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MISSION ON PRIVATIZATION

SENEGAL

REPORT BY

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Mr. de la Giroday was in Senegal several times and this report is based on the various stages and the development during the period of 1986 when he visited the country.

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TABLE OF CONTENTS

STATUS OF PRIVATIZATION SENEGAL	Page	1
Commitment to Privatization		1
Objectives of Privatization Criteria		2
Establishing the Criteria		3
 RECOMMENDATIONS		
A Dialogue: Government and Private Sector		7
Implementation at Ministerial Level		7
Changes in Institutional/Legal Environment		8
Management Training Program		9
Para-Statal Enterprises for Privatization		10
Approach		10
Methodology		11
Techniques of Divestiture		12
1. Sale of Assets		12
2. Partial Divestiture		13
3. Complete Divestiture		13
Role of the State After Divestiture		15
 PRIVATIZATION POTENTIAL		
Enterprises for Liquidation		16
Enterprises Subject of Partial Divestiture		16
Enterprises Subject of Complete Divestiture		17
Enterprises to be kept in State's Portfolio		18
 THE FINANCING OF PRIVATIZATION		
OUTSIDE TECHNICAL AND FINANCIAL ASSISTANCE		21
Sources of Technical Assistance		22
Areas of Technical Assistance		22
Manpower needed for Technical Assistance		23
Financial Assistance		24
 CONCLUSION		24
 APPENDIX I: USAID/Dakar Terms of Reference		25
 APPENDIX II: WORLD BANK Terms of Reference		28
 APPENDIX III: List of Meetings		43

REPORT

The detailed terms of reference of this USAID mission to Senegal are found in Appendix I.

Its essential purposes can be summarized as follows:

- 1) to assess the stage reached so far by the Senegalese Government in the privatization process;
- 2) what remains to be done;
- 3) the privatization potential;
- 4) the financing of privatization; and
- 5) the role of outside technical and financial assistance.

I. THE STAGE REACHED SO FAR BY THE SENEGALESE GOVERNMENT IN THE PRIVATIZATION PROCESS

The Government has so far taken the first three major steps in the privatization process.

Step 1: Commitment to Privatization

In July 1985, President Abdou Diouf made the historic official statement: "The State must manage less to manage better". This was in fact the commitment to privatization or, as the Senegalese often call it, the "disinvolvement of the State". All the information obtained during this mission leads one to believe that this commitment is irreversible.

The preliminary ground work preceding this commitment began in January 15, 1985 when the President directed a special study group to examine the conditions under which a part of the para-statal enterprises could be passed on to the private sector. This study group led by the Director General of

the Treasury (Ms. A. Drame) -- the number two man in the Ministry of Finance -- was composed of technical advisors from the Ministry of Finance and from several Government control institutions and a personal representative of the President (the Director of the "Cellule de Contrats - Plans").

Their first task was to work out a methodology for examining all the para-statal enterprises. They then divided them by economic sector and then pointed out how exactly, directly or indirectly, the State owned each of them and what percentage of their respective capital. The next division was made between enterprises with a commercial and a non-commercial activity in order to determine priorities for privatization. This was logically followed by the establishment of the objectives of privatization and of the criteria to be used to reach them.

Step 2: Establishing the Objectives of Privatization and the criteria

(a) Elimination of Subsidies

The financial burden for the State of subsidies to para-statal enterprises has become so intolerably heavy that they must be immediately cut down and entirely eliminated as soon as possible.

(b) Restructuring of All Para-statal Enterprises

A financial, management and operational restructuring of all para-statal enterprises including those that will remain in the public sector as well as those that will be acquired by the private sector.

(c) Total Autonomy and Total Responsibility for the Private Sector

The private sector will from now on enjoy total autonomy with regard to all enterprises which it will have taken over completely from the State, but will also assume total responsibility for them. When things go wrong, the private owners cannot turn to the State for help.

The Senegalese Government added another interesting principle to the latter, that is the transparency of management. This is discussed with the next objective: a widespread private ownership.

(d) Widespread Private Ownership

The Government feels strongly about the necessity that private ownership of para-statal enterprises be widespread among a large number of shareholders rather than being concentrated in a few hands. There has been a marked tendency for private companies to be owned by very few wealthy Senegalese businessmen. Just as the State now wants to put an end to its own undue interference in the management of para-statal enterprises, it is just as opposed to enterprises being passed over to the private sector suffering from undue interference by the same oligarchy in their management.

Through this objective, the State wants to achieve not only transparency of management but also to encourage savings so as to create a large body of shareholders and an entrepreneurship spirit.

(e) Elimination of Special Privileges
For the Private Sector

The private sector can no longer seek special privileges. The State is quite willing to allow the private sector to become richer provided the State also becomes richer in the process.

Once the foregoing objectives had been established, the Government of Senegal tackled the next step, that of establishing the criteria.

Step 3: Establishing the Criteria

Even when the objectives are clear and their consequences have been carefully assessed by a Government, the criteria must still be thought through in a clear, practical and flexible manner. This task is all the more crucial that, only as a result, is it possible to determine which enterprises are privatizable or not and under what conditions and to draw up the list of all para-statal enterprises in four major categories. These are: those that are not viable and, therefore, should be liquidated or let die on the vine; those that the State wants to keep in its portfolio; those that the State will divest itself of partially; and those that the State will divest itself of completely.

The criteria established by the Senegalese Government are:

(a) Strategic and Non-strategic Enterprises

"Strategic" enterprises are those which concern water, electricity, communications, the mining industry and some transport companies. All non-strategic enterprises are privatizable in principle.

(b) The Burden that Each Enterprise is To the State

If an enterprise is already profitable or could become so, it is not a burden to the State and, therefore, must be privatized.

(c) Product or Service of Better Quality

When a product or service can be of better quality if offered by a private company, the production of such product or the offering of such service must be switched to a private company.

(d) Lower Social Cost

If a product or service can be offered at a lower social cost ("social" meaning which the public bears) by a private enterprise, the ownership of the State in the enterprise offering such a product or service must pass on to the private sector.

(e) "Commercial" and "Non-commercial Enterprise

A "commercial" enterprise is one which has no restrictions or control as to the sale price of its product or service or as to the cost of components of such product or service. All commercial enterprises are privatizable.

(f) Enterprises Whose Activity has A Pervasive Effect on the Economy

If, by its nature, the activity of a para-statal enterprise has a pervasive effect on the economy, it will remain in the State's portfolio. (This is the case of certain special banks, like the Agricultural Bank, and certain insurance companies).

The foregoing six criteria having been established, it was possible for the above-mentioned special commission to draw up the list of para-statal enterprises into the four categories mentioned earlier. (For this list, see

Appendix 2). This list became available only very recently and has not yet been widely distributed.

The next logical question is, of course, of all those privatizable enterprises, which ones are going to be offered first to the private sector. Although there is no clear indication yet, our impression from discussions with the Ministry of Finance is that they seem to realize that, if the passing on of the first enterprises to the private sector is not reasonably successful, the whole future of privatization may be compromised. Consequently, they would not be opposed to tackling first those companies that are either profitable or that could be turned around with a fresh injection of capital and better management. This matter will probably be clearly determined shortly by the Ministry of Finance when it issues terms of reference for outside technical assistance.

An important point must be made here with regard to those first three fundamental steps already taken by the Senegalese Government in the privatization process. The Government, and more particularly the Ministry of Finance, felt that only those who have an intimate knowledge of the Senegalese background and present context were in a position to think through and establish the objectives of privatization and the criteria. This is why the Government considered that outside technical assistance (from the World Bank, from USAID or anybody else) was not needed in connection with those first three steps.

We think that this was an act of faith and courage on the part of the Government for which they deserve praise. Furthermore, using their own human resources within the Government, and obviously without the benefit of a prior experience with privatization, they somewhat instinctively made the right decisions and selected on the whole and appropriate set of objectives and criteria. In the light of this, the relative slowness with which they proceeded through those first steps is understandable.

In the course of the paper which we gave at the Seminar at the end of our mission in Dakar, we made a point of congratulating publicly the Government in general, and the Ministry of Finance in particular, for it.

The Government, and notably the Minister of Finance and the Director General of the Treasury, are very conscious that from this point on, they need and want outside

technical assistance to help them through the remaining phases of the privatization process. Consequently, they are now ready to issue terms of reference for such technical assistance. A meeting at the Ministry of Finance with the head of the local representative office of the World Bank and with the Director of the local AID mission should take place soon in that connection.

This leads us to what remains to be done.

II. WHAT REMAINS TO BE DONE

1) A Dialogue Between the Government And the Private Sector

Given that the ultimate distillation of privatization is for the Government to pass on to the private sector its ownership of para-statal enterprises, it is obvious that this implies an extremely close cooperation between the Government and the private sector. Such a relationship can be harmonious and fruitful only if there is a frank and continuous dialogue before, during and after the privatization.

This dialogue has not yet started. Many representatives of the private sector, whom we met, indicated that they are in the dark with regard to the general concept of privatization in Senegal and to its implementation. There seems to be even some doubt as to the real intentions of the Government to privatize. This would also explain the lack of interest displayed by the Senegalese private sector so far in privatization.

It is, therefore, essential that the dialogue be initiated as soon as possible. Seminars, meetings between high representatives of the public sector and private entrepreneurs must be held, including also the labor unions, in order to inform, to educate. This same effort must be made by the Government for the benefit of the general public through the media. This is all the more necessary in view of one of the essential objectives of privatization which, as we have seen, is to disperse ownership of privatized enterprises among a large number of shareholders.

One of the very purposes of the seminar held at the end of our mission to Senegal was to provoke this dialogue. This objective was gratifyingly achieved since the question and answer period which followed our paper lasted over two hours and brought up an active participation of the audience. A good part of this session took the form of an exchange of views between the members of the Government and the private sector attending the seminar.

We believe that this triggered the dialogue process and that the Government will follow up. If it does not, the private sector is likely to demand it.

2) Implementation at the Ministerial Level

One of the first questions we endeavored to assess was to what extent the implementation of the principle of privatization might pose some problems at the ministerial level

and below. In most developing countries, the various ministries are very jealous of the prerogatives -- sometimes excessive -- which they have over the para-statal enterprises within their respective jurisdiction. Consequently, the feet dragging or plain refusal of ministers to carry out privatization plans can be a real difficulty, especially in the case of a government which is not strong because it is a coalition government or because of a strong opposition.

This is not the case in Senegal. Although there are several political parties, the Government of President Diouf is strong and well entrenched. Furthermore, his commitment to privatization is so strong that, if some Ministries were to turn a cold shoulder to privatizing -- which is not expected -- he could by simple decree create a new under-secretary office with exclusive authority over all para-statal enterprises. Besides, the Minister of Finance, who is the driving force behind the whole privatization process, personally and his staff are staunch advocates of privatization.

3) Changes in the Institutional and Legal Environment

Although there has been widespread interference on the part of various ministries in the day-to-day management of para-statal companies, the situation does not seem to be as bad as in Cameroon, for instance. First of all, the ministries involved are apparently less adamant about holding on to their prerogatives. Secondly, the President and his party carry enough political clout to take the measure indicated in the previous paragraph, if it were necessary. Finally, there is a much wider and frank admission within the Government that its ownership and management of para-statals have been a failure.

As a result, even though institutional changes are needed in that the Board of Directors, its chairman and the managing director of companies being privatized must resume their normal roles and, as already pointed out, the management must be transparent and not interfered with, (this time, by the business oligarchy) such changes are likely to occur relatively smoothly. The right mental attitude on the part of the Ministers and others seems to be there.

However, there is a potential source of difficulty peculiar to the Senegalese context. Some four years ago, a law was passed on the "enrichissement illicite" to keep civil servants as well as the private sector from enriching themselves fraudulently. Although this law has, in fact, never been applied, the private sector seems to consider it as a Damocles sword in that if they openly express an interest in

taking over the ownership of such and such para-statal enterprises, they might be asked to justify the origin of the funds used to acquire these. Many of the members of the oligarchy would, consequently, not feel very comfortable and might abstain. Perhaps even second tier private investors might hesitate.

We suggested in our paper at the seminar that an abrogation of this law might be considered. We also suggested an amnesty -- which drew the expected laughter from the audience. What matters here is that a practical and efficient solution must be applied to remove this possible obstacle.

4) Management Training Program

Opinions seem to vary widely in Senegal as to the level at which the shortage of competent manpower is the most acute. According to some with whom we spoke that lack is not so much at the top management level as at the medium management level. Others see technical/engineering talent as the most deficient. Our own assessment is that the problem exists at all levels and in several fields, but at different degrees. What is clear is that a extensive multi-faceted training program is urgently needed and that the Government should prepare and implement it as quickly as possible. It is undeniable that probably the most important single cause of the sad condition of too many para-statal companies is poor management.

Senegal is very fortunate in that a "Centre Africain d'Etudes Superieures en Gestion" (CESAG), an African Center for Advanced Studies in Business Administration, was very recently created in Dakar under the sponsorship, and with the financing of, the World Bank. This superimposed an already existing local business management school and gives it a much wider geographical and international scope since it will now receive students from four neighboring countries.

A meeting with Mr. Sylla, who until January last was the head of the existing school and is now the President of Dakar Marine (the ship building and ship repair company), was very informative. Although he pointed out that now that the school is "international", the Governments of all five countries concerned have a representative on the Board, which makes the management of the school more ponderous and slower, the standards will improve further.

This is important, but what seems equally so is that the whole secondary school education program must be changed to better prepare students for admission at the international business administration school. Too many young people graduating from the equivalent of the American college

degree seem to have had a predominantly "classical" education with emphasis on liberal arts instead of the various disciplines connected with a practical business career.

In other words, the above-mentioned extensive management program should not only pertain to the maximum use of the new business administration school, but also to the preliminary college background necessary to prepare students adequately for studies at the school. Furthermore, the training program should aim at all levels of management, including a technico-commercial education, the clerical staff, which also badly needs training in more efficient procedures, as well as plant manpower.

Such an ambitious, but necessary, program can only be undertaken with outside technical and financial assistance.

One last point worth noting here is that such a program which is by definition, a long-term one the benefits of which will begin to be felt only after some time, will bear another important fruit. It will gradually create what is very much needed in Senegal economic and business life, that is a middle to high income professional class that will not only fill the present management gaps, but also will have the means to form and develop a new class of small to medium size shareholders. This is precisely what the Government so rightly has in mind in implementing its objective of ownership dispersion of enterprises being privatized.

5) The Preparation of Para-statal Enterprises for Privatization

Whether para-statal enterprises are going to be maintained in the State's portfolio or partially or completely passed on to the ownership of the private sector, an exhaustive study case-by-case is imperative in order to determine what went wrong, why and what are the remedies. In the case of partial or complete acquisition by the private sector, the additional important purpose of such a study is to arrive at a realistic market valuation of each enterprise to be privatized.

Both the Government and the private sector in Senegal totally agree on the necessity for such a study.

(a) The Approach

As we pointed out in our paper at the seminar, the approach must not only be exhaustive but must also be based on financial, commercial and technical realities. While

the study will diagnose what went wrong, it should also assess the strong points of each enterprise.

The first important practical question which comes up is: who should undertake such a study? The answer is a competent and independent firm of business consultants or of accountants, provided the latter have experience beyond strictly accounting and auditing. There are in Dakar representative or correspondent offices of several major international firms, such as Price Waterhouse, Arthur Young, Arthur Andersen. There are also a few local firms that are competent and probably independent enough from the Government to be objective in their diagnosis.

Based on our discussion with the Government, we had the feeling that they essentially agree on this approach.

(b) The Methodology

Every major facet of each enterprise's business must be dissected and examined under a magnifying glass. Through this fundamental task, the following must be studied:

(i) The origin, purpose, share holding, nature of the activity, performance and discrepancy between what was planned and what was achieved. This segment of the study should also examine the whole economic sector involved and not just the enterprise.

(ii) the financial structure;

(iii) the legal structure;

(iv) the marketing;

(v) production costs -- how can they be cut;

(vi) labor costs -- how can they be cut in light of labor laws, unions;

(vii) Accounting

With the help of the in-house account (or bookkeeper), the accounting firm hired will "re-do" the books over the previous five years at least. This will have a dual advantage: it will be the basis of the financial restructuring needed and will give a true accounting picture

which, in turn, will be the fundamental element of the realistic evaluation of the enterprises.

(viii) Evaluation

This evaluation must be as realistic as possible. It should be remembered that, in final analysis, it will be the forces of supply and demand of the free market that will set the true market value.

(ix) Management

In the case of each enterprise a detailed diagnosis must be made of the management deficiencies and how to solve them.

We believe that the Senegalese Government, or at least the Ministry of Finance, seems to be conscious of the fact that the care and detail of the study of each enterprise will have a direct effect on the success of its restructuring, if it is going to stay in the State's portfolio, or of its sale to the private sector, as the case may be.

The question must be raised, however, as to how such studies will be financed. Who will pay the fees of the consulting and accounting firms that will undertake them? We will defer the answer to this question until we examine the financing of the techniques of divestiture by the State.

c) The Techniques of Divestiture by the State of its Para-statal Enterprises

Since this is the most complex, delicate and fluctuating phase of the privatization process as well as its apex, it is naturally the one where the Government of Senegal needs the most outside technical assistance.

A. Sale of Assets

Our interlocutors at the Ministry of Finance seemed interested in this technique already used in the case of bankrupt para-statals in other countries. This would also be useful for those Senegalese enterprises which have such a heavy debt burden and labor force surplus that no element of the private sector would want to touch such enterprise as a legal entity. However, if those enterprises have a valuable asset, that by itself could be taken out of the enterprises and sold separately to the private sector.

B. Partial Divestiture

There are 13 para-statal enterprises already earmarked by the Government in the recently established list which it will divest itself of only partially. Based on the general experience in other developing countries, and especially in the light of the doubts and relative mistrust of the Senegalese private sector vis-a-vis the State on privatization, this technique is not likely to be very popular with the private sector. If the Government insists on restricting action on those 13 enterprises to a partial divestiture, it runs the risk of having them on their hands for some time. This, in turn, may prompt a decision in favor of complete divestiture.

C. Complete Divestiture

(i) Sale to a Single Private Investor

Given that one of the objectives of privatization in Senegal is to have a widespread ownership of those enterprises that will be passed on to the private sector, a sale to a single investor would obviously contradict that principle. However, since another aim of the Government is to take the best offer, it would be receptive to sales to a joint venture between a Senegalese and a foreign private investor. This would have a dual advantage. First, it would allay the risk of one of the members of the Senegalese private sector oligarchy controlling single handedly a privatized enterprise and/or gutting it of its substance instead of managing it with a view to profitability. Second, it would allow foreign private capital to participate, which would be very welcome by the Government.

How realistic are the chances of attractive local and foreign investors? Obviously that will depend on the respective merits and risks of each case. Of the total of 17 enterprises earmarked for complete divestiture, there are a few situations which are either already profitable or could be "turned around" with fresh capital injection and competent management. As far as the local substantial private entrepreneur is concerned, even though he could well afford to make the investment, he might prefer to have it financed because of the various uncertainties involved. Where would such financing come from? For reasons explained later on, local sources are very limited.

(ii) Sale by Issue of New Shares

This technique would, of course be favorable to the implementation of the principle of widespread ownership. However desirable the technique and the principle

may be -- and they both are theoretically -- they imply first an existing minimum market made up of a Senegalese middle to high income civil servants and private businessmen, including entrepreneurs. This class of investors is for the time being very limited indeed and, although the Government seems anxious to develop it as soon as possible, this desire may take sometime to be fulfilled. If installment payment facilities, using the shares as collateral, could be made available, this class of private investors could begin to participate in the acquisition of privatized companies somewhat sooner.

The foregoing technique also implies at the minimum an active existing financial market in the absence of a stock exchange even in its most rudimentary form. However, our mission found the Senegalese financial market in a terrible condition. With the exception of three or four banks at the most, the whole banking system has a very severe liquidity problem, has borrowed to the hilt (and in some cases beyond) and has large accounts receivables long-overdue from the State as well as substantial bad loans to para-statal companies and to other customers to which the State owes a lot of money.

A possible pragmatic solution might be to organize among those very few local banks that are still healthy and inspire confidence a new share distribution service for the sale of shares in para-statal enterprises to the widest possible private sector market. This service would be limited to the distribution of shares at least initially and would not include financing. We have discussed the distribution aspect with the Ministry of Finance which welcomes the idea. This being very recent, it is too early to tell whether those very few local banks might be interested in extending their services to include financing. Whether or not they are, there definitely is a need for an injection of fresh blood and new ideas in the banking system in Senegal. Under appropriate conditions, to be worked out with the Ministry of Finance and the Central Bank (Banque Centrale des Etats d'Afrique de l'Ouest -- BCEAO), this may take the form of a role to be played by an appropriate internationally owned regional merchant bank with the backing of the World Bank and/or IFC and/or USAID.

One area for such a role may well be the financing of the sale of para-statal companies' shares to the private sector at large.

(iii) Sale to Employees of the Para-Statal Enterprise

We explained to the Ministry of Finance, and also brought up the point in the paper delivered at the seminar, that the technique of selling shares of para-statal enterprises to their own employees had been successfully applied not only in Great Britain but also in many developing countries

within their privatization program. We pointed out that a variety of formulas have been used, earmarking anything between 5% and 20% of the share capital for employees (excepting a few cases in the U.K. where all of it was sold to employees). To induce purchases, one share is given to the employee for every so many that he purchases. Modes of payment also vary from cash payment for part or all shares to installment payment, in which case the shares are withheld as collateral.

Both the Government and the private sector represented at the seminar agreed that the psychological effect which prompts the employee/shareholder to give his best to the enterprise is most desirable. This is all the more so that it will go a long way towards improving productivity at all levels, which is sorely needed in Senegal.

We also pointed out that, as with everything else, there must be a proper balance. The participation of employees in the share ownership of their enterprise, while most desirable per se and while it would confer legal rights as shareholders, does not mean that the door would be open to interference with the company's management. This active presence of employees must be an advantage for the enterprises, not a burden.

6) The Role of the State After Its Divestiture of a Para-statal Company

(a) In the Case of Partial Divestiture

Obviously if the State is a shareholder, although a minority one, it will still have its word to say as a shareholder. However, it will have to make a clear effort of adjustment in order to make sure that it will no longer interfere with the management of the company. The private sector owner must monitor, with the help of outside technical assistance, such an effort and see to it that it will not be simply a pious wish on the part of the Government.

(b) In the Case of Complete Divestiture

The Senegalese Government must understand clearly that any attempt to control or interfere with, directly or indirectly, enterprises that, as a result of divestiture by the State, are completely in private hands is out of the question. The new private owners must have an absolutely free hand to bring about whatever changes they deem necessary towards greater efficiency and profitability. One of the essential and most worthy objectives set by the Government itself is to give the private sector complete autonomy as well as complete

responsibility for the management of privatized enterprises. This principle must be applied to the letter. Otherwise, the interest that the Government wishes to see expressed by the private sector in the first enterprises to be privatized will quickly vanish and will be followed by disappointment and distrust. That risk in itself could entail the failure of privatization in Senegal.

Now that we have reviewed the possible divestiture techniques applicable in Senegal, the next question we will address is exactly what is the practical privatization potential.

III. THE PRIVATIZATION POTENTIAL

The list recently established by the special Government Commission breaks down the para-statal enterprises as follows:

1) Enterprises to be Liquidated (5)

If any of these has any asset worth saving, such asset should be sold separately to the private sector.

2) Enterprises to be the Subject of Partial Divestiture (13)

(a) Banks

There are 5 banks in this category. Of these, three (USB, BNDS and SONAGA) are entirely or predominantly State owned and have heavy losses, bad liquidity problems, insufficient capital and low deposits. BIAO is in less bad posture but is losing money. BICIS is profitable.

No sophisticated private investor, whether local or foreign, is likely to take on part of the State's ownership, even in BIAO and BICIS until the sorely needed restructuring of the whole Senegalese banking system has taken place. The system suffers from sclerosis as a result of many years of bad management, bad loans to the State and para-statal enterprises and to customers towards which the States has debts that are still unpaid. The severe, and in some cases somewhat abusive, restrictions imposed by the Central Bank have not helped! In short, there are too many banks (there is no more distinction between commercial and development banks) that have been doing the same thing and doing it wrong. New blood, new ideas, new techniques and regrouping of some existing banks must occur as part of the restructuring of the whole system. Until this happens one could not see one's way clearly into exactly what the opportunities are as far as existing banks are concerned.

However, there may be attractive opportunities for a sophisticated private investor, possibly a joint venture of foreign and local capital to take over one or two of the Government owned banks, because there is a financing vacuum which must be filled.

(b) Others

The other companies are quite varied as to their activities: one each in the food business, sea salt production, mechanical engineering, rural housing, real estate and service industry.

Only the complete study which must be made case-by-case will reveal the degree of attraction these would be to the private sector.

3) Enterprises to be the Subject of Complete Divestiture (17)

In this group there is only one bank and in which the State participation is small (5%). This bank is "Banque Senegalo Kuwaitienne" (SBK) controlled by Kuwaitian capital. It has lost money but could be a "turn-around" situation.

All the others are very varied: fishing, textiles, mechanical engineering, rural housing and service companies.

Again, one must reserve judgment until the complete study of each enterprise has been made to know how attractive they might be.

What is important with regard to all para-statal enterprises of which the State will divest itself is that, as already mentioned, the Government seems to have a fairly open mind as to which should be privatized first. They realize that if the first ones to be privatized are the worst losers, this will only increase the doubts and mistrust which the private sector already has about privatization. In turn, this will compromise the success of the whole privatization effort. This is another area where outside technical assistance would be needed. During the coming meetings which the Ministry of Finance plans with the Local representatives of USAID and the World Bank to discuss the terms of reference of technical assistance, the issue of which enterprises to privatize first must be addressed.

4) Enterprises to be kept in the State's Portfolio (28)

There are two insurance companies, three banks, six mining companies, two vegetable oil companies, two chemical companies, three transport companies, one printing company, and six service

companies. The last four on the list are rural development companies.

All of those enterprises need financial, management and operational restructuring at varying degrees. Although the purpose of our mission was limited to those para-statal enterprises the State ownership of which will be passed on partially or completely to the private sector, it must be mentioned for the record that the above-mentioned restructuring of those enterprises, which will remain in the State's portfolio, will also entail privatization in the sense that they will either need to hire private professional managers, or their present management will adopt up-to-date private business management techniques. A great deal of outside technical assistance will be required in that respect.

A special note is appropriate here concerning "SENPRIM", a truck gardening enterprise which was nationalized in 1978 and is now bankrupt. It does not appear on the list presumably because strictly speaking it is not a legal entity any more. However, it offers promising exports potential as well as local market potential. It could be an interesting candidate for a joint venture of American, European and local private capital.

We have reviewed in the last two sections the work which the Government of Senegal still has to do in the privatization process, the divestiture techniques and the privatization potential. How is this all going to be financed?

IV. THE FINANCING OF PRIVATIZATION

The very low level of domestic savings, the absence of a stock market, the sclerosis of the local banking system, including a severe bank liquidity problem, and the inability of the Government to provide any additional financing would be many serious obstacles to the financing of privatization in any developing country. Such is the case of Senegal.

The problem of financing privatization will first be posed with regard to the preparation of para-statal enterprises for privatization and more specifically in connection with the detailed study of each enterprise by an independent firm of qualified consultants and/or accountants. The Government will be financially unable, and the private sector unwilling, to finance this expense.

The problem of financing will again come up for the actual acquisition by the private sector of part or all of the State's ownership in para-statal enterprises.

As already pointed out, to the extent that the small number of leading Senegalese entrepreneurs will be interested in taking over the State's ownership in para-statal enterprises, they could easily afford the financing involved themselves. But there may be several problems that may keep them from doing so.

First, as already mentioned, the law on illegal sources of wealth may cause the major elements in the private sector to hesitate to express openly an interest in an acquisition for fear that the law may be applied to them. Unless some solution is brought to this problem, it may be a deterrent.

Second, even though the Government seems to understand the crucial necessity for a frank and open dialogue with the private sector, this has not happened yet. For the time being at least, the latter has doubts and fears about the real intention of the Government with regard to privatization and what it really entails. Such doubts and fears are even stronger in the case of those para-statal companies in which the State will continue to be a shareholder, even though a minority one, along with private investors.

Finally, for the private Senegalese investor, privatization is a very new concept, not yet proven or even tried. Consequently, he is likely to get involved -- if at all -- very prudently at least during an initial period. Especially in the case of para-statal enterprises with a history of inefficiency and heavy losses, he is likely to abstain.

The combination of these three factors will probably prompt the Senegalese entrepreneur -- if he reaches the conclusion in any given case that the attraction of an investment outweighs its risks -- to have this investment financed from some source instead of investing his own capital. To which local source of financing can he turn?

The question is still more applicable to the barely emerging and still very limited class of middle to high income civil servants and owners of small to medium size enterprises who might be interested in buying shares in para-statal enterprises. As we have seen, the Government policy will be to encourage this.

We mentioned earlier the possibility that the only three or four local banks that are healthy and inspire confidence might start a new service for the distribution of shares to be purchased by the private sector. Could those banks be interested in extending their role to that of financing such purchases? Even if they were, to what extent will their own liquidity restrictions, credit ceilings and the necessity to give priority to financing the normal business transactions of their best

customers would allow them to do so? Those are very pertinent questions the answers to which are not clear at this point.

The Ministry of Finance intends to approach those few banks and discuss the possibility of their acting as a source of financing and also as a buffer between the Government and the private sector, on divestiture procedures. No one knows yet what their reaction will be.

But what the Ministry of Finance would really want ultimately would be to form a separate institution to act simultaneously as a catalyst, a coordinator and a source of financing for all transactions relating to ownership of para-statal enterprises passing from the State to private investors and subsequently from one private investor to another. This would, therefore, be an important vehicle for the primary and then the secondary market for the shares of privatized companies.

What are other possible alternatives in that respect? A formula that might be considered is that a foreign internationally owned financial institution, such as a merchant bank, make deposits in one or more of the few healthy banks in Dakar with the understanding that such deposits will be directed to the financing of privatization. Without going into the banking technicalities, it will suffice to mention here that, although there may be some problems due to the restrictions imposed by the Monetary Union of West Africa (UMOA) and by the Central Bank (BCEAO), such problems may be solvable.

Another conceivable solution might be for the foreign internationally owned merchant bank to open a representative office or perhaps a branch in Dakar which would, in turn, be used as a funnel. The advantage of this suggestion is that, being a fresh banking entity in the Senegalese banking system, it would not be hampered by the same liquidity and credit ceiling burdens originating in the past. Besides, it will have a competent management.

Another variation might be for the foreign merchant bank either to form a subsidiary of its own in Dakar or to take an equity participation in one of the healthy existing banks. In either case, such an entity might play the triple role of catalyst, coordinator and source of financing which, as already mentioned, the Ministry of Finance would like to see. Again, funds for financing privatization would be made available through such an entity.

Still another variation to be considered in connection with the formation of a subsidiary bank is that it have a regional instead of a strictly local activity. Since the problem of financing privatization is essentially the same in all French speaking West Africa, a regional bank might extend its financing to several neighboring countries.

Every one of these suggestions seems to be feasible from a banking technicality viewpoint, subject, of course, to working out the details with the Central Bank and the Ministry of Finance. Some of them might require a special derogation from the current banking regulations in Senegal and from the CFA Franc Monetary Union regulations.

The most important point here is that none of the above suggestions, or variations thereof, could be realistically efficiently or safely implemented without a strong direct financial assistance from USAID and/or the World Bank and/or the International Finance Corporation. Such assistance should be given through whichever of the above possible financial vehicle is ultimately used to finance privatization.

This whole matter should as soon as possible be the subject of a full study which would dove-tail logically with the urgently needed study on the restructuring of the banking system in Senegal.

This leads us to address the role of outside technical and financial assistance.

V. THE ROLE OF OUTSIDE TECHNICAL AND FINANCIAL ASSISTANCE

1) Technical Assistance

As already pointed out at the outset of this report, whereas the Government of Senegal has been able to handle well the initial phases of the privatization process without outside technical assistance, they have reached the point where from now on they need the expertise of specialists who have had experience with privatization processes and strategies in other developing countries. They want this assistance now.

(a) Sources of Technical Assistance

These will be primarily USAID and the World Bank. Their respective efforts must be coordinated to avoid contradiction, duplication, waste and inefficiency. This would entail a constant exchange and cooperation both in Washington and at the level of the respective local representative offices in Dakar.

As far as USAID-PRE Bureau is concerned, the specific purpose of the mission just completed by us was confined to State owned enterprises divestitures as the essential objective. The areas where technical assistance is needed to achieve this particular objective are the following.

(b) Areas of Technical Assistance

(i) A Dialogue Between the Government and the Private Sector

We explained in this report the crucial importance of a frank, open and continuous dialogue as a key condition to successful divestitures. The success of the seminar held by us in Dakar during our mission, which provoked such dialogue, proves the point of how badly it is needed. This first result will be wasted without regular follow-ups. These should entail more seminars from time to time, an occasional local television interview and perhaps an occasional article in the local paper in order to continue to explain, to educate both the Government and the private sector.

(ii) Prioritization of Enterprises Privatized

Given the importance of the success of the privatization of the first enterprises to be targeted, it would be helpful for the Government to have some guidance from outside experts on this matter, even though they already seem favorably inclined to start with the healthy or near-healthy companies. This would require coordination and overseeing. Efforts in this field must be started as soon as possible and would ideally be part of the coming discussion with the Ministry of Finance of the terms of reference of technical assistance.

(iii) Preparation of Enterprises for Privatization

As we know, the success of divestitures of State ownership and of the corresponding acquisition by the private sector will depend to a very large extent on the care and accuracy with which the exhaustive study of each state-owned

enterprise will be made. Although the actual study will be undertaken by an independent qualified firm of consultants and accountants, it seems important that an equally independent source of technical assistance coordinate and oversee such studies and be the liaison between the Government and the private sector to discuss the assessments and findings.

(iv) Divestiture Techniques

This is the area where outside technical assistance will be needed the most. Again, independent AID (and World Bank) experts must work closely with the Government of Senegal, and notably with the Ministry of Finance, to help them decide on a case-by-case basis what is the most appropriate divestiture technique to use and how best to implement such technique in any given situation to ensure the success of the divestiture. This will require a sustained technical assistance effort over a relatively long period.

It is important to note that we have discussed at length with Ms. Sarah Jane Littlefield, the Director of the AID Mission, those areas of technical assistance. She agrees that they are appropriate and that they will be supportive of AID's country goals for Senegal.

(c) Manpower needed for Technical Assistance

The technical team of experts should be headed by a senior team leader who must be a privatization advisor and already familiar with the Senegalese context. He must be supported by a technical staff of one, possibly two, technical experts with experience in as many of the foregoing four technical assistance areas as possible.

The team leader will be responsible for:

- (i) being the liaison between AID-PRE Washington, Dakar AID mission on the one hand and the Government of Senegal on the other hand with regard to the four areas outlined above;
- (ii) being the liaison and coordinator of efforts between the World Bank Washington and the Dakar representative office of the World Bank on the one hand and AID-PRE Washington and Dakar AID mission on the other;
- (iii) designing and implementing the work program of the team covering each of the foregoing four areas and in accordance with the terms of reference agreed upon with the Ministry of Finance;

(iv) assigning specific tasks to members of the team according to their respective fields of expertise.

All team members must be fluent in French.

The whole team or part of it, as required, could make several ten day to two week trips at a time to Dakar at regular intervals over a period of two years. A rough estimate of the total cost is \$400,000. At the end of this period a decision will be reached whether the team has completed its mission and, if not, whether to extend it and for how long.

2) Financial Assistance

Outside financial assistance will be needed for all four areas of technical assistance but especially with regard to the financing of studies of state-owned enterprises to be undertaken by consulting and/or accounting firms and of the acquisition by the private sector of the State ownership in such enterprises.

The World Bank both in Dakar and in Washington has expressed its readiness to come forth with the financing needed. As far as USAID is concerned, many important questions are still unanswered, notably whether it has the same readiness and, if so, what amounts would be made available; would it be through the local AID mission or directly from PRE in Washington. These answers must be clarified as quickly as possible, especially in view of the imminent discussion of the terms of reference by the Ministry of Finance and of the apparent desire of the World Bank to move ahead with privatization in the very near future.

V. CONCLUSION

USAID can provide a very valuable technical assistance to the Government of Senegal in each of the areas discussed above. A key to the success of this effort is continuity in the same individual elements of specialized manpower as well as consistency in the approach. Once the team is set up there should be no change in its composition. The approach must keep following the same goal policy of the local AID mission with regard to Senegal and must always be pragmatic, flexible and realistic. Privatization in Senegal is a long-term task well worth undertaking.

The specific purpose of our recent mission to Senegal was confined to the divestiture by the State of para-statal enterprises. Nevertheless, it is very important not to lose sight of the fact that this is only part of the whole privatization picture and of the fact that privatization, the

APPENDIX_1
USAID MISSION TO SENEGAL
TERMS OF REFERENCE

I. Privatization of SOE's

The President of Senegal made an official statement on July 29, 1985 on the "disengagement" of the State from SOE's.

A. Essential Objective of the Mission

To begin establishing a privatization road map (which will have to be improved over a period of time as we learn from direct exposure "in the field") to be used by the Privatization Center and AID in providing technical assistance to the governments of LDCs.

B. General Assessment

1. Find out whether the above statement by the President was an actual commitment or merely paying lip service to privatization under pressure from the World Bank.
2. Assuming the commitment is sincere, what are its objectives?
3. Has the government considered the political, social, economic, financial and business consequences of those objectives?
4. How will the government reach such objectives through privatization?
5. What are the criteria for "disengagement"?

List of SOE's to be Privatized

A list of SOE's was supposed to be
established by December 31, 1985.

1. Has such list in fact been made?
2. What criteria was used?
3. The SOE's not on the list are presumably either not viable and, therefore, will be liquidated; or the state wants to keep them, regardless of viability, because they are deemed to be of public or strategic interest.
4. Definition of "public" and "strategic interest."

Implementation

1. Short-term Plan of Action for:
 - (i) Acceptance and Implementation at the Ministerial level and below.
 - (ii) What changes would be required in the institutional environment?
 - (iii) List of SOE's to be privatized in the next year, 2 years, 3 years.
2. Long-term Plan of Action
 - (i) How conscious is the government of the necessity to launch now an extensive management development program? What are the steps they intend to take?
 - (ii) Some position re a general education program to facilitate the acceptance of privatization by the citizens at large. Dialogue with the private sector before, during and after privatization.
 - (iii) Some question about reducing red tape.
 - (iv) What does the government plan to do about those SOE's that it wants to keep in the public sector regarding improvement in management, efficiency, quality of goods and services?

Preparation of SOE's for Privatization

1. Is the government aware of the importance of a thorough study of SOE's to be privatized, by activity sector and individuality.
2. If so, what is the approach and methodology envisaged.

Techniques of Divestiture

1. Has a methodology been established for the transfer of SOE's to the private sector?

2. What are the criteria for partial or complete divestiture? If partial, what degree of control will be retained by the government? If complete, what degree of supervision?
3. If single buyer are there preferences?
4. If plurality of buyers/transferees, preferences as to their types and reasons.
5. The role of the government after the divestiture.

C. Diagnosis

The foregoing assessment should lead to a diagnosis of the weaknesses (and good points) of the government's approach and methodology to privatization.

D. Recommendation

On the basis of this diagnosis, make the appropriate recommendations for rectification and technical assistance to achieve it.

E. Sources of Information in Senegal to meet with

1. The General Secretary to the President
2. Minister of Finance
3. Minister of Industry
4. Minister of Agriculture
5. Minister of Commerce
6. Minister of Planning
7. The "Program contracts Unit"

("CELLULE DES CONTRATS-PLANS OR CCP") which was recently set up to coordinate the execution of the government's action plan on privatization.

II. CAPITAL MARKETS

Study the fundamental underpinnings of the capital market:

1. The role of commercial and development banks (especially in the collection, use and modification of savings).
2. The rate and source of savings
3. The mobility of capital
4. What, if any, securities are presently traded? Through what mechanisms, by whom?
5. How inadequate is accounting of companies whose shares could possibly be traded?
6. Trading in government securities, what type, what payment conditions, etc.?

APPENDIX II

**TERMS OF REFERENCE FOR A PROGRAM OF PRIVATIZATION
OF SELECTED STATE-OWNED ENTERPRISES**

(Translation from French)

I) General Outline

1. Over a decade ago, the Senegalese government made the decision to undertake a reform of the parastatal sector with the aid of the World Bank. First, it was necessary to reduce the size of the sector by liquidating those enterprises which were non-viable and also relinquish a portion of the state's portfolio to the private sector. Secondly, a system of contract-plans were drawn up with the public enterprises with the goal to improve their performance and to augment their autonomy.
2. A second assistance program, begun in 1983, is still currently functioning. It aims, primarily, to finance diverse studies concerning the parastatal sector and to further improve its efficiency.
3. It wasn't until July 1985 that the Senegalese president, in stating the historic phrase, "The smaller the State, the better the State", engaged the government in a decisive and irrevocable manner on the privatization path.
4. This decision, which is necessarily at the base of all of the privatization process, already set the first phase of the process into motion. This first phase consisted of establishing the essential objectives for privatization and the criteria which determine the fundamental choices to make among the parastatal enterprises.
5. In order to better appreciate the magnitude of the entire task which remains, it would be useful to recall first the work already done by the government since 1985 during the first phase. It is equally necessary that the job which remains to be done in the privatization process be based on a thorough comprehension of the objectives for the disengagement of the State. These criteria should also be set and should influence the views of the institutions by the principal Senegalese administrations, notably the ministry of Economy and Finance and the Secretary General of the President of the Republic.

II. First Phase

6. The first phase in the disengagement process (or privatization) consisted at the beginning of establishing the objectives for the State's disengagement. Apart from these objectives, the criteria allowing the decision of those enterprises viable for privatization were fixed. Finally, these criteria served as a base to draw up a list of parastatals in the mixed economy. This laborious and delicate task was executed by a multi-disciplinary and inter-ministerial group under the direction of the Director General of the Treasury.

A. Objectives

7. The disengagement of the State has five essential objectives:
 - 1) In order to reduce the crushing burden of the parastatals on the State's finances, the total or partial elimination of subsidies for these enterprises;

- 2) The autonomy and accountability of the management of the privatized enterprises;
- 3) The mobilization of private and public savings for the purpose of investment;
- 4) The decentralization of the stock market;
- 5) The lasting renovation of the means of production.

B.Criteria

8. The criteria elaborated in order to draw up a list of all the parastatal enterprises capable of privatization, and those non-viable, are the following:

- 1) Strategic and non-strategic enterprises, the latter being viable for privatization while the former will continue to be held by the State;
- 2) Profitable enterprises, or soon to be profitable, must be the first to be privatized;
- 3) An enterprise which can offer a better product or service if it is privatized should go to the private sector;
- 4) If a product or service can be offered at a lower social cost (social is defined as the support rendered by the population) by a private enterprise, the participation of the State should pass to the private sector;
- 5) All commercial enterprises are viable for privatization. However, certain non-commercial enterprises could also be privatized;
- 6) The enterprises whose activities have far reaching economical impacts such as certain banks or insurance companies are normally not acceptable for privatization.

C.The List of Parastatal Enterprises

9. Once the criteria have been established, the government could then compose a list of the parastatal corporations (mixed economy) dividing them into four groups:

- 1) Those that are not viable and which, consequently, must be liquidated or left to expire;
 - 2) Those which will be relinquished totally to the private sector;
 - 3) Those which will be partially sold;
 - 4) Those which will be retained in the State's portfolio.
10. This list, which is attached in Annex 1, only concerns those parastatals

of a mixed economy. It does not comprise the national corporations, the public establishments of an industrial or commercial character, or those enterprises in which the State has an indirect participation. Specific reasons may be that, perhaps these enterprises are not viable for privatization following the criteria already stated or perhaps the privatization is premature.

11. This first phase of the privatization process was enacted by the Senegalese government itself without external technical assistance. Aid is now necessary and requested by the Senegalese government to begin the second phase. It is in relation to this second phase that the bidding of firms and consultants is solicited and, therefore, will become the object of the contract granted according to the given terms of reference.

12. These terms define the field of duties to be accomplished by the firm or group of consultants who will be retained to execute the contract and to furnish an indicative list. The contract, which will be jointly managed by the Secretary General of the President of the Republic and the Ministry of the Economy and Finance, will be financed by the International Development Association (an affiliate of the World Bank) in the cadre of the Second Technical Assistance Project in the Parastatal Sector.

13. The approach to these duties should be practical, concrete, and based upon business realities. The government, not having previous experience with the methods of privatization, does not yet have an approved methodology for the diverse operations involved with the disengagement which implicate the second phase. The essential object of the contract is, therefore, to propose a complete, precise, and detailed methodology to the government concerning the preparation of the enterprises for privatization, the selection of the appropriate form of strategy for each case of privatization, and, obviously, its implementation. Finally, it is necessary to insure the follow-up of the interventions made at all the stages.

III. Second Phase

A. Description of Services to be Furnished by the Consultant

14. The second phase comprises six principal duties:

- the selection of the first enterprises to be privatized;
- the analysis of each one of these enterprises;
- the implementation of the form and strategy of privatization chosen in each case;
- the financing of the privatization;
- duties following the privatization, and;
- the creation of a special commission for the disengagement of the State.

1. The Selection of the First Enterprises to be Privatized

15. The consultant will first be called upon to advise the government on the selection of the enterprises which will be the first to be privatized. This choice is extremely important. In effect, it is absolutely necessary that the privatization of these first enterprises be a success. If not, the remainder of the privatization program will be compromised.

16. The enterprises appearing on the list (see Annex I) compiled by the government have already been divided into four categories:

(i) Enterprises which must be liquidated but that have an element of active value can be the object of a divestment of subsidiaries and their sale to the private sector:

- 1) SISM
- 2) SENOMETALLURGIE
- 3) SONAFRIG
- 4) SEGI
- 5) SSE
- 6) SOSEPRA.

(ii) Enterprises which, not yet being ready for privatization under the form of divestment, could usefully utilize, for a trial period, a management or leasing contract with a private specialized company:

- 1)
- 2)
- 3)
- 4)

(iii) Enterprises able to be relinquished totally:

- 1) BERLIET-SGL (potentially profitable)
- 2) HAMO (potentially profitable)
- 3) SPHU TERANGA (potentially profitable)
- 4) VACAP (presently profitable)
- 5) SODMME (presently profitable)
- 6) SPT (presently profitable)

(iv) Enterprises able to be partially divested:

- 1) BICIS (presently profitable)
- 2) SERAS (presently profitable)
- 3) SALINS (presently profitable)
- 4) DAKAR-MARINE (potentially profitable)
- 5) SINAES DAGUERRE (potentially profitable)
- 6) SONED (potentially profitable)
- 7) SODIDA (presently profitable)

17. Two essential criteria guided the following pre-selection and should equally guide the final selection in the last two categories. First, the enterprises to be divested are presently profitable or could rapidly become so through an infusion of capital and through competent management provided by the private sector. Secondly, it is necessary that all means possible be taken in considering the sectors of the economy which must be encouraged according to the priorities established by the restructuration program and the Seventh plan.

18. In using the list of pre-selected enterprises in the manner previously indicated, the consultant should help the government in relation to this

pre-selection by making the following propositions:

- 3 enterprises in category (i);
- 3 in category (ii);
- 3 in category (iii);
- 5 in category (iv).

19. The consultant who is retained must submit his proposition of the final selection to the Special Commission for the Disengagement of the State (the commission will be elaborated upon later in this document) and justify his selection in a clear and precise manner. After this discussion before the Special Commission, the final selection will be made by this commission.

2. Research of the First Enterprises to be Privatized

20. The retained consultant should undertake, as soon as the final selection is made, a complete study of each chosen enterprise to begin privatization.

(i) The Research Approach

21. This study must, not only be as complete as possible, but must also be pragmatic and based upon financial, commercial, and technical realities of each enterprise under consideration and of the economic sectors involved. The study's foremost goal is to prepare the enterprise for privatization by previously determining its weaknesses, their cause, and the appropriate remedies to make the firm more efficient and profitable. The study will also analyse the strengths of the enterprise, that is to say, its essential value. The report's second goal, in the case of enterprises to be divested, is to establish a real market value of the firm in light of its sale to the private sector. This valuation must be done on a totally objective basis so that it will have a high degree of credibility by the investors in the private sector who are interested in purchasing the shares held by the State.

(ii) The Study's Methodology

22. All the essential aspects over the life of the enterprise must be analyzed by the consultant, notably:

- the financial structure;
- the legal structure, including relations with the State;
- the current and projected national market for the goods or services offered;
- the technical and operational structure;
- a complete management audit, upon which the consultant will pay particular attention.

23. To aid the consultant in this task, the Administration will be committed to:

- make available to the consultant all reports, budgets, working accounts, studies, diagnoses, restructuration plans, and other documents pertinent to the running of the enterprise, no matter their origin (from the enterprise, the Administration of the suppliers, the

- investment candidates, debtors, etc.);
- make available studies done of the sectors and sub-sectors, no matter their origin;
- guarantee access to the installations and offices of the involved enterprises and ministries.

(iii) Conclusion of the Study

24. At the base of the diagnosis established by the consultant, he should:

- advocate those precise remedies which will rapidly improve the efficiency and profitability of the firm;
- advise the Special Commission on the image and presentation of the enterprise in order to make it as attractive as possible to the potential buyers;
- make clear, detailed, and warranted recommendations concerning the appropriate form of privatization in each case and its strategy and technique.

25. The submitting consultants must make their views, or at least their appropriate comments, known concerning the three essential aspects of the studies which have just been described.

3. The Implementation of the Form and Strategy of Privatization Chosen for Each Case

26. The retained consultant will have the responsibility not only to advise the government on the form and strategy of privatization appropriate for each case in relation to the objectives for divestment by the State. The consultant will also be held responsible for the diagnosis and his recommendations as well as to submit the exact terms for their achievement to the Special Commission. Thus:

(i) In the Case of a Liquidation of the Enterprise

27. Strictly speaking, the liquidation can be accompanied by an asset divestment. In the former case, the consultant will not intervene, in the latter case he should furnish the following services:

- proceed to a market evaluation of the enterprise's assets, assets which will be the object of a sale to the private sector. This evaluation should be made on a perfectly objective basis with all the discipline imposed by accounting techniques;
- aid the government to locate potential buyers;
- aid the government in the organization of the procedures for the sale (that which will be sold to the highest bid) and to the selection of the tenders;
- assure that these operations take place to the best interests of the State.

(ii) In the Case of a Contract for the Management of the Enterprise to be Turned Over to a Specialized Private Corporation

28. The consultant's responsibilities will be the following:

- aid the government to find a competent firm;
- assist the government to negotiate and draft the contract;
- supervise the execution of the contract;
- assure the follow-up and accountability of the management;
- and verify the accountability of the enterprise.

(iii) In the Case of a Sale of the State's Shares to the Private Sector

30. Whether it pertains to a partial or total divestment, this type of privatization requires the consultant to perform work the most delicate and consequential.

31. The responsibilities of the consultant will be the following:

- following the nature of the enterprise's service or product, its market, its actual or potential profitability, the degree of expressed interest by potential buyers, the buyers' composition and type, the objective of the decentralization of stockholders, and all other pertinent factors, the responsibility of the consultant will be to make those recommendations warranted and precise to the government as regards the appropriate techniques of the divestment in each sort of case.

-Divestment to a Single Buyer

32. The consultant will have the responsibility to:

- assist the government in the search for a buyer (a Senegalese corporation, a foreign corporation, or a joint venture) who is valid, serious, and bankable. All divestments must be made payable immediately and in full to the government. The buyer should be in a position to pay or to find his own source of finance.

33. -assist the government in the negotiations of sale conditions. The government must therefore agree not to undertake direct or indirect negotiations with potential buyers without participation of the consultant.

34. -prepare a prospectus of the intention of the investors for each enterprise to be divested in part or wholly.

35. -assure the Administration obtains the best conditions possible as much in price as in terms of the divestment, it being understood that no finance facility will be granted by the Administration.

36. -conduct parallel negotiations in close collaboration with the government, in the case where many candidates are presented, and submit the diverse options taking into account such factors as the creation or maintenance of employment, new capital, industrial politics, etc.

37. -advise the government in which case it is more convenient to divest the holdings of the State through a private placement.

38. -in the case where there is no acceptable offer, the consultant will propose that the enterprise be temporarily held in the State's portfolio with the continuation of the efforts to find valid candidates or, eventually, to turn over the temporary management of business affairs to a private company.

-Divestment to Many Buyers

39. -Divestment by a Stock Issue

-one of the objectives of Senegalese privatization being the decentralization of holdings, it is incumbent on the consultant to advise the government on the techniques and terms of pricing, issue, and distribution of stock adapted to the Senegalese conditions. What are the essential elements of the system? How will the system be constructed such that it constitutes the first stage toward the creation of a desired stock exchange? The over-dispersion of stock holders has important practical and economic problems as much on the level of the enterprise to be privatized as for small stock holders/savers and for the government itself in its capacity as stock holder/seller. How to avoid these problems?

40. -It is on these issues that the consultant must give valid responses accompanied with concrete, warranted, and practical recommendations which should include alternative proposition.

41. -Divestment to Employees

-The experience of privatization elsewhere would seem to indicate that this offers an excellent opportunity to offer to employees the possibility to acquire a percentage of the shares divested by the State of the enterprise to be privatized. Generally, the percentage is between 5 and 10 percent of the total capital stock of the enterprise.

42. -The consultant should be able to advise the government on the terms of such a sale of stock to employees, notably:

-the exact percentage destined to employees;
-the conditions of access of purchase, (seniority, etc.);
-the percentage to save in reserve for new employees.

43. -It is expected that the submitting consultants will express their comments and views on the implementation of each form and technique of privatization described in the preceding paragraphs.

4. The Financing of Privatization

44. As already indicated, the price of each sale of stock by the Senegalese State must be paid immediately and in full by the buyer, whoever he may be. The absence of State finance consequently will necessitate other sources of finance. This necessity concerns first and foremost the Senegalese savers and employees of the enterprise to be privatized (in the case where the

principle of the decentralization of stockholders will be used), but also probably some single buyers and joint ventures.

45. Given the present serious difficulties of the Senegalese banking system, the vast majority of the banks are incapable of financing such an operation. A few healthy banks will undoubtedly be in a position to provide the finance, but will they be interested?

45. The consultant should propose realistic and concrete solutions concerning the possible sources and terms of finance. In particular:

- should these sources be Senegalese or foreign banks or a mixture of the two?
- what type of banks or financial establishments?
- what type of finance would be appropriate? Short or medium term? With what guarantee? From which source? In what form?

46. The comments of the submitting consultant on this need is anticipated.

5. The Follow-up Duties of Privatization

47. Whatever form and strategy of privatization used in each case, it will be indispensable to periodically check the efficaciousness of its implementation and the measure of its success.

48. It rests with the consultant to:

(i) In the Case of a Divestment and Sale of Assets

- assist the government, for future reference, to follow the trail of the assets concerned through the patrimony of the new purchaser.

(ii) In the Case of a Management Contract or Lease

- assist the government to closely follow the execution of the contract by the contracting private firm and the consultant should serve as the constant intermediary between the government, said company and the parastatal;
- verify the credibility of the enterprise's accounting;
- make an annual detailed report to the government on the effects of the management contract or lease, whichever the case, and on the general efficaciousness and profitability of the enterprise. This report must equally indicate, in the appropriate cases, whereby the enterprise has become ready for an accelerated privatization formula, notably the issue of stock, through the effects of the contract.

49. (iii) In the Case of a Sale of Shares

(a) Total Sale

- assist the government to follow the evolution of the financial results and of the Senegalese privatization of enterprises, all with a view that the government does not in any fashion, direct or indirect, reinvolve itself in the management of the privatized enterprise. The goal here is that the government play a passive role, stopping at making

progress notes for its own use in the future.

50. (b) Partial Sale

-assist the government to play a more active role, as it is still a share holder (even if minority) it should continue to have a voice in the company. However, the State must not involve itself with the daily running of the enterprise. The consultant must insure that such a discipline is strictly observed.

51. (iv) Continuous Dialogue between the Government and the Private Sector

It is indispensable, to assure the success of the entire privatization process, that a regular dialogue between the government and the private sector exist before, along, and after the privatization. The goal of this dialogue is to educate the private sector and explain the unfolding of the process and the practical consequences of its implementation. A better comprehension on the part of the private sector will generate even more trust.

52. The propositions concerning the form and terms of each of the follow-up duties to privatization will be performed by the submitting consultant.

6. The Creation of a Special Commission for the Divestment of the State

53. At the initiative of the Director General of the Treasury and of the Director of the Secretariat of the President of the Republic, a Special Commission for the divestment of the State will already have been created by the time the final selection of the consultants will take place.

(i) Composition

54. This special commission will be composed of the Director General of the Treasury, a representative of the President of the Republic, the Director of the Secretariat of the Presidency of the Republic, two representatives from the private sector, the consultant in the capacity of observer. The Commission can also be joined by members whose abilities are judged useful. It would be hoped that the commission will have as few members as possible.

(ii) Object

55. The commission's essential objective will be to serve as a buffer and filter between the government and the Senegalese public for the implementation of all the aspects of each stage of the privatization process. Its functions are more precisely:

- to be the spokesman of the government in a general fashion on the subject of privatization;
- to determine the final selection of the first enterprises to be privatized;
- to choose the other enterprises to privatize and the measure of the implementation of the privatization process;
- to represent the government as shareholder and in this capacity, take final decisions of the form and strategy of privatization appropriate to each case;

-to be the permanent and sole interlocuter of the consultant.

(iii) Function

56. The Commission, which will be presided over by the Director General of the Treasury, will meet one time each month and at such times as is necessary. It is important that the deliberations be simple, pragmatic, and expeditious and that all functions have a maximum of flexibility and efficiency.

57. With the assistance and close collaboration of the consultant, the Commission will collect all technical, financial and other pertinent information concerning the parastatal enterprises in light of their privatization. The commission will discuss and evaluate all the recommendations submitted by the consultant in all domains and at all stages during the privatization process.

B. Profile of the Retained Consultant

1. Competence and Independence

58. The first criteria which will guide the choice of the consultant will be his general competence, and particularly in privatization, as much as his independence vis-a-vis the Senegalese government, the international and bilateral creditors, the private sector, and potential buyers.

2. Professional Experience

59. The consultant should have demonstrated experience in the area of management of parastatals, divestments, liquidations, mergers, and restructurations of enterprises in general and of privatizations in particular. An experience in Africa, especially Francophone Africa, will be an additional asset as well as would experience of the direction of a project similar to this one.

60. The consultant should have experience in the management of private corporations (advising in institutional, legal, economic, and financial matters) and also accounting. He should have access to a large network of collaborators able to intervene in the area of each assignment described in these terms of reference. Preference will be given to a consultant encompassing such collaborators among his permanent work force.

61. An association of several consultants for the submission of a joint bid is possible, as long as there is one head consultant with whom the contract will be signed and who will have the authority and responsibility for the overall coordination and quality of the assistance furnished.

C. Selection Criteria

62. The evaluation of the bids will be made on the basis of a technical classification, adjusted accordingly to the level of financial tenders. The financial tenders will be presented in a distinct document in a sealed envelope marked "financial tender". The tenders will be stated in five (5)

copies and sent to:

la DIRECTION DE LA CELLULE D'ADMINISTRATION DU PROJET D'ASSISTANCE TECHNIQUE
AU SECTEUR PARAPUBLIQUE- SECRETARIAT GENERAL DE LA PRESIDENCE DE LA
REPUBLIQUE IMMEUBLE DU CONTROLE FINANCIER- 2eme ETAGE
PIECE 42- DAKAR (SENEGAL)

Tel. 21.65.68

Tx. 3149 DAKAR SENEGAL

with a supplemental informational copy mailed to the :

REPRESENTANT RESIDENT DE LA MISSION RESIDENTE, BANQUE MONDIALE, BP 3296-
DAKAR, (SENEGAL).

1. Technical Classification (80 points)

(i) The consultant (35 points)

63. To be taken into account:

- (a) the independence of the consultant viv-a-vis the Senegalese government, the international and bilateral financiers, private sector, and potential buyers.
- (b) professional qualifications.
- (c) the capacity to mobilize experts of a high level for the direction of the assignments; to this effect the proposal will contain the CVs of all the experts and the length of their involvement in each phase of the assignment.
- (d) the perfect mastery of the French language (written and spoken) of each of the experts.
- (e) if the consultant is non-Senegalese, the fact he has an affiliate, subsidiary, representative office, or correspondent will be an additional advantage.

64. (ii) The Technical Proposal (45 points)

Should be a comment on the terms of reference, each assignment described therein, and on the methods the consultant envisages for their implementation. The case otherwise, alternative approaches should be proposed.

65. The technical classification is established by addition of the points obtained in each category. Only the financial tenders submitted by the consultants having obtained a number of points on their proposals equal or superior to 60 to 80, or 80% of the points obtained by the best classed consultant will then be opened. The tenders of the submitting consultants not having obtained the sufficient points will be rejected without their financial tender being opened.

66. d. Financial Tender (20 points)

The financial tender will include the total fees of the consultant and the total amount of expenses incurred and estimated by the consultant. The tender will be calculated on an annual base for two years.

The number of points accorded each tender is determined by the formula:

$$\frac{(\text{amount of tender A})}{(\text{amount of tender X})} \times 20 \text{ points}$$

67. Tender A being the tender the least among the submitted bids by the consultants retained according to the technical classification, and tender X being that which is the assessed value (tender A will have, therefore, 20 points, a tender two times more expensive will only have 10 points). The tenders will be submitted in terms of dollars US.

D. Final Classification

68. The final classification will be obtained by adding the points obtained from the technical and financial classifications.

E. Negotiations

69. The consultant having obtained the most points will then be invited to negotiate a contract with the government. If the negotiations are not concluded with the consultant, the government will open negotiations with the consultant classed in the second position.

APPENDIX III

LIST OF MEETINGS

A) GOVERNMENT OF SENEGAL

- 1) The Minister of Finance.....Mr. A. Toure
- 2) The Director General of
the Treasury.....Mr. A.D. Drame
- 3) The Director of the Currency
and Credit.....Mrs. F. Diagne
- 4) The Director of Credit.....Mr. Gueye
- 5) The Director of the "Cellule des
Contrats Plans" (the special
representative of the
President or Privatization.....Mr. S.A. Camara
- 6) The Secretary General,
Ministry of Finance.....Mr. O. Dienne
- 7) Director of Economic Forecasting,
Ministry of Finance.....Mr. Prosfer Youm
- 8) Director of Portfolio of
State Owned Enterprises.....Mr. Tandiane
- 9) Assistant Director of Portfolio of
State Owned Enterprises.....Mr. Niang
- 10) Director of Organization and
Study Section, SOE's.....Mrs. A. Fati
- 11) Assistant Director of Organization
and Study Section, SOE's.....Mr. T. Sow
- 12) Assistant Director General
of BCEAO (the Central Bank.....Mr. Sakho
- 13) Managing Director of SENPRIM.....Mr. W.A. N'Diaye
- 14) Financial Director of Senpaim.....Mr. P. Fatti
- 15) Managing Director DAKAR MARINE
(Shipbuilding and
Repair Co.).....Mr. T. Sylla

B) PRIVATE SECTOR

- 1) Price Waterhouse Correspondent.....Mr. M. Wade
- 2) Managing Director, Exxel
International (major trading and
manufacturing group).....Mr. M. Fall
- 3) President, Senlait & Co.
(Milk products).....Mr. M. Sow
- 4) Managing Director, Sapem,
private industrial group.....Mr. B. Diouf
- 5) President Chamber of Commerce.....Mr. I. Diop
- 6) Secretary General,
Chamber of Commerce.....Mr. Dansakah
- 7) Managing Director, Banque
Commerciale du Senegal.....Mr. J.L. Correa
- 8) Assistant Manager, City Bank.....Mr. M.A. Accad
- 9) Managing Director, Helios & Co.
(correspondent of Arthur Young)..Mr. M. Berdaa
- 10) President, Union Senegalaise
De Banque.....Mr. A. Alcantara
- 11) President, Sofisedit.....Mr. Y. Niang
- 12) Managing Director, Banque
Senegalo Kuwaitienne.....Mr. I Shaheen
- 13) President Socete Africaine
Petroliere Commerciale.....Mr. P.N. Sene

C) USAID MISSION

- 1) Sarah Jane Littlefield
- 2) Carol Tysons
- 3) Clay Black
- 4) Linda Brown
- 5) Harold Lubell
- 6) George Deikun (U.S. Embassy - Abidjan)
- 7) Robert R. La Gamma (Cultural Advisor, U.S. Embassy)

D) THE AMERICAN AMBASSADOR

E) WORLD BANK REPRESENTATIVE OFFICE

- 1) Director, Franz H. Kaps
- 2) Chief Economist, E. Scanteie
- 3) Senegal Specialist (Washington), P. de Gaiffier
- 4) Senegal Economist (Washington) Mr. Redfern