Results of Privatization in the Franc Zone

Dr. Donald Kaberuka
President

Event: Conference of Ministers of Finance of the Franc Zone
Libreville, Gabon
13 April 2006
After the excellent presentation by the technical team and comments from my two colleagues, with which I fully concur, and within the limited time given to me, I wish to address certain issues and outline some avenues that we could explore together.

Though the overall results are mixed, in several countries of the Franc Zone, there are many success stories of privatization. The reasons for this success lie in the existence of a real political will; the application of transparent procedures in the bidding process; and, the presence of professional buyers or strategic investors with the technical and financial capacity to modernize and develop the enterprises concerned. The examples are legion, and in the WAEMU region, they range from privatization of the water and electricity sectors in Côte d'Ivoire to the telecommunications sector in Senegal.

In the CEMAC Zone, there are also notable examples of recent privatizations, such as that of banks in Congo; the transfer of the oil palm industry to the private sector in Gabon; and, the divestiture by the Central African Government from the sugar sector. These examples are a clear testimony to the desire of Governments to further refocus their role to that of investment and growth facilitators.

However, there is still a long way to go in the implementation of privatization programs. The example of Mali (and my own country-Rwanda) shows that privatization in some areas can be reversible, and that a privatized enterprise could return to Government control as a result of contractual disputes with the buyer, and weak competition in the sector, or even specifications that are not complied with by the buyers.

Over and above the basic issue of political will, countries face difficulties in carrying out their privatization programmes because of their limited institutional capacities.

For example: the privatization of public utilities consists of complex operations that require long and costly procedures to be carried out in total transparency. In some countries, the privatization process is obstructed by the lack of prior studies for the preparation of detailed specifications. Very often, the countries do not have the capacity to technically manage the proposed privatizations.

This results in poorly prepared bidding documents leading to the definition of unrealistic objectives in contractual obligations between the State and the buyer. Delays in privatization programmes are, to a large extent, attributable to these factors.
An analysis of privatizations on our continent and elsewhere shows that the establishment of an appropriate legal, institutional and regulatory framework is indispensable for reassuring strategic partners and investors in the medium and long terms. The failure of some privatization programmes is, in several cases, due to lack of clear and precise definition of the social obligations of private investors. It would have been preferable to specifically take into account subsidies or other social contributions and ensure their direct management by the public authorities.

In other cases, the private sector has been over-optimistic and under-evaluated the risks linked to the new investments. In future, it will be necessary to better evaluate the transfer of risks from the public to the private sector and ensure transparent management of social considerations.

The ADB will continue to encourage economic reform programmes which focus on reducing State involvement in productive areas and on creating an enabling environment for private investment. In the Franc zone, we have supported the alignment of domestic legislation with the OHADA provisions, the training of staff, particularly magistrates, and the establishment of regulatory organs.

We have also supported programmes for the simplification of enterprise-creation procedures.

We have helped in restructuring public enterprises by granting financial resources to meet social requirements.

The Bank also provides support through its private sector window, particularly the granting of concessions and promotion of public-private partnership, thereby creating an enabling environment for strategic investors.

The AZITO project in Côte d’Ivoire and MTN in Cameroon are concrete examples of such support. More recently, in 2005, the Bank participated in financing a public-private sector power plant project in Senegal.

As Professor Barthélémy’s study has clearly shown, privatization experiences in the Franc Zone are somewhat varied, but encouraging all the same. The privatizations conducted in our countries, as well as those concluded in the rest of the continent, represent an undeniable economic and social gain. Admittedly, their success requires strong political commitment, specific technical and financial conditions, a sound legal and regulatory framework, and institutions with the technical, financial and human resources required for delivering on their mandates.

Emphasis should also be laid on the importance of sectoral specificities in these programmes. Issues of access by the poorest people to privatized services should
be treated in a transparent and explicit manner. The respective responsibilities and
commitments of the Government and the private sector on these issues should first
be defined to avoid disagreement. The method of privatization cannot be the same
for all the sectors. For example, privatization in the water and energy sector cannot
be conducted in the same manner as for mobile telephony.

An important aspect to be taken into account, but which is often neglected, is the
regional dimension. A regional approach to programme preparation would certainly
contribute to the adoption of good practices and harmonization of privatization and
investment regulations.

Of course, it is true that in recent years there have been concrete developments
regarding the role of the State.

But what risk do we run in delaying privatization? We can mention the following five
consequences:

i. The accelerated depreciation of assets due to lack of maintenance
   investment;

ii. Reduction in the value of the company for the shareholder, which is the
   State;

iii. The accumulation of financial deficits, which ultimately weigh heavily on the
    Treasury;

iv. The delivery of poor quality services; and, lastly,

v. Penalization of the entire economy with losses in productivity and
   competitiveness.

Allow me to take this opportunity to encourage our countries to pursue and
intensify their privatization programmes, in a public-private partnership, if possible.

I wish to reaffirm the availability of the ADB to support this action. We will continue
to offer not only our financial resources, but also our expertise with a view to
building the capacities of countries, and upgrading the institutional, legal and
regulatory frameworks required for developing public/private partnership. We will,
as much as possible, encourage the participation of SMEs in privatization
programmes, including in the management and maintenance of local infrastructure.

More than ever before, Africa needs a dynamic private sector, which will serve as
the engine of renewed growth on the continent. The pursuance of privatization,
taking into account, undoubtedly, conditions specific to each country, remains indispensable, even though that may require addressing problems that are often temporary.

The ADB will continue to encourage you and support these efforts.

Thank you.