

What has been done in MPCs to assist privatisation

Tunisia

The EIB's most significant role in facilitating privatisation in the MPCs has taken place in Tunisia, where the EIB helped the privatisation of medium sized companies via the provision of equity and mezzanine finance immediately after the sale of the state company to the private sector, either directly or through specialised financial intermediaries. The EIB was involved at the time of identification of candidates for privatisation by the Tunisian Privatisation Unit. The tendering documentation indicated the possibility for the EIB to be involved in financing.

Generally speaking, the EIB financed up to 50% of the actual/intended stake that financial intermediaries invested in the company to be purchased; this enables to leverage equity funds and provide mezzanine financing. The financial intermediary monitors the project and is remunerated either by a share of the dividends and capital gains received by the EIB, or by a share of the variable interest rate charged to the final beneficiary (interest rate linked to the performance of the final beneficiary). The intermediary therefore assures the active management of the funds raised. Instruments used include modern financial tools available on the Tunisian stock exchange, such as ordinary shares, preference shares, investment certificates and convertible bonds.

In addition to reinforcing the share capital of the enterprises, in some cases the EIB intervened to reinforce the financial structure of the new privatised companies, allowing them to be better placed for their activities in an open market.

The scheme enabled an improvement in the performance of businesses, the mobilisation of national savings, attraction of foreign capital and the enlargement of financial markets with an increase in the number of shares quoted on the local stock exchange. Further, the EIB funding helped promoters to consolidate the capital of their enterprises; enabled financial intermediaries to reinforce their role of partner of promoters and creative actor on the financial markets; facilitated the completion of numerous privatisations by the government, with associated budgetary implications; and helped create an innovative financial instrument.

The privatisation program continues at regular intervals; the EIB follows developments via its risk capital partners and its relationship with the Privatisation Directorate in Tunis.

Other Mediterranean Countries

The European Commission has developed programmes to assist privatisation in a number of MPCs and, until recently, the EIB has followed downstream these developments. Although Egypt, Morocco and Tunisia have the option of using risk capital for privatised companies, only Tunisia used it so far. Privatisations in Egypt and in Morocco generally involve larger companies, and the EIB has not officially entered into the process. Often, larger companies face different issues, for example the one of monopoly. The lesson which can be drawn is that EIB participation to the privatisation of relatively smaller firms is easier. Of course this means that the ability of the EIB to become involved also depends on the countries' industrial structures.

In Algeria, both the World Bank and the European Commission developed a detailed program of assistance to privatisation. An EIB facility aimed at supporting privatisations and private sector investments in general is currently under review.

As several countries seem now prepared to enter into active privatisation programmes, sometimes through ad-hoc established agencies, the EIB proposes a menu of options aimed at supporting this process.

Options offered by the EIB to support privatisations

The range of products available and the increased focus given on the private sector operations allow the EIB to make extensive proposals in support of privatisation programmes in the Mediterranean Partner Countries, including larger privatisation of public services and utilities.

Possibilities offered include:

- grants for feasibility studies, preparation work and technical assistance,
- equity and quasi-equity finance for privatised companies,
- long-term loans for new investments undertaken by privatised companies.

Options for the EIB support to privatisation programmes are presented below; the combination use of different options is possible, in agreement with the MPC's authorities.

Option 1 - Setting a framework agreement with the local authority concerned

The framework agreement would include:

- the description of agreed procedures for privatisation which would enable EIB to provide its support,
- the identification of an indicative list of sectors or companies to be privatised,
- the description of the type of support the EIB would be able to provide (see options below).

Option 2 - Assistance to the privatisation programme through the FEMIP Support Fund (grants)

Various possibilities can be envisaged:

- Direct support to the Authority on an agreed programme including a range of assets or companies to be privatised.
- Support on a case-by-case basis on selected entities, to be defined with the Authority.
- The set up of the terms of the support should include:
 - a. a - Forms of privatisation (asset sale, sale of shares etc.)
 - b - Audit procedures of entities to be privatised
 - c - Procedures for competitive tendering

Option 3 - Provision of equity or quasi equity finance

- This support will be provided to the newly created company or to the buyer.
- It will take the form of direct equity participation, mezzanine finance (convertible bonds, subordinated loans, etc.) or similar products.
- It will be provided through selected financial intermediaries or directly by the EIB (preferably to be agreed and specified in the framework agreement).

Option 4 - Provision of loans and other finance to new investments after privatisation

In that situation, the EIB is prepared to support further the project with its usual tools, i.e.:

- long term loans, with characteristics matching the requirements of the projects. It can also include mezzanine finance.

Coordination

Under any of the options described, the EIB would operate in close coordination with other Institutions, in particular the European Commission and the World Bank.

EIB programmes will therefore complement and build upon other existing types of support programmes.