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Assessment of the Privatization Program in Côte d'Ivoire

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Prepared by:

Abt Associates Inc.
in association with
Price Waterhouse/International Privatization Group

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ACRONYMS

BVA	Bourse des Valeurs d'Abidjan
CIE	Compagnie Ivoirienne d'Electricite
CT	Cellule Technique (to the Privatization Committee)
DCGTx	Direction et Controle des Grands Travaux
EECI	Energie Electrique de Cote d'Ivoire
EPA	Etablissement Public Administratif
EPIC	Etablissement Public a Caractere Industriel et Commercial
EPN	Etablissement Public National
ESOP	Employee Stock Ownership Program
F CFA	Franc de la Communaute Financiere Africaine[1]
GOCI	Government of Cote d'Ivoire
IDA	International Development Association
IMF	International Monetary Fund
MTF	Medium-Term Economic Framework
PAD	Privatization and Development Project
PASCO	Programme d'Ajustement Structurelle et de la Competitivite
PASFI	Programme d'Ajustement du Secteur Financier
PC	Committee for Privatization and Restructuring of the Para-Public Sector
PDCI	Parti Democratique de Cote d'Ivoire
PE	Public Enterprise
OMOCI	Office de Main d'Oeuvre de Cote d'Ivoire
SE	Societe d'Etat
SEM	Societe d'Economie Mixte
USAID	United States Agency for International Development

[1] Cne US dollar = 270 F CFA (December 1992)

EXECUTIVE SUMMARY

Introduction

Privatization and parapublic sector reform are not a new phenomenon in Côte d'Ivoire. The country initiated a privatization and parastatal reform program in 1980, making it one of the first countries in Africa to have such a program. The main focus was on parastatal reform and selected liquidations rather than on actual privatization. However, the program advanced at a very slow pace, appeared to be conducted in an ad hoc fashion in the absence of a coherent privatization strategy, and was widely believed to be biased in favor of selected domestic interests. As a result, little advance was made in increasing the private sector's share of the economy. In 1990, the Government inaugurated a new privatization program, with prompting from the World Bank and in recognition of the critical state of the economy.

The primary objective of this study is to provide an overview of, and evaluate, the current privatization program being undertaken in Côte d'Ivoire, particularly with respect to the pace and quality of divestment and the environment for privatization. A secondary objective is to identify areas where donors could provide assistance to the privatization program in the near term. The study was conducted during December 1992, under the technical direction of USAID/REDSO/PMO in Abidjan, and funded by USAID/AFR/ONI via the Privatization and Development (PAD) project. Price Waterhouse is the prime contractor on the project, operating through its International Privatization Group. Abt Associates is a member of this group, and a subcontractor on the overall project.

The Current Privatization Program

In late 1990, the Government launched a new effort towards a comprehensive privatization program for public enterprises (PEs) with the aim of reducing government holdings and alleviating the recurrent administrative and financial burden imposed by PEs. Out of a total of 140 PEs in existence in 1990, about 80 were slated for privatization under this program. These companies, with an aggregate book value estimated at US$800 million, were from all sectors of the economy. At the program's inception, Government prepared a Privatization Policy Paper, promulgated a Presidential decree regulating the process of privatization, issued a list of 18 enterprises slated for privatization in the first phase of the program, and initiated the process for setting up the institutional framework for managing the privatization program.

The policy statement outlines the program's objectives and the process to be followed for individual privatizations, identifies companies which are candidates for privatization during the program's first phase, and defines the role of the institutional entities charged with implementing the program. The policy statement is a clear attempt to address many of the criticisms directed

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towards the earlier privatization program, and confirms the Government's determination to divest itself of both profitable and loss making PEs. No enterprises have been defined "strategic" in which government is to remain a majority share holder. In addition, no restrictions, a priori, exist on the degree of foreign ownership.

The Committee for Privatization and Restructuring of the Parapublic Sector (PC), which reports to the Prime Minister's Office, assisted the Government in formulating the current privatization policy and has overall responsibility for implementing the program. The PC has a broad membership including senior Ministry officials and members of the private sector, and is headed by the chief economic advisor to the Prime Minister. The Committee is supported by a Technical Unit (Cellule Technique -- CT), which carries out the necessary technical analyses and preparatory work for each divestiture, either by conducting the work itself or by contracting for consulting services. The Technical Unit reports its findings to the Privatization Committee. PC recommends a sale price and divestiture strategy to the Prime Minister, after approval by the Ministry of Finance.

Presidential Decree No. 90-1610 of December 28, 1990 establishes the institutional framework for executing the privatization program (that is, formally establishing the Privatization Committee and Technical Unit), defines the process to be followed for privatization, and authorizes various forms of divestiture. The range of forms of privatization allowed under the law is quite comprehensive. Implementation of the divestment program has the stated objective of being open and transparent, and based on rigorous and objective analysis.

The privatization program has been divided into two phases. The first, which started in 1990, covers 22 enterprises. Of these 22 enterprises, 11 are majority government-owned, and 11 are Societe d'Economie Mixte (SEMs) in which Government has between a 10% and 50% holding. To date, four firms from the list have been privatized: CEIB (livestock), CEDA (publications), BINEA (publications), and the vacation resorts at Assinie and Assouinde. These are relatively small companies, in which Government sold most of its shares to the foreign groups which already had an interest in the enterprises.

By the end of 1992, or the end of the first quarter of 1993 at the latest, the PC intends to submit to the Government its recommendations on divestiture strategies and conditions of sale for the remaining Phase I majority-owned enterprises, with the exception of PALMINDUSTRIE (palm sector) and ONT/CI-TELCOM (telecommunications). Privatization of the 11 Phase I SEMs is also progressing. Technical and valuation studies are currently under way for each of these firms. The PC expects the preparatory work for nine of the eleven firms to be completed by the end of 1992 or early 1993, and for the enterprises to be offered for sale by the third quarter of 1993.

Phase II of the privatization program is meant to start in 1993, and envisages privatizing over 30 companies, with a goal of at least 8 in 1993 and at least another 8 in 1994. However, nearly half a dozen Phase II companies have already been put out for tender, or soon will be.

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The Environment for Privatization

The overall business and economic climate in Côte d'Ivoire is not conducive to privatization, and will tend to limit the number and kind of private operators willing to invest in privatization in Côte d'Ivoire.

- The overall economic environment does not favor privatization. Key factors include: (i) world prices for Côte d'Ivoire's primary exports that have been in decline for the past decade; (ii) changes in consumption patterns in industrialized countries that make it questionable whether Côte d'Ivoire can regain its traditional export markets even with an improved cost structure and an end to recession in major importing countries; (iii) overvaluation of the CFA franc, rendering potential export industries uncompetitive; (iv) uncertainty relative to an eventual devaluation of the CFA franc, causing potential investors to hesitate; (v) exceptionally high tariffs, which are not uniformly applied; (vi) substantial arrears in payment of export incentives, which themselves are meant to overcome the many structural disincentives to export; (vii) a high level of concentration in most industries, leading to abuse of market power and rent-seeking; and, (viii) excessively high factor costs, including labor, electricity, telecommunications and transport.

- The legal and regulatory environment, particularly as applied in practice, is not overly conducive to privatization, although planned reforms may do much to improve the situation. The labor and investment codes are particularly significant for privatization. While the Investment Code places few legal restrictions on foreign or domestic private sector ownership, in practice: (i) each investment is judged on an individual basis; (ii) government often requires that it retain a minority share in a privatized enterprise; and, (iii) investment approval and the granting of related incentives are subject to a lengthy and somewhat arbitrary review process, and often include certain restrictive covenants governing level of employment of Ivoirians, use of domestically produced materials and required level of investment. Likewise, the Labor Code, which has been liberalized in recent years, still limits a company's ability to reduce its labor force.

- There are other, key unresolved technical issues in the environment affecting privatization. For example: (i) government has yet to articulate a policy on how to deal with government-guaranteed debt undertaken on behalf of state-owned enterprises when the enterprise is privatized; (ii) valuations are often unrealistic and applied inconsistently and can unnecessarily delay or lead to the break down of negotiations; (iii) no decision has yet been taken on disposition of, and responsibility for, the social services and physical infrastructure (e.g., schools, hospitals, rural roads) that in many cases currently are owned and/or maintained by large agro-industrial PEs; and, (iv) it remains unclear whether government or the private operator will be responsible for investment decisions and hold will title to newly acquired assets, particularly in cases where the private company has a concession or management contract and the State retains ownership of the

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asset (as is the case of the electricity company, and is the likely outcome for the railway and telephone company).

Perhaps the most significant issues affecting the privatization program are related to governance and the politics of privatization. These issues are interrelated and include the following.

- Political fragility and vulnerability of the privatization program. At the national level privatization has become a point of contention within Government and between Government and the ruling party. This has intensified as key political factions manoeuvre for position in the run up to the Presidential elections in 1995. The ability of the Government to adhere to the ambitious privatization program and schedule will be heavily influenced by the future political support base for the principal architects of the current program.

- The lack of openness and transparency in the program, while much improved relative to the privatization program in the 1980s, is providing scope for criticizing the program and may lead to its derailment. Several interrelated issues contribute to this state of affairs, and include the following.

  — Poor quality and dissemination of information to investors on individual privatizations. The information contained in prospectuses and "information notes" is inadequate for the purposes of most prospective investors. The paucity of data combined with minimal dissemination results in a reduction of the number of bidders attracted to each privatization and may lower the price received by government. The consequent narrowing of the number of prospective bidders has led to the questioning of the fairness of the process.

  — Excessive discretionary power is granted to political authorities and leads to an "ad hoc" treatment of privatizations. For example, it is not clear why a given privatization, assuming the rules have been followed, should be subject to cabinet approval. One effect of this discretion has been a failure to move away from a case-by-case approach to a more fair and impartial system.

  — A lack of public information on the details of specific privatizations reinforces the public's perception that an opaque and partial process is being followed. Once a transaction is concluded, government, in stark contrast to past practice, should widely disseminate to the public basic information on the privatization (e.g., name of purchaser, overall sale price, basic rationale for selecting purchaser).

Evaluation of the Privatization Program

The privatization program in Côte d'Ivoire so far cannot be judged either a success or a failure. Instead, there are important areas in which the program can be judged as moderately successful and others in which the record and prospects for successful implementation are less encouraging.

Key strengths of the program include the following.

a) Establishment of a policy, legal and institutional framework, and overall strategy for privatization -- in marked contrast to privatization that took place in the 1980s.

b) A pragmatic approach to privatization in which there is:

- a willingness to privatize profitable as well as unprofitable enterprises;
- a recognition that privatization must involve new and competent management, often from overseas, rather than just a change of ownership; and,
- targeting all sectors as candidates for privatization without establishing a negative list or set of "strategic" industries reserved for the public sector.

c) An attempt to coordinate the implementation of the privatization program with other parts of the economic reform program.

d) A stated intent to adhere to the principles of rigorous and objective analysis and to transparency in implementation of the privatization program and process.

There are limited yet encouraging signs of advancement in other areas, as well. There is an acceptance among a few top technical officials of the philosophical basis for privatization (as opposed to the imperative to get rid of loss-making companies and to increase public revenue) as the key to a more competitive economy, and they have an ability to enter into the national level political debate. In addition, there have been attempts by senior policy makers, especially the Prime Minister, to explain the privatization program and its underlying rationale to the Ivoirian public. Finally, the current program has managed to achieve some degree of impartiality and fairness which was not characteristic of earlier privatizations and there is a genuine effort to develop wider shareholding among individual Ivoirians of the middle class as well as the elites. All of these actions, while good advances, are in need of substantially intensified efforts to achieve their overall goals.

The main impediments to successful implementation of the privatization program include:

- The poor condition of the Ivoirian economy and financial sector;

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- The overall lack of transparency and openness in the conduct of the program; and,

- The intensified political debate, at the national level, on privatization -- which is more a reflection of manoeuvreing for political position rather than divergences in opinion of fundamental issues of a technical or philosophical nature.

Other weaknesses include: (i) the slow pace at which the privatization program has been progressing -- only four companies have been privatized during the first two years of the program; (ii) the perception that the current privatization program was the result of donor pressure, and the corresponding lack of widespread support, both within and outside government; (iii) the program's dependence upon other reforms being undertaken to liberalize and restructure the economy within the Medium-Term Economic Framework (MTF); (iv) poor prospects for mobilizing domestic resources from the corporate or institutional sectors, or for widespread ownership by the populace; (v) lack of widespread benefit from privatizations and a process that appears to favors local elites and well-connected foreigners.

Potential Areas for Donor Assistance

The Government of Côte d'Ivoire is undertaking the privatization program with minimal assistance from donors. To date, the World Bank is the main donor providing significant assistance directly to the privatization program, with more minor contributions by the Japanese and Canadian authorities. However, as the program advances, the need for selected assistance from donors has become more apparent. The intensification of political resistance to the program has led some officials to prefer increased donor assistance to keep the momentum going, even at the expense of a perceived loss of national self-reliance.

Areas where donors in general may be needed to provide assistance in the near term include: (i) revitalization of the Abidjan stock exchange; (ii) development of Employee Stock Ownership Program (ESOP) mechanisms; (iii) development of programs for labor redeployment and retraining; (iv) development of a communications strategy and program in support of the privatization program; (v) sponsorship of technical training in selected, specific areas; and, (vi) development and direct financial support of selected, special funds aimed at facilitating privatization transactions. Most of these areas are consistent with elements identified in the World Bank's Privatization Support Project papers, and future donor assistance should be coordinated with this project.

USAID's basic privatization-related assistance strategy in the near term should be to: (i) consider pursuing a modest assistance program, aimed at providing limited technical assistance in selected, well-defined areas; (ii) continue to monitor the privatization program's progress; and, (iii) review within the next 12 to 18 months the prospects for a greater involvement. A major program sponsored by USAID in the near term in support of the privatization program in Côte d'Ivoire is premature and unwarranted.

Prospective areas of assistance which USAID could consider supporting are a sub-set of those areas identified for assistance from donors in general, and might include some or all of the following: (i) supporting the revitalization of the stock exchange (BVA) and other aspects of capital markets development; (ii) assisting in testing the feasibility of Employee Stock Ownership Programs (ESOPs); (iii) studying options and prospects for labor redeployment and retraining programs; and, (iv) sponsoring selected workshops and training to enhance specific, technical skills, and to foster improved communications, transparency and consensus in the conduct of the current privatization program.

CHAPTER 1

BACKGROUND AND INTRODUCTION

1.1 Background and Study Objectives

Privatization and public enterprise reform are not a new phenomenon in Côte d'Ivoire. The country initiated a privatization and parastatal reform program in 1980, making it one of the first countries in Africa to have such a program. The objective of the program was to alleviate the drain on the government budget and respond to pressure for increased opportunities for the domestic private sector. Early in this program emphasis was placed on parastatal reform and selected liquidations rather than on actual privatization. It was not until the late 1980s that thirty or so actual privatizations were undertaken.

However, the program advanced at a very slow pace, appeared to be conducted in an ad hoc fashion in the absence of a coherent privatization strategy, and was widely believed to be biased in favor of selected domestic interests. As a result, during the 1980 - 1989 period, little advance was made in increasing the private sector's share of the economy.

In 1990, the Government inaugurated a new privatization program, with assistance from the World Bank and in recognition of the critical state of the economy. The privatization program formed an integral component of an overall economic restructuring program which included programs for structural adjustment and enhanced competitiveness and for restructuring of the financial sector. The new privatization program envisaged privatizing about 80 of the 140 public enterprises which existed in 1990. The program was designed around a coherent national privatization strategy, the goals of which were to alleviate the financial burden on government represented by the public enterprises (PEs) and to invigorate the economy through increased private sector ownership and management. The underlying implementation principles of the program included: (i) rigorous and objective analysis of the privatization portfolio and individual enterprises; (ii) transparency in implementation of the privatization program and process; and, (iii) safeguarding of the national interest.

The primary objective of this study is to evaluate the current privatization program being undertaken in Côte d'Ivoire. Particular emphasis is placed on assessing: (i) privatization policy, objectives, and legal and institutional structures; (ii) the economic and business climate for privatization; (iii) governance and transparency issues related to privatization; and, (iv) the program's track record of success/failure to date and its performance prospects in the near future.

A secondary objective of the study is to identify areas where donors could provide assistance to the privatization program in the near term. The focus is on areas which might be appropriate for USAID's embryonic bilateral assistance program in Côte d'Ivoire. Further details on the Consultants' scope of work are provided in Annex 1.

1.2 Study Conduct and Methodology

The study was conducted during December 1992. A literature search and review, and selected interviews in Washington DC were conducted prior to the study team's departure for Côte d'Ivoire in the second week of December. The team spent two weeks in Côte d'Ivoire. During this time, they: (i) reviewed documents on the economy, business climate, and the privatization program; (ii) examined USAID's activities in Côte d'Ivoire; and, (iii) interviewed a broad spectrum of individuals and groups involved in privatization and related areas, including the privatization committee and technical unit, selected government officials, managers of state-owned and privatized firms, officials at the Stock Exchange, selected donors, and various other public and private sector groups (see Annex 2 for a list of contacts).

The study was under the technical direction of USAID/REDSO/PMO in Abidjan, and was funded by USAID/AFR/ONI via the Privatization and Development (PAD) project. PAD is a worldwide USAID project which assists developing countries with privatization -- providing assistance at the overall program and policy level through to individual enterprise restructuring and specific transactions. Price Waterhouse is the prime contractor on the project, operating through its International Privatization Group. Abt Associates is a member of this group, and a subcontractor on the overall project.

The study team included: Anthony Davis -- Team Leader and Senior Privatization Specialist (Abt Associates); and, Charles Krakoff -- Senior Investment Analyst (Abt Associates). Overall technical direction and review was provided by David Gordon of Abt Associates. In addition, some technical input was provided by Deborah Dungan, Mara Fellouris and James Waddell of the International Privatization Group at Price Waterhouse.

1.3 Structure of the Report

The report is structured as follows. In Chapter 2, a profile of the current privatization program is presented. An assessment of the environment for privatization and a discussion of issues related to governance and transparency are provided in Chapter 3. In Chapter 4, the program is evaluated in terms of the pace and quality of privatizations to date, and the prognosis for the relative success of near term, future privatizations is discussed. Finally, in Chapter 5, potential areas for donor assistance to the privatization program in the near term are identified. The report also contains several annexes.

CHAPTER 2

PROFILE OF THE CURRENT PRIVATIZATION PROGRAM

2.1 The History of Privatization in Côte d'Ivoire

The parapublic enterprise (PE) sector has played an important role in the Ivoirian development process since Independence. The Government of Côte d'Ivoire (GOCI) has used equity participation in enterprises to: (i) gain control over key sectors in the economy (e.g., utilities, telecommunications, banking, etc.); (ii) diversify and modernize agricultural production; (iii) exploit the country's natural resources; (iv) undertake large-scale, capital-intensive projects; (v) develop sectors where private entrepreneurship was insufficiently active; and, (vi) encourage regional development and other socio-economic goals.

During the first half of the 1970s, the number of PEs in Côte d'Ivoire increased very rapidly and virtually all major industrial and agribusiness initiatives were carried out by firms that were either wholly or partially owned by government. In 1977, there were collectively about 115 SEs (State-Owned Enterprises -- Societe d'Etat), EPNs (National Public Agencies -- Etablissements Publics Nationaux), and SEMs (Mixed or Parapublic Enterprises -- Societes d'Economie Mixte).[1] At this time, the PE sector represented one third of the country's total formal sector employment, produced 27 percent of value added, was responsible for 68 percent of capital formation, and accounted for 45 percent of the public investment program. However, the rapid expansion of the parapublic sector also contributed to a deterioration in public savings and increased external debt, much of which was financed on a commercial basis.

By the late 1970s it became apparent that, although employment and value added in the PE sector were growing rapidly, many of the individual enterprises were losing money and the burden on public finances was becoming critical. Thus, following a sector-wide study, government implemented a broad program of PE sector reform during the 1981 to 1986 period. The program's objectives were to: (i) improve the monitoring and management of the sector at the government level; (ii) rationalize the relationship between the Government and individual enterprises; and, (iii) improve financial and technical management at the enterprise level. During this period: (i) about a dozen PEs were liquidated or merged; (ii) approximately ten were

[1] State-owned enterprises are entities of which the Government is the sole proprietor, but which are regarded as commercial enterprises subject to the nation's civil and commercial legislation. SEMs are joint stock corporations whose capital is held by private individuals or organizations in association with one or more of the following: the State, local government, and/or a public corporation. Government makes distinctions between three groups of SEMs: those in which it has less than a 10% interest; those where Government owns 10% to 50%; and, those where it is a majority share holder (more than 50%). EPNs are economically autonomous corporations run by Government, which do not charge for their services, operate on funds received from the State, and whose resources are considered public property. There are two types of EPNs: (i) EPICS which perform productive activities; and, (ii) EPAS which have administrative tasks.

converted to EPNs, which resulted in government savings because the salaries of the employees of EPNs were reduced to the levels of those of other civil servants; and, (iii) several PEs were given new legal status or economic mandates. However, only a handful of companies were actually privatized during this period, as parastatal sector reform was the Government's main objective.

By 1987 it became evident that, although these measures resulted in improved performance for some enterprises, the overall size of the PE sector was not reduced and the basic shortcomings of the sector remained. These shortcomings included: (i) ineffective management; (ii) lack of entrepreneurial initiative; (iii) the crowding out of the embryonic private sector; and, (iv) investments with low or negative rates of return. Consequently, during the 1987-1989 period, divestiture became a clear option for the Government and over 30 PEs were privatized. A variety of divestiture techniques were used such as direct negotiation with private buyers, sale of shares on the Stock Exchange, and inviting bids from potential investors.

The PE reform program carried out from 1977 through the 1980s was characterized by a lack of clear procedures and guidelines for divestiture, no coherent institutional framework, and limited transparency in the process of privatization. There was no specific list or target of PEs slated for privatization, and there was no clear rationale for determining what types of businesses to privatize. No strategic studies prior to divestiture were undertaken. In most cases, the Government was privatizing companies in direct response to direct requests from potential buyers who were offering cash. A preference was given to transferring ownership to Ivoirians and to foreign businesses which had longstanding ties with government. Therefore, until early 1990, there was little evidence that the privatization program was well managed or carried out in a transparent manner.

As of 1990, the Government had largely failed to significantly disengage itself from the productive economy or to improve the performance of the PE sector. In 1990, there were a total of about 140 EPNs, SEs and SEMs. The State was active in almost every branch of the economy. The rates of return on investment in the PE sector were still low or negative. The sector accounted for almost 44 percent of the total value added in the formal sector and its net drain on public finances, both direct and indirect, had reached almost 4 percent of GDP. It was clear that a new privatization program, complemented by other reforms, was needed.

2.2 The Current Privatization Program

In 1990, the Government articulated a comprehensive economic reform program, of which privatization and parastatal sector reform are a major element. This program, the Medium-Term Economic Policy Framework, has the following components: (i) liberalization of agricultural export pricing and marketing; (ii) balancing the budget, primarily by reducing the public sector wage bill, reforming the social service sectors, improving public sector management, and restructuring the government debt; (iii) policy reforms aimed at increasing industrial

competitiveness through elimination of non-tariff barriers and market distorting tax policies, liberalization of labor markets, and legal and regulatory reforms applying to private sector activity; (iv) financial sector restructuring and reform; and, (v) restructuring and privatizing parapublic enterprises.

Correspondingly, in late 1990, the Government launched a new effort towards a comprehensive privatization program for PEs with the aim of reducing Government holdings and alleviating the recurrent administrative and financial burden imposed by PEs. About 80 PEs from all sectors, with an estimated book value of $US 800 million, were slated for privatization under this program. At the program's inception, a Privatization Policy Paper was prepared, a Presidential decree regulating the process of privatization was promulgated, a first list of 18 enterprises slated for privatization was issued,[2] and the process for setting up the institutional framework for managing the privatization program was initiated.

2.2.1 Privatization Policy and Objectives

The Privatization Policy Statement, issued in late 1990, is the Government's center piece for defining a coherent strategy and policy for the privatization program (see Annex 4), and for laying out the broad elements and guidelines for its implementation. A number of objectives are stated in the paper:

- Increase production and competitiveness;
- Reduce factor costs and the cost of living;
- Increase private sector participation in the productive sector, financially and managerially;
- Mobilize domestic savings;
- Increase budgetary resources of the Government; and,
- Enhance and expand employment opportunities.

The guiding principles for the conduct of the privatization program are meant to include: (i) rigorous and objective analysis of the privatization portfolio and individual enterprises; (ii) transparency in implementation of the privatization program and process; and, (iii) safeguarding the national interest.

The policy statement is a clear attempt to address many of the criticisms directed towards the earlier privatization program, which also reconfirms the Government's determination to divest

[2] This was later modified to include between 21 and 22 enterprises.

itself of both profitable and loss making PEs. The main motivation for divesting loss making PEs is the immediate budgetary concern. Once these PEs are transferred to the private sector, even for a nominal amount, the burden on the budget is removed. A less important budgetary consideration is the possibility of generating resources by selling profitable PEs that have a positive net worth.

A second motivation is the desire to reduce the size of the PE sector in order to increase the market responsiveness of the Ivoirian economy. Many of these enterprises do not produce goods in which the country has a comparative advantage, and most of them are poorly managed and inadequately sensitive to market forces. This, combined with the fact that most PEs are undercapitalized which precludes them from making necessary technological and marketing investments, argues in favor of increased private financial and managerial participation. Lastly, the Government believes that privatization will also revive private-sector confidence in the Ivoirian economy.

It is clear that privatization has now become an important policy tool of the Government, and that no legal restrictions are imposed on the scope of the program, the origins of investors, or the sectors or enterprises to be privatized. The privatization program "on paper" is one of the most pragmatic in Africa. There is no negative list or set of "strategic" industries reserved for the public sector. The full range of companies are candidates for privatization -- from large monopolies through to small enterprises.

However, certain aspects of the genesis of the program must be borne in mind when interpreting the intent of the policy and the prospects for the program's success.

- The current privatization program was prompted in part by the donors, and is wholly embraced by only a handful of senior government officials. The severe economic crisis faced by Côte d'Ivoire in the late 1980s forced the Government to negotiate for financial assistance and a reform program from the World Bank and IMF. Thus, the Government had little option but to accept the privatization program as a part of a broader set of reforms.

- The motivation for privatization is mainly to stop the financial hemorrhaging represented by continued State support of PEs. Very few members of government wholly support the philosophy of a full market economy or the notion that private ownership and/or management will necessarily improve national economic performance. In addition, the country is still more in a period of macro-economic stabilization than fundamental structural adjustment. Accordingly, reducing the fiscal burden is arguably the appropriate primary short-term goal of the privatization program.

- The privatization program's success is dependent upon other reforms being undertaken, particularly if the non-fiscal objectives of the privatization program are to be achieved. The program is part of the Medium-Term Economic Framework (MTF) aimed at rehabilitating public finance and improving competitiveness, as well as increasing private

investment, creating national private shareholding, and, eventually, establishing conditions for the development of a capital market within the West African Monetary Union. These reforms are embodied in two other complementary programs: (i) the Program for Structural Adjustment and Competitiveness (PASCO); and, (ii) the Financial Sector Adjustment program. These reforms will take many years to put in place. Thus, only modest advances in achieving the non-financial objectives of the privatization program can reasonably be expected in the near-term (next 2 to 4 years).

- Privatization has become politicized at the most senior levels of government. This implies, among other things, that while a coherent privatization strategy and policy have been articulated, it can be expected that implementation will be slow and/or uneven.

These issues are explored in further detail in Chapters 3 and 4.

2.2.2 Institutional, Procedural and Legal Framework for Privatization

The Committee for Privatization and Restructuring of the Para-Public Sector (PC), which reports to the Prime Minister's Office, assisted the Government in formulating the current privatization policy and has overall responsibility for implementing the privatization program. The PC has a broad membership (see Table 2-1 below) including senior Ministry officials and members of the private sector, and is headed by the chief economic advisor to the Prime Minister.

The Committee meets once a week and is responsible for the following:

- Selects enterprises for privatization and restructuring;
- Develops Terms of Reference for enterprise audits and valuation studies;
- Reviews the work of consultants;
- Formulates the strategy and mode of privatization and restructuring of each enterprise;
- Prepares and disseminates prospectuses and bidding documents; and,
- Reviews bids and negotiates the final sale of the enterprise.

Table 2-1
Membership of Privatization Committee

1.	BROU Jean-Claude: President (Cabinet of the Prime Minister)	7.	SEREY Eiffel: Direction et Controle des Grands Travaux
2.	DANHO Lucas: Vice-President (Head of Technical Unit)	8.	KOREKI Paul: Abidjan Stock Exchange
3.	YAO ELOGNE Francis: Ministerial Designate from the Prime Minister in charge of Economics, Finance, and Planning	9.	THIAM Aziz: CCGA
		10.	DIARRA Seydou: SACO/CHOCODI
4.	VANGAH Abel: Ministry of Agriculture and Animal Resources	11.	MAGNE Pierre: SITAB
5.	SORO Nagolo: Ministry of Industry and Commerce	12.	COULIBALY Lacina: EVEREADY
6.	KOUAME Victor: Caisse Autonome d'Amortissement	13.	N'GOAN Georges: Legal Counsel

The Committee is supported by a Technical Unit (Cellule Technique -- CT), which carries out the necessary analyses and preparatory work for each divestiture. The CT is headed by the Vice President of the Privatization Committee and is currently staffed by 6 to 8 professionals. Much of the auditing, valuation and divestiture strategy formulation work is contracted out by the CT to consulting firms (mainly the major accounting firms) and to the Direction et Controle des Grands Travaux (DCGTx).[3] The Technical Unit reports its findings to the Privatization Committee. A sale price and divestiture strategy is recommended to the Prime Minister by the Privatization Committee, once they have been screened by the Ministry of Finance.

The above institutional framework is legally authorized in Decree No. 90-1610 of 28 December 1990, which sets out the legal authorization of the current privatization program (see Annex 5). In addition to establishing the institutional framework for executing the privatization program (that is, formally establishing the Privatization Committee and Technical Unit), it also defines the process to be followed for privatization and authorizes various forms of divestiture.

[3] This is a government entity which, among other activities, conducts technical and financial studies and evaluations. It is involved in a wide range of activities related to the privatization program, including drafting study terms of reference, conducting valuation and privatization studies, and reviewing the results of studies conducted by other organizations.

Reflecting the long history of parastatal reform in Côte d'Ivoire, there are other statutory provisions which relate to the current privatization program dating back to 1962 (e.g., law on State-Owned Enterprises, and law on State Representation within Joint-Stock Companies in which the State has a financial interest). These provisions were amended by a law in November 1970, establishing the status of companies in which the Government has a financial interest, and subsequently by a 1975 decree laying down the rules for supervision and management of the parapublic sector. New regulations were issued in 1980 and 1983. The law distinguishes primarily between EPNs, SEs and SEMs, which are governed by different rules depending of their form of organization and the degree of Government ownership. SEs and SEMs are now largely covered under the 1990 decree. However, earlier provisions need to be consulted for the legal transformation and subsequent privatization of EPNs.

The 1990 decree identifies a range of privatization techniques which are allowed. These include:

- Full or partial sale of government assets;
- Full or partial sale of government shares;
- Sale of component businesses;
- Sale of shares to employees;
- Mergers and joint ventures;
- Liquidation;
- Management contracts and concessions; and,
- Leasing and lease-purchase of assets.

While this range of privatization methods appears comprehensive enough, the privatization law and related decrees provide limited further details or parameters.

2.2.3 Portfolio of Enterprises for Privatization

The new privatization program envisages privatizing about 80 of the 140 public enterprises which existed at the end of 1990. These 80 enterprises represent nearly $800 million[4] of government capital participation, measured in terms of book value in 1990 (see Table 2-2 below).

[4] Equivalent to about F CFA 200 billion.

The program has been divided into two phases. The first, which started in 1990, covers the 22 enterprises listed in Table 2-3. Of these 22 enterprises, four have been privatized: CEIB (livestock), CEDA (publications), BINEA (publications), and the vacation resorts at Assinie and Assouinde (these individual cases are reviewed in more detail in Chapter 4). By the end of 1992, or the end of the first quarter of 1993 at the latest, the PC intends to submit to the Government it's recommendations on divestiture strategies and conditions of sale for the remaining Phase I majority-owned enterprises, with the exception of PALMINDUSTRIE (palm sector) and ONT/CI-TELCOM (telecommunications). If projected dates of actual sale are to be met then government will have to approve the PC's recommendations quickly, and potential buyers will also have to be forthcoming quickly.

Table 2-2

Degree of State Participation	Number of Enterprises	Amount of State-Owned Capital (Millions of F CFA)
Minority Share	43	9,103
Majority Share in a SEM	19	45,368
State-Owned Enterprise	4	95,996
	66	150,467
EPN/EPIC*	6	47,129
Banks	7	11,048
TOTAL	79	208,644

* EPIC = Etablissement Public a Caractere Industriel et Commercial

The PALMINDUSTRIE divestiture is being delayed over disagreements regarding the divestiture strategy (sell the enterprise in one package or divide it into separate businesses), and conditions of sale (what social service and infrastructure maintenance obligations will be retained by the purchaser). The delays with respect to ONT/CI have to do with national laws and regulations relating to telecommunications, as well as procedural difficulties in executing the necessary pre-divestiture studies. Both of these cases are complex and are reviewed in further detail in Chapter 4.

Privatization of the 11 Phase I SEMs is progressing more slowly. Technical and valuation studies are currently under way for each of these firms. The PC expects the preparatory work for nine of the eleven firms to be completed by the end of 1992 or early 1993, and the sales to be finalized in the third quarter of 1993. The two Phase I SEMs for which delays in preparatory work is being experienced are Peche et Froid (fish processing) and SIR (petroleum). The technical study for Peche et Froid is behind schedule. The valuation and privatization studies for SIR (the largest company scheduled for privatization in Phase I, measured in terms of 1989 sale revenue) are scheduled for the first quarter of 1993, allowing the Government to benefit

TABLE 2-3

PHASE I: COMPANIES FOR PRIVATIZATION

Company Name	Sector	Capital (Millions of F CFA)	Government Ownership (Share of Capital)	Sales Revenue – 1989 (Millions of F CFA)	Projected Date of Sale
1. CEIB	Livestock	182	100.0%	N/A	Sold
2. CEDA	Publications	132	60.0%	N/A	Sold
3. BINEA	Publications	N/A	Majority	N/A	Sold
4. Villages Vacances	Tourism Resorts	N/A	N/A	N/A	Sold
5. PALMINDUSTRIE	Palm	34,000	100.0%	45,574	5/93
6. HOTEL IVOIRE	Hotel	8,250	100.0%	6,615	9/93
7. ONT	Telecommunications	EPN	100.0%	40,000	9/93
8. Office des Semences	Seeds Production	EPIC	100.0%	N/A	5/93
9. SAPH	Rubber	13,884	95.0%	9,915	5/93
10. SOGB	Rubber	21,601	60.0%	13,263	5/93
11. SICOR	Coconuts	500	51.0%	2,554	1994
12. SIBP	Petroleum	511	50.0%	40,198	7/93
13. SHELL-CI	Petroleum	1,800	50.0%	47,813	7/93
14. SIFAL	Lubricants/Petroleum	N/A	N/A	N/A	7/93
15. SIR	Petroleum	31,000	48.0%	157,983	N/A
16. SICABLE	Cables	555	35.0%	2,932	7/93
17. FILTISAC	Sack/Bag Production	1,190	25.0%	10,185	8/93
18. CAPRAL	Food Products	3,600	24.0%	27,797	7/93
19. PFCI	Fish Products	250	18.0%	15,421	N/A
20. IPS-CI	Industrial Promotion	800	15.0%	640	8/93
21. COSMIVOIRE	Cosmetics	702	13.0%	7,529	7/93
22. NOVALIM	Confectionary	2,600	12.0%	20,044	8/93

Source: Cellule Technique and various reports.

from the experience of privatizing the other smaller petroleum sector SEMs such as BP-CI, SHELL-CI, and SIFAL.

Privatization of the SEMs is a different proposition for the Government than for public enterprises in which the Government has a majority shareholding. For SEMs the Government's objective in privatizing them is solely to raise revenue through the sale of shares -- either through private transactions or public offerings. The management of these companies are already predominantly private and Government has invested relatively little new capital in these corporations in recent years. Thus, other motivations for privatization, which include revitalizing management and stemming fiscal hemorrhaging, are not germane in these cases.

The Government may have felt that these companies would be relatively easy to privatize as many are profitable and are perceived to be more marketable due to their well-known management by prominent multinational firms, such as Nestle and BP. This is largely true. However, it is not certain when the final transactions for some firms will be completed because: (i) negotiations will be required with some private shareholders who have rights of first refusal; (ii) marketing strategies have not yet been finalized; and, (iii) purchasers of the shares may be more difficult to find than first thought because: (a) a corporate investor will gain little managerial control through buying the government's minority share; and (b) the Stock Exchange is not very efficient in executing public offerings targeted at a broader sector of the populace with unknown financial resources.

Phase II of the privatization program is likely to cover the enterprises listed in Annex VI. Phase II originally called for privatization of 32 companies, with at least 8 firms to be privatized in 1993 and another 8 in 1994. However, the sale of some of these firms is moving ahead of schedule. In addition, several PEs have been added to, and others deleted from, the list. The list in practical terms is not yet finalized, but is likely to include between 35 and 38 enterprises. The request for bids has been completed for the SEREBOU agro-industrial complex, and valuation studies have been completed for the MARABADIASSA and SIMEMATIALI complexes. These three enterprises are expected to be privatized in 1993. In addition, the process for privatizing SICF, the joint-owned railroad operating between Côte d'Ivoire and Burkina Faso, has been accelerated, and bid documents have already been issued. Finally, privatization of GESTOCI, the petroleum storage company, and SMB, which produces asphalt, are also expected in 1993.

Thus, in terms of the pace of privatizing companies, the program seems to be progressing moderately well. While only four enterprises have been privatized during the first two years of the program, this low rate may be explained by the time required to set up the institutional framework for privatization and to achieve its smooth functioning. It appears that between one and two dozen companies are poised to be brought to the point of sale in the next 6 to 9

months.[5] These include most of the Phase I enterprises, and at least 6 Phase II companies (Phase II targets 8 privatizations in 1993). If this actually happens and the momentum continues, then the program can be said to be advancing at a reasonably quick pace.

However, when the quality of privatization is considered, the outlook is less certain. The four privatizations to date have been quite small, and have mainly involved selling government's share of an enterprise to an existing foreign partner in the company. The prospects for mobilizing domestic resources from the corporate or institutional sectors, or for widespread ownership by the populace are not promising. Most indications are that well entrenched French commercial interests, sometimes in association with a local partner, are the most likely groups to benefit from the larger envisaged privatizations. In addition, the overall economic and business climate is not overly favorable to privatization. These issues are addressed in further detail in Chapters 3 and 4.

2.3 Donor Assistance for the Privatization Program

The main donor providing significant assistance directly to the privatization program is the World Bank. The World Bank project is the three-year, $US 15 million "Privatization Support Project", which became effective in mid-1992. These IDA funds are supplemented by a $US 2.7 million contribution by the Government of Côte d'Ivoire.

The project is designed to finance: (i) general institutional support to the government entities in charge of the privatization program (that is, the Committee and Technical Unit); and, (ii) a total of about 400 person-months of consulting services for the preparation and implementation of privatization plans, including advisory services to give technical advice on sales strategy, valuation, financial engineering, legal issues, etc. Some limited assistance will also be provided under the project to develop national expertise in new debt reduction and restructuring techniques -- the Government is considering the possibility of embarking on some debt/equity swap operations. In addition, some limited assistance is contemplated for the Abidjan stock exchange which is scheduled to be involved in the privatization program.

Apart from the World Bank, few other donors are providing direct support to the current privatization effort. The Japanese provided a grant of 3.0 million dollars in support of the privatization program in its early years. These funds were administered by the World Bank and GOCI. In addition, the Caisse Francaise de Development (formerly the Caisse Centrale) is providing some funds to study restructuring options for the railroad (SICF), and CIDA provided $0.5 million for telecommunications industry-related studies. Finally, USAID has provided limited funds for the training of a handful of officials in privatization-related topics.

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[5] The Government defines "point of sale" as the time at which bid or tender documents are issued. Obviously, it can take many months to find a suitable buyer and to complete the transaction. Thus, it may be another year to 18 months before the next dozen or so actual transactions are completed.

CHAPTER 3

PRIVATIZATION ENVIRONMENT

The current privatization program in Côte d'Ivoire takes place in the context of an economy t hat, since the early 1980s, has experienced a spectacular decline in aggregate and per capita GDP, a massive increase in public external debt, a significant deterioration in terms of trade and world prices for its principal exports, and a cost structure in both industry and agriculture that has rendered the country increasingly uncompetitive in world markets. The current privatization program, moreover, occurs in the wake of an earlier privatization initiative, undertaken between 1980 and 1988, which was characterized by a relatively closed and ad hoc process. While Government has set up an institutional structure and procedures designed to avoid the mistakes of the earlier privatization initiatives, this effort, so far, appears to have been only partly successful.

The current privatization program is motivated by a number of factors, of which the three m ost influential are: 1) Government's wish to raise as much cash as possible through sale of state-owned assets; 2) Government's need to reduce the drain on public funds represented by loss-making public enterprises; and, 3) prompting from donors, especially the World Bank. Fro m the point of view of the Government of Côte d'Ivoire (GOCI), the principle motivation is t o reduce the drain on the public purse and to raise cash through sale of assets. While there i s some recognition on the part of some high officials that the principle of state ownership and operation of productive enterprises is fundamentally flawed, this notion has not yet gained wi de acceptance. Although Côte d'Ivoire has long been considered one of the most market-oriented economies in Africa, for most of its history the country has practiced a form of "stat e capitalism," in which the government has played a leading role in investment and ownership in productive enterprises and in major strategic decisions, while abstaining largely from involvement in their day-to-day operations. State intervention in, and control of, the productive economy has a long heritage in Côte d'Ivoire, a result of the French "dirigiste" tradition and the post-independence view of state control and ownership as a way to safeguard the national interest. Consequently, although there is little resistance to the idea that government should disengage itself from active management of companies in the productive sector, there is substantial debate over the details of the privatization program as a whole and, in particular, over the question of the sale of assets belonging to the State. The concept of "national patrimony" is one to which many groups in Côte d'Ivoire remain attached, and which has generated substantial resistance to complete privatization of many of the more prominent local companies.

Although Côte d'Ivoire has a business and economic climate that is more conducive to privatization than that of many other African countries, significant environmental constraints persist that could seriously jeopardize the privatization program's potential for success.

3.1 Legal/Regulatory Environment

Under the "Programme d'Ajustement Compétitivité" (PASCO), which is financed by the World Bank, the Government of Côte d'Ivoire (GOCI) is undertaking important reforms aimed at improving the overall competitiveness of the Ivoirian economy. These measures include:

- Reducing the public sector work force and government budget deficits
- Creating an environment more favorable to exports
- Liberalizing the labor laws and the labor market
- Making the tax and customs regimes more neutral and less distortionary
- Improving tax collection while reducing overall tax and tariff rates
- Liberalizing the investment code and the application of investment incentives.

While all of these measures potentially have important consequences for the success of the privatization program, it is the labor code and investment code reforms that are likely to have the most important immediate effects. These reforms, however, are far from being fully implemented (the Investment and Labor Codes are reviewed in detail in section 3.4).

Current practice, as applied to private sector investments of all kinds, both within and outside the context of the privatization program, is to judge each investment on an individual basis. Therefore, while the investment code contains no restrictions on foreign ownership, it is possible for such restrictions to be applied in individual cases, as has occurred in most of the privatizations to date. In the privatization of two schoolbook publishers, in an industry considered strategically important, the foreign shareholding was kept below 50 percent, and the State continued to maintain a 20 percent stake. Similarly, although the Labor Code has been liberalized to permit reductions in work force for economic reasons, the practice of judging each case individually remains. In the privatization of the Complexe d'Exploitation Industrielle du Bétail (CEIB), for example, the newly privatized company appears to have undertaken not to reduce the work force significantly.

While the expressed intention of GOCI is to move towards a more neutral and generally applicable system of regulation, until this happens the privatization process will tend to be dominated by those companies which are particularly adept at operating under the old case by case system.

3.2 Economic Environment

The overall economic environment in Côte d'Ivoire is not, on balance, conducive to privatization. Major economic problems include:

- World prices for Côte d'Ivoire's primary exports that have been in decline for the past decade.

- Changes in consumption patterns in industrialized countries (e.g., health concerns about palm oil, restructuring in auto and tire industries affecting rubber markets) that make i t questionable whether Côte d'Ivoire can regain its export markets even with an improved cost structure and an end to recession in major importing countries.
- Overvaluation of the CFA franc, rendering any potential export industries uncompetitive.
- Uncertainty relative to an eventual devaluation of the CFA franc, causing potential investors to hesitate.
- A general lack of confidence in the economy that has led to a critical shortage of liquidity.
- Exceptionally high tariffs, which are not uniformly applied.
- Substantial arrears in payment of export incentives, which themselves are meant to overcome the many structural disincentives to export.
- A high level of concentration in most industries, leading to monopolistic pricing and rent-seeking.
- Excessively high factor costs, including labor, electricity, telecommunications and transport.

While all of these constitute significant impediments to the success of the privatization, perha ps the most important may be the overvaluation of the CFA franc. As a result of overvaluation, factor costs are exceptionally high. The average industrial wage is F CFA 1.9 million per ye ar (nearly $8000),[6] some four times the average wage in Ghana and Nigeria, while productivity remains low. In addition, significant distortions persist. For example, the producer prices paid for palm oil in Côte d'Ivoire are more than double world market prices. Except insofar as palm oil production may be oriented towards import substitution and manufacture of refined oil products for the domestic market, the palm oil industry will be difficult to privatize. Other economic distortions include import tariffs that may be higher for intermediate than for finished goods, which may discourage domestic manufacturing and, hence, constitute a disincentive to investment.

These economic constraints will tend to limit the number and kind of private operators willing to invest in privatization in Côte d'Ivoire. Few companies, apart from those already operating in the CFA zone which will have local funds available for investment, will have much interest in undertaking fixed investments in such a climate. This will restrict the potential investors to a handful of local and foreign (mainly French) companies with a long history of doing business in Côte d'Ivoire and a determination to maintain a strategic presence there in expectation of an eventual economic recovery. The relative lack of inducements to invest will also dictate the method of privatization for many companies. Instead of an outright sale of entire companies to private operators, it is likely that many companies will be privatized through some form of management contract or lease/concession arrangement involving relatively low levels of fixed investment by the private operator (some specific examples of transactions based on this model are reviewed in Chapter 4).

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[6] The World Bank, "Competitiveness and Regulatory Reform Adjustment Program," 1991.

3.3 The Role of Foreign Investors

In both legal and practical terms, the privatization process is as open to foreign companies and individuals as it is to Ivoirians. As discussed above, GOCI's stated motives for pursuing privatization are, primarily, 1) the critical need to end the drain imposed by state-owned enterprises on the public purse, and, 2) the desire to maximize revenues from sale of state holdings. It is far from clear, however, that these considerations are paramount in practice. Chapter 4 discusses many instances in which procedures have been followed that have restricted the number of potential investors or operators, which may be assumed to have resulted in a lower price paid to GOCI. GOCI does, nonetheless, recognize that the management of many of the companies to be privatized will have to be replaced if those companies are to become viable as private enterprises. The record of the previous management of these companies has demonstrated that government bureaucrats are ill-equipped to run productive enterprises. Given that relatively few Ivoirian companies in the private sector possess the technical or financial resources to take over the management of many of these companies, the process has explicitly been opened to foreign investors.

Many of the planned or completed privatizations involving foreign investment have been, or are likely to be, relatively uncomplicated and uncontroversial. This is especially true for a large number of companies in which foreign companies already participate in management and as minority or majority shareholders. In many such cases the foreign companies have rights of first refusal in the event that Government sells its shares. Even where this is not the case, the existing foreign partner is usually the natural candidate to buy Government's stake. Several privatizations that have already taken place demonstrate this. In the case of two schoolbook publishers the State, which held a majority of the shares, sold a larger share to French and Canadian companies that already were involved as minority shareholders and which played an active management role. In one case, this transfer was effected through a negotiated sale; in the other, a tender offer was issued to which two companies responded. Because government regards schoolbook publishing as a "strategic" industry, foreign shareholdings in each case were limited to 49 percent, the State keeping 20 percent and the remainder sold to private Ivoirian shareholders. Because few Ivoirians currently have the means to buy shares, the State has kept a portion of these shares, reserved for sale to private Ivoirians, in trust until such time as economic conditions improve. While neither of these examples constitutes a complete privatization, in each case Government reduced its direct shareholding from more than 50 percent to 20 percent.

In the privatization of Villages-Vacances Assinie et Assouindé, the State, which owned the entire company, sold its entire interest to Club Méditéranée, which until then had managed the resorts without any direct equity participation. Again, this was a negotiated sale, which included undertakings by Club Med to invest significant amounts in the physical infrastructure, in addition to the negotiated purchase price.

In the privatization of Complexe d'Exploitation Industrielle du Bétail (CEIB), a wholly government-owned livestock company, government sold its shares to a consortium which

included two foreign groups: Commonwealth Development Corporation (CDC), which purchased a 40 percent stake, and a Belgian company, Jules Van Lancker, S.A., which took a 15 percent stake.

At least 10 other companies, which are known as Sociétés d'Economie Mixte (SEM), in which the State holds a minority stake, are scheduled for privatization. Most of these are managed and majority owned by foreign companies. They include two companies in which Nestlé owns a majority stake, BP CI, Shell CI, a cosmetics company, an agro-industrial company, and several other companies in the industrial, petroleum and services sectors. While government has announced that it intends to undertake full valuation studies and to issue tender offers for these companies, most of them will end up in the hands of the foreign groups which already own a significant share in them and which manage them, directly or indirectly. Indeed, it is difficult to envisage circumstances in which a private company would bid for or buy a minority shareholding in a company controlled by a competitor, and over whose operations they are unlikely to exercise any control. It is likely, however, that government will try to ensure that at least a portion of its shares be offered to the general public, most likely through a stock issue on the Abidjan Bourse. It is equally likely that many of the foreign operators of these companies will willingly accede to such demands as a way to defuse any potential criticism that control of the economy is being turned over wholesale to foreign interests.

Far more difficult to privatize are the large agro-industrial complexes (rubber and palm plantations), upon which whole regions of the country depend for their livelihood and whose privatization is complicated by a host of factors, including distorted producer prices and the wide range of social services such as hospitals, schools and roads that these companies provide in the areas where they are active. Only a few foreign companies are likely to be willing to accept responsibility for providing these sorts of services. Except for instances where they can be assured a domestic monopoly, protection from imports or a very favorable sales price and terms of trade, few foreign investors are likely to have interest in acquiring companies oriented towards the domestic market.[7]

Large industries such as electricity, railways and telecommunications, which provide essential services, are also difficult and complex to privatize.[8] In these industries, as was the case earlier when the water company was privatized, government has tacitly recognized that only foreign investors are likely to have the technical, managerial and financial capacity to operate these companies. There is, however, a strong resistance to the notion that the "national patrimony" might be sold to foreigners. While there is no substantive reason why this should be so, the reaction is similar to that which, in the United States, greeted the sale of Rockefeller Center to Japanese investors. At the same time, given the economic and political uncertainties facing Côte

[7] If government lowers its asking price sufficiently, some investors will become interested.

[8] The electricity company was privatized in 1990 through a concession agreement (see Chapter 4). Bid documents for the railway were issued in December 1992, and the appropriate modality for privatizing telecommunications is still under study.

d'Ivoire, it is not at all clear that foreign companies would have much interest in purchasing the physical assets of a telephone or electric company or a railroad given that alternatives exist in practice. Indeed, even without purchasing the physical assets, few foreign investors would be likely to have much interest unless a monopoly and a favorable pricing regulatory regime were guaranteed in advance. The solution, which seems to have met the needs of both government and prospective foreign investors, has been to separate these companies into two entities. One, which remains in State hands, retains ownership of the physical assets. The other, known in French as a "société d'exploitation," receives a concession to operate the physical assets and to provide the services. Although the exact details of the CIE (electricity) privatization have not been publicized, and the formulas to be used for SICF (railway) and the telephone company have not yet been specified, the concession agreements are believed to comprise a fixed lease fee paid by the private operator for use of the physical assets, which is supplemented by a fee based on revenue or profit. Other covenants govern the responsibility and authority for investment decisions and the methods of financing capital expenditures and maintenance and repair activities.

The terms of the privatization of CIE basically guaranteed the foreign investors a certain level of profit and substantially reduced the down-side risk for the investor due to the manner in which pricing and investment formulas were structured. This agreement is cited as one of the principal factors ensuring that Côte d'Ivoire will continue to have electricity tariffs that are very expensive by world standards. This, however, is less an indictment of the basic framework for privatization of CIE and other companies providing essential services than it is a criticism of the specific agreement between GOCI and the investors, and of the process by which that agreement was negotiated. It does demonstrate the difficulty of designing a process that will remove people with vested personal interests from any influence over the outcome of a particular transaction. However, whatever the faults of the way in which CIE was privatized, the mere fact that foreign investors played a significant role should not be cause for criticism.

3.4 Privatization Incentives

3.4.1 Investment Code

The Investment Code guarantees foreign investors equal treatment to that accorded to Ivoirians. No provision of the legislation or decrees governing the privatization program alters this guarantee. In principle, and as has occurred in practice in at least one instance to date, foreign companies may be allowed to purchase 100 percent of any company to be privatized.

The Investment Code also offers numerous incentives to foreign and domestic investors. These include:

- Exemptions from all or a portion of customs duties and taxes on imported materials, plant and equipment for a specified period (usually 7 to 11 years)
- Exemptions from all or a portion of industrial and trading profit taxes, license contributions and property tax, also for a specified period

- Exemptions from Value Added Tax on exports
- Duty exemptions or duty drawbacks applicable to imported raw materials used in goods destined for export
- Domestic value added subsidies based on wages paid to Ivoirian staff
- Export bonuses.

Investment approvals and the granting of incentives are, however, subject to a lengthy and somewhat arbitrary review process, as well as certain restrictive covenants governing level of employment of Ivoirians, use of domestically-produced materials, and required level of investment. Investment applications are subject to technical review by the Ministry of Industry (or, for agricultural or tourism investments, the responsible ministry), subsequent review and approval by an interministerial committee, and final approval by the Cabinet. Each of the incentive and exemption regimes is subject to a similar, but separate, approval procedure. As a result, no uniform regulations, incentives, benefits or requirements can be said to apply equally to all investments. Potential investors cannot examine the existing laws and regulations to determine in advance whether their application will be approved. This lack of a uniform and transparent investment regime tends to restrict potential investors to those companies with a history of doing business in Côte d'Ivoire, which know how to navigate their way through a complicated and opaque process.

3.4.2 Labor Legislation

Côte d'Ivoire has historically operated under a strict labor law, requiring that all companies hire workers through the Government's Office de Main d'Oeuvre de Côte d'Ivoire (OMOCI), which has a monopoly on recruitment of laborers and on negotiating the terms of their employment. Recently this restriction has been relaxed. However, other legislation, governing the right of management to terminate workers, so far remains unchanged. Among the most onerous provisions of the Labor Code is the stipulation that, after 90 days of employment, an employee is considered "permanent" and can be terminated only with great difficulty. Recently, in recognition of the desperate condition of many companies, GOCI liberalized the law pertaining to termination of workers for economic reasons. For the first time, companies can reduce their workforce in response to adverse economic or business conditions. The procedure, although easier than before, remains subject to many restrictions and must be reviewed and approved by labor inspectors, in addition to comprising significant indemnity payments to workers who are terminated.

3.4.3 Debt Assumption

The government-guaranteed debt undertaken on behalf of state-owned companies is also an unresolved issue, which is further complicated by the multiplicity of valuation methods that may be used. The attitude of government in most cases is that debt undertaken on behalf of specific companies should remain a part of the portfolio of assets and liabilities that make up the company being privatized. However, in the case where the debt burden renders the net value of the company negative, government is unwilling to give away the assets for free. In such

cases government is inclined to value the company on the basis of expected future revenues discounted to present value. However, when a company has made significant losses over an extended period, it may be difficult to arrive at an appropriate positive value.

Other formulas can be devised that avoid setting a purchase price at the outset. These provide for a private operator to work on a management contract until such time as the company returns to profitability, at which time a pre-agreed valuation formula can be applied (a formula of this sort was used in the CEIB privatization, and is discussed in detail in Chapter 4). However, this approach is not entirely without difficulties.

3.4.4 Other Incentive Issues

Many of the companies to be privatized, notably the large agro-industrial complexes, operate a wide range of social services that are not central to their commercial operations but which remain, nonetheless, critical elements of the social and physical infrastructure of the rural areas in which they are located. Hospitals, schools, roads and housing are among the activities that these companies have undertaken that may constitute a burden and a potential disincentive to any private operator. Government appears not to have addressed these issues in any meaningful way, although the delay in preparation of the technical evaluation of Palmindustrie may be due, in part, to consideration of these questions. These issues are examined in detail, with respect to Palmindustrie and other agro-industrial enterprises, in Chapter 4.

Other issues include contractual guarantees of new investment in the event that substantial new investment is required, and whether it is government or the private operator that will be responsible for investment decisions and hold title to the newly-acquired assets. This is of particular concern in the privatization of companies such as the electric company, the railway, and the telephone company, in which the State retains ownership of the fixed assets while a private company takes over the management and operation of the assets under a management contract, lease, or lease-purchase agreement.

3.5 Governance Issues

3.5.1 Rules of the Game

The current privatization program appears to have been organized in such a way as to avoid the abuses that occurred in privatizations in the early and mid 1980s, which were governed by no overall strategy and was carried out, not by a single body with centralized responsibility and authority, but on an ad hoc basis. In contrast, the current program is overseen by a Privatization Committee (P.C.), whose President reports directly to the Prime Minister. Committee membership is meant to give representation to various government, parastatal and private sector entities, including the Ministries of Finance, Agriculture and Commerce/Industry; the Abidjan Bourse; the Caisse Autonome d'Amortissement, which is responsible for management of the

public debt; Direction et Contrôle des Grands Travaux, the government's technical consulting department; the conseil Juridique; and several public, mixed and private sector enterprises.

Reporting directly to the P.C. is the Cellule Technique, or technical unit, which is responsible for conducting and supervising all of the studies and evaluations necessary for each company restructuring or privatization, and for recommending to the committee the optimal form of privatization, including the target price for the enterprise to be sold.

The legal basis for the privatization program is the Presidential Decree No. 90-1610 of December 28, 1990, which authorizes the transfer of state holdings in productive enterprises to private individuals or companies. This Decre(also created the P.C. and the Cellule Technique, defining their responsibilities and placing them under the authority of the Prime Minister. The Prime Ministerial Order No. 002 of June 3, 1991, subsequently modified by Order No. 003 of April 7, 1992, named the members of the P.C.

The recommendations of the P.C. are subject to approval by the Prime Minister. All agreements for sale or other disposition of assets belonging to the State are signed by the Minister of Economy, Finance and Plan, subject to the Prime Minister's approval.

The legal basis for the program, and the rules by which it is meant to operate, are clear. By a variety of means, including the monthly newsletter issued by the Prime Minister's Office, televised addresses by the Prime Minister, and public pronouncements by other officials involved in the program, information on the program, its goals, procedures, and authorities, have been fairly widely disseminated in Côte d'Ivoire. There persists, however, a significant gap between the rules of the game as they are officially promulgated and the rules of the game as applied in practice. Although the rationale, guidelines and procedures for the overall program may be widely known and understood, information "ex poste" on individual privatization transactions has been scarce and often confusing. The lack of information being disseminated on individual privatizations once they have occurred, often leads to speculation that either the process was not followed exactly as set out and/or that an overly favorable deal to a vested interest group was struck.

These continuing suspicions were aroused recently when a tender announcement for privatization of the national railway (SICF) appeared in the newspapers. This company, which appeared only on the list of Phase II companies to be privatized, in late 1993 and early 1994, was suddenly advanced to the head of the queue. While there had been some earlier discussion in the newspapers of plans to privatize the railway in general, and while there were plausible reasons for advancing the schedule,[9] the tender announcement on its date of issue was unexpected. Out of the public discussion of the issues surrounding privatization, and the only indication that the schedule had been advanced, had taken place in Burkina Faso, while the Ivoirian public and potential local investors remained largely uninformed. With a six-week deadline for

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SICF operates jointly with the Burkina Faso railways, SBCF. Massive losses by SBCF led the Burkina government to request that the privatization be accelerated.

BEST AVAILABLE DOCUMENT

responses to the tender offer, only a few companies are in a position to respond with a well-informed bid. Companies that had already been in protracted discussions with SICF and GOCI on the railway are in a very advantageous position. This will limit the openness and fairness of the process.

The hurried privatization of the electricity company in 1990 similarly contravened the established rules and procedures.[10] As the largest privatization to have taken place so far, it has generated significant opposition to the overall program because of the way in which it was conducted, even though the basic privatization agreement was concluded before the start of the current program. As was the case with SICF, there were persuasive reasons to privatize the electric company, Energie Electrique de Côte d'Ivoire (EECI), the most important of which were the company's disastrous financial condition and the fear that unless drastic measures were taken the company might no longer be able to ensure reliable electric power to the country. A new, private sector company, Compagnie Ivoirienne d'Electricité (CIE) was created to operate the power generation and distribution segments, using the physical plant belonging to EECI. A majority share and operational control of CIE was ceded to a private group led by a French company, in a process that was completely opaque and which gave rise to accusations of payoffs. This company, which runs the water company, SODECI, and which has close ties to senior members of government, was already a significant presence in Côte d'Ivoire. Although electricity supply has become more reliable, Côte d'Ivoire has among the highest power costs in the world, which has important effects on the country's potential to compete internationally. The lack of transparency and the widespread belief that powerful insiders are not subject to the same rules as everyone else has heightened the need for an open process.

3.5.2 Political Environment

Privatization has become a political issue, both within government and as a point of conflict between the government and opposition parties. Increased freedom of expression and political activity have made privatization more difficult than it might have been under a one-party system. The press and the general public increasingly demand more accountability in the privatization process, and are quick to denounce what they perceive as unfair practices.

Philosophically there continues to be substantial debate over the justification for privatization. While few on the left or the right would dispute that drastic reforms are required in the way state enterprises are managed, many are not convinced that selling off what is seen as the "national patrimony" is the only way to achieve better management and greater efficiency of operation.

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[10] The privatization of the electricity company is not officially part of the current privatization program. In fact, experience gained in privatizing CIE may have acted as a catalyst to the emphasis on transparency in the current program.

Within government and the ruling party significant divergences of opinion exist between the Prime Minister's Office and the National Assembly regarding privatization. The ability of the government to adhere to the ambitious privatization program and schedule will be heavily influenced by the future political support base for the Prime Minister and his associates. Several factors in the support base for the privatization program are cause for concern.

- The principal architects of the privatization program have spent much of their careers overseas, have only recently returned to Côte d'Ivoire, and by virtue of their relative newness on the scene, may lack the political clout and connections to maintain the momentum of the privatization program.
- The austerity and reduced standards of living resulting from the last two years of economic reform have weakened the popular support base for the Prime Minister's office and its technocrats, who are the ones most closely associated with the reform program.
- The National Assembly is critical of the privatization program and announced it will conduct an open debate on the subject in January, 1993. It has also proposed that each individual transaction be subject to debate and approval by the Assembly. This open criticism of the program, combined with the possible weakening of support for the Prime Minister's office, has led to speculation on the privatization program's future.
- As candidates for the Presidency in 1995 begin to manoeuvre for political position, the privatization program could be derailed. On the one hand, opponents to the Prime Minister's office are intensifying their criticism of the privatization program and staking out an independent position. On the other hand, the current "stewards" of the privatization program may have to compromise their stated standards of fairness and transparency in order to obtain the support of powerful political and economic interest groups.

Regardless of the outcome of these specific issues, it is clear that privatization has become a central and contentious issue debated at the highest levels of national politics.

Other potentially important political factions include the labor unions and the management of the state-owned companies, both of which are aware that privatization may endanger their own livelihoods. While no significant reductions in personnel have yet resulted from privatization, management and the unions are aware that such reductions are likely to occur. Labor accepted the electric company privatization only after the President personally promised that the new company would respect all "*droits acquis*" or acquired rights, including existing labor contracts. This concept of acquired rights has great symbolic significance in Côte d'Ivoire today. Much of the current and expected future conflict over privatization and economic reform is likely to stem from the refusal of various groups such as labor unions to give up what they believe themselves entitled to. Without clear explanation of the rationale for privatization, as well as the measures that will be taken to protect workers and managers in privatized companies, resistance is likely to grow and, possibly, to become far more militant than is currently the case.

In addition to the legitimate concerns that workers and management may have, there exists the potential that various political factions may use these issues as a tool for furthering their political interests.

Entrenched interests within the ruling party also have an interest in blocking privatization for two reasons. Firstly, since much of their power base derives from the patronage and largesse they can distribute to their constituents via state-owned enterprises (in the form of investment, jobs and direct payments), they will resist privatization in general. Secondly, many of these interests groups were the principal beneficiaries of earlier privatizations in the 1980s. They may now oppose privatizations that are transparent, fair and technically well-conceived, as these may tend to exclude them from benefitting.

3.5.3 Openness of Information (Transparency)

Many of the political issues are directly attributable to a lack of transparency in the privatization process. Although the Prime Minister's office, through its newsletter and television and radio addresses, has tried to explain to the general public the compelling reasons for undertaking a widespread campaign of privatization, this message does not appear to have been widely enough heard or understood. Government has done little to explain the particulars of individual privatizations. A widespread perception exists that the program is a means for the wholesale transfer of state property to foreign interests. The three most visible privatizations so far, which are at different stages of advancement, are those of the electric company (CIE), the telephone company (ONT/CI-TELCOM), and the railway (SICF). In each of these cases, the general perception has been that the process has been or is distorted in favor of a few companies that have received better information than any potential competitors. Whether or not this is true, the information publicly available does not inspire confidence. Without a far more open flow of information, it is only natural for the public to draw more negative conclusions, especially given the experience in the 1980s, and to have a tendency to oppose the program in general.

Although the public was invited to purchase shares in CIE, and many individual investors actually did so, the amount and quality of information made widely available on the financial position of the company, its management, its future prospects, and the basis for valuation of the shares, were inadequate.

The Cellule Technique, responsible for valuation of the companies, directing the technical and financial feasibility studies, recommending modes of privatization to the government, and the issue and evaluation of tender offers, has so far overseen detailed studies on some 20 companies scheduled for privatization. However, few of these studies or parts thereof have been made available to interested parties, including the World Bank, which financed the studies. It is clear that some of the recommendations contained in these reports would be considered too sensitive for general release, particularly details on valuation and negotiation strategy. However, it is difficult to justify the total opacity surrounding these evaluations. Indeed, the general release of the basic financial and technical information on these companies would seem to be the

minimum necessary to ensure the fairness and impartiality of the process. In addition, wider dissemination of this information would seem the surest way to attract other potential investors and, generally, to encourage wider investor interest.

In addition, the GOCI's Direction et Controle des Grands Travaux (DCGTx) plays an important role in conducting the technical evaluation and financial valuation studies, as well as in the preparation of tender documents and the evaluation of bids. It is not uncommon for DCGTx to prepare terms of reference, conduct the studies and evaluate the results, all on the same project. These multiple roles may serve to reduce the perception of the transparency and openness of the process.

3.6 Technical Capacity

The institutions responsible for directing and managing the privatization program are quite competent, well-motivated, and have adopted a pragmatic approach. However, enhanced technical skills and a greater private sector orientation is needed.

The "Cellule Technique" has a relatively small staff of about six to eight professionals. These are appropriately trained and well-motivated individuals, with generally relevant experience. However, they lack some requisite technical skills in specific areas. In addition, while the CT often contracts with outside consultants to conduct technical and financial studies, the CT on occasions lacks the capacity to adequately review and critically analyze the consultant's reports.

In other critical institutions, such as the Bourse des Valeurs d'Abidjan (BVA), the key personnel lack the sort of private sector experience that such functions require. Given their status as government functionaries possessing only limited knowledge of what the private sector is about, their ability to conceive, conduct and promote a serious privatization campaign may be limited.

Selected institutional weaknesses also may impair the ability of the PC to carry out its privatization program on schedule. To the extent that a precedent has been set for a minority shareholding to be offered to the general public, it will require substantial capacity on the part of the BVA and brokerage operations to value, underwrite, promote and sell stock issues in 20 or 30 companies over the next year or two, as well as to conduct orderly trading in those issues once they have been subscribed. The BVA currently does not possess adequate capacity to do this.[11] Since 1983 the BVA has conducted only two public offerings. Of the 23 stocks currently quoted on the BVA, only 5 or so are traded with any regularity or in any appreciable volume. Transactions on the BVA account for less than one percent of the total capitalization of the companies traded, compared to 24 percent in Philippines and 64 percent in Thailand. Many of these transactions bypass the BVA altogether and are traded over the counter among brokers. The BVA's operating costs amount to about 25 percent of trading volume. Far from achieving its principal goals of widening share ownership among private Ivoirians and increasing

[11] Whyche, Oren, "La Bourse des Valeurs d'Abidjan: A Brief Look at the past Experience and Future Opportunities," African Development Bank and USAID, 1992

private businesses' access to capital, the BVA's trend is moving in the opposite direction. Percentage of Ivoirian ownership in listed companies declined from 0.33 percent in 1976 to 0.274 percent in 1990. Total funds raised on the BVA declined from F CFA 16 billion in 1988 to about F CFA 10 billion in 1990. Almost all of this amount was direct government borrowing through bond issues, while at most F CFA 1 billion was raised by private companies.

Brokerage operations are equally weak. Currently the only licensed brokers are five commercial banks, which devote few resources to their brokerage operations. The lack of useful information disseminated in the CIE stock issue was the result of the lack of trained personnel and promotional resources committed by the banks to their brokerage activities. Without the prospect of vastly increased activity on the BVA, existing brokers are unlikely to commit additional resources to strengthening their capacity and new brokerage companies are unlikely to be established. However, without any improvement in brokerage capacity, any attempt by the BVA to become more active runs a high risk of failure.

CHAPTER 4

EVALUATION OF PRIVATIZATION PROGRAM

4.1 Record of Success in Individual Privatizations

It is difficult to draw any firm conclusions about the current privatization program based on the few privatizations that have taken place so far. It is too early to determine whether the new management of privatized companies will perform better than its predecessors. It is also too early to tell whether operating results will permit the new operators to abide by the investment covenants that were among the important conditions of sale. In cases where the ultimate sales price depends in part on operating results achieved by the new owners, it is too early to know whether the Government will receive the maximum possible price from sale of its assets. And, finally, given the serious economic problems Côte d'Ivoire faces, it is too early to tell whether the companies that have been privatized will be able to survive without government subsidies.

4.1.1 Privatizations already completed:

Only four companies have so far been privatized under the current program. A fifth, Compagnie Ivoirienne d'Electricité (CIE), was privatized in October 1990; however, an important component of that privatization, the public issuance of shares on the Abidjan Bourse, did not take place until late 1992. While none of these five companies is explicitly a model for future privatizations, it is nonetheless possible to draw some conclusions about the future of the program from details of these transactions, as discussed below.

Table 1
Privatizations Already Completed

1. Complexe d'Exploitation Industrielle du Bétail (CEIB)		
Principal business:	Cattle raising	
Date of privatization:	15/10/91	
Former capital structure:	Wholly state-owned	
Current capital structure	Commonwealth Development Corporation	40%
	Mutuelle Agricole de Côte d'Ivoire	30%
	Compagnie Jules van Lacker S.A. (Belgian)	15%
	Groupement des Eleveurs du Nord	15%
	Ivorian: 45%, Foreign: 55%; Management is foreign	

2. Centre d'Edition et de Diffusion Africaines (CEDA)	
Principal business:	Publication of schoolbooks and World Bank publications; distribution of Hatier, Longman, MacMillan and other publishers.
Date of privatization:	20/5/91
Former capital structure:	60% State-owned, 40% Hatier (France)
Current capital structure:	40% Hatier, 23.36% private Ivorian shareholders, 27.64% State, 9% H.M.H. (Canada)
Management:	Hatier
3. Bureau Ivoirien des Nouvelles Editions Africaines (BINEA)	
Principal business:	Publication of schoolbooks
Date of privatization:	12/2/92
Former capital structure:	Majority State-owned
Current capital structure:	Groupe Hachette (France) 45%, private Ivorian shareholders 35% (of which 25% held in trust by the State), State 20%
Management:	Hachette
4. Village-Vacances Assinie-Assouindé	
Principal business:	Resort operation (Club Med)
Date of privatization:	6/4/92
Former capital structure:	Wholly State-owned, managed by Club Méditéranée
Current capital structure:	50% Club Med, 50% State. The 50% State holding to be purchased by Club Med in 1993
Management:	Club Med
5. Energie Electrique de Côte d'Ivoire (EECI)/Compagnie Ivoirienne d'Electricité (CIE)	
Principal business:	Electricity generation and distribution
Date of privatization:	10/20/90
Former capital structure:	100% State-owned
Current capital structure:	EECI was transformed into a "société de patrimoine", holding all the fixed assets used in electrical generation and distribution. CIE was created as a private management company responsible for generating and distributing electricity. CIE's ownership is: • 51% SISP (a joint venture between SAUR, a company majority-owned by Bouygues and which owns 46% of the water company, and Electricité de France) • 24% private Ivoirians • 20% Government (reserved but not yet paid in) • 5% employee participation fund
Management:	SISP

Complexe d'Exploitation Industrielle du Bétail (CEIB)

CEIB was privatized through a three-year management contract and lease of assets for F CFA 168.5m plus 25% of the net profit earned over that period. The private shareholders, in addition, pledged to invest F CFA 500m in fixed assets and working capital, and guaranteed to keep the existing work force. The private shareholders were granted an option for outright purchase of State shares after the initial three-year period, at a tentative price of F CFA 1bn, the actual price to be established by independent valuers and based on operating results and projected future profit.

The only negative reaction has come from some of the existing workers, who were dismayed to find that, contrary to their expectation of higher salaries, the new managers required them to work significantly harder, and modified the pay and social security schemes to workers' detriment. This led to a brief strike, which was quickly resolved. Protection of most of existing workers' *droits acquis*, the undertaking to invest substantial new funds, and the pricing formula based on the company's profit all make this arrangement difficult to criticize. In addition, the new management has substantially increased productivity and profitability. Long-term viability may, however, be jeopardized by other economic reforms taking place. At the time of the agreement, Commonwealth Development Corporation (CDC) negotiated an import tax on subsidized European meat which was being sold at half the cost of CEIB production. Government subsequently reduced the tariff, and in any case the tariff provided an opportunity for Burkina Faso to export imported European meat to Côte d'Ivoire, claiming it was of Burkinabé origin.

Centre d'Edition et de Diffusion Africaines (CEDA)

CEDA's accumulated losses at the time of privatization were three times its paid-in capital. Its privatization was subject to a recapitalization of F CFA 461m paid proportionally by each shareholder group, with the private shareholders undertaking to inject a further F CFA 500m. The shares reserved for private Ivorian shareholders are held in trust by the State and will be issued to the public, probably in a public listing on the BVA. The work force of 39 was reduced to 20, and salaries and benefits were reduced.

This was a relatively uncontroversial privatization, partly because it is a small company and partly because the privatization process involved no real or perceived abuses. Even though no public tender offer was issued, the terms of the agreement negotiated between the Government and the existing private sector partner, particularly with respect to promised new investments, do not appear unfavorable to national interests. The State, however, in 1991 insisted on a 25 percent reduction in prices and then in 1992 required a further 15 percent cut, arguing that the cost had been "amortized" over 10 years, and that the guaranteed market from Government should allow them to reduce prices. These changes, which resulted in a 25 percent fall in revenues from 1991 to 1992, do not bode well for the company's long-term prospects.

Bureau Ivoirien des Nouvelles Editions Africaines (BINEA)

BINEA was privatized as the result of a tender offer to which two companies responded. 55 percent of shares (owned by the State) were sold for F CFA 630m, of which 350m were paid upon signing of the agreement and the remainder to be paid over the period 1993-1995. The agreement also called for all editing and publishing functions to be carried out in Côte d'Ivoire within two years, a reduction of 10% in the price of schoolbooks in 1992-1993 (following a reduction of 25% in 1990-1991), and transfer of printing and binding operations to Côte d'Ivoire by the beginning of the 1994-95 school year. This transfer of operations is expected to create 23 new jobs for Ivorians.

Like CEDA, this was an uncontroversial privatization involving a small company and no obvious irregularities. National interests appear to have been more than adequately protected. Although the contract was awarded to a foreign operator rather than a local company, the openness of the process and the undertaking to create new job opportunities for Ivoirians muted any potential criticism. BINEA may be in a stronger position than CEDA, since the required price reductions were made explicit prior to the sale and were therefore reflected in the price paid by the private shareholders.

Village-Vacances Assinie-Assouindé

The total purchase price for the Village-vacances, already operated on a management contract by Club Méditeranée, was F CFA 1.5bn, with 750m paid upon signing of the accord, and the remainder to be paid within one year. Club Med also pledged to invest a further F CFA 3.75 bn over the next five years.

This was one of the profitable companies on the privatization list. Government was motivated to sell its interest primarily so that expected future investments would not have to be State-funded. Although this was a "private" sale, in which no public offering was issued, it is unlikely that a public tender would have attracted other bids, in which case Government might have found itself in a weaker negotiating position. Club Med, which has been involved in the property from the beginning, clearly was the most qualified private operator and, possibly, the only one capable of operating the resort profitably. No public opposition has been voiced concerning this transaction.

Energie Electrique de Côte d'Ivoire (EECI)/Compagnie Ivoirienne d'Electricité (CIE)

CIE was given a 15-year concession, extendable to 20 years, to operate Côte d'Ivoire's electric generation and distribution. The precise terms of this concession, including the payments made by CIE to Government, have not been publicized. CIE did undertake to retain all existing employees.

This is, by far, the largest and most controversial privatization of the 1990s. CIE's market capitalization of F CFA 10 billion (based on public sale, in late 1992, on the BVA of 480,000 shares at F CFA 5500 per share, representing 24 percent of the company's capital), which itself represents only a fraction of the fixed assets owned by EECI, is far greater than that of any company privatized in Côte d'Ivoire since the early 1980s. Its annual revenues of F CFA 93 billion in 1990/91 (approximately $375 million) rank CIE among the largest companies in Côte d'Ivoire. CIE's role in providing a basic and essential service also contributed to the scrutiny and controversy to which its privatization was subjected.

CIE and EECI did not, in fact, appear on the list of companies to be privatized under the current program, since the effective privatization via the concession to SISP predates the current program. Since the early 1980s, however, EECI's losses had grown exponentially, and were running at F CFA 1 billion per month by mid-1990. By October 1990, when the concession with CIE was signed, its cumulative losses amounted to F CFA 110 billion (more than $400 million).[12] Privatization of EECI had, therefore, become an urgent need. It can be argued that this need, apparent to all potential purchasers, put Government in a weakened negotiating position and caused it to conclude a less than favorable arrangement with SISP. But it can also be argued that, given the massive drain imposed by EECI on the public purse, any privatization, whatever its flaws, was preferable to maintaining the status quo. Indeed, one year after obtaining the concession, CIE registered a net profit of F CFA 700 million and had, for the first time in more than a decade, repaid a portion (F CFA 23 billion) of its outstanding debt to the State. In addition, during its first year of operation under the concession, CIE made capital investments of F CFA 12 billion.

The criticism that has accompanied the privatization of CIE owes as much to the lack of transparency with which it was conducted as to any flaws in the transaction itself. It may be true that national interests would have been better served if the process had been open to bidders other than the incumbent consortium, and that such an opening would have resulted in lower electricity prices (currently among the highest in the world) and greater revenues accruing to Government. Indeed, the formula guaranteeing a certain profit margin (reckoned to be around 30% of revenues) to CIE is hardly likely to result in lower prices to consumers, since it removes any incentive to control costs and eliminates virtually all risk to CIE. At the same time, however, EECI's and CIE's huge losses may have prevented Government from waiting until other offers could be solicited. If Government had publicized the terms of the transaction and had explained its reasoning, public reaction would probably have been muted.

The public issue of shares by CIE, two years after the privatization of operations, was also characterized by limited widespread dissemination of information, which does not bode well for future privatizations that are expected to involve public sale of shares. The banks that acted as brokers in the share subscription were poorly organized to provide basic information on management, debt, past profitability, and the basis for calculation of the share price was not

[12] *Jeune Afrique*, 23 April, 1992, p. 65.

made public. CIE did issue a "Note d'Information", which provided some information on generating capacity and performance, but little financial information except publicly audited balance sheets.[13] Even this rudimentary document, however, was almost unobtainable. Outside Abidjan and other urban centers, it was almost impossible to buy shares. Bank offices in rural areas lacked the knowledge and ability to sell them and CIE, which has offices throughout the country, was itself prohibited from selling its own shares. The issue was, however, almost fully subscribed within the three-month initial offering period, and preliminary statistics indicated that more than 3000 individual Ivoirians had purchased shares. Thus, for all its faults, the CIE share issue accomplished one of the important objectives of the privatization program, that of developing an "*actionnariat populaire*," a class of individual shareholders.

Five percent of CIE's shares are being held in trust as an employee participation fund. The exact disposition and terms for release of these shares are not known. In addition, 25 percent of the shares of the new company (i.e., CIE) have been reserved for government. However, government has yet to pay for these shares.

4.1.2 Privatizations in Progress

Of the 22 companies slated for privatization in the first phase, four have already been privatized, in addition to CIE, which did not originally figure on the list for either Phase 1 or Phase 2. Of these, 10 are Sociétés d'Economie Mixte, or SEMs, in which the State has a minority shareholding, and for which privatization is likely to be far less complicated than for companies in which the State is a majority shareholder. According to the schedule developed by GOCI and the World Bank, Phase 1 was meant to be concluded by the end of 1992, with all of the Phase 1 companies brought to the "point of sale". This meant that the valuation studies for each would have been completed, and tender documents would be ready for issue. According to the report of the World Bank mission that visited Côte d'Ivoire at the end of October 1992, "all of the 'dossiers,' with the exception of those for SIR [Société Ivoirienne de Raffinage], ONT [Office National des Télécommunications] and Palmindustrie, will be ready by year's end or, at the latest, during the first quarter of 1993. To these we must also add those companies scheduled for Phase 2 [a seed company and an agro-industrial complex], which will also be brought to the point of sale according to the same timetable."[14] The World Bank cautioned, however, that, even if the evaluation studies were completed on schedule, "the political decision to give final approval on the method of privatization, as well as on the conditions of a public share issue or tender offer, poses a risk of delaying the conclusion of these transactions." It should be noted that the World Bank, itself unable to obtain copies of the evaluation studies it had financed, had to rely on Government's assurances that the program remained on schedule.

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[13] Based on review of the information note provided to the Study Team in December, 1992.

[14] The World Bank, "Projet d'Appui au Programme de Privatisation, Mission de Supervision: Aide-Mémoire," November, 1992.

Given the paucity of information available on privatizations that have already taken place, precise information on future privatizations is very scarce. Some of the larger planned privatizations have, however, been debated in the press, and some general indications of the problems they have encountered or are likely to encounter can be reviewed.

1. Hôtel Ivoire: The Hôtel Ivoire Intercontinental, constructed in the 1960s and 100 percent State-owned, was at one time the largest hotel in sub-Saharan Africa, and a focus of pride for the Ivoirians. Still one of the few luxury hotels in Abidjan, it requires substantial renovation. A study conducted by Louis Berger estimated that new investment of some $50 million would be needed to renovate and restore the hotel. This study, whose other recommendations are unknown, was apparently not accepted by the Cellule Technique and the Privatization Committee, which have required substantial revisions. The major point of contention may have been the consultants' recommendations as to responsibility for the new investment. Government is, understandably, reluctant to undertake an investment of this magnitude on its own. It is, however, equally hesitant to reduce its asking price by $50 million, if little residual revenue would be available to government.

   It is reported that the Sun International Hotel Group of South Africa had made serious enquiries about taking over the management of the hotel. This would have presented numerous advantages. Both TAP and South African Airways now provide direct service between Abidjan and Johannesburg, and Sun International, with its highly-developed marketing network and extensive experience operating resort hotels in many parts of Africa, could have provided a regular flow of tourists from Southern Africa. This would have contributed to better positioning of the Ivoire, which has never clearly defined itself either as a business or a resort hotel. In addition, little interest had been expressed by other potential operators, so that Sun's bid represented an opportunity to guard carefully.

   Government turned down the Sun Group because valuation and divestiture strategy studies were not yet finalized. Completion of valuation studies are particularly important to establish reference prices to approximate a market value in cases where large enterprises are being privatized and only a few investors express interest. However, government may have been able to do more to keep the Sun Group interested while valuation studies were completed, perhaps at an accelerated pace.

2. Société Ivoirienne des Chemins de Fer (SICF): SICF operates the Abidjan-Ouagadougou rail line jointly with the Société des Chemins de Fer de Burkina Faso (SCFB). The railway was initially scheduled for privatization in Phase 2; however, mounting losses by SCFB caused the Burkinabé company to request that the schedule be accelerated. Although the World Bank and the French Caisse Centrale de Coopération Economique (CCCE) have advised the Ivoirian and Burkinabé governments on the restructuring and privatization of the railway, the public has been kept almost entirely uninformed about its progress. Apparently, two French companies, Sofrerail and SNCF, have collaborated on the technical feasibility study of restructuring and privatization, which is assumed to

be the source of the recommendations concerning its probable form of privatization. This will involve a separation of the railway into an operating company and an asset holding company, in a structure similar to that used in the EECI privatization. The operating company would receive an operating concession, with a payment formula to be negotiated.

A tender offering announcement appeared in the local Ivoirian press in early December, to general surprise. No public announcement had ever been made of the acceleration of the SICF privatization. This development was widely interpreted as an attempt to rig the bidding process in favor of those companies already involved in the technical studies. Since the tender offer specified a six-week deadline for submission of bids, it would be virtually impossible for any company without a significant prior knowledge and involvement to conduct the necessary research and investigation, and to submit a credible offer. The government, for its part, maintains that the tender documents contain all the information needed to prepare a bid. In addition, it claims that, subsequent to the contract award, there will be a six-month period for refinement and negotiation of the contract details. All bids, however, must be accompanied by a F CFA 50 million bond ($200,000) to guarantee performance by whichever company wins the contract. This would seem to discourage participation in the bid by any company that has not, at the very least, received some informal guarantees from Government on the contract terms.

3. PALMINDUSTRIE: Palmindustrie, the largest of the major agro-industrial complexes in Côte d'Ivoire, is emblematic of the difficulty of privatizing enterprises in the agricultural and agro-industrial sector. Among the other agro-industrial complexes slated for privatization are companies in the rubber, rice, forestry, livestock, seed, coconut, cocoa, sugar, and horticultural sectors. Palmindustrie, which is 100 percent State-owned, has a capital of 34 billion F CFA and annual revenues of 45 billion F CFA. The company, as is the case with several of the other agro-industrial complexes (particularly in the rubber sector), is the sole major employer in the areas in which it operates. As such, it has taken over many of the social services, such as education, medical care, and roads, that normally would be provided by Government. No private operator, whose expertise and interest would be in the agricultural production, processing and marketing areas, and whose interest would be confined to potentially profitable activities, is likely to have any interest in taking over these social activities in which it has no expertise and which represent a cost without any corresponding revenue. The disposition of these activities is a political, rather than a technical, decision, which will be reflected in the company's eventual sale price.

It is, moreover, difficult to determine whether such enterprises should be privatized in their entirety, or whether they should be broken up into discrete units, each one of which might be sold to a different operator. Given the history of State intervention in the agricultural sector, it is hard to assess the potential profitability of many such enterprises. Producer prices for most agricultural commodities, including palm kernels and palm oil, are set by the State. In Côte d'Ivoire the producer price for palm oil is double the world

market price. Major policy decisions on agricultural prices, subsidies and market protection (e.g., how will producer prices be established; what measures, if any, will Government take to protect the domestic market; will Government continue to subsidize the agricultural sector?) must therefore be taken before it becomes possible to privatize Palmindustrie and other, similar enterprises.

Capital investment in the agro-industrial sector also involves different issues from investment in the manufacturing, transport, or services sectors. In the privatization of rubber plantations, for example, the method of tapping rubber trees is a critical issue. It is possible to manage plantations so that the trees will have an average life of 30 years. It is also possible to exploit them much more intensively, so that they live a mere 10 years. Similar choices exist in other agricultural industries. It is clear in these cases that the interests of a private operator may differ from those of the government, unless the privatization is structured in such a way that private operators receive appropriate incentives to manage the resources in ways that serve the national interest. It is exceedingly difficult to develop strategies and to calculate pricing formulas that, taking account of the many variables involved, can achieve this reconciliation between private and public interests. This may explain the delay in bringing Palmindustrie to the point of sale, and is a likely indicator of future delays and difficulties in privatizations in the agro-industrial sector as a whole.

4. ONT/CITELCOM: In a manner similar to that of the electricity privatization, the Ivoirian telecommunications authority, ONT (Office National des Télécommunications) has been reconstituted as a "société de patrimoine," or a holding company separate from CITELCOM (Compagnie Ivoirienne des Télécommunications), which will be privatized as the telecommunications operating company. The privatization of ONT/CITELCOM has been the subject of three studies to date, two of which have already been completed. These first two studies, one undertaken by Booz Allen and the other by the Canadian group DTI Telecom, evaluated the regulatory context in which the Ivoirian telecommunications industry operates, and proposed regulatory and legal reforms as a condition for successful privatization. So far, these reforms, some of which may be impossible under existing Ivoirian law, have not been undertaken. While the failure to implement certain reforms may not render privatization impossible, it will certainly affect the mode and timing of privatization. The third study, currently being performed by Deloitte & Touche, is aimed at valuing ONT/CITELCOM and proposing a strategy for privatization. This study, which was meant to have been presented to the PC by the end of October 1992, has not yet been completed.

If telecommunications is privatized in a similar manner to electricity, then a single foreign-controlled consortium is the likely purchaser. However, there may be opportunities for other private operators to participate, particularly if ONT/TELCOM is privatized, not as a single entity, but in a number of separate, service-based companies (e.g., local telephone service, cellular telephones, international long-distance service, switching, carrier, interconnect equipment, data transmission).

4.2 Success of Overall Privatization Program

The privatization program in Côte d'Ivoire so far cannot be judged either a success or a failure. Instead, there are important areas in which the program must be judged as at least moderately successful and others in which the record and prospects for success are less encouraging.

4.2.1 Program Strengths

Key strengths of the program include the following:

a) Establishment of a policy, legal and institutional framework, and overall strategy for privatization -- in marked contrast to privatization that took place in the 1980s.

b) A pragmatic approach to privatization in which there is:

   -- a willingness to privatize profitable as well as unprofitable enterprises;

   -- a recognition that privatization must involve new and competent management, often from overseas, rather than just a change of ownership; and,

   -- targeting all sectors as candidates for privatization without establishing a negative list or set of "strategic" industries reserved for the public sector.

c) An attempt to coordinate implementation of the privatization program with other parts of the economic reform program.

d) A stated intent to adhere to the principles of rigorous and objective analysis and to transparency in implementation of the privatization program and process.

There are limited yet encouraging signs of advancement in other areas, as well. There is an acceptance among a few top technical officials of the philosophical basis for privatization (as opposed to the imperative to get rid of loss-making companies and to increase public revenue) as the key to a more competitive economy, and they have an ability to enter into the national level political debate. In addition, there have been attempts by senior policy makers, especially the Prime Minister, to explain the privatization program and its underlying rationale to the Ivoirian public. Finally, the current program has managed to achieve some degree of impartiality and fairness which was not characteristic of earlier privatizations and there is a genuine effort to develop wider shareholding among individual Ivoirians of the middle class as well as the elites. All of these actions, while good advances, are in need of substantially intensified efforts to achieve their overall goals.

4.2.2 Program Weaknesses

The main impediments to successful implementation of the privatization program include: (i) the poor condition of the Ivoirian economy and financial sector (see Chapter 3); (ii) the overall lack of transparency and openness in the conduct of the program; and, (iii) the intensified political debate, at the national level, on privatization. These and other weaknesses can be summarized as follows.

a) Limited progress in actually selling companies, although many are approaching the point at which they will be put out for offer.

b) Lack of public information on the details of specific privatizations, either "ex poste" to the public or in advance for prospective investors.

c) Political fragility and vulnerability of the privatization program. Existing political incentives favor moving away from the privatization in its current form.

d) The inability of the BVA and existing brokerages to price, underwrite, publicize and sell initial public offerings by privatized companies.

e) Methods for valuing companies need to be strengthened, and government needs a more rational and market-based, commercial approach to negotiations.

   -- Lengthy preparation of valuation studies can, in certain instances, delay the whole process and cause potentially interested investors to drop out of the process. Where many investors bid for a company, Government should be able to relax its need for comprehensive valuation studies. However, where only one or two bidders are present, government should insist on completion of its own valuation study but also make efforts to: (i) accelerate the valuation study process; and, (ii) undertake measures to keep the potential investors interested.

   -- The valuation method chosen by government in some instances is very far removed from market-based techniques, and the resulting excessive gap between the asking price and the investor's initial offer can cause excessive delay or the collapse of negotiations.

f) Excessive discretionary power granted to political authorities leading to "ad hoc" treatment of privatizations. It is questionable whether a given privatization, if the rules have been followed, should nonetheless be subject to Cabinet approval. One effect of this discretion has been a failure to move away from a case-by-case approach to a more fair and impartial system. For example, nothing in the investment code or the enabling legislation for privatization, for example, specifies a certain percentage of ownership to be retained by the State, nor is there any statutory limit on foreign ownership. The State, however, has retained a share of ownership in many of the companies privatized

to date, and it is likely to do so in future. Although it appears in no law or decree, there is widely assumed to be an informal local preference on the order of 20 percent reserved for the State and 31 percent for private Ivoirians, effectively limiting foreigners to a 49 percent stake. While the State may have some justification for adhering to this rule, its informal and unstated character may limit the ability or interest of many private companies, foreign or domestic, in pursuing privatization opportunities, far more than might be the case with an explicit policy.

If, for strategic reasons, the State wishes to maintain a presence on the Board of a company, or some right of veto over critical decisions, it would do better to introduce some form of "golden share" or "special rights share", and to clarify and specify in advance the conditions for exercising its right to such shares.

4.2.3 Adverse Social and Economic Impact

Any privatization program is certain to distribute its rewards and its adverse effects unevenly, and Côte d'Ivoire's is no exception. Many of the actual or expected adverse effects are due as much to the Government's overall economic reform programs (primarily the Programme d'Ajustement Compétitivité - PASCO, and the Programme d'Ajustement du Secteur Financier - PASFI) as to specific privatization transactions themselves. Within the context of overall economic reform, much of which is essential for the privatization program to succeed, several elements are certain to have negative effects on large numbers of people. While the long-term effect of economic reform is certain to benefit the economy, and while some groups will benefit in the short term from reform, the immediate effect of the privatization program, and of the economic reforms that make privatization possible, will be negative for those groups that have the greatest potential to derail the reform process and to undermine social and political stability. These elements include:

- Decontrol of prices and elimination of subsidies for many basic consumer items, which will substantially raise the cost of living for many Ivoirians;

- Reduction of import tariffs and non-tariff protection for domestic industry, which may result in loss of market share and reduction of employment for local companies. In the short term, in conjunction with a reduction in the tax burden imposed on private companies, this may cause a drop in Government revenues and pressure to reduce civil service salaries or reduce public sector employment;

- The likelihood of devaluation of the CFA franc which, while it will assist export-oriented industries, will raise the cost of imports. This will increase the overall cost of living, as well as rendering import-dependent industries more vulnerable;

- Elimination or reduction of agricultural price supports and subsidies, which will cause a drop in rural incomes;

- Liberalization of the Labor Code to facilitate use of casual or temporary labor and to give companies greater freedom to hire and dismiss workers. These reforms will call into question many protections that Ivoirian workers have come to regard as basic rights;

- Streamlining procedures for approval of private sector investment, which may subject domestic enterprises to greater competition from foreign companies.

All of these measures can, and many already have begun to, generate some discontent and resistance. While nothing so far has resulted in any significant public unrest, the experience of other countries indicates that such an outcome is possible. For the moment Government has exempted about 25 essential items, including foodstuffs, water and electricity, school books, and pharmaceuticals from the overall decontrol of domestic prices, which should soften the effect of economic reforms on people's daily existence. However, while increases in prices for such items as clothing, beer, cigarettes, gasoline, or soap may not cause people to take to the streets the way an increase in the price of rice or bread might do, they will nonetheless have significant effects on the ability of Government to implement other elements of the reform program.

The reaction to individual privatizations and, by extension, to the entire privatization program, may be more immediate and focussed. The most serious potential effect of privatizations is likely to be large-scale layoffs of excess personnel, including both management and workers, and loss of many privileges and benefits by those who remain.

This is an issue that government has yet to address in any concerted way. In individual transactions, such as the CIE privatization, it has imposed stipulations regarding employment preservation. Given CIE's domestic monopoly and the apparent guarantee of profit margin to the privatized company, this may have been an acceptable way to deal with the problem, although it is a solution likely to have negative effects on Côte d'Ivoire's overall competitiveness by keeping electricity costs too high. For export-oriented companies, or indeed, any companies that lack a domestic monopoly, a similar solution will be unacceptable. For the railway, for example, which must compete with alternative modes of transport, anything that raises the company's operating costs may threaten its long-term survival, as well as rendering it less attractive to any potential investor. In the case of SICF, it appears that the French Caisse Centrale, which is involved in financing and providing technical assistance to the privatization effort, intends to fund some form of retraining and redeployment scheme to reintegrate redundant railway employees into the productive economy. In view of the large number of layoffs likely to occur in many of the other companies scheduled for privatization, it would seem appropriate for Government, with donor assistance, to seek to develop an overall privatization-related labor retraining and redeployment program. The risks of failing to do so may, at a minimum, include ad hoc solutions that turn out to be far more costly than a well-conceived program. The risks could also be far more serious and could include widespread civil, social, and even ethnic or tribal strife.

CHAPTER 5

POTENTIAL AREAS FOR DONOR ASSISTANCE

There are several potential areas where donors could provide assistance in the near-term to the Government of Côte d'Ivoire in support of the current privatization program. In this chapter, in the first section, selected areas for potential donor assistance in general are identified and discussed briefly. In the second section, areas are highlighted where specific assistance from USAID may be suitable. However, it must be noted that this Chapter is not meant to constitute a comprehensive set of recommendations to enhance the design and execution of the privatization program in Côte d'Ivoire. That is outside the study's scope of work.

5.1 Areas for Donor Assistance

The assessment of the current privatization program in Côte d'Ivoire, as outlined earlier in this report, illustrates that further action is needed in the near term in a number of areas.[15] These priority areas mainly address governance-related aspects of the privatization program, which is politically vulnerable and runs the risk of stalling or being derailed.

Donors can provide technical assistance in a number of areas to help improve governance aspects of the program and promote the program's sustainability and success. These include the following.

5.1.1 Revitalization of the Abidjan Stock Exchange and Capital Market Development

The Abidjan Stock Exchange (Bourse des Valeurs d'Abidjan -- BVA) could be an important and active instrument in support of the Government's privatization program. It could: (i) assist in mobilizing financial resources; (ii) broaden the base of ownership of privatized state enterprises; and, (iii) provide much needed transparency to the privatization process. In addition, it could constitute an important source of long-term and equity finance for enterprises once they are privatized. Unfortunately, however, even though the BVA has existed since 1974, it requires significant improvements in its efficiency and effectiveness.

A detailed restructuring plan for the BVA has already been developed in the context of the Financial Sector Reform Program, funded by the World Bank. The plan includes: (i) a significant reduction in the annual operating expenses and staffing level of the BVA; (ii) the streamlining of internal procedures and regulations; (iii) modernization of the quotation system;

[15] Many of these action areas are consistent with those identified in World Bank documents prepared in support of the Privatization Support Project.

(iv) elimination of listing fees and reduction of quotation fees by 30 percent; and, (v) the setting up of an independent advisory board.

In addition, the Government has identified the need to develop capital markets in support of the privatization process. Donors will be needed to fund studies and provide technical assistance to help Government: (i) set up new mutual investment funds; (ii) foster the creation of venture capital enterprises; (iii) develop new instruments and mechanisms for privatization of PEs through the BVA; and, (iv) reorganize the brokerage function in order to improve its efficiency. In addition, recognizing the limited scope of the Ivoirian capital market, the feasibility of developing BVA into a regional body serving the seven countries of the West African Monetary Union needs to be studied.

5.1.2 Development of ESOP Mechanisms

Employee stock ownership programs (ESOPs) are a very effective means for encouraging widespread ownership, and thereby enhancing political and popular support for the privatization program. Typically, as part of a privatization involving an ESOP, shares of a corporation are offered to its employees. Usually a minority share is on offer, and employees either pay for the shares up front or on a deferred basis. ESOPs often mitigate the negative perceptions that companies are only being sold to privileged groups (domestic or foreign). ESOPs can also motivate employees to work harder once the company is privatized.

The privatization authorities in Côte d'Ivoire recognize that ESOPs are potentially useful mechanisms in the program. A preliminary study on ESOPs was recently conducted for the Privatization Committee. The study discussed, in general terms, the definition and philosophy behind ESOPs, and the experience of selected countries in using ESOPs.

Donor support is needed to study the feasibility of ESOPs in Côte d'Ivoire. If they are proven feasible, then a reform program needs to be developed to indicate the requisite changes in regulation and legislation. This will need to be coordinated with envisaged changes in the Labor Code and with the evolving structure and operation of unions. In addition, a number of pilot ESOP programs at selected enterprises should be designed and executed to test the viability of ESOP mechanisms.

5.1.3 Labor Redeployment and Retraining

One of the typical consequences of privatization is the downsizing of enterprises once they have been privatized, or in preparation for their privatization. PEs are typically over-staffed. Rationalization and downsizing are essential to improving enterprises' efficiency, modernizing their skills base, and making the companies more competitive. In addition, potential investors will be easier to attract if: (i) the rules, regulations and practices regarding retrenchment are clear and widely known; and, (ii) investors know they will be allowed to release workers as they see fit.

However, governments can mitigate some of the economic and social effects of large-scale reductions in personnel by developing programs for the redeployment and/or retraining of labor. While increasing the opportunities for employment is a stated objective of the privatization policy in Côte d'Ivoire, insufficient consideration seems to have been given to this area. In privatizations to date, the Government has often postponed the issue of downsizing by either: (i) requiring new owners/managers not to reduce the labor force in the early years; or (ii) retaining most of the labor force in a newly formed, complementary government entity (e.g., the asset holding company, in the case of the electricity privatization).

Eventually, large scale lay-offs will occur as the privatization program progresses. Government needs to develop redeployment and retraining programs. A basic model for such programs needs to be developed prior to the first large-scale retrenchment. Donors can assist by: (i) conducting underlying analytic studies examining options for labor redeployment; (ii) developing a labor redeployment program; (iii) conducting a retraining needs assessment; and, (iv) sponsoring retraining programs.

5.1.4 Communications Strategy

Transparency is critical to the success of any privatization program. The Government of Côte d'Ivoire has officially adopted transparency as one of the three main guiding principles of the current privatization program -- in recognition of it being a critical success factor and in response to lessons learned during the privatization program in the 1980s.

An appropriate communications strategy is needed to achieve transparency goals and enhance political support for the program. To date, the overall privatization program has been discussed on television, covered in the press, and described in a special newsletter published by the Prime Minister's office. Unfortunately, these measures have been insufficient to establish firm and widespread political support for the privatization program. A lack of transparency and the resulting weakening of support for the program is, in part, due to the fact that very little information on specific privatizations is disseminated, either at the stage where interest is being solicited for firms at the point of sale, or once transactions have occurred.

A communications program is needed to complement measures aimed at increasing the number of potential share-purchasers using the stock exchange -- if more people know more about the privatization program, particularly firm-level activities, then more people are likely to buy shares through the stock exchange.

Donors could assist in the development of a communications strategy and program for privatization in Côte d'Ivoire. Potential areas for assistance include: (i) development of an information dissemination system for placing notices in newspapers and other journals -- which report on firms that are slated for privatization, on the basic terms and general conditions of transactions once firms have been privatized, and for placing advertisements in regional and international media, in the case of larger privatizations, to solicit bids from potential investors; and, (ii) technical assistance and training of officials in marketing, sales and distribution

techniques to improve the quality and dissemination of information on privatization prospects and offerings on the stock exchange.

5.1.5 Technical Training

Technical training is needed for government officials integrally involved in the privatization program, such as members of the Technical Unit and of the stock exchange. Skills need to be enhanced in valuation techniques, debt-equity conversion, brokerage operations, prospectus drafting, and the sales and marketing aspects of public and private offerings.

5.1.6 Special Funds

The lack of domestic capital available for privatization in Côte d'Ivoire reflects a number of issues, including the liquidity crisis in the banking system, the need for financial sector reform, the poor state of the overall economy, and the poorly functioning stock exchange. The lack of an ability to mobilize local financial resources will slow the pace of privatization, and will accentuate the resentment created by the perception that foreigners are acquiring the national patrimony.

Consideration should be given to developing special funds or mechanisms, which can be launched quickly, to support privatization. Even though reforms are being contemplated in many underlying areas such as stock exchange and banking sector reform, many of these initiatives could take several years to put in place. If the privatization program is to stay on schedule, then such reforms may not be timely.

The special funds and mechanisms for further consideration could include: (i) a special fund or line of credit for private sector entities wanting to conduct feasibility studies of candidate enterprises for privatization; and, (ii) a pooled, common fund in which shares of privatized firms bought by donors would be placed until such time as the privatized firm returned to profitability and the donor shares would then be more attractive to private groups or individuals. Donors can assist by funding feasibility studies, conducting pilot programs, and directly providing financial resources.

5.2 Potential Areas for USAID Assistance

This section broadly identifies selected areas for near-term assistance to the privatization program, for which USAID may consider providing support. Definitions of a Mission strategy or a detailed program of assistance in support of privatization was agreed with USAID/Abidjan to be outside the consultant's scope of work.

5.2.1 Basic Strategy for USAID

USAID's basic privatization-related assistance strategy in the near term should be to: (i) consider pursuing a modest assistance program, aimed at providing limited technical assistance in selected, well-defined areas; (ii) continue to monitor the privatization program's progress; and, (iii) review within the next 12 to 18 months the prospects for a greater involvement.

A major privatization program sponsored in the near term by USAID will meet with many impediments to successful implementation. A major program is premature and unwarranted for a number of reasons.

- It is clear that the current privatization process lacks sufficient transparency and performs poorly against a number of governance-related issues. USAID might consider initiating a major program to tackle these central and sensitive issues. However, the embryonic bilateral program is small financially and lacks the influence required to be effective in such an arena. Also, because its bilateral program is relatively new, USAID may have an insufficient understanding of, and base of experience with, the dynamics of Ivoirian politics and society to be effective in these areas.

- Privatization at the moment is very politically sensitive. Within the next year or so, about another dozen or more privatization transactions should have occurred, the procedural aspects of the program will have been better tested, and the politics of privatization in Côte d'Ivoire will be clearer. At that time, USAID will be in a better position to identify, evaluate and, if warranted, launch a major program in support of privatization.

- Finally, USAID's new bilateral program has yet to fully define an integrated country strategy and overall program. It is not readily obvious that privatization should be added as the third component to the two other areas where USAID is already active -- the health sector and municipal services. In addition, the projects and programs in the health and municipal services sectors do not lend themselves to having a major privatization element added to them.

  - Most of the health sector initiatives focus on cost recovery and private sector development, but not on the transferral of state-owned health facilities into private hands. The scope for contracting out health care related services exists, but is thought to be of insufficient scale to merit a major project initiative. In addition, if anything, Government plans to renew its emphasis on providing social services, including health. A major aim of the privatization program is to allow Government to exit from the productive sectors and thus, release resources which Government plans to apply to social sectors.

  - In municipal services, some assistance related to privatization is already in place to assist with the privatization of solid waste disposal in small municipalities.

However, these activities are not, and lack the potential to be, of sufficient scale to become a major component of a large project.

5.2.2 Assistance Areas for Consideration by USAID

USAID should consider support, in the near term, to the privatization program in Côte d'Ivoire through a modest assistance program in a range of areas. A number of the areas identified above for donor assistance in general should be considered by USAID as potential areas of activity for its bilateral program. The criteria used in selecting the areas outlined below are: (i) leveraging existing activities already supported by USAID in Côte d'Ivoire; (ii) traditional strengths of USAID and/or where the United States has a comparative advantage; and, (iii) resource requirements. In addition, any activity sponsored by USAID to support privatization should complement other related donor-funded programs.

The prospective areas for assistance from USAID may include the following.

1. Capital Markets Development. USAID should consider supporting revitalization of the stock exchange and other elements of capital market development. Such assistance will leverage assistance already provided by USAID and represents an area where USAID has expertise. This assistance will need to be conducted in coordination with activities identified for support in the World Bank funded Privatization Support Project. Specific areas for assistance from USAID might include the following.

   a. Continue its assistance to foster the creation of venture capital enterprises. This should build upon the experience gained at the recent venture capital workshop which USAID funded.

   b. Provide technical assistance for the reorganization and liberalization of the brokerage industry. The Government recently reconfirmed commitment to undertake some form of liberalization. USAID could, in the first instance, fund baseline studies to define the liberalization plan and a program for requisite regulatory and legislative reform. Efforts should be aimed both at separation of the brokerage function, and at development of a competitive environment for the private sector brokerage industry.

   c. Sponsor selected workshops and/or short-term training to enhance the technical skills of BVA staff in such areas as enterprise valuation, prospectus drafting, and sales and marketing strategy.

   d. Conduct underlying studies to test the feasibility of the BVA becoming a regional exchange to mobilize regional capital resources.

2. Employee Stock Ownership Programs (ESOPs). The United States is one of the pioneers of ESOPs and has vast expertise in this area. USAID could provide significant assistance

to the development of ESOPs in Côte d'Ivoire. This would include: (i) evaluation of the feasibility of ESOPs; (ii) development of a regulatory and legislative reform program; and, (iii) design and execution of pilot programs. The possibility of a loan guarantee program might also be investigated.

3. Labor Redeployment/Retraining. USAID could provide assistance in this area by: (i) conducting underlying analytic studies examining options for labor redeployment; (ii) developing a labor redeployment program; and, (iii) conducting a retraining needs assessment. This is an area in which USAID has experience elsewhere in the world, and one to which Côte d'Ivoire has given little detailed consideration to date.

4. Selected Seminars, Workshops and Training. USAID could support selected seminars, workshops and training to enhance specific technical skills and to foster improved communications, transparency and consensus. Technical training for the Technical Unit is needed in such areas as valuation techniques, debt-equity conversion, and financial aspects of ESOPs. Workshops and training are a natural extension of some of USAID's activities to date. USAID has already funded a workshop on venture capital, has provided short-term technical training to a handful of officials, and has agreed to fund a workshop more generally on privatization.

ANNEX I

CONSULTANT'S SCOPE OF WORK

MEMORANDUM TO: Neil Billig, AFR/ONI
David Gordon, Abt Assoc.

FROM: Margaret Alexander, REDSO/WCA, PMO MAA

SUBJECT: Scope of Work for Privatization Reconnaissance

REDSO/WCA is delighted that the Cote d'Ivoire Program will benefit from the Privatization Reconnaissance. The "generic" scope of work (attached with comments) looks excellent. I would just like to highlight certain features of particular interest to us:

Section I: Item 7 (reasons for success or failure): The few privatizations that have occurred are recent and may not yield much in the way of solid lessons, but Mission would like to have assessments and predictions. In particular, the contractors should be alert to any sign that the process has been politicized or subject to favoritism.

Highlight no. 11 (role of foreign investors)

Add 13. Existence of special disincentives to private investment such as the prospect of devaluation of the CFA franc, the GOCI's newly manifest determination to collect back taxes, the effect of government debt associated with the industries being privatized,

Add 14. Assess the likelihood and perceived likelihood of harsh socio-economic impact from privatization, e.g., layoffs, higher consumer prices, public unrest.

Add 15. Particular attention should be paid to privatized industries in the health/family planning sector or municipal services. Assessment of lessons learned and predictions will be immediately relevant to the Mission's two major existing projects in Cote d'Ivoire.
Section IX of the SOW is likely to be rather light since the Mission has no past history of concrete involvement with the privatization effort. What we want is recommendations as to whether we should become involved and at what level - as a strategic objective of the program, as a project or NPA focus, as supportive influence?

Section III is very good and we will be particularly interested to see the results. As my comments on Section I may indicate, issues of open and impartial privatization management are pervasive.

Please let us know as soon as you have names and ETAs. It would also help if you could give us some advance idea of any in-country travel planned.

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Stage Grant
{ U.S. Pa...

ASSESSMENT OF PRIVATIZATION POTENTIAL AND RELATED GOVERNANCE ISSUES IN SELECTED AFRICAN COUNTRIES

Privatization of state-owned enterprises is a major poli element in A.I.D.'s market oriented economic development strategy. African missions have long been encouraged to iden opportunities for assisting host governments develop and implement privatization strategies. To assist missions in th process, a number of privatization reconnaissance studies wil carried out to identify privatization opportunities which AI missions might exploit.

The object of this work program, ~~therefore, is to assess~~ status of privatization activities in up to twelve African countries to determine the feasibility of initiatives for supporting host governments in the planned divestment of pub companies to private sector investors and operators. It is intention of A.I.D. to share these country reports with seni representatives of governments and the private sector as a departure point for possible specific A.I.D. support of cou privatization efforts. The studies will include an analysis governance issues related to privatization.

WORK PLAN

1. Assess The Current Status of Privatization Programs

Review and assess the status of privatization programs selected countries taking into consideration the follo elements.

1. An overview of the status and trends in the busine financial and regulatory environment.

2. The government's stated privatization objectives a historical willingness and ability to achieve thes objectives.

3. The effectiveness of the government's legal and institutional structures for implementing the sta privatization program.

4. Form and extent of multilateral lender and donor support.

5. Review of the extent and quality of pertinent pre privatization and privatization studies including strategy formulation, sectoral assessments, and corporate feasibility studies, audits and asset valuations.

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Insert something along the following lines:
Observed degree of politicization of process to date (cus. national economic

6. Record of success in carrying through individual privatization projects by sector, size and type of organization, and by type of privatization "transaction" employed.

7. Reasons for success or failure of privatization of selected enterprises. Lessons learned.

8. State owned organizations remaining in the government's portfolio and their classification in terms of strategic and non strategic entities.

9. Viability and scope of work required to successfully privatize the government's high priority privatization candidates.

10. Methods, success and difficulties experienced in identifying and attracting investors and/or operators.

11. Role of foreign investors or operators in the privatization process and their contribution in terms of providing capital, technology, access to markets, etc.

12. Existence of special privatization incentives such as trade, tariff and labor legislation; early retirement incentives and retirement funds; investment code provisions; debt assumption provisions; etc.

Socio-eco-impact of Privatization - & Polit. fall out. (ex. lay-offs/politicized)

II. Review Each A.I.D. Mission's Privatization Program

1. Mission's past privatization initiatives and plans for the future in terms of policy and strategy development, restructuring, privatization transaction assistance, pre-privatization feasibility surveys, audits or asset valuations, training and public relations.

Mission's state enterprises since [illegible]

2. Relationships with lenders and donors.

3. Government's perception of A.I.D.'s role in the privatization process, and history of requests for assistance.

4. Support and assistance missions require from Washington

5. Capacity, capability and interest of existing staff carry out privatization initiatives.

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III. Analyze the Governance Issues Related to Privatization in Africa.

Privatization involves major transfers of public assets t private sector owners and/or operators. Public understanding the need for and the objectives of national privatization programs and a demonstrated transparency in the conduct of th process are fundamental elements in gaining public acceptance support of what can often be a highly politicized und rtaking. Any number of African privatization programs have foundered on failure to assess the importance of such governance issues.

For this survey "governance" is defined as the impartial, transparent management of public affairs through the generatio of a regime or set of rules accepted as constituting legitimat authority, for the purpose of promoting and enhancing societal values that are sought by individuals and groups.

1. Legitimate authority: Establishing the rules of the game, ensuring their wide dissemination, and policing to ensure adherance. Wide knowledge of who decides and how they decide. Existence of appeal mechanisms.

2. Public responsiveness: Decision makers and members of the public share and understand common interests. Incentives are built in to ensure that rules of the game and the game itself continue to be played.

3. Public accountability: Clear rules of conduct known. Those violating the rules can be replaced. Those wit authority can be disciplined for their actions.

4. Tolerance of others with a public character: Non state actors can take part in the process. Human rig protected by those operating outside central state authorities. People participate without fear of reprisal.

5. Openness of information: Ability to learn how those i authority are handling powers and if they are responding to public concerns. People have access to information.

6. Effective public management: Successful application c public resources in solving public problems. People believe that public authorities are doing their job

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ANNEX II

LIST OF SELECTED CONTACTS

LIST OF SELECTED CONTACTS

Government of Côte d'Ivoire and State Enterprises

Mr. Jean-Claude Brou, President	Comité de Privatisation
Mr. Lucas Alain Danho, Vice President	Comité de Privatisation, Cellule Technique
Mr. Mathurin Abissa, Financial Analyst	Comité de Privatisation Cellule Technique
Mr. Philippe Mian, Directeur des Investissements Publics,	Ministry of Economy and Finance
Mr. Nagolo Soro, Directeur de la Promotion Industrielle et Commerciale	Ministry of Commerce and Industry
Mr. Léon Naka, President	Bourse des Valeurs d'Abidjan
Mr. Valentin Komelan, Director of Studies	Bourse des Valeurs d'Abidjan
Mr. Jacques Sognaniga, Directeur de l'Exploitation	Société Ivoirienne des Chemins de Fer
Mr. N'golo Coulibaly, President & Director General	Caisse Autonome d'Amortissement
Mr. Amadou Toure, Legal Advisor	Committee for Management of External Debt, Ministry of Finance
Mr. P. Guillot, Mr. H. Le Maître, & Mr. H. Manouan	Direction et Controle des Grands Travaux
Mr. Soungalo Traoré, Directeur de Liquidation (former Director of Cellule Technique)	Crédit de Côte d'Ivoire

U.S. Embassy

Mr. Hume Horan, Ambassador
Mr. Steven Olson, First Secretary (Commercial Section)
Ms. Catherine Hill, Second Secretary (Commercial Section)

USAID

Mr. Frederick Gilbert, Director
Mr. David Mutchler, Deputy Director
Ms. Margaret Alexander, Program Management Officer
Mr. Martin Shulman, Human Resources Development Office
Mr. Bernard Kouassi, Project Development Officer
Ms. Carlene Dei, Program Management Officer

Donor Agencies

Ms. Amparo Ballivian, Economist	The World Bank
Mr. Franz Kaps, Country Officer	The World Bank
Mr. J. Saghir, Economist	The World Bank
Mr. Wolfgang Bertelsmeier, Resident Representative	International Finance Corporation
Mr. Takuro Kimura, Investment Officer	International Finance Corporation
Mr. Simon Paul, Representative	Commonwealth Development Corporation
Mr. Abdul Rahman Awl, Head, Private Sector Development Unit	African Development Bank
Mr. Michel Abrogua, Senior Investment Officer, Private Sector Development Unit	African Development Bank
Mr. Georges Aithnard, Director	African Development Bank
Mr. M.S. Nedelcovych, U.S. Executive Director	African Development Bank
Mr. Antoine Baux, Director	Caisse Centrale de Coopération
Mr. Normand Lauzon, Resident Representative	United Nations Development Program

Private Sector

Mr. Edem Aithnard, Administrateur Délégué	Groupe Challenge
Mr. Venance Kacou, President	Editions CEDA
Mr. Stephen Fast, Partner	Deloitte & Touche
Mr. Daniel Teurqétil, Secretary General	Union Patronale de Côte d'Ivoire
Mr. François Goré, Secretary General	Chambre de Commerce et de l'Industrie
Mr. Jacques Fournier, Managing Director	Ernst & Young
Mr. Dany, General Manager	Village-Vacances d'Assinié et d'Assouindé (Club Med)

Universities

Dr. Ernest Wilson, Professor	University of Maryland
Dr. Jennifer Widner, Associate Professor	Harvard University
Mr. Siddhartha Mitter, Doctoral Candidate	Harvard University

ANNEX III

BIBLIOGRAPHY

BIBLIOGRAPHY

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"Unions and Employee Share Ownership Plans (ESOPs)", Jeffrey Gates, Consultant to the Cellule Technique, (undated).

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ANNEX IV

PRIVATIZATION POLICY PAPER

RÉPUBLIQUE DE CÔTE D'IVOIRE

Union - Discipline - Travail

PROGRAMME DE PRIVATISATION
POLITIQUE GÉNÉRALE

CABINET DU
PREMIER MINISTRE

I - INTRODUCTION ET CONTEXTE

Le gouvernement de la CÔTE D'IVOIRE a adopté à partir d'Avril 1990 un programme de réformes économiques et financières de grande portée destiné à corriger dans une première phase les déséquilibres importants des finances publiques et de balance des paiements, tout en jetant les bases des réformes structurelles nécessaires à une reprise de la croissance économique à moyen terme.
Le programme du gouvernement vise en particulier à rendre l'économie plus compétitive à travers:

- **LA RÉDUCTION DES DÉPENSES PUBLIQUES**
- **LA DÉRÈGLEMENTATION**
- **LA RÉFORME FISCALE ET TARIFAIRE**
- **LA RÉFORME DU SECTEUR FINANCIER**
- **LA RÉHABILITATION ET LA PRIVATISATION DES ENTREPRISES PUBLIQUES.**

Pour la mise en œuvre de ce programme, des changements importants ont été introduits au cours de l'année 1990 aussi bien au plan politique qu'à celui de la gestion économique, afin de redonner au pays la stabilité politique qui l'a toujours caractérisé et de rétablir son image de marque vis-à-vis de la communauté internationale.

En effet, au cours du quatrième trimestre 1990 se sont tenues, pour la première fois, depuis l'indépendance du pays, des élections présidentielle, législative et municipale **pluralistes**, à l'issue desquelles des changements institutionnels majeurs ont été initiés et qui ont conduit à un profond remaniement de l'équipe gouvernementale.

II - LE SECTEUR PARA-PUBLIC

Actuellement. le secteur para-public compte 140 entreprises comprenant:

- **DES ÉTABLISSEMENTS PUBLICS**
- **DES SOCIÉTÉS D'ETAT**
- **DES SOCIÉTÉS D'ÉCONOMIE MIXTE (SEM), DANS LESQUELLES LA PARTICIPATION DE L'ETAT EST VARIABLE.**

Les résultats d'exploitation de certaines de ces sociétés n'ont pas été à la mesures de l'effort d'investissement qui a été consenti par le gouvernement pour constituer cet important patrimoine, en raison notamment d'une maîtrise insuffisante de la gestion administrative et financière et d'un surdimensionnement des investissements.

Aussi. une vaste opération de redressement a été mise en œuvre pour aboutir selon le cas à la restructuration des entreprises. à leur liquidation ou à leur privatisation.

Ainsi, seront cédées dans le cadre de la privatisation:

- Les participations minoritaires de l'ETAT dans des sociétés rentables ou potentiellement rentables, gérées par des opérateurs privés. Le maintien des participations de l'ETAT, actionnaire passif dans ces sociétés, ne pouvant trouver de justification dans le contexte économique actuel;

- Les participations de l'ETAT dans des entreprises industrielles, dans lesquelles l'ETAT détient un pourcentage généralement majoritaire, mais pour lesquelles la présence d'un opérateur privé est considérée comme un élément nécessaire à l'amélioration de l'efficacité de la gestion de l'entreprise;

- Les participations de l'ETAT dans des entreprises publiques de secteurs économiques clefs (agro-industries, énergie, communications, transports,...) pour lesquelles l'expertise d'un partenaire privé est jugée essentielle pour le renforcement durable de la compétitivité de l'entreprise.

III - LES OBJECTIFS DU PROGRAMME DE PRIVATISATION

Le programme de privatisation repose sur trois principes fondamentaux à savoir:

- La RIGUEUR dans l'étude des dossiers de privatisation;
- La TRANSPARENCE dans la gestion du programme;
- La SAUVEGARDE des intérêts nationaux.

La politique de privatisation de l'ETAT s'organise autour des objectifs suivants:

1 • Augmenter la productivité et la compétitivité des entreprises;

2 • Réduire les coûts des facteurs de production et le coût de la vie;

3 •Accroître la participation du secteur privé dans le financement et la gestion des activités économiques par l'accroissement de l'apport de capitaux frais du secteur privé dans l'appareil de production;

4 •Mobiliser l'épargne locale à travers la création d'un actionnariat national, qui permettra de développer le marché des capitaux en CÔTE d'IVOIRE;

5 •Augmenter les ressources budgétaires pour l'ETAT en élargissant l'assiette fiscale et en réduisant substantiellement les transferts de ressources budgétaires au secteur para-public;

6 •Accroître les opportunités offertes par le marché de l'emploi.

Environ 80 participations de l'Etat sont concernées par ces privatisations. La part de l'ETAT (valeur nominale des participations augmentée, le cas échéant, du montant des fonds de dotation) dans ces entreprises représente environ 208 Milliards de F CFA.

PARTICIPATIONS DE L'ETAT	NOMBRE D'ENTREPRISES	PARTICIPATIONS DE L'ETAT DANS LE CAPITAL (en milliards F CFA)
- Participations minoritaires	43	9,103
- Participations majoritaires dans les SEM	19	45,368
- Sociétés d'Etat	4	95,996
	66	**150,467**
- EPIC	6	47,129
- Banques	7	11,048
	79	**208,644**

SEM = Société d'Economie Mixte

EPIC = Etablissement Public à Caractère Industriel et Commercial

IV - LE CADRE INSTITUTIONNEL

Le gouvernement a mis en place un Comité de Privatisation et de Restructuration du Secteur Para-Public, composé en majorité de personnes issues du secteur privé sous la tutelle de Monsieur le Premier Ministre. Ce Comité a assisté le gouvernement dans la formulation de la politique de privatisation et continuera à jouer un rôle consultatif très actif dans la poursuite du programme.
Une Cellule Technique chargée de la mise en œuvre du programme a été instituée au sein du Comité de Privatisation et de Restructuration du Secteur Para-Public. Le Comité a déjà bénéficié d'un don du gouvernement japonais, géré par la Banque Mondiale.
Le Comité fera appel aux bailleurs de fonds pour le financement des actions de la Cellule Technique.

En outre, le décret n° 90-1610 du 28/12/1990 permet à la CAISSE AUTONOME D'AMORTISSEMENT (CAA) de centraliser et détenir toutes les actions et participations de l'ETAT et des établissements publics. Elle jouera ainsi le rôle de "Trust Fund".

V - LA LISTE DES ENTREPRISES A PRIVATISER

Dans la première phase du programme, un premier lot d'entreprises a été choisi sur la base des critères suivants:

- Leur privatisation permettra d'accélérer la relance de la production:

- Leur privatisation permettra de mobiliser des capitaux privés pour financer les besoins urgents d'infrastructure et d'investissements additionnels:

- Leur vente est susceptible de générer des flux financiers importants en faveur de l'ETAT:

- Elles sont attrayantes pour le secteur privé et donc relativement plus faciles à privatiser.

La liste des entreprises retenues pour cette phase figure au tableau ci-après.
Cette première phase sera suivie d'un plan de privatisation des sociétés à participation financière de l'ETAT et des Etablissements Publics Nationaux; les critères seront alors définis.

ENTREPRISES A PRIVATISER DANS LA PHASE I

SOCIÉTÉS	DÉSIGNATION	CAPITAL (000 F cfa)	PART DE L'ETAT AU CAPITAL EN %	*C.A 1989 (000 F cfa)
PALMINDUSTRIE	PALMINDUSTRIE	34 002 059	100%	45 574 083
HÔTEL IVOIRE	SOCIETÉ du PALACE de COCODY	8 250 860	100%	6 615 000
ONT	OFFICE NATIONAL des TELECOM-MUNICATIONS	*EPN	100%	40 000 000
OFFICE DES SEMENCES ET PLANTS (OSP)	INFRASTRUCTURE de PRODUCTION SEMENCIERE	*EPIC	100%	*EPIC
SOGB	Ste des CAOUTCHOUCS de GRAND BEREBY	21 601 840	95%	9 915 739
SAPH	Ste AFRICAINE de PLANTATIONS d'HEVEA	13 884 373	60%	13 263 503
SICOR	Ste IVOIRIENNE de COCO RAPÉ	500 000	51%	2 553 804
SIBP	Ste IVOIRIENNE BRITISH PETROLEUM	510 940	50%	40 197 980
SHELL-CI	SHELL CÔTE d'IVOIRE	1 800 000	50%	47 812 524
SIR	SOCIÉTÉ IVOIRIENNE de RAFFINAGE	31 000 000	48%	157 982 637
SICABLE	SOCIÉTÉ de CABLES	555 000	35%	2 932 449
FILTISAC	FILAGE et TISSAGE de SACS de C.I	1 190 000	25%	10 184 761
CAPRAL	Cie AFRICAINE de PRODUITS ALIMENTAIRES	3 600 000	24%	27 796 641
PFCI	PÊCHE et FROID de CÔTE d'IVOIRE	250 000	18%	15 421 187
IPS-CI	INDUSTRIAL PROMOTION SERVICE-CI	800 000	15%	640 296
COSMIVOIRE	OMNIUM CHIMIQUE et COSMÉTIQUE	702 000	13%	7 529 000
NOVALIM	NOVALIM-NESTLE	2 600 000	12%	20 043 945
	TOTAL	**121 267 072**	**74 %**	

*C.A = Chiffre d' Affaires

*EPN = Etablissement Public National

*EPIC = Etablissement Public à Caractère Industriel et Commercial

VI - PROCEDURE DE PRIVATISATION

Le processus de privatisation se déroulera en deux phases:

- La sélection des entreprises et les études techniques préalables permettant de définir les stratégies de privatisation:
- La mise en œuvre du plan de privatisation.

A) La définition des stratégies de privatisation

Il sera d'abord procédé à la sélection des entreprises selon des critères approuvés par le gouvernement, comme cela a été le cas pour la première liste ci-dessus.
Le comité fera réaliser toute étude devant permettre de mieux cerner l'entreprise et notamment toutes les études techniques relatives:

- A l'audit financier et à la valorisation de l'entreprise:
- Aux aspects juridiques:
- A l'analyse du capital et de la gestion;
- A la compétitivité de l'entreprise dans son secteur.

La privatisation empruntera une des formes suivantes:

- Cession totale ou partielle d'actifs;
- Cession totale ou partielle des actions détenues par l'ETAT;
- Transfert du patrimoine des Etablissements Publics Nationaux au secteur privé;
- Vente des filiales des sociétés d'ETAT et des sociétés d'Economie Mixte:
- Fusion-scission:
- Dissolution-liquidation;
- Concession ou affermage.

La cession s'opèrera au profit d'investisseurs, de groupes d'investisseurs, de personnes morales ou physiques et dans toute la mesure possible des salariés en vue de favoriser l'acquisition par eux d'une fraction du capital de leurs entreprises et de développer ainsi un actionnariat populaire.
Les techniques de cession seront, selon le cas, l'offre publique et la vente directe ou tout autre forme jugée appropriée et conforme aux principes énoncés.

B) La mise en œuvre du programme

Sur la base de ces études et après approbation du gouvernement, le comité préparera un plan d'exécution de la décision gouvernementale et, selon le cas, le comité recherchera un appui technique pour la préparation des dossiers de privatisation qui serviront au lancement des appels d'offre.

Il sera, à cette occasion, prévu les procédures de soumission et les critères d'évaluation des offres, les dispositions relatives à la participation des employés de l'entreprise, des investisseurs nationaux et étrangers.

Après l'approbation des offres, le comité procèdera aux négociations avec les entreprises et groupes d'entreprises et se chargera dans un souci de célérité de faire établir tous les actes juridiques nécessaires pour permettre la cession. **Le gouvernement fera publier le nom des repreneurs, le prix de cession définitif et en cas d'offre publique ou d'offre aux employés, le prix de l'action et le nombre de souscripteurs**.

S'agissant des Etablissements Publics Nationaux ne revêtant pas de forme sociétaire, la question sera résolue cas par cas après identification par le comité, des Etablissements Publics Nationaux (EPN) à privatiser.

VII - PROMOTION

Le succès de ce programme de privatisation requiert une large information au plan national et international.

A cet effet, la présente note de politique générale sera suivie d'une série de conférences et d'exposés pour expliquer le processus de privatisation.

Ces conférences et exposés s'accompagneront d'une campagne de promotion dans les médias nationaux et internationaux.

Pour toute information sur le programme de privatisation de la CÔTE d'IVOIRE, contacter l'adresse ci-dessous:

COMITÉ DE PRIVATISATION ET DE RESTRUCTURATION
DU SECTEUR PARA-PUBLIC

Cellule Technique
M. Soungalo TRAORE
conseiller financier
04 B.P. 470 - ABIDJAN 04 - CÔTE D'IVOIRE
FAX. 32 21 12 • TELEX : 22 106
TÉLÉPHONE : 32 89 46

ANNEX V

PRESIDENTIAL DECREE ON PRIVATIZATION (1990)

à l'attention de Mme METAHY

PARTIE NON OFFICIELLE

Sous-préfecture de [illegible] — [illegible] de commodo et incommodo. 43

Conservation de la Propriété et des Droits fonciers. — Bureau d'Abidjan. — Avis de demandes d'immatriculations. 43

Avis et communiqués. 43

PARTIE OFFICIELLE

ACTES DU GOUVERNEMENT

MINISTERE DELEGUE AUPRES DU PREMIER MINISTRE CHARGE DE L'ECONOMIE, DES FINANCES DU COMMERCE ET DU PLAN

DECRET n° 90-1610 du 28 décembre 1990 portant :

— Autorisation de cession et de transfert au S des Actions et Participations détenues sonnes morales de droit public ;

— Création des organes chargés du Progra valisation et de Restructuration du S public et organisation des modalités d'e ce Programme.

LE PRESIDENT DE LA REPUBLIQUE,

Sur le rapport du Premier Ministre ;

Vu la loi du 24 juillet 1867 sur les sociétés ;

Vu la loi n° 70-633 du 5 novembre 1970 fixant le régime des sociétés à participation financière publique, et les textes pris en application et son article 10 ;

Vu la loi n° 80-1070 du 13 [illegible] rales relatives aux établissem [illegible] tion des catégories d'établiss [illegible]

Vu la loi n° 80-1071 du 13 [illegible] organisatives des sociétés d'Etat [illegible] du 2 août 1983, et les textes [illegible]

Vu la loi n° 89-782 du 2 [illegible] l'administration des sociétés anonymes telle que modifiée par la loi n° 87-797 du 26 juillet 1987 ;

Vu la loi n° 88-681 du 22 juillet 1988 fixant les règles relatives à l'Etablissement public à caractère financier dénommé « Caisse autonome d'Amortissement ».

Vu la loi n° 89-814 du 19 juillet 1989 relative à l'organisation du marché des valeurs mobilières ;

Vu le décret n° 75-148 du 11 mars 1975 portant organisation de la tutelle des sociétés à participation financière publique ;

Vu le décret n° 75-149 du 11 mars 1975 fixant les règles de gestion et de contrôle des sociétés à participation financière publique ;

Vu le décret n° 80-1251 du 28 novembre 1980 portant classement des catégories d'établissements publics nationaux ;

Vu le décret n° 81-137 du 18 février 1981 portant régime financier et comptable des établissements publics nationaux et notamment son articles 84 ;

Vu le décret n° 82-402 du 21 avril 1982 portant organisation administrative des établissements publics nationaux ;

Vu le décret n° 88-730 du 25 août 1988 portant application de la loi n° 88-681 du 22 juillet 1988 fixant les règles relatives à l'établissement public à caractère financier dénommé « Caisse autonome d'Amortissement » ;

Vu le décret n° 89-815 du 19 juillet 1989 portant réglementation de l'adjudication [illegible] ;

Vu le décret n° 89-816 du 19 juillet 1989 portant réglementation de l'appel public à l'épargne ;

Vu le décret n° 89-817 du 19 juillet 1989 portant réglementation de la profession d'agent de change ;

Vu le décret n° 89-818 du 19 juillet 1989 portant réorganisation de l'établissement public à caractère financier dénommé « Bourse des Valeurs [illegible] » ;

Vu le décret n° 90-1530 du 7 novembre 1990 portant nomination du Premier Ministre ;

Vu le décret n° 90-1578 du 30 novembre 1990 portant nomination des membres du Gouvernement ;

Le Conseil des ministres entendu,

DECRETE :

TITRE PREMIER

DE L'AUTORISATION DE CESSION DES ACTIONS ET DE LA RESTRUCTURATION

L'article premier. — Le Gouvernement, dans le cadre du programme de privatisation et de restructuration du secteur parapublic autorise la cession et le transfert de propriété au secteur privé des actions et participations détenues par les personnes morales de droit public dont les personnes morales ci-après :

— Les sociétés d'Etat ;

— Les sociétés d'économie mixte ;

— Les personnes morales, autres que celles qui précèdent dont le capital social est partiellement détenu, soit par l'Etat, les établissements publics nationaux, les collectivités locales, les sociétés d'Etat ou les sociétés d'économie mixte.

Art. 2. — Est également autorisée la cession au secteur privé des actions de l'Etat, des collectivités locales, des établissements publics nationaux qui de par les dispositions réglementaires ne sont cessibles qu'à des personnes morales ivoiriennes de droit public ou à des sociétés à participation financière publique ivoirienne majoritaire.

Art. 3. — Le Gouvernement est chargé de réaliser les études nécessaires en vue de la restructuration des sociétés d'Etat, des sociétés d'économie mixte à participation publique majoritaire et des établissements publics nationaux

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TITRE II

DES ORGANES CHARGES DE LA PRIVATISATION ET DE LA RESTRUCTURATION DU SECTEUR PARAPUBLIC

Art. 4. — Le Gouvernement est chargé :

— De la définition de la politique de Privatisation et de Restructuration ;

— De l'approbation de la sélection des entreprises à privatiser, à restructurer et/ou à recapitaliser ;

— Du choix des modes de privatisation et des formes de restructuration ;

— De la fixation de la valeur minimale de cession ;

— De la supervision de la mise en œuvre du programme de privatisation.

Art. 5. — Il est créé sous l'autorité et le contrôle du Premier Ministre un organe dénommé « Comité de Privatisation et de Restructuration du secteur parapublic » (le Comité de Privatisation), qui assiste le Gouvernement dans sa mi[illegible]t.

Il est plus particulièrement chargé :

— De la sélection des entreprises à privatiser et à restructurer ;

— De l'élaboration des termes de référence des audits et des études de valorisation des entreprises ;

— Du suivi des travaux des consultants (discussion et approbation des rapports préliminaires et finaux ;

— De la formulation du mode de privatisation et de restructuration pour chaque entreprise ;

— De l'élaboration de cahiers des charges pour l'appel des candidatures ;

— De la préparation des dossiers et la participation aux travaux relatifs à la campagne de promotion, préparation de prospectus, négociations et cessions.

Les membres de cet organe sont désignés par le Premier Ministre.

Art. 6. — Le Comité de Privatisation a en son sein une Cellule technique, organe d'exécution qui agit sous sa responsabilité.

La Cellule technique est chargée de réaliser toutes les études que nécessitera le programme de privatisation et de Restructuration du secteur parapublic.

Art. 7. — Pour faciliter la mise en œuvre du programme, la Caisse autonome d'Amortissement dite C.A.A. est chargée de centraliser et détenir toutes les actions et participation de l'Etat, des établissements publics nationaux et des Collectivités locales dans les personnes morales visées à l'article premier, en qualité de consignataire.

Art. 8. — Le ministre délégué auprès du Premier Ministre chargé de l'Economie, des Finances, du Commerce et du Plan est chargé de signer au nom et pour le compte de l'Etat les actes de cession.

Art. 9. — Nonobstant les dispositions qui précèdent, les organes de gestion, de contrôle technique, économique et financier dans les entreprises visées à l'article premier, ainsi que les représentants des intérêts publics dans lesdites entreprises continuent d'exercer leurs fonctions.

TITRE III

DES TECHNIQUES DE PRIVATISATION ET DES FORMES DE RESTRUCTURATION

Art. 10. — Le Gouvernement détermine dans chaque cas les techniques de privatisation et les formes de restructuration.

Les techniques de privatisation et les formes de structuration sont les suivantes

— Cession partielle ou totale d'actifs ;

— Cession partielle ou totale d'actions ;

— Cession d'actions aux salariés ;

— Cession d'actions par offre publique ;

— Transfert du patrimoine des établissements publics nationaux au secteur privé.

— Fusion-scission ;

— Augmentation du capital avec renonciation par l'Etat à son droit préférentiel de souscription ;

— Dissolution-liquidation ;

— Concession ;

— Mise en gérance.

Art. 11. — Le Gouvernement fixe dans chaque cas la limitation des participations pouvant être acquises par des personnes physiques ou morales étrangères ou des personnes morales sous contrôle étranger.

Par personne morale sous contrôle étranger, le présent décret entend toute personne morale dont le capital social est détenu à plus de 50 % par des personnes physiques ou morales étrangères.

TITRE IV

DE LA PROCEDURE

Art. 12. — *a*) La procédure arrêtée est la suivante :

— Sélection des entreprises selon les critères approuvés par le Gouvernement ;

— Notification à la direction des entreprises retenues de la décision de privatisation ou de restructuration ;

— Réalisation par le Comité de Privatisation des études techniques relatives :

- A l'audit financier et de valorisation ;
- Aux aspects juridiques ;
- A l'analyse du capital et de la gestion ;
- A la compétitivité de l'entreprise dans son secteur.

Et toute autre étude nécessaire devant permettre de mieux cerner l'entreprise.

b) Sur cette base, un dossier sera préparé pour chaque entreprise et soumis au Gouvernement afin de :

— Déterminer si l'entreprise doit être privatisée ou restructurée ;

— Définir la meilleure méthode de privatisation ou de restructuration ;

— Déterminer la valeur minimale de cession ;

— Prescrire toute mesure juridique.

A cette occasion, il est arrêté notamment les procédures de soumission et les critères d'évaluation des offres, les dispositions relatives à la participation des employés de l'entreprise, des investisseurs étrangers, la part réservée aux personnes physiques.

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Art. 13. — Le Comité de Privatisation, après approbation par le Gouvernement, prépare les documents nécessaires pour :

— Solliciter les offres (appel d'offres, cession de gré à gré) qui seront évaluées suivant les critères préalablement publiés :

— L'offre publique : selon le prix de vente de l'action, les modalités d'introduction en bourse et les délais de l'offre publique ;

— L'offre aux employés : selon le prix, les modalités de cession et de règlement approuvées par le Gouvernement.

Art. 14. — Le Comité de Privatisation, après approbation par le Gouvernement des offres, se charge de faire établir tous les actes juridiques nécessaires pour permettre la cession.

Le Gouvernement fait publier :

— En cas d'appel d'offres ou de cession de gré à gré, le nom des repreneurs, le prix de cession définitif ;

— En cas d'offre publique et d'offre aux employés, le prix de l'action et le nombre de souscripteurs.

TITRE V

DISPOSITIONS FINALES

Art. 15. — Le ministre délégué auprès du Premier Ministre, chargé de l'Economie, des Finances, du Commerce et du Plan, est chargé de l'exécution du présent décret qui abroge toutes dispositions antérieures contraires et qui sera publié au *Journal officiel* de la République de Côte d'Ivoire.

Fait à Abidjan, le 26 décembre 1990.

Félix HOUPHOUET-BOIGNY.

MINISTERE DE L'EDUCATION NATIONALE

ARRETE n° 8 MEP. DPI. SDCS. du 7 novembre 199 portant redécoupage des circonscriptions des inspection d'Enseignement primaire d'Agboville I et d'Agboville I.

LE MINISTRE DE L'ENSEIGNEMENT PRIMAIRE,

Vu le décret n° 90-191 du 28 février 1990 modifié par le décr n° 90-511 du 5 juillet 1990 portant nomination des membres d Gouvernement ;

Vu le décret n° 86-1089 du 2 octobre 1986 fixant les attributio du ministre de l'Enseignement primaire ;

Vu le décret n° 89-13 du 11 janvier 1989 portant réorganisatio du ministère de l'Enseignement primaire ;

Vu le décret n° 87-494 du 20 mai 1987 portant création et ouve ture des directions régionales de l'Enseignement primaire ;

Vu les nécessités de services,

ARRETE :

Article premier. — Les circonscriptions des inspectio d'Enseignement primaire d'Agboville I et d'Agboville reçoivent une nouvelle délimitation.

Art. 2. — Les écoles primaires publiques et privées d département d'Agboville sont réparties entre les deux insp tions d'Enseignement primaire, conformément aux tablea ci-dessous :

A. — INSPECTION DE L'ENSEIGNEMENT PRIMAIRE D'AGBOVILLE I

COMMUNE D'AGBOVILLE

1° *Enseignement public*

Ecoles	*Classes autorisées 1990 — 1991*	*Ecoles*	*Classes autorisées 1990 — 1991*
1. — Adahou-Village	6	14. — Grand-Motcho II	6
2. — Application I	6	15. — Grand-Motcho III	6
3. — Application II	6	16. — Langué	6
4. — Application III	3	17. — Obodjikro I	6
5. — Application IV	1	18. — Obodjikro II	6
6. — Artisanal I	6	19. — Obodjikro III	6
7. — Artisanal II	6	20. — Obodjikro IV	3
8. — Banguié I	6	21. — Obodjikro V	3
9. — Coéive	6	22. — Quartier-Collège	3
10. — Bry-Makouguié I/A	6	23. — RAN-Adahou	6
11. — Bry-Makouguié I/B	3	24. — Sambrégnankro	6
12. — Bry-Makouguié II	6		
13. — Grand-Motcho I	6		
		24 écoles	126

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ANNEX VI

PHASE II LIST OF CANDIDATE COMPANIES FOR PRIVATIZATION

ENTERPRISES FOR RESTRUCTURING AND PRIVATIZATION

PHASE 2

Agro-Industrial Sector

SODESUCRE **	Sugar
Rizeries d'Etat **	Rice Production
CIDT *	Cotton, Textiles
Serebou #	Agro-industrial Complex
Marabadiassa #	Agro-industrial Complex
Perimetre Legumier/Marabadiassa	Vegetables
Sinematiali	Agro-industrial Complex
CHOCODI	Chocolates
SACO	Cocoa
SIPRA	Animal Production
TRITURAF	Vegetable Oil
PHCI	Oil Products

Transport Sector

SICF **	Railroad
SOTRA	Road Transport
SIETRANS	Maritime Transport
SITRAM **	Maritime Transport

SIVOM	Maritime Transport
MORY	Road Transport
SAG	Transport, Transit

Petroleum Sector

Gaz Cote d'Ivoire *	Gas Distribution
GESTOCI	Petroleum Product Storage
SMB *	Asphalt Production

Real Estate Sector

SICOCI *	Real Estate
SIFERCOM	Buildings/Property

Hotel Sector

Hotel President **	Hotel, Tourism
Hotel de l'ex-Sietho #	Hotel, Tourism

Industrial Sector

SAFICA	Notebook Production
SBB	Soft Drinks
SIDELAF *	Electrical Insulation

SIEM	Metal Container Production

<u>Tertiary Sector</u>

SAFBAIL	Lease Financing
SHAD	Distribution

** 100% Government-owned.

* More than 50% Government-owned, but less than 100%.

Percent of government ownership not known.

Source: Government list as published in Fraternite Matinee, 14/11/92.

Note: Several versions of the Phase II list exist. The number of enterprises varies from 32 to 38.