

Outline

The Republic of Senegal proposes to privatize the Society of Exploitation of Animal Resources of Senegal (acronym SERAS). For this purpose a number of documents have been prepared by and/or on behalf of the Secretary General of the Presidency of the Republic.

The documents consist of the following:

- Schedule of Conditions (15 pages)
- Agreement of Submission
- Agreement of Confidentiality
- Technical Description of SERAS (15 pages)
- Technical Information of Potential Identified Purchases
- Annexes
 - Management contract of Slaughterhouses
 - Management contract of Refrigerated Storage Units
 - Decree of Duties/Taxes on Slaughtering

The substance of the descriptive material is contained in two documents: The Schedule of Conditions and the Technical Description of SERAS, and the material overlaps between the two.

The Schedule of Conditions

This document is broken down into the following parts:

- (1) Introduction
- (2) Presentation of SERAS
- (3) Privatization of SERAS
- (4) General Conditions

Technical Description of SERAS

The second document, prepared by Coopers & Lybrand and its local partner, and referred to as the Technical Description of SERAS is titled "Prospectus for Purchasers of the Society for the Exploitation of Animal Resources of Senegal (SERAS)." It is broken down into the following parts:

- (1) Summary
- (2) Products and Production Equipment
 - Management of slaughterhouses
 - Added value to sub-products: leather, hides, etc.
 - Other activities
- (3) Markets and Sales
 - Exports
 - Internal markets
- (4) Primary Materials
- (5) Real Property
- (6) Direction and Administration
- (7) Institutional and Legal Environment
- (8) Financial Performance
- (9) Advantages and Potential Ensuing from Privatization

The other documents are forms for proposers and the annexes. The forms are one page documents whose contents will be discussed below. The annexes consist (apparently) of current contracts between SERAS and the State of Senegal pertaining to management of slaughterhouses and management of refrigerated warehouses plus the decree on slaughtering taxes.

Schedule of Conditions

Introduction

Discusses the new policy toward privatization of parastatals in order to revitalize the economy by the private sector, mobilize savings for productive investments, and encourage small savers.

SERAS is one of the state enterprises which the State wishes to privatize by selling its shares.

SERAS' principal activity is the collection, treatment, and commercialization of leather, hides, and other animal products.

The schedule of conditions has been prepared as a result of the identification mission of potential purchasers undertaken by Coopers & Lybrand.

SERAS

60 percent of SERAS activity is the collection, treatment, and commercialization of skins, hides, and other animal products. In the last few years, SERAS has collected and treated some 700,000 hides and skins per year. Presently all the production is exported, mostly to Italy. SERAS has not had problems in sales of products at lucrative margins.

Management of slaughterhouses represents a great interest for SERAS as it buys the hides and skins once the animals are slaughtered. SERAS' other activities consist of sales of meat, sales of live animals, management of refrigerated warehouses, and collection and sale of honey and wax. These activities represent only 10 to 15 percent of SERAS turnover.

The State owns 95.7 percent of SERAS capital. It has 422 employees, all Senegalese, and is run more like a governmental department than a commercial entity.

SERAS has a solid financial structure without bank indebtedness and available funds of 1 billion FCFA. Business activity declined in 1986/87 but has picked up in 1989.

The privatization of SERAS and its management by dynamic and competent investors will permit the development of its potential including diversification and expansion of activities.

A document - i.e., Coopers & Lybrand - has been prepared that describes SERAS operations as well as the advantages of privatization.

The document has been submitted to potential purchasers and a number of intermediary organizations whose assistance has been solicited.

SERAS represents an interesting economic potential that makes possible a partial or total privatization in the near future.

Privatization of SERAS

The State hopes to sell to Senegalese or foreign investors 65.7 percent of the capital (40,686 shares). The privatization of SERAS will be based on the vertical integration of the ensemble of its principal activities.

The new structure is intended to be:

State	30.0%
Investors	65.7%
Others	4.3%
	<u>100.0%</u>

Coopers & Lybrand has been asked to locate (research) people well established in the industry of meat and leather (hides) capable and interested in developing activities of SERAS and investing in Senegal. Potential investors have been identified, and information about them is contained herein.

Procedure of Privatization

Because of the limited number of eventual purchasers and their complementarity, the Government has decided to proceed to a restricted consultation with interested parties in accordance with the schedule of conditions.

Price will not be an element in the selection.

All the potential purchasers are consulted separately but can submit alone or in association. The offers that are made in association will be preferred. Each will be asked to specify the role of each in the management of the enterprise and the number of shares purchased by each. 30 percent of the shares reserved for the State can be sold in a second phase.

Contractual Relations

Guarantees offered by the State.

Skins and Hides

With the elimination of the monopoly by SERAS for collection and export of skins and hides in 1988, licenses are given for a period of one year with possibilities for renewal. If the investors wish, a longer term can be provided. The Government will encourage small Senegalese enterprises to participate eventually as SERAS subcontractors. SERAS should play an active role in the coordination of export, especially in conditioning the hides and skins, and by guaranteeing raw material for tanneries that can be rehabilitated with a foreign technical partner. In order to guarantee the Senegal label of quality for export of hides and skins, the state envisages a system of control of products prior to export.

Contingent Approval of a Tannery - Otherwise, if the proposer has the intention of developing the tannery activity. The Government is ready to guarantee a quota of skins and hides sufficient to assure optimum production. The proposer should, in such case, carry his intentions (amount of investment, due date, quantities foreseen for production and export)

Slaughterhouses

Duration - The State foresees concluding with the purchaser a management contract for a long term for the slaughterhouses and cold storage warehouses.

Option to Buy - The State is ready to accord an option to buy the slaughterhouses by the purchasers.

Tariffs - The slaughter policy of the Government could be revised. Currently, the tariffs are fixed by the state and do not take into account real costs. A

modernization would permit a reduction of costs of slaughter per head and prepare a liberalization of the slaughter tax and the price of other services. After a period of adjustment, liberalization of price would permit an opening of the profit margins necessary for:

- (1) Upkeep and maintenance of the installations;
- (2) The continued development of the slaughterhouses and activities bringing a better utilization of capacities and food security for Senegal

Desire of the State

The State hopes that the purchasers contribute to the realization of the Government plan in all the domains of production and commercialization of meat: breeding, ranching, slaughtering and transforming of meat, selling and importing meat, and management of a cold chain.

Scenario of Privatization

The purchasers in association could intervene directly taking capital of SERAS or at the level of a holding society, the activities being distributed to subsidiaries of SERAS which would welcome technical and financial partners interested in only specific activities (example: tannery).

It will be essential that in the recovery scheme the following clearly appear:

1. The financial structure proposed (distribution of shares among the associates)
2. The management structure of activities taken at the level of SERAS and at the level of subsidiaries.

The selection of purchasers will be made essentially upon the scheme of renewal proposed and the global and subsidiary enterprise plan.

With the goal of a successful integration of the different activities and the best utilization of production, notably at the slaughterhouses, a privatized SERAS should study and undertake new activities and reactivate former projects upstream guaranteed by the slaughterhouses:

- Creation of contractual relations with cattle raisers in furnishing factors of production;
- Resumption by SERAS of the Dol'i ranch - capacity of 10,000 head of cattle per year - and study and promotion of other projects such as breeding, animal feed, etc., by third parties or by SERAS;
- Modernization and rehabilitation of the slaughterhouse of Dakar to reduce operating costs;
- Transformation of meat (i.e., meat processing);
- Creation of a cold storage chain nationally to be managed by SERAS;
- Evaluation of the feasibility of a tannery oriented toward semi-finished hides for export;
- Reexamination of other activities such as honey collection and production of bone meal.

Business Plan

The business plan should be sufficiently explicit to permit the Commission to identify the submissions that present the best probability to meet the objectives of the State.

In addition to quantitative elements the plan should give fixed data: forecasted financial status, plan of finance and other financial documents justifying long term profitability and other objectives of the proposer. The following points will interest the Commission:

1. Objectives of the Purchaser

The sector(s) of activities of interest. In case of an association, an integrated development plan with all the activities should be presented. The sectors of activities identified by the consultants are the following:

- Breeding
- Ranching
- Fattening
- Management of slaughterhouses
- Management of refrigerated warehouses
- Collection of skins and hides
- Tannery
- Others

2. Analysis of the Potential Market

- The market and its tendencies
- Export sales, program, importance of projections, the countries targeted.
- The commercial strategies that will be put to work

3. The Investments

- Specify the investments in actual equipment and in new equipment
- The technologies to be used
- The mode of technology transfer foreseen

4. Organization

- Structure of capital and administrative staff
- Organizational structure
 - Profile of the principal responsibilities and the emphasis foreseen by activity (provide the name and profile of the personnel)
 - The principal risks and problems.

The business plan presented by the proposer and the specific points will be made an integral part of the contract between the proposer and the Government.

General Conditions of the Consultation

As part of the policy of privatization, the Government will proceed to a restricted consultation (proposal) for the suspension of shares of the State in SERAS - (40,686 shares at a nominal price of 10,000 FCFA per share).

Delay In Submitting Offers

The offers should be submitted before 16:00 hours Friday, 10 Nov. 1989, at the address which follows in Dakar.

A delay of two months is needed to proceed to evaluate SERAS, prepare a plan of development for the enterprise detailed by activity, engage in negotiations with the other partners and undertake consultations with Senegalese authorities.

Content and Form of the Submission

The submission should contain:

- The scheme of the takeover
- The business plan
- The information to be furnished about the proposer
- The agreement of submission
- The agreement of confidentiality

The submission should be accompanied by a bank guarantee of 10 percent of the offer that will be reimbursed if the offer is not accepted.

Information Re the Proposers

Proposers should demonstrate their capacity to carry out the financial plan (their own capital and that to be mobilized), their technical competence, and their management quality.

Points that will be the object of attention by the Commission are, among others, the following:

- The persons who will present the proposition
- Their bank references (see attached form)
- Their activities
- The results obtained

Reference to persons to contact

Notification of Decision

The decision of the Special Commission will not be definitive until approved by the competent authority. The definitive decision will be transmitted in writing to the proposer by the President of the Special Commission. The payment of shares will be made by check in name of the Treasurer of the Government.

Forms

Information to be Provided for Bank References

Organization - name

Name of the Bank or Banks _____

Number of Bank Accounts _____

and Amount of Credit Authorizations

Availabilities _____

Bank Person Responsible for the Account _____

(confidential statement)

Tender Agreement

The Proposer the
Undersigned (1)
First and Last Name _____

Being Domiciled at (3) _____
or Headquarters _____

Nationality _____

Being Duly Mandated By _____
(Name - Address) _____

Submits for the Acquisition of _____
shares of SERAS for the amount of _____

FCFA

Signed _____ Date _____

(1) If a society or an association, specify the names who will present the submission.

(2) Attach resolutions or other documents authorizing the signature of the above.

.....
(3) Attach the list of persons taking part in the association and a copy of the mandate given to the signer.

Confidentiality Agreement

The Proposer the
Undersigned (1)

Name _____

Being Domiciled
At _____

Or Business
Address _____

Nationality _____

Being Duly
Mandated By _____

(Name - Address) _____

Committed to respect the confidentiality of the information furnished by the restricted consultation (bidding) of the sale of SERAS shares.

Committed to return all documentation received if the submission is not accepted

Read and Approved
Signature

(1) If it is a society (corporation), specify the names and quality of the designated person who will make the submission and the guarantee.

Coopers & Lybrand Report

The Coopers & Lybrand report - the Fiche Technique - has as its objective the presentation of the principal characteristics as well as the potential of SERAS in view of the identification of potential purchasers. It is not the mission of Coopers & Lybrand to verify, in particular, the financial information.

1. Summary

The summary covers many of the points described in the SERAS document. Key points:

- SERAS' chief activity is the collection, treatment, and commercialization of skins and hides (60 percent of its turnover). In the last few years it has collected 700,000 skins and hides per year. All the production is exported, mostly to Italy. To date it has not had a problem selling at a lucrative margin.
- SERAS undertakes a number of activities most notably - as a concessionaire - it maintains refrigerated slaughterhouses in Dakar and 7 regional centers. Management of the slaughterhouses is of great interest, even though they are over capacity for current operations, because SERAS buys excellent quality skins and hides after slaughtering operations. Depreciation of the installations reduces the fiscal charge.
- Among other seasonal activities are: merchandising in meat, sale of live animals, management of refrigerated warehouses, and collection of honey and wax. Oriented toward the Senegal market, these activities constitute between 10 to 15 percent of turnover. SERAS is a mixed enterprise: State owns 95.7 percent of the capital of 619,240,000 CFA. It is placed under the Ministry of Rural Development and managed by bureaucrats more as a government department than a commercial establishment. There are 420 employees, all Senegalese.
- SERAS presents a solid financial structure, without debt, and available funds of 1 billion FCFA. Because of poor countrywide economic conditions in 1986-87, business activity diminished but increased again in 1988-89.
- The State wishes to sell to private investors, Senegalese or foreign, the majority and eventually all the shares of SERAS. The price will be negotiated between the State and potential takers, upon the base of financial performance of SERAS, the value of its assets and its potential for expansion and profitability in the future.
- The privatization of SERAS and its management by dynamic and competent investors will permit the development of SERAS' potential, not only in rationalizing current operations, but also diversifying and expanding activities to improve the supplies of raw materials and their profitability.

2. Products and Production Equipment/Tools

Activities cover different stages of resource exploitation.

Management of Slaughterhouses - The central activity of SERAS is the management of the slaughterhouses in Dakar and seven other municipalities. They currently have too much capacity. The slaughtering tax, the stocking of

meat, and other services represent 25 percent of the global turnover of SERAS that is fixed by the State and does not count real costs. This represents a form of subsidy to butchers and meat consumers in the urban centers. After 1989, the slaughter tax is raised to 34 FCFA per kilo of meat carcass.

The production capacity at Dakar, built in 1957, is 35,000 tons of meat per year, on three lines in the slow Muslim ritual. The age and state of machinery cause interruptions and require modernization. The other seven slaughterhouses have a capacity of 1,500 to 2,000 tons of meat per year. They represent some 20 percent of the services of all the slaughterhouses.

The production reaches only 20 to 40 percent of the capacity and can fluctuate 10 to 15 percent a year based on climatic factors, the size of the national herd, and its commercialization and the demand for meat. During the past three years, the production at the slaughterhouses has been the following in tons of meat:

	<u>1986/87</u>	<u>1987/88</u>	<u>1988/89</u>
Dakar	9,177t	8,162t	8,903t
Others	2,237	1,832	2,821
Total	<u>11,414t</u>	<u>9,994t</u>	<u>11,724t</u>

The collection, treatment, and commercialization of hides and skins is by far the most important activity of SERAS both in turnover (about 60 percent) as well as profits. SERAS gets supplies from two sources: (1) purchase at the exit of the slaughterhouse of skins and hides (about one third in quantity and considerably more in value); and (2) collection from butchers and others by a chain of collectors and centers of collection (about two-thirds in quantity).

The quantities bought and treated by SERAS are submitted to the same factors of fluctuation as the herd raising in general and depend on the efficacy of the methods of collection and conservation. During the last three years SERAS has collected and treated the following numbers of skins and hides: 1986/87- 686,289; 1987/88 - 618,435; and 1988/89 - 708,000.

The purchase price paid by SERAS to the collectors is between 10 to 15 percent of the sales price of conditioned skins which permits SERAS a satisfactory profit margin.

With the closing of the BATA shoe plant, all product is exported since 1988.

Other commercial or semi-industrial activities of SERAS rarely pass 10 percent of global turnover without contributing significantly to profits. (These have been discussed above.) All are for the local market.

Since 1988, SERAS has managed-temporarily-on the account of the State several refrigerated warehouses and meat wholesale centers that will also be privatized in the near future. Their acquisition by a privatized SERAS can be foreseen. The ranch of Dol'i, transferred in 1988 to another public organization, could be acquired and/or run by a "new" SERAS.

3. Markets and Sales

Exports - Almost all the skins and hides are exported. About 70 percent to Italy; the other 30 percent go to Spain, Holland, Portugal and some African countries.

SERAS is one of the largest African exporters of skins and hides, and the quality of product assures a faithful clientele and repeat sales. Although there are fluctuations in demand, taste, and price, SERAS has not had major problems in selling its products. The future profitability depends on factors of production in Senegal, notably the evolution of the herd and its commercialization; and effective and dynamic management of the resources of the enterprise.

SERAS has three types of clients: tanners, agents (more than 50 percent of sales), and traders. Taking account of the relative ease of sales of its products, the marketing activities of SERAS are limited to visiting fairs (Paris) and certain clients. The sales prices are established by SERAS based on prices in the principal markets that are published periodically in the specialized press.

Internal Market—The other products and services of SERAS are for the internal market. This market and its potential depend on the evolution of cattle rearing, government policy on food security, and the production, import and consumption of meat as compared to other protein sources (animal and vegetable). The privatization of SERAS and the reinforcement of its commercial organization will permit a better exploitation of the internal market, notably concerning sales of live animals and sales of meat (including imports), in consequence improving the profitability of slaughterhouses and refrigerated warehouses.

4. Primary Materials

The Senegalese herd is in reality the only source of supply of raw material for SERAS. The success of the enterprise and its potential for expansion and diversification are determined by two variables:

- the growth of the herd and the evolution of its rate of exploitation (culling)
- the relative position of SERAS in the market, the slaughtering numbers compared to national slaughtering, and the efficiency of collection of skins and hides

Evolution of the Herd - After a large increase in 60's, growth has slowed because of the droughts of 1973 and 1983 and imports of meat during the last few years.

Evolution of the Senegal Herd

	<u>1980</u>	<u>1987</u>
Cattle	2,238,000	2,500,000
Sheep & Goats	3,100,000	3,700,000

The rate of exploitation of the herd varies in function of climate (notably based on rainfall in pastoral zones), the wholesale price of meat and other factors.

Cattle raising occupies an important place in the Senegalese economy. From 1980 to 1987 it has constituted 6.5 percent of GDP and 32 percent of GDP of the primary sector.

Supplying SERAS

The table below-p.6 of fiche technique-indicates that currently SERAS, with its Dakar slaughterhouse, slaughters about 18 percent of the cattle and 11 percent of the sheep and goats of Senegal. In the national plan these figures will increase to about 22 percent and 15 percent, respectively. SERAS collects 44 percent of the skins and hides of the country.

The relatively low slaughtering numbers of SERAS, compared with national slaughtering and the slaughterhouse capacity, permits one to believe that an important non-exploited potential exists for supplying raw materials and for profitability of the enterprise.

In spite of the suspension in 1988 of the monopoly in collection and sale of hides and skins, SERAS does not risk a significant decline in its supply of hides and skins. SERAS controls, de facto, the purchase of hides and skins at the slaughterhouses which are the source of the best quality. Furthermore, the collection of hides more rigorously by SERAS over all the territory of Senegal, and a small increase in the price paid to producers, will reinforce the competitiveness of SERAS vis a vis eventual competitors.

5. Real Estate/Equipment

These are divided into two categories:

- (a) Those made in concession by the State which concerns exclusively the slaughterhouse at Dakar and seven regional slaughterhouses. They represent 90 percent of the fixed assets, and they are valued at 2,602 million FCFA in net value (30 June 1988).
- (b) The real property owned by SERAS pertaining to investments relative to the activity of skins, hides, and tannery. Their value is calculated at 234 million FCFA (30 June 1988).

6. Director and Administration

Capital structure - SERAS was created in 1962. Initial capital 20,000,000 FCFA; subscribed 70 percent by the State of Senegal; 30 percent by SCET (a French concern). In 1979 SCET ceded all its shares to the personnel of SERAS.

Two increases in 1982 and 1983 have brought the capital to 619,240,000 FCFA. The current distribution is the following:

State of Senegal	95.7%
B.N.D.S. (state bank)	3.0%
Personnel of SERAS	1.3%

The state hopes to sell to private investors, Senegalese or foreign, the majority and eventually all the shares.

Direction - Placed under the technical direction of the Ministry of Rural Development. The latter provides authorizations, currently for a year, with potential for a longer period, of collection and commercialization of hides and skins. SERAS is not run as a commercial private type entity. It is treated as government organization and receives instruction from above. Because SERAS is a state corporation, its statutory limitations limit dividends to 6 percent of its social capital. In case of privatization of the majority of capital it will be up to the new shareholders to freely decide the dividend policy.

Organization and Systems - The structure of the formal organization is characterized by four department (Directions)-General Direction; Administrative and Financial Direction; Commercial Direction; Production Direction.

Personnel - SERAS has about 420 employees, all Senegalese. The management staff, in majority contractual, represents 3 percent, and the ensemble of agents, 5 percent.

Management personnel are composed of specialists - skins and hides, freezing, animal experts, and technicians. In case of diversification of activities, it will be necessary to reinforce and complete the locally available talent by specialized industrial expertise (for example in the domain of meat processing, industrial tanning, ranching, wholesale food products, and feed lots).

7. Institutional and Legal Environment

Political Climate - Senegal is a democratic and multipartisan democracy. It has had a relatively stable political situation since its 1960 independence.

Monetary and Exchange System - Belongs to Franc Zone. Guaranty of convertability with French Franc.

New Policies - Reform program since 1986. Consists of market liberalization, public administration reform, and privatizing a certain number of enterprises from the parastatal sector.

Encouragement of private investment - Senegal has important legal arrangements to promote private investment, on the part of nationals and foreigners. Among the measures:

- The Free Industrial Zone of Dakar
- The Code of Investments
- The Fiscal Regime of Common Law
- Enterprise Profit Tax
- Depreciation Regime
- Legal Statutes of Senegalese Business
- Employment Conditions of Senegal
- Living Conditions in Senegal

8. Financial Performance

SERAS presents a solid financial structure without bank debt and an available amount of a billion FCFA, with the largest part placed in term deposits between 9 percent and 11.5 percent in local institutions.

Since 1986 the turnover and financial results of SERAS has diminished principally because of a temporary reduction in slaughtering numbers and available hides and skins. In 1988-89 the activities and the profitability to SERAS have again increased in both numbers slaughtered and in collection of hides and skins. The management since 1988 of refrigerated warehouses and wholesale centers has also contributed to the return of profitability for 1988/89. (See financial statements on pp. 13-14 of Coopers & Lybrand Report.)

9. Advantages and Potentialities Ensuing from Privatization

The privatization of SERAS and its management by dynamic and competent investors would entail a reorientation and redefinition of its objectives and its field of action and put in place management measures that will permit a

better exploitation of current resources and the improvement of profitability of invested capital.

Among the management measures that will immediately improve the effectiveness and profitability are the following:

- Introduction of analytic accounting and a financial control over all the plans of the enterprise
- Review of human resource needs and the introduction of a system of remuneration of management based on individual performance
- Change of commercial policy
- Expansion and rigorous organization of a network of collection of hides and skins
- Intensification of live animal purchases by SERAS

With the goal of a better utilization of the capacities of production, notably at the level of slaughterhouses, and in view of enhancing the value of raw materials, a privatized SERAS should consider certain activities and projects in addition to slaughterhouses:

- Creation of a privileged and contractual relation with cattle breeders including the supply of factors of production
- Reopening by SERAS of the Doli ranch (capacity 10,000 head of cattle per year) and study and promote cattle breeding, ranching, feed projects to be realized by others or by SERAS
- Modernization and rehabilitation of the Dakar slaughterhouse, to reduce the costs of slaughter and provide the other services
- Meat processing
- Creation of a national cold chain through refrigerated warehouses that are managed by SERAS
- Reexamine the technical and financial feasibility of a SERAS tannery and evaluation of the feasibility of an industrial tannery oriented toward the exportation of semifinished hides.

Information Form on the Potential Purchasers

Name:

Address:

Telephone:

Activities of the enterprise and competence pertaining to SERAS:

Financial performance of the enterprise:

1986:

1987:

1988:

Composition of Social Capital:

Shareholders

Nationality

Name and Nationality of Managers

Views of the enterprise about the management and development of SERAS

Motivation for the purchase

Yes

No

Desire to purchase all the shares of the state?

Right of preemption request?

Joint Venture with private Senegalese investors?

Special Remarks

Annexes

The annexes consist of three legal documents between the State of Senegal and SERAS. Only one is dated (1986). They set out the terms and conditions by which SERAS manages the slaughterhouses and refrigerated storage units as part of a concession by the State and the duties and taxes to be paid for slaughtering animals. Although lengthy they appear to be extraneous to the purposes of the current exercise.