksh4.3 billion.
15 December 1995	Partnership with KLM initiated.	
January 1996	Partnership agreement between the government of Kenya and KLM signed.	Conclusion of first phase of Kenya Airways privatization with the sale of 26% of shares at Ksh12.10, giving net proceeds of US\$26 million.
February 1996	Government's plan unveiled to sell 51% of its shareholdings to the public on the NSE.	Preparation for the public offer.
22 March 1996	Some 51% (461,615,484) fully paid up shares offered for sale to the public on the NSE at Ksh11.25 per fully paid up ordinary share of par value of Ksh5.00 per share, giving the number traded at the time as 235,423,896.	Conclusion of sale of 235,423,896 fully paid up ordinary shares of Ksh5.00 par value generating Ksh2.7 billion to the Consolidated Fund of Kenya.
June 1996	Public offer on the NSE closed.	Change in ownership structure.

Author's compilation from various government ministries, World Bank sources and ROK (1996).

Table 3: Kenya Airways change of ownership

Shares held by	Percentage as at 22 March 1996	Percentage as at 3 June 1996
Government of Kenya	74	23
KLM	26	26
ESOP, provident fund and employees	Nil	3
Kenyan public	Nil	20
Kenyan institutional investors	Nil	14
International institutional investors	Nil	14
TOTAL	100	100

ESOP = employee share ownership KLM = Royal Dutch Airline
Source: ROK (1996) and Oliver and Bhatia (1998).

The result of the restructuring was a reduction in after tax losses by 62% by 1993. The airline registered a gross profit of Ksh237,204,000 from a previous gross loss of Ksh53,867,000 in 1992. In 1994, earnings per share rose to -0.09 from -1.11 in 1993. Return on investment rose to -0.007 from -0.103 in the same period (Kenya Airways audited report, 1989–1998).

The partnership with KLM proved to be advantageous for the following reasons:

- The price of Ksh12.10 per share paid by KLM was more than twice its book value of Ksh5 per share and at the top of the range indicated in the valuers' report.
- The proceeds of US\$26 million went directly to the treasury.
- KLM did not in the end require a management contract or unusual minority privileges, which meant that Kenya's interests control the company, a feature expected to attract Kenyan investors (Oliver and Bhatia, 1998).

The initial public offering was oversubscribed by 94.6% by local investors, while the foreign offer was oversubscribed by 128%. Over 113,000 Kenyans applied for the shares. Of these, 78,000 received the minimum allocation. The staff of the airline got a total of Ksh4.6 million worth of shares, the airline's employee share ownership plan got Ksh4.7 million worth of shares, and the employee provident fund got Ksh4.2 million worth of shares. This makes Kenya Airways the largest publicly quoted company on the NSE and the second largest privatization to date in sub-Saharan Africa (Kenya Airways, 1996b).

4. Review of related literature

The often-stated objectives of privatization run in general terms, such as developing the private sector, broadening ownership, reducing the fiscal burden, increasing economic efficiency, reducing the administrative burden, developing capital markets, accessing capital and technological markets and raising revenue for the government. Some of these objectives are contradictory in principle and hence achieving them in a single transaction is difficult (Oliver and Bhatia, 1998).

Broadening of ownership in a poor country requires sale at low prices, while revenue maximization requires selling at the highest price possible. The inconsistency has led to lack of clear policy on the enterprise and the timetable for privatization in many sub-Saharan Africa countries. From the other side, price maximization, which reduces the fiscal deficit, may not necessarily be consistent with broadening ownership. Nor has reducing the fiscal deficit, though stated as a principal objective, always been a consideration in selecting enterprises for privatization. If it were, then priority should have been given to large enterprises that are dependent on government support. Such enterprises include Kenya Railways, Kenya Posts and Telecommunications (Telkom Kenya and Postal Corporation), Kenya Ports Authority, Kenya Power and Lighting Corporation, National Cereals and Produce Board, and Kenya Pipeline Corporation, among other giants.

If broadening ownership had been a principal objective, the preferred method would have been public floatation. However, over 70% of privatizations have been conducted through pre-emptive rights. Only 20% of the transactions have involved the use of competitive methods (Oliver and Bhatia, 1998; World Bank, various issues).

Hence, according to Oliver and Bhatia (1998: 21), “such objectives are stated in general terms, and without related targets for achievement that it is difficult, if not impossible to judge objectively the impact and success of the privatization programs”.

Concerning the performance improvement brought by privatization, the evidence is contradictory. According to the studies by Adams et al. (1992), Lorch, (1991), Megyery and Sader (1997), Bishop and Kay (1989), Galal et al. (1992), and Donaldson and Wagle (1995), there was no significant difference in performance between privatized and non-privatized firms. However, other studies (Kikeri et al., 1992; Megginson et al., 1994; Oliver and Bhatia, 1998; Hachette and Luders, 1993) found a general performance improvement post privatization. Writing on the same issue, Rowthorn and Chang (1993) argued that efficiency improvement could be misleading. The answer lies not in economic efficiency but in politics and the politically accommodating behaviour of governments.

According to Parker (1993), there is no overwhelming support for the notion that

private enterprise is inevitably superior to public enterprise. In a study covering ten SOEs as they moved from public to private ownership, only five showed improved performance. Critical to improved performance were significant changes in the internal organizational structure of these enterprises, with many of the changes pre-dating privatization. This implies a substantial reorganization prior to privatization, hence a weak case for improved performance post privatization. Performance improvement could therefore be attributed to the restructuring process (Boubakri and Cosset., 1996).

Oliver and Bhatia (1998) argue that the fiscal impact of privatization in Africa is negligibly small. This is because Africa has concentrated on privatizing small loss-making enterprises and leaving the big loss makers intact. This appears to be the case in Kenya.

The general conclusion drawn from the available literature is mixed. Though one may argue for improved performance as firms change ownership (Armando and Schneider, 1993), the question that begs evidence is whether improvement is due to the change of ownership or to the nature of the new ownership—i.e., private.

5. Conceptual framework and research methodology

Privatization involves a movement away from public ownership to private ownership. Such a movement is expected to improve efficiency, profitability and growth, but this argument oversimplifies the relationship and the nature of control of management. The notion of the public sector as a homogeneous social welfare maximizer is at the least naive. In reality, neither sector conforms to these models perfectly (Adams et al., 1992). The central theoretical issue in privatization should be that as organizations move from political control and exchequer financing towards a more independent management, does the economic and financial performance improve? Parker (1993) developed a model to analyse these issues as shown in Figure 1.

Figure 1: Mapping organizational movements

In the model in Figure 1, a movement represents changes in levels of competition from the north to the south. Efficiency is expected to rise if firms move southwards, but decline if they move northwards. Combining the effects of the product market (north-to-south axis) and the capital market (west-to-east axis) one concludes that there should be large efficiency gains if organizations move southeastwards (private owned), and large efficiency losses if they move northeastwards (public ownership). From this, one draws a case for privatization in order to improve efficiency.

Efficiency gains

The issue at the centre of performance (efficiency) change is not merely ownership, but control. The right framework to analyse this is the principal–agent theory. In the real world, firms do not operate in a neoclassical competitive environment. The manager operates under uncertainty and the information collected is costly. Because of this, managers (agents) act to maximize their chosen, though not always stated, objectives. Under uncertainty, optimal decision making depends on the risk preference of managers and shareholders. Since it is assumed that the agents' objective function differs from that of the principal (the owner/shareholder) and that the agent will act in a self-interested way, then the goal for the principal is to design an incentive structure that induces the agent to act in the principal's interest. This, however, assumes a perfect contract.

In real life, there is no perfect contract. Agency costs are more than those specified in the contract. Managers' objectives are therefore at times in conflict with the shareholders'. This is apparent in public enterprises. The managers' performance becomes difficult to gauge in the case of SOEs because of the many conflicting and ill-defined organizational objectives. This is coupled with the problem of the inability of the shareholders (the general public) to directly control the agent. The behavioural response to the coalition group entrusted to control management is "don't rock the boat". Redundant workers are rarely dismissed, erring staff are hardly disciplined, no loss-making plant is closed and no organizational change is ever made that is politically unpopular (Aharoni, 1992).

The fiscal effect

The fiscal effect of privatization is a function of four factors:

- The financial flow relationship between the public exchequer and a given public enterprise or all public enterprises taken together.
- The divestiture price received.
- The use of the divestiture incomes.
- The cost that devolves on the public exchequer during and after the divestiture.

If the enterprise was a loss-making one, the immediate effect of divestiture will be to relieve the government of the burden of subsidizing the enterprise. Such a relief will

depend on the divestiture price. If the divestiture price equals the government's investment in the enterprise, and if it is used for redeeming a corresponding amount of public debt, the budget will save the debt servicing charges. If, however, the divestiture price is lower than the government's investment and the corresponding figure of public debt attributable to it, a portion of the debt continues after the divestiture and the budget continues to incur debt servicing costs on it. If on the other hand, divestiture brings a price that is higher than the investment and the corresponding figure of public debt, the public gains little from the sale, over and above the bare discontinuance of the subsidy to finance the losses of the enterprise. This exceptional situation occurs when the value of the assets of the enterprise divested turns out to be far higher than their book value (Ramanadham, 1993).

In the case of a profit-making SOE, divestiture saves the government the debt servicing cost, but the government loses on profits. If the profits have been higher than the debt servicing costs, the budget sustains a net disadvantage equal to the difference between the interest on debt and the profit.

Use of divestiture income

The argument for favourable macroeconomic impact has been that the government uses the privatization income to pay for public debt. It is possible, however, where there is no legal requirement, for the government to use the resources for:

- Meeting or adding to current expenditures
- Financing reductions in certain tax rates
- Capital expenditure

If used for current expenditure, the public debt attributed to the divested enterprise remains undiminished, hence the debt service cost and the cost of prevailing debt continue. If they are in the nature of commercial investments, there is a mere substitution and the effect depends on the annual inflow of profits.

"There is one claim of fiscal relief which is real...that privatization relieves the public exchequer of the need to find funds for investment additions. Public borrowing programmes will be lighter for this reason; the interest rates will not be under pressure of increased borrowings and there will be no 'crowding out' in the capital market" (Ramanadham, 1993: 32).

Privatization may also increase the tax revenue as these firms, which were previously loss makers, begin to make profits and pay taxes. This reduces the need to run budget deficits by the same.

Post-privatization performance changes

The theoretical model by Boycko, Schleifer and Vishny (1993) supports the notion of post-privatization improvements in the firm's:

- Profitability
- Operating efficiency
- Capital investment

This model predicts a decline in output, however. Megginson et al. (1994), on the basis of the BSV model, studied 61 enterprises from 18 countries (6 developing and 12 industrialized). They examined the impact of privatization on corporate capital structure, profitability and dividend policies (see Table 4). They compared performance for three years preceding privatization and three years after privatization with the year of privatization as the benchmark. They found a significant increase in:

- Profitability
- Efficiency in resource utilization
- Output
- Capital expenditure (capital expenditure to sales)
- Dividend payout

There was a decline in:

- Government subsidies
- Leverage
- Capital expenditure, i.e., capital expenditure to total assets

Table 4: Theoretical model of Boycko, Schleifer and Vishny

Variable	Proxies	Expected relationships
P (1)	(i) Return on sales (ROS) = Net income ÷ Sales. (ii) Return on assets (ROA) = Net income ÷ Total assets (iii) Return on equity (ROE) = Net income ÷ Equity	$ROS_A > ROS_B$ $ROA_A > ROA_B$ $ROE_A > ROE_B$
P (2) Capital investment	(i) Capital expenditure to sales (CESA) = Capital expenditure ÷ Sales. (ii) Capital expenditure to assets (CETA) = Capital expenditure ÷ Total assets	$CESA_A > CESA_B$ $CETA_A > CETA_B$
P (3) Leverage	(i) Debt to assets (LEV1) = Total debt ÷ Total assets (ii) Long-term to equity (LEV2) = Long-term debt ÷ Equity	$LEV1_A < LEV1_B$ $LEV2_A < LEV2_B$
P (4) Payout	(i) Dividend to sale (DIVSAL) = Cash dividend ÷ Sales (ii) Dividend payout (PAYOUT) = Cash dividends ÷ Net income	$DIVSAL_A > DIVSAL_B$ $PAYOUT_A > PAYOUT_B$

Adapted from Megginson et al. (1994: 42).

Research methodology

The research for this Kenya Airways case study was based on published financial data for the period 1989 to 1998. The success indicators selected were:

- Ownership changes
- Means of control by the owners
- Efficiency in resource utilization
- Profitability
- Leverage policy
- Methods of privatization
- The fiscal effects

To verify the accuracy of the secondary data, personal interviews were conducted with the relevant government officials and airline administration. To analyse the changes before and after privatization the study used the SPSS version 9.0 statistical package. The data were divided into two sets, with 1993 as the benchmark.

6. Findings

The results of the analysis are presented in Table 5.

Table 5: Paired samples test

	Paired Differences Mean	Std. Deviation	Std. Error Mean	95% Confidence interval of the difference		t	df	Sig. (2-tailed)
				Lower	Upper			
Pair 1 ROS2 - ROS1	19.875000	8.641214	3.864468	9.145516	30.604484	5.143	4	.007
Pair 2 ROA2 - ROA1	21.170000	11.000205	4.919441	7.511442	34.828558	4.303	4	.013
Pair 3 ROE1 - ROE2	25.890000	57.773506	25.837097	-45.845282	97.625282	1.002	4	.373
Pair 4 LEV12 - LEV11	-41.495000	53.390262	23.876851	-107.787767	24.797767	-1.738	4	.157
Pair 5 LEV22 - LEV21	-287.989000	741.648062	331.675096	-1208.866698	632.888698	-.868	4	.434
Pair 6 EF2 - EF1	.708000	.193830	8.66833E-02	.467328	.948672	8.168	4	.001

Change of ownership

Kenya Airways moved from 100% government ownership to 23% government ownership. The remaining 77% of the shares are owned as follows: 26% KLM, 3% employee share ownership (ESOP), provident funds and employees, 20% the Kenyan public, 14% Kenyan institutional investors, and 14% international institutional investors (Kenya Airways, 1996b). Even though the government still owns the majority of the shares after KLM, the airline is now a publicly quoted company. In terms of autonomy, the government still exercises considerable influence, as the airline remains the national flag carrier. Kenya Airways has moved southeastwards in terms of the model shown in Figure 1. This has been the result of freeing ownership and liberalizing the economy.

Efficiency gains

Management change, resulting from ownership change, has brought about efficiency improvements. Looking at efficiency in terms of output to input ratio there is a statistically significant improvement in efficiency. This concurs with the literature that argues that privatization should lead to an improvement in resource utilization and hence profitability. It was not possible, however, to separate labour efficiency and capital efficiency due to lack of data.

Fiscal effect

There is an improved net financial flow from Kenya Airways to the exchequer. First, the exchequer ceased subsidizing Kenya Airways from 1994. The average subsidy for 1989–1994 was Ksh92 million. This constitutes an annual saving to exchequer from 1995. The privatized airline began paying taxes from 1996. The average tax paid from 1996 to 1998 was Ksh177 million. Second, the price received of Ksh12.10 per share was the best deal. This generated to the exchequer US\$26 million in cash as at the time of the partnership with KLM, with a further US\$3 million in goods and services to Kenya Airways in 1997 and 1998. The sale of 235,432,896 shares at Ksh11.25 per share at the Nairobi Stock Exchange (NSE) generated a further Ksh2.7 billion, which was credited to the Consolidated Fund of Kenya. Third, in the case of Kenya Airways the government assumed debts to the tune of Ksh4.3 billion and converted Ksh1.6 billion of debt into equity. This caused a drain on the exchequer of the same amount. The total effect is summarized in Table 6.

Table 6: The fiscal effect of privatizing Kenya Airways (Ksh millions)

Average sales proceeds	4,026
Average annual tax revenues	340
Average subsidy/savings	929
Average savings on loan guarantees	1,859
Savings on interest obligations	44
Total gross revenue	7,198
LESS	
Debt restructuring	5,901
Net revenue gains/savings to the government	1,297

(ROK, various, *Daily Nation*, various issues)

The gains from privatization were used for recurrent expenditure; as such there was no positive effect on public debt. The stock of public debt continued as the government continued to borrow to salvage other ailing parastatals. The debt servicing cost continued post privatization not only because of the debt assumption and conversion, but also as a result of new debt commitment for other parastatals. Since Kenya Airways' assets were valued higher than their book value, one can argue for some gains to the budget.

Performance changes

There has been a considerable improvement in the performance of the airline. All the performance indicators, such as ROS, ROA, DIVSAL and PAYOUT, have registered significant improvements. The airline has also modernized its fleet by the acquisition of state of the art aircraft and increased route networks to cover 25 cities on three continents. The airline flies to 30 domestic and international destinations with a marked improvement in the service standards to international levels. The changes in LEV2 can be explained in that there was a massive injection in the restructuring period. Therefore in the immediate post-privatization period there was less capital injection.

7. Conclusions and policy relevance

The results of the study show that there are clear gains from successful privatization, suggesting that Kenya can benefit greatly from privatization of the commercially oriented SOEs. The study further points to the essential preconditions for success, including: transparency of the process and method, credibility of the supervising body and consultant, the will to privatize, a clear privatization timetable stating when and which enterprise to privatize, and adherence to a strict timetable of privatization. It is evident from the study that correctly done, the micro and macro level benefits of privatization would be achieved.

Conclusions

The findings are important in view of the criticisms and scepticism with which many Kenyans have viewed privatization. The success of privatization has been seriously questioned at both the policy and the general public level. Privatization has come to be wrongly associated with donor conditionality. The paper traces clearly the development of privatization in Kenya. At no point did it originate as a conditionality. It was a conscious policy choice from recommendations of commissions set up by the government. It is due to the slow pace and apparent lack of commitment that the donors have required a clear programme of privatization as an aid conditionality. Until Kenyans view privatization as a conscious public policy choice needing public support, the process will fall prey to political opportunists as it has done hitherto.

This study would have benefited a lot if post-privatization performance monitoring had been done and the data made available. In this respect, the study would have focused on the effect of privatization in more aggregate terms without looking at a case study. In the absence of that, the study had to limit itself to a case study of Kenya Airways and try to generalize, a process that proved very difficult since Kenya Airways is not representative of the general privatizations in Kenya. Even in the case of Kenya Airways, certain vital data before privatization were difficult to access.

There is therefore need for further research on the impact of privatization on employment, welfare and the public sector's borrowing requirements. These cannot be assessed through a single case study.

Policy relevance

The experience of Kenya Airways' privatization is important for policy makers and implementers in Kenya. Privatization is one way in which the government can spur economic growth by freeing itself from subsidizing non strategic parastatals and concentrating on creating the right economic/political environment for efficient and effective use of resources. Privatization in Kenya has been undertaken with caution and fear: fear of the loss of government control, fear of the negative effects on social dimensions of adjustment, fear of failure of privatized firms, of the resurgence of private monopolies and of the loss of an effective instrument of political control. Such fears, though well founded in the absence of concrete evidence to the contrary, act as impediments to policy makers and implementers.

The paper has shown clearly that if properly undertaken, privatization is actually good for the government in that it frees the government of the burden, both financial and human, of running such enterprises. It also improves the government's cash flow in terms of increased tax flows and reduced subsidies. And in terms of overall efficiency, the case of Kenya Airways indicates that it increases efficiency in resource utilization.

These positive results of privatization are possible as long as the methods used are transparent and objective. Where a single method cannot be used, a combination of methods can be tried, as in the case of Kenya Airways, with public floatation playing a major role.

References

- Adams, C., W. Cavendish and P. Mistry. 1992. *Adjusting Privatization. Case Studies from Developing Countries*. London: James Curry.
- AfDB. 1997. "Fostering Sector Development in Africa". African Development Bank Report, Abidjan.
- AfDB. 1995. "Privatization and Market Development". African Development Bank Report, Abidjan.
- Aharoni, Y. 1992. "State-owned enterprise: An agent without a principle". In L. Jones, ed., *Public Enterprise in Less Developed Countries*. London: Cambridge University Press.
- Aharoni, Y. 1991. "On measuring the success of privatization and control of state owned enterprises". EDI Development Studies. The World Bank, Washington, D.C.
- Armando, C. and B. Schneider. 1993. "The fiscal impact of privatization in Latin America". *The Journal of Development Studies*, vol. 31, no. 1 (June). London: Frank Cass.
- Berg, E. 1994. "Privatization in Sub-Saharan Africa: Results, prospects, and new approaches". Paper prepared for the study of African economies in transition. The World Bank, Washington, D.C.
- Bhatia, A. 1995. "World Bank support for privatization in Africa". Regional Technical Department, The World Bank, Washington, D.C.
- Bishop, Matthew R. and J.A. Kay. 1989. "Privatization in the United Kingdom, Lessons from experience". *World Development*. The World Bank, Washington, D.C.
- Boubakri, N. and Jean-Claude Cosset. 1996. "The financial and operating performance of newly privatized firms. Evidence from developing countries". Université Laval, Centre de Recherche en Economie et Finance Appliquée, Quebec.
- Boycko, M., A. Schleifer and W. Vishny. 1993. "A theory of privatization". Working paper. Harvard University.
- Brutton, N. and C. Hill. 1996. "The evaluation of public expenditure in Africa". The World Bank, Washington, D.C.
- Donaldson, D. and D. Wagle. 1995. "Privatization principles and practice". The World Bank and International Finance Corporation. Washington, D.C.
- Galal, A., L. Jones, P. Tandon and I. Vogelsang. 1992. *Welfare Consequences of Selling Public Enterprises. An Empirical Analysis*. Oxford: Oxford University Press.
- Galal, A. and M. Shirley. 1994. "Does privatization deliver?" Highlights from a World Bank conference, Washington, D.C.
- Grosh, B. 1994. *Public Enterprises in Kenya, What Works, What Doesn't, and Why?* London: Lynne Rienner publishers.

- Hachette, D. and R. Luders. 1993. *Privatization in Chile: Economic Appraisal*. ICEG publication. San Francisco, USA: ICS Press.
- Kenya Airways. *Annual Report*. Various years, 1989 to 1998.
- Kenya Airways, 1996a. Prospectus. Nairobi.
- Kenya Airways, 1996b. *Take Off*. Staff newsletter for Kenya Airways. Issue no. 22, Nairobi.
- Kenya Institute of Management. 1996. "Kenya Airways to sell millions of shares to the public. A lesson in privatization". *Management*. Journal of KIM, Nairobi.
- Kikeri, K., K. Sunita, J. Nellis and M. Shirley. 1992. "Privatization. The lessons of experience". The World Bank. Washington, D.C.
- Leeds, R. 1991. "Privatization through public offering: Lessons from two Jamaican cases". In Ravi Ramamurti and Raymond Vernon, eds., *Privatization and Control of State Owned Enterprises*. EDI Development Studies. Washington D.C.: The World Bank
- Lieberman, I. 1993. "Privatization: The Theme of the 90s. An overview". *Columbia Law Journal*, (Spring): 9–11.
- Lorch, K. 1991. "Privatization through private sale: The Bangladeshi textile industry". In Ravi Ramamurti and Raymond Vernon, eds., *Privatization and Control of State Owned Enterprises*. EDI Development Studies. Washington D.C.: The World Bank.
- Luders, R. 1986. *Lessons from Financial Liberalization of Chile 1973–1982*. Washington D.C.: The World Bank.
- Meggison, W., R. Nash and M. Van Randenborgh. 1994. "The financial and operating performance of newly privatized firms: An international empirical analysis". *Journal of Finance*, vol. 49, no. 2. American Finance Association, New York.
- Megyery, K and F. Sader. 1997. "Facilitating foreign participation in privatization. Foreign investment advisory services". *Occasional Paper* No. 8. Washington D.C.: The World Bank.
- Nankani, H. 1993. "Techniques of privatization of state owned enterprises". *World Bank Technical Paper* No. 89, vol. II.
- Nicos, M. and Y. Katsoulacos. 1993. "Privatization: Public deficit and finance and investment in infrastructure." Discussion paper series, no. 831. CEPR. London.
- Oliver, C. and A. Bhatia. 1998. *Privatization in Africa*. Washington D.C.: The World Bank.
- Parker, Davis. 1993. "Ownership, organizational changes and performance in the political economy of privatization". In Thomas Clarke and Christus Pitelis, eds., *The Political Economy of Privatization*. London: Routledge.
- Ramanadham, V. 1993. "Privatization: Constraints and impacts". In V.V. Ramanadham, ed., *Constraints and Impacts of Privatization*. London: Routledge.
- Republic of Kenya. 1996a. "Policy paper on public enterprise reform and privatization". Government Printer, Nairobi.
- Republic of Kenya. 1996b. *Statistical Abstract*. Central Bureau of Statistics. Government Printers, Nairobi.
- Republic of Kenya. 1995. "Sixth Report of the Public Investment Committee on Accounts of State Corporations". Government Printers, Nairobi.

- Republic of Kenya. 1984. "Report and Recommendations of the Working Party on Government Expenditure". Government Printers, Nairobi.
- Republic of Kenya. 1979. "Review of Statutory Boards: Report and recommendations of the committee appointed by the President". Government Printers, Nairobi.
- Rowthorn, B. and H. Chang. 1993. "Public ownership and the theory of the state". In Thomas Clarke and Christus Pitelis eds., *The Political Economy of Privatization* London: Routledge.
- Shirley, M., J. Nellis and K. Sunita. 1994. "Privatization: Lessons from market economies". *World Bank Research Observer*, vol. 9, no. 2. Washington, D.C.: The World Bank.
- Sunita, K. and J. Nellis. 1989. "Public Enterprise Reform: Privatization and the World Bank". *World Development Report*. Washington D.C.: The World Bank
- Sunita, K., J. Nellis and M. Shirley. 1992. "Why privatization? History and evidence". *Privatization: Lesson of Experience*. Washington, D.C.: The World Bank.
- Vuylsteke Charles. 1988. "Techniques of privatization of state owned enterprises". Vol. 1. "Methods and implementation". *World Bank Technical Paper No. 88*. Washington, D.C.
- World Bank. 2001. *African Development Indicators*. Washington, D.C.: The World Bank.
- World Bank. 2000ab. *World Development Report*. New York: Oxford University Press.
- World Bank, 2000a. *African Development Indicators*. , Washington, D.C.
- World Bank, 1996a. *African Development Indicators*. Washington, D.C.: The World Bank.
- World Bank, 1996b. "From Plan to Market: World Development Report". Washington, D.C.: The World Bank
- World Bank. 1996c. "Privatization in Kenya, 1992–95." Africa Technical Department, Washington, D.C.
- World Bank. 1995b. *Privatization Principles and Practice*. World Bank. Washington, D.C. The International Finance Corporation.
- World Bank. 1995a. *Bureaucrats in Business. The Economics and Politics of Government Ownership*. New York: Oxford University Press.
- World Bank. 1993a. "Regional study on public enterprise reform and privatization in Africa". African Technical Department. World Bank, Washington, D.C.
- World Bank. 1993b. "World Bank assistance to privatization in developing countries". Operation Evaluation Department. The World Bank, Washington, D.C.

Websites

1. Privatization monitor. <http://www.trace-sc.com/private.htm>
2. <http://www.kenyaairways.co.uk/>

Other publications in the AERC Research Papers Series:

- Structural Adjustment Programmes and the Coffee Sector in Uganda*, by Germina Ssemogerere, Research Paper 1.
- Real Interest Rates and the Mobilization of Private Savings in Africa*, by F.M. Mwega, S.M. Ngola and N. Mwangi, Research Paper 2.
- Mobilizing Domestic Resources for Capital Formation in Ghana: The Role of Informal Financial Markets*, by Ernest Aryeetey and Fritz Gockel, Research Paper 3.
- The Informal Financial Sector and Macroeconomic Adjustment in Malawi*, by C. Chipeta and M.L.C. Mkandawire, Research Paper 4.
- The Effects of Non-Bank Financial Intermediaries on Demand for Money in Kenya*, by S.M. Ndele, Research Paper 5.
- Exchange Rate Policy and Macroeconomic Performance in Ghana*, by C.D. Jebuni, N.K. Sowa and K.S. Tutu, Research Paper 6.
- A Macroeconomic-Demographic Model for Ethiopia*, by Asmerom Kidane, Research Paper 7.
- Macroeconomic Approach to External Debt: The Case of Nigeria*, by S. Ibi Ajayi, Research Paper 8.
- The Real Exchange Rate and Ghana's Agricultural Exports*, by K. Yerfi Fosu, Research Paper 9.
- The Relationship between the Formal and Informal Sectors of the Financial Market in Ghana*, by E. Aryeetey, Research Paper 10.
- Financial System Regulation, Deregulation and Savings Mobilization in Nigeria*, by A. Soyibo and F. Adekanye, Research Paper 11.
- The Savings-Investment Process in Nigeria: An Empirical Study of the Supply Side*, by A. Soyibo, Research Paper 12.
- Growth and Foreign Debt: The Ethiopian Experience, 1964–86*, by B. Degefe, Research Paper 13.
- Links between the Informal and Formal/Semi-Formal Financial Sectors in Malawi*, by C. Chipeta and M.L.C. Mkandawire, Research Paper 14.
- The Determinants of Fiscal Deficit and Fiscal Adjustment in Côte d'Ivoire*, by O. Kouassy and B. Bohoun, Research Paper 15.
- Small and Medium-Scale Enterprise Development in Nigeria*, by D.E. Ekpenyong and M.O. Nyong, Research Paper 16.
- The Nigerian Banking System in the Context of Policies of Financial Regulation and Deregulation*, by A. Soyibo and F. Adekanye, Research Paper 17.
- Scope, Structure and Policy Implications of Informal Financial Markets in Tanzania*, by M. Hyuha, O. Ndanshau and J.P. Kipokola, Research Paper 18.
- European Economic Integration and the Franc Zone: The Future of the CFA Franc After 1996. Part I: Historical Background and a New Evaluation of Monetary Cooperation in the CFA Countries*, by Allechi M'Bet and Madeleine Niamkey, Research Paper 19.
- Revenue Productivity Implications of Tax Reform in Tanzania* by Nehemiah E. Osoro, Research Paper 20.
- The Informal and Semi-formal Sectors in Ethiopia: A Study of the Iqqub, Iddir and Savings and Credit Cooperatives*, by Dejene Aredo, Research Paper 21.
- Inflationary Trends and Control in Ghana*, by Nii K. Sowa and John K. Kwakye, Research Paper 22.
- Macroeconomic Constraints and Medium-Term Growth in Kenya: A Three-Gap Analysis*, by F.M. Mwega, N. Njuguna and K. Olewe-Ochilo, Research Paper 23.
- The Foreign Exchange Market and the Dutch Auction System in Ghana*, by Cletus K. Dordunoo, Research Paper 24.
- Exchange Rate Depreciation and the Structure of Sectoral Prices in Nigeria under an Alternative Pricing Regime, 1986–89*, by Olu Ajakaiye and Ode Ojowu, Research Paper 25.
- Exchange Rate Depreciation, Budget Deficit and Inflation - The Nigerian Experience*, by F. Egwaikhide, L. Chete and G. Falokun, Research Paper 26.
- Trade, Payments Liberalization and Economic Performance in Ghana*, by C.D. Jebuni, A.D. Oduro and K.A. Tutu, Research Paper 27.
- Constraints to the Development and Diversification of Non-Traditional Exports in Uganda, 1981–90*, by G. Ssemogerere and L.A. Kasekende, Research Paper 28.

- Indices of Effective Exchange Rates: A Comparative Study of Ethiopia, Kenya and the Sudan*, by Asmerom Kidane, Research Paper 29.
- Monetary Harmonization in Southern Africa*, by C. Chipeta and M.L.C. Mkandawire, Research Paper 30.
- Tanzania's Trade with PTA Countries: A Special Emphasis on Non-Traditional Products*, by Flora Mndeme Musonda, Research Paper 31.
- Macroeconomic Adjustment, Trade and Growth: Policy Analysis Using a Macroeconomic Model of Nigeria*, by C. Soludo, Research Paper 32.
- Ghana: The Burden of Debt Service Payment under Structural Adjustment*, by Barfour Osei, Research Paper 33.
- Short-Run Macroeconomic Effects of Bank Lending Rates in Nigeria, 1987-91: A Computable General Equilibrium Analysis*, by D. Olu Ajakaiye, Research Paper 34.
- Capital Flight and External Debt in Nigeria*, by S. Ibi Ajayi, Research Paper 35.
- Institutional Reforms and the Management of Exchange Rate Policy in Nigeria*, by Kassey Odubogun, Research Paper 36.
- The Role of Exchange Rate and Monetary Policy in the Monetary Approach to the Balance of Payments: Evidence from Malawi*, by Exley B.D. Silumbu, Research Paper 37.
- Tax Reforms in Tanzania: Motivations, Directions and Implications*, by Nehemiah E. Osoro, Research Paper 38.
- Money Supply Mechanisms in Nigeria, 1970-88*, by Oluremi Ogun and Adeola Adenikinju, Research Paper 39.
- Profiles and Determinants of Nigeria's Balance of Payments: The Current Account Component, 1950-88*, by Joe U. Umo and Tayo Fakiyesi, Research Paper 40.
- Empirical Studies of Nigeria's Foreign Exchange Parallel Market I: Price Behaviour and Rate Determination*, by Melvin D. Ayogu, Research Paper 41.
- The Effects of Exchange Rate Policy on Cameroon's Agricultural Competitiveness*, by Aloysius Ajab Amin, Research Paper 42.
- Policy Consistency and Inflation in Ghana*, by Nii Kwaku Sowa, Research Paper 43.
- Fiscal Operations in a Depressed Economy: Nigeria, 1960-90*, by Akpan H. Ekpo and John E. U. Ndebbio, Research Paper 44.
- Foreign Exchange Bureaus in the Economy of Ghana*, by Kofi A. Osei, Research Paper 45.
- The Balance of Payments as a Monetary Phenomenon: An Econometric Study of Zimbabwe's Experience*, by Rogers Dhliwayo, Research Paper 46.
- Taxation of Financial Assets and Capital Market Development in Nigeria*, by Eno L. Inanga and Chidozie Emenuga, Research Paper 47.
- The Transmission of Savings to Investment in Nigeria*, by Adedoyin Soyibo, Research Paper 48.
- A Statistical Analysis of Foreign Exchange Rate Behaviour in Nigeria's Auction*, by Genevesi O. Ogiogio, Research Paper 49.
- The Behaviour of Income Velocity in Tanzania 1967-1994*, by Michael O.A. Ndanshau, Research Paper 50.
- Consequences and Limitations of Recent Fiscal Policy in Côte d'Ivoire*, by Kouassy Oussou and Bohoun Bouabre, Research Paper 51.
- Effects of Inflation on Ivorian Fiscal Variables: An Econometric Investigation*, by Eugene Kouassi, Research Paper 52.
- European Economic Integration and the Franc Zone: The Future of the CFA Franc after 1999, Part II*, by Allechi M'Bet and Niamkey A. Madeleine, Research Paper 53.
- Exchange Rate Policy and Economic Reform in Ethiopia*, by Asmerom Kidane, Research Paper 54.
- The Nigerian Foreign Exchange Market: Possibilities for Convergence in Exchange Rates*, by P. Kassey Garba, Research Paper 55.
- Mobilizing Domestic Resources for Economic Development in Nigeria: The Role of the Capital Market*, by Fidelis O. Ogwumike and Davidson A. Omole, Research Paper 56.
- Policy Modelling in Agriculture: Testing the Response of Agriculture to Adjustment Policies in Nigeria*, by Mike Kwanashie, Abdul-Ganiyu Garba and Isaac Ajilima, Research Paper 57.
- Price and Exchange Rate Dynamics in Kenya: An Empirical Investigation (1970-1993)*, by Njuguna S. Ndung'u, Research Paper 58.

- Exchange Rate Policy and Inflation: The case of Uganda*, by Barbara Mbire, Research Paper 59.
- Institutional, Traditional and Asset Pricing Characteristics of African Emerging Capital Markets*, by Ino L. Inanga and Chidozie Emenuga, Research Paper 60.
- Foreign Aid and Economic Performance in Tanzania*, by Timothy S. Nyoni, Research Paper 61.
- Public Spending, Taxation and Deficits: What is the Tanzanian Evidence?* by Nehemiah Osoro, Research Paper 62.
- Adjustment Programmes and Agricultural Incentives in Sudan: A Comparative Study*, by Nasredin A. Hag Elamin and Elsheikh M. El Mak, Research Paper 63.
- Intra-industry Trade between Members of the PTA/COMESA Regional Trading Arrangement*, by Flora Mndeme Musonda, Research Paper 64.
- Fiscal Operations, Money Supply and Inflation in Tanzania*, by A.A.L. Kilindo, Research Paper 65.
- Growth and Foreign Debt: The Ugandan Experience*, by Barbara Mbire, Research Paper 66.
- Productivity of the Nigerian Tax System: 1970–1990*, by Ademola Ariyo, Research Paper 67.
- Potentials for Diversifying Nigeria's Non-oil Exports to Non-Traditional Markets*, by A. Osuntogun, C.C. Edordu and B.O. Oramah, Research Paper 68.
- Empirical Studies of Nigeria's Foreign Exchange Parallel Market II: Speculative Efficiency and Noisy Trading*, by Melvin Ayogu, Research Paper 69.
- Effects of Budget Deficits on the Current Account Balance in Nigeria: A Simulation Exercise*, by Festus O. Egwaikhide, Research Paper 70.
- Bank Performance and Supervision in Nigeria: Analysing the Transition to a Deregulated Economy*, by O.O. Sobodu and P.O. Akiode, Research Paper 71.
- Financial Sector Reforms and Interest Rate Liberalization: The Kenya Experience* by R.W. Ngugi and J.W. Kabubo, Research Paper 72.
- Local Government Fiscal Operations in Nigeria*, by Akpan H. Ekpo and John E.U. Ndebbio, Research Paper 73.
- Tax Reform and Revenue Productivity in Ghana*, by Newman Kwadwo Kusi, Research Paper 74.
- Fiscal and Monetary Burden of Tanzania's Corporate Bodies: The Case of Public Enterprises*, by H.P.B. Moshi, Research Paper 75.
- Analysis of Factors Affecting the Development of an Emerging Capital Market: The Case of the Ghana Stock Market*, by Kofi A. Osei, Research Paper 76.
- Ghana: Monetary Targeting and Economic Development*, by Cletus K. Dordunoo and Alex Donkor, Research Paper 77.
- The Nigerian Economy: Response of Agriculture to Adjustment Policies*, by Mike Kwanashie, Isaac Ajilima and Abdul-Ganiyu Garba, Research Paper 78.
- Agricultural Credit Under Economic Liberalization and Islamization in Sudan*, by Adam B. Elhiraika and Sayed A. Ahmed, Research Paper 79.
- Study of Data Collection Procedures*, by Ademola Ariyo and Adebisi Adeniran, Research Paper 80.
- Tax Reform and Tax Yield in Malawi*, by C. Chipeta, Research Paper 81.
- Real Exchange Rate Movements and Export Growth: Nigeria, 1960–1990*, by Oluremi Ogun, Research Paper 82.
- Macroeconomic Implications of Demographic Changes in Kenya*, by Gabriel N. Kirori and Jamshed Ali, Research Paper 83.
- An Empirical Evaluation of Trade Potential in the Economic Community of West African States*, by E. Olawale Ogunkola, Research Paper 84.
- Cameroon's Fiscal Policy and Economic Growth*, by Aloysius Ajab Amin, Research Paper 85.
- Economic Liberalization and Privatization of Agricultural Marketing and Input Supply in Tanzania: A Case Study of Cashewnuts*, by Ngila Mwase, Research Paper 86.
- Price, Exchange Rate Volatility and Nigeria's Agricultural Trade Flows: A Dynamic Analysis*, by A.A. Adubi and F. Okunmadewa, Research Paper 87.
- The Impact of Interest Rate Liberalization on the Corporate Financing Strategies of Quoted Companies in Nigeria*, by Davidson A. Omole and Gabriel O. Falokun, Research Paper 88.
- The Impact of Government Policy on Macroeconomic Variables*, by H.P.B. Moshi and A.A.L. Kilindo, Research Paper 89.

- External Debt and Economic Growth in Sub-Saharan African Countries: An Econometric Study*, by Milton A. Iyoha, Research Paper 90.
- Determinants of Imports in Nigeria: A Dynamic Specification*, by Festus O. Egwaikhide, Research Paper 91.
- Macroeconomic Effects of VAT in Nigeria: A Computable General Equilibrium Analysis*, by Prof. D. Olu Ajakaiye, Research Paper 92.
- Exchange Rate Policy and Price Determination in Botswana*, by Jacob K. Atta, Keith R. Jefferis, Ita Mannathoko and Pelani Siwawa-Ndai, Research Paper 93.
- Monetary and Exchange Rate Policy in Kenya*, by Njuguna S. Ndung'u, Research Paper 94.
- Health Seeking Behaviour in the Reform Process for Rural Households: The Case of Mwea Division, Kirinyaga District, Kenya*, by Rose Ngugi, Research Paper 95.
- Trade and Exchange Rate Policy Options for the CFA Countries: Simulations with a CGE Model for Cameroon*, by Dominique Njinkeu and Ernest Bamou, Research Paper 96.
- Trade Liberalization and Economic Performance of Cameroon and Gabon*, by Ernest Bamou, Research Paper 97.
- Quality Jobs or Mass Employment*, by Kwabia Boateng, Research Paper 98.
- Real Exchange Rate Price and Agricultural Supply Response in Ethiopia: The Case of Perennial Crops*, by Asmerom Kidane, Research Paper 99.
- Determinants of Private Investment Behaviour in Ghana*, by Yaw Asante, Research Paper 100.
- An Analysis of the Implementation and Stability of Nigerian Agricultural Policies, 1970–1993*, by P. Kassey Garba, Research Paper 101.
- Poverty, Growth and Inequality in Nigeria: A Case Study*, by Ben E. Aigbokhan, Research Paper 102.
- The Effect of Export Earnings Fluctuations on Capital Formation in Nigeria*, by Godwin Akpokodje, Research Paper 103.
- Nigeria: Towards an Optimal Macroeconomic Management of Public Capital*, by Melvin D. Ayogu, Research Paper 104.
- International Stock Market Linkages in Southern Africa*, by K.R. Jefferis, C.C. Okeahalam and T.T. Matome, Research Paper 105.
- An Empirical Analysis of Interest Rate Spread in Kenya*, by Rose W. Ngugi, Research Paper 106.
- The Parallel Foreign Exchange Market and Macroeconomic Performance in Ethiopia*, by Derese Degefa, Research Paper 107.
- Market Structure, Liberalization and Performance in the Malawian Banking Industry*, by Ephraim W. Chirwa, Research Paper 108.
- Liberalization of the Foreign Exchange Market in Kenya and the Short-Term Capital Flows Problem*, by Njuguna S. Ndung'u, Research Paper 109.
- External Aid Inflows and the Real Exchange Rate in Ghana*, by Harry A. Sackey, Research Paper 110.
- Formal and Informal Institutions' Lending Policies and Access to Credit by Small-Scale Enterprises in Kenya: An Empirical Assessment*, by Rosemary Atieno, Research Paper 111.
- Financial Sector Reforms, Macroeconomic Instability and the Order of Economic Liberalization: The Evidence From Nigeria*, by Sylvanus I. Ikhide and Abayomi A. Alawode, Research Paper 112.
- The Second Economy and Tax Yield in Malawi*, by C. Chipeta, Research Paper 113.
- Promoting Export Diversification in Cameroon: Toward Which Products*, by Lydie T. Bamou, Research Paper 114.
- Asset Pricing and Information Efficiency of the Ghana Stock Market*, by Kofi A. Osei, Research Paper 115.
- An Examination of the Sources of Economic Growth in Cameroon*, by Aloysius Ajab Amin, Research Paper 116.
- Trade Liberalization and Technology Acquisition in the Manufacturing Sector: Evidence from Nigeria*, by Ayonrinde Folasade, Research Paper 117.
- Total Factor Productivity in Kenya: The Links with Trade Policy*, by Joseph O. Onjala, Research Paper 118.