IMPACT OF PRIVATIZATION IN AFRICA:
AIR SENEGAL INTERNATIONAL

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Assessing the Impact of Privatization in Africa
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We define privatization broadly to include any significant transfer of management or ownership from the public to the private sector (that is, management contracts, leases, a*ffermage* contracts, concessions and full and partial divestiture). The broader study focuses on eight transactions involving private sector participation in infrastructure and other sectors in four Sub Saharan African countries. The main goal is to measure performance impacts and to highlight the factors that led to the outcomes. The analysis covers equity as well as efficiency, measuring the impact on various stakeholders: primarily consumers, workers, the government, and the new owner or operator. In sum, a successful privatization is not just one where the deed gets done, but where performance improves substantially and the results of that change are distributed equitably enough to sustain the process. The companies selected for the study include failures as well as successes. One can learn at least as much from the former as the latter and the goal is to help replace faith-based policies with ones that are fact-based. We would like to thank the Norwegian Consulting Group and Sunita Kikeri for trenchant comments on earlier drafts. The opinions expressed here are the sole responsibility of the authors and do not reflect those of the World Bank.

EXECUTIVE SUMMARY

After more than a decade of financial and technical woes (including two major crashes), the state-owned Senegalese airline, SONATRA Air Senegal (SAS), was sold to Royal Air Maroc (RAM) and changed its name to Air Senegal International (ASI) in 2001. Key features of the case include the following.

- **Repeated attempts at privatization**. Attempts were made to privatize the company in 1992, 1996 and 1998, but no bidders could be found. The 1998 effort was a by-the-book effort with World Bank support, competitive bidding, financial and labor force restructuring and upgrading of sectoral infrastructure.

- **Non-transparent transaction**: after the third failure, the Government of Senegal (GOS) abandoned the standard competitive bidding modality and sought to negotiate a deal with any interested party. After some discussions with Air France, and with the personal involvement of the President of Senegal and the King of Morocco, the RAM deal was consummated.

- **Non-Privatization outcome:** the GOS retained 49% of the shares and RAM is wholly owned by the Government of Morocco. So the outcome of the privatization effort was not privatization as we define it, but commercialization. It was, however, the outcome of a privatization effort and so qualifies as a privatization case.

- **Sale of a non-operating entity:** prior to its sale SAS had been shut down for two years.

Between 2001 and 2005, ASI increased traffic and labor force four-fold, expanded its fleet from two to five airplanes and augmented its revenues seven-fold. This is clearly a major success story. Who benefited from this impressive performance? Since the airline was shut down, it might be thought that the counterfactual comparator was zero and all stakeholders did. However, a fifth key external feature of the case must be considered.

- **Privatization into what turned out to be a market vacuum:** in 2002 the dominant regional airline, Air Afrique, shut down and much of ASI's success must be attributed to its being positioned to fill the resulting market vacuum.

First, consider consumers, who are of two types. The first consists of those flying to/from Europe. Since there are other carriers on these routes, these consumers would have flown anyway, and only benefit at the margin from any improvement in price and service that followed from additional competitive pressures. The second group is people flying within West Africa. The welfare impact now depends upon the counterfactual. One possibility is that the demand would have gone unmet, and no other firm would have entered the market to service the former Air Afrique routes. If so, then these consumers were huge winners, because otherwise they wouldn't have traveled or would have relied on time-consuming land transportation. However, we argue that markets abhor a vacuum and there would eventually have been an alternative entrant. Once this occurred, consumers would be neither better nor worse off than if they were flying SAS, so the welfare impact of the sale of SAS on consumers is zero after alternative entry has taken place. The net impact then has three parts: a minimal gain for the roughly half of consumers on international routes; a large gain for the lag period for those on West African routes; and a zero gain after the lag on West African routes. How long would the lag have been? One can differ on this, but we argue that it would have been brief (on the order of magnitude of a year) so the net would have been small.

Similar considerations apply to the impact on workers. If, as is likely, this entrant was also Senegal based, then, employees' gains would only have persisted for the lag period. The same would have applied to government gains from taxes and externalities. If the lag was short, as we argue it would have been, then these gains would have been modest. The only major net winners then were RAM and the government in its ownership role. But these gains came at the expense of the existing carriers on European routes and the unknown alternative entrant on West African routes. So, this is not a rousing case of net welfare gain, but that is what happens when you privatize into competitive or potentially competitive markets.

Since ASI remains 100% state-owned, a key reason for its success has been the laudable decision of both the GOS and the GOM to not intervene in the pursuit of non-commercial objectives. Whether or not this commitment will be maintained in the future, as at Singapore Airlines, or abandoned by some subsequent government, remains to be seen.

1. WHAT WAS DONE?

1.1. Impetus for Privatization

After two previously failed attempts in 1992 and 1996, the Government of Senegal (GOS) tried to privatize SONATRA[1] Air Senegal once again in 1998. The impetus this time was both financial and legal. By 1997 the company was unable to pay its accumulated debts of 774 billion FCFA (or US$ 1.4 billion). Hence the GOS could no longer bail the company out of bankruptcy by servicing its foreign loans (all of which were guaranteed by the Treasury). At the same time, two fatal accidents had tarnished the airline's reputation forcing the government take over its liabilities.

SONATRA Air Senegal was created in 1971, a decade after independence, with the GOS holding 50% of the shares, while 40% was held by the regional Senegal-based airline, Air Afrique holding 40%, and 10% in the hands of private Senegalese investors. Operations had started with a fleet of only two planes and without adequate technical expertise, competent employees and effective management. The enterprise had virtually no financial base. Its initial problems were compounded by persistent unsound management policies and practices and the serving of high-interest loans. Over the years its financial performance led to similar deterioration of its operational performance leading to two serious plane accidents.

The first accident in 1992 not only tarnished the company's reputation but also worsened its finances. The rest of the shareholders became eager to pull out. By 1996 the GOS felt obliged to increase its shares to 93.5% leaving only 5% with Air Afrique and 1.5% with the Senegalese private sector. The company continues to operate with a fleet of two planes (one HS 748 and one Twin Otter), both purchased with loans from British and Canadian governments and guaranteed by the Treasury. The second and more serious accident

[1] SONATRA was state holding company for state-owned transport enterprises.

happened in 1997 as the HS 748 crashed with 52 passengers on board killing 23 while 29 survived.

They liquidated the assets of SONATRA Air Senegal and transferred the liabilities to a new company. This was intended to disengage the company legally from any consequences of this second fatal accident. The company later signed a protocol agreement with the Ministry of Economy, Finance and Planning handling over responsibility to the State for potential liabilities which could emerge from the accidents up to a maximum of FCFA 500 million (or US$ 1 million). Thus SONATRA Air Senegal had subrogated its rights and obligations vis-à-vis the victims or their next kin.

By 1998, SONATRA Air Senegal had stopped flying. Remaining workers (about 90) continued to be paid.

1.2. PRIVATIZATION

1.2.1. Strategy and Process

SONATRA Air Senegal has undergone four separate privatization attempts, three of which were unsuccessful. The GOS tried to transfer its majority shares to the private sector in 1992 and again in 1996. These efforts failed to turn up any serious bidders. The 1992 plane crash had been enough to scare off any interested airlines. The second plane crash in 1997 reduced the company's marketability even more.

Nonetheless, in 1998, the GOS, this time with the help of the World Bank, decided to try again. The balance sheet was restructured with past losses written off so as to produce a net worth of FCFA 1,560,000,000 (US$ 3 million). The workforce was reduced from 129 operatives in 1996 to 93 in 1998. The GOS formally accepted responsibility for potential liabilities from the accidents up to FCFA 500,000,000 (US$ 1 million). The Word Bank financed an investment plan providing for new ground support equipment[2], the purchase of new computer equipment and telecommunications equipment together with additional financing to pay for the l training of 4 former pilots for DH 8-100 certification at the SAS Flight Academy in Sweden.

The international tender specified an increase in capital, required a strategic buyer to own 51% of the company's equity and mandated that potential bidders have substantial experience in air transport and a sound financial standing. Remaining shares were to go to: the State (20%), initial public offering (17.5%), company personnel (5%), Air Afrique (5%) and current private shareholders (1.5%).[3]

The tender announcement, however, did not generate any response at any price as of February 26, 1999. The GOS concluded that only a negotiated deal was likely to entice the kind of partners the Senegalese government sought. They then, without any assistance from the World Bank, directly contacted various embassies trading with Senegal to see if they

[2] (one self propelled conveyor belt, one set of tower passenger steps, one handling tractor, two ground power units, one tower service, one tower toilet servicing, and twelve trailers).

[3] "Invitation for International Tenders for the Privatization of Air Senegal," prepared by Management and Control Unit for State Portfolios, Ministry of Finance, Economic Affairs and Planning, The Republic of Senegal, p.12

could scare up any interest. The GOS first targeted Air France. Even though there was some initial interest, it was not sufficient to conclude a deal. The GOS next began discussions with Royal Air Maroc (RAM**)** which was fully owned by the Government of Morocco (GOM).

1.2.2. Negotiated Deal with RAM

In 1999, the former President Abdou Diouf approached His Majesty Mohammed IV, King of Morocco. After the elections in 2000, President Abdoulaye Wade, the newly elected President, continued negotiating with the King. The two heads of states negotiated and concluded the deal by the end of 2000. In 2001, Air Senegal International (ASI) was created. Most of the assets and liabilities of SONATRA Air Senegal were transferred to a separate account which was later liquidated and closed in 2002. The privatization transaction dictated that ASI would be owned 51% by RAM with the remainder held by the GOS. The government paid for its equity in-kind by contributing full traffic rights valued at FCFA 3.6 billion while RAM contributed one aircraft, a BOEING 737-200, valued at FCFA 3.9 billion. The former company already had one leased (with an option to buy) DH 8-100 aircraft, with an option to buy, together with a 26 year old, 20 seat PROP C-6 Twin Otter with high operating costs. ASI thus became a subsidiary of the mother holding company, RAM, and began operating in February 2001.

RAM was given exclusive rights to all domestic flights for a period of 10 years through a concession contract. The shareholders agreement also stated that the GOS would not be entitled to any dividends during the same period (RAM now expects to extend the exclusivity rights beyond ten years time in 2011). The new company would also operate flights to neighboring countries with the same rights as those enjoyed by Air Afrique and by other companies. Furthermore, ASI was given unrestricted authority to determine its own company strategy. However, in contrast with what both the GOS and the World Bank expected, there was no attempt made to offer any of the shares to the workers or to the public. ASI began operations with an 8 member Board of Directors (3 representing the GOS, including the head of the Privatization Agency, Ministry of Finance; Conseiller Technique, Ministry of Air Transport and Tourism; and State Financial Controller, and 4 members representing RAM) together with the General Manager of ASI. The Board members are to serve for a period of 6 years.

1.3. ISSUES

Here are a few of the intriguing issues that differentiate this case from others in the privatization genre.

- **"Privatization"?:** Sale was to another public enterprise, so a privatization ideologue (if there are any left) would argue this is not a successful privatization because the realm of the state was not reduced, but merely outsourced. We are pragmatists, so we'll leave that to others. But the question remains whether or not the resulting enterprise behaves commercially rather than pursuing social policies.

- **South-South Partnership:** Sale was to an owner in another African Muslim country. Is this a model to be promoted? Eschewed? Or, ignored as irrelevant?

- **Partial Privatization:** The GOS retains 49% of the shares and Ministers have three-eighths of the seats on the Board. Has this impacted the ability of the firm to behave competitively?

- **Privatization out of Bankruptcy:** Occasionally, public enterprises have been intentionally dissolved prior to privatization of the assets in order to abrogate existing labor obligations (for example, Air Lanka). This was not the case here, but do any special issues arise when selling a bankrupt firm?

- **Try and Try Again:** After three failed attempts at sale, the fourth attempt succeeded. Why? Was something done differently? Or was there a change in external circumstances?

- **Non-Transparent Modality of Sale:** The failed attempts were (at least the second one was) competitive and by the book. But, this was anything but. Is this the answer to the previous question? And, was any price paid by the GOS for contravening conventional wisdom?

We won't answer all these questions definitively (though the penultimate query does have a very simple answer). But, we will bear them all in mind and try to shed at least some light on all of them.

2. WHAT WERE THE RESULTS?

2.1. COUNTERFACTUAL

Throughout this set of studies we have been careful not to commit the error of crediting everything a company does to privatization. Rather, the gains are the difference between that and what the counterfactual (un-privatized) company would have done. But in this case the company had flat-lined, so the counterfactual is indeed zero and everything the company does is a gain. Right?

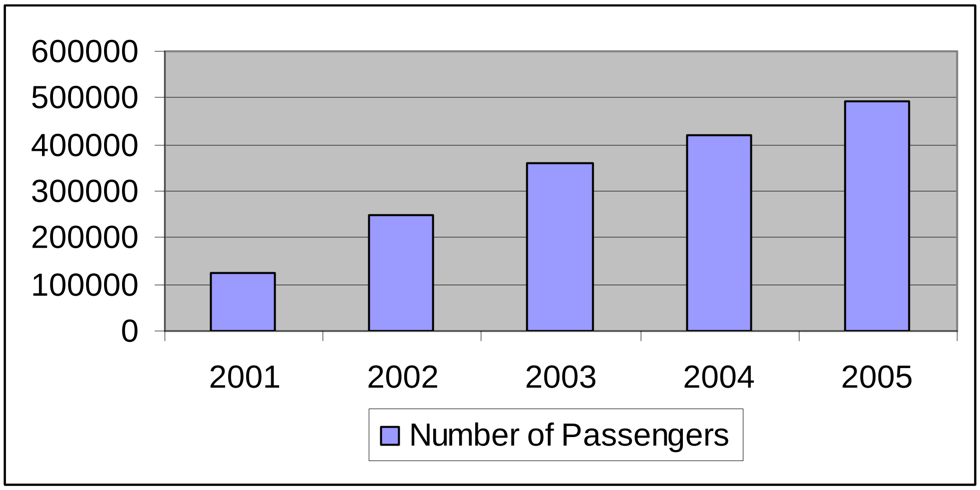
Wrong. Do you believe that all the folks who flew SAS would otherwise have stayed home? We don't. Markets abhor a vacuum; and where there's a demand, it's supplied. Somebody else would eventually have entered (or expanded in) the West African market, though likely with a lag. If so, then the gains for most stakeholders would have been short-lived. The probability of an alternative entrant is a key to understanding the welfare impact of this case because it means most benefits would have been confined to the lag period until someone else entered the market. We will elaborate in terms of the individual stakeholders.

2.2. CONSUMERS

ASI now operates with five airplanes, two owned (Boeing 737-700 and Boeing 737-500) and three leased (one DH 8, two Boeing 737-700). They serve 3 domestic (Cap Skirring

[South], Saint Louis [North] and Tambacouda [East] of Dakar) and 20 international destinations, 3 of which (Casablanca, New York, Johannesburg) involve code sharing with RAM? The number of total passengers quadrupled from 125,000 in 2001 to almost 500,000 in 2005 (See Figure 1.). Only 9% of this traffic is on domestic routes; 50% is Dakar-Paris and much of the remainder is to/from West Africa (Cote d'Ivoire, Togo, Mali and Guinea). ASI increasing the number of passengers to/from Europe by 25% between 2003 and 2004.[4] No accurate breakdown into domestic, Mecca, regional and European traffic is available but the real increase in traffic is attributed to Dakar-Paris-Dakar and regional routes.

Figure 1: Evolution of Number of Passengers, 2001-2005



Source: Data provided by Direction Generale, Air Senegal International, September 2005.

Most Senegalese depend on railways and roads to travel within the country; national and international air travel is limited to a very few. Yet ASI's limited number of domestic flights has been a disappointment to a small group of Senegalese with the means and the inclination to rely on air transport. This group maintains that it is politically very important for ASI to increase flights especially between Dakar and Zinguinchor (principal city of Casamance region where political tensions are high). However, ASI management argues that the new company can not afford to increase the number of subsidized domestic routes early on its operations. Its exclusivity obligation to provide service in domestic routes does not extend to increasing the number of flights. Whether this is a good or a bad thing depends on your view of commercial/non-commercial obligations, but we take it as important evidence that the privatized company is behaving commercially despite public ownership.

Less than 4% of 10.5 million Senegalese are among the Senegalese international travelers benefiting from ASI's expansion. For the last three years in a row, ASI organized annual pilgrimage flights for Senegalese going to Mecca. Senegalese residing in France (with Senegalese or French citizenship) and the French residing in Senegal (with French or Senegalese citizenship) together with Senegalese receive the bulk of consumer benefits from both increased access and from lower prices offered by ASI compared to Air France and other international airlines.

[4] *Rapport de Gestion, 2004*, presented to ASI's Board of Directors by Mr. Mohammad Fattahi, Directeur General, Air Senegal International, July, 9, 2005

Of course, these benefits must be netted against the counterfactual story. On international routes, most consumers would presumably have simply taken other airlines, so the quantity effects are minimal (see below for price effects). On domestic and intra-West-African markets, however, there was no air alternative, so there are real gains. However, after the lag until alternative entry these flights would have been taken anyway, so there is no net gain.

Turning to pricing, there is a three part story. Where ASI has competitors—on European routes-- it responds to the benefit of consumers, with, for example 10% lower prices on the key Paris route. Where it does not, there are two cases. The first is on domestic routes where social pricing is applied and prices are cross-subsidized from profits elsewhere. The second is on intra-West-African international routes. Here it is a little hard to estimate the impact because there are no direct price comparators. It does not face any competition internally and in some West African markets (it is the only way to fly to Gambia, for example) and limited competition in the rest. So we would be surprised if there is not some justification for complaints of excessively high pricing. However, it is likely that any alternative entrant would be pricing similarly. The price effects, like the quantity effects would only have lasted for the lag period.

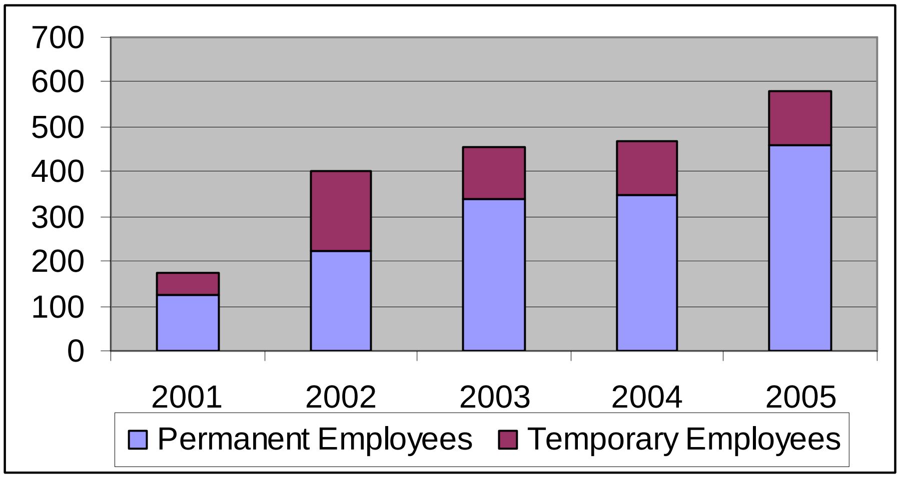
What about service quality? The presence of Moroccan Airlines as ASI's partner brought new confidence to many Senegalese consumers. RAM's image and reputation acts as an assurance to ASI passengers that they will receive better service than before. However, there appears room for improvement. Some passengers still complain about serious delays when flying with ASI. Local travel agents assert that their passengers are not happy with waiting for 24 or even 48 hours for a delayed flight and, therefore, prefer buying an Air France ticket despite its 10% higher price. Similar delays have been experienced with the rest of the flights to neighboring countries in West Africa.

However, ASI is willing to improve its image by serving people in need as the "people's airline." It may no longer be offering free tickets to government officials (including to their family members) as it did as a state-owned enterprise. But, it has instituted a policy of offering free tickets for any passenger (as well as the accompanying adults) going abroad for medical treatment in the event they can not pay the fare.

2.3. EMPLOYEES

ASI has ostensibly contributed significantly to direct and indirect employment after sale. ASI started with 125 permanent employees in 2001 reaching 316 (264 of which in Senegal and 52 overseas) by August 2005. In addition to 316 permanent employees, ASI now employs 120 temporary workers. Most of these temporary workers are employed in overseas offices (The Gambia, Guinea, Cape Verde and Cote d'Ivoire).

Figure 2. Evolution of Permanent and Temporary Employees, 2001-2005



Source: Data provided by Direction Generale, Resources Humaines, Air Senegal International, September 2005; permanent and temporary employees include both in Senegal and overseas.

Direct employment quadrupled within the last 5 years, albeit from a small base. ASI's General Manager also states that these employees receive good salary and benefits compared to their counterparts under state-ownership. They receive also additional benefits such as discounted tickets to anywhere in the world as well as training to improve their skills. The partnership with RAM has also resulted in the transfer of skills to ASI staff with the pilots and hostesses benefit receiving training respectively in England and Morocco on regular basis. In addition to direct employment, ASI's supply-chain network for the procurement of goods and services such as catering and cleaning services also benefited local businesses not only in Senegal but also in neighboring countries (Mali, Guinea and Mauritania) and in West Africa (Cote d'Ivoire and Togo).

These ostensible gains are mitigated by the likelihood that some other firm would have entered to fill the market vacuum. Employee gains from the transaction were the wages and benefits of the approximately 500 workers added from the time of sale until the time of such alternative entry. After that, an equivalent number of jobs would have been provided and so this transaction would be a wash for labor as a class. We must also take into account the possibility that the alternate entrant would have chose to locate outside Senegal. If so, the stream of jobs with the transaction would have been perpetual jobs in Senegal and the counterfactual stream without the transaction would have been jobs elsewhere after the lag. The net gain for labor would then have been wages and benefits over the lag, as above. After the lag, then there would be a net gain for Senegalese workers but these would have been offset by losses elsewhere. However, Dakar would have been the most likely cite for any entrant, given the civil unrest in the other prime candidate, the Cote d'Ivoire. We therefore assume in the remainder of the paper that the alternative entrant would also have located in Senegal.

2.4. ENTERPRISE

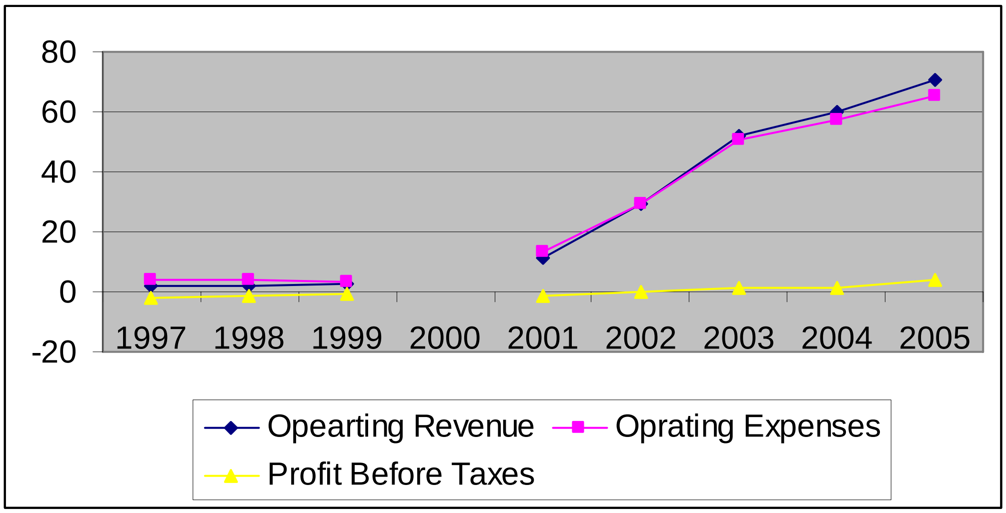
2.4.1. Technical Performance

ASI has improved its capacity utilization rates between 2003 and 2004. While the utilization rate for DH 8 increased 37.5%, it increased marginally, only 3.5%, for the other two airplanes. However, consumers continue to complain about the technical problems encountered with ASI flights leading to long delays of a day or even two. It does appear that ASI increasingly earned a reputation for improved safety. The General Manager points out that ASI's primary goal is providing safety for all its customers while its second and third goals still remains the same, "safety above all." In any event, there have been no crashes under RAM tutelage.

2.4.2. Financial Performance

ASI outperformed projections immediately after it started operations in February 2001. By the end of 2001, it has carried 124,000 passengers compared to a lower projected number of 98,000 and its gross revenues also reached FCFA 11.9 billion (US$ 14.5 million, versus US$ 9 million projected). Furthermore, its revenues increased from FCFA 11 billion (US$ 14.5 million) in 2001, to 29.3 billion (US$ 46.8 million) in 2002, 52 billion (US$ 100 million) in 2003 and 60 billion (US$ 109 million) in 2004. They are now projected to reach FCFA 70.5 billion (US$ 128 million) by the end of 2005. The newly introduced pilgrimage flights for the Senegalese population to Mecca, Saudi Arabia have respectively added a handsome FCFA 6 billon in 2004 and it is expected to generate FCFA 7.5 billion alone in 2005. However, ASI claims that its expenses have increased in proportion to its revenues, thus keeping the profit before taxes low and only positive for the first time in 2003.

Figure 3. Financial Performance of SONATRA Air Senegal vs. ASI, 1997-2005
(in billions of FCFA)



Source: Financial data provided by Planification et Controle de Gestion, Air Senegal International, November 2005; 2005 figures are based on projections and no data was available for 2000; missing data indicates the period when the old or the new company was not operational.

ASI's rapid expansion in traffic and its profitable year in 2003 was a noted success in international markets. In fall of 2003, the carrier received recognition as the top "African Airline of the Year," by the trade press. The international trade now follows closely ASI's most recent addition to its growing fleet. In July 2004, it bought a new Boeing Next-Generation 737-700 for FCFA 30 billion (US$ 55 million). This airplane was purchased directly from Boeing with financing guarantees by the US government's EXIM Bank. This is considered "a milestone in ASI's growth as an airline."[5] ASI is also planning to purchase another new aircraft in 2008.

ASI's operational and financial performance also benefits from an "Alliance Committee" relationship with its strategic partner, RAM, similar to that between KLM and Kenyan Airways. Both partners benefit in terms of code sharing, shared reservation systems, joint marketing and sales, and joint purchasing of aircraft. fuel, spares, insurance and training. The partnership with KLM has given Kenya Airways the opportunity to take its place in the global market by providing connections around the world.[6] The synergistic opportunities may be smaller for ASI/RAM, but Senegalese, North African and Middle Eastern passengers can avoid going though Europe en route to Senegal by going via RAM through Morocco.

2.5. GOVERNMENT

The first benefit to the government was not having to pay the 90 workers at the mothballed enterprise or the plane lease fees. Second, there are its potential dividends after the 10 year exemption expired. Third, there are the taxes for the lag period plus the taxes for the period after the lag times the probability of the alternative entrant not locating in Senegal. Since that probability is small, this benefit amounts to only a few years of taxes.

ASI has paid a minimum corporate tax of FCFA 1 million to the Treasury (as indicated in Senegalese corporate law for all loss-making enterprises), varying in dollar terms, in 2001 and 2002. However, once its operations became profitable, it has paid a higher corporate tax in 2003 and 2004 as shown in Table 1.

Table 1. Contributions of Air Senegal to the Treasury (US$)

	2001	2002	2003	2004
Corporate Taxes	1,344	1,599	251,000	1,049,704
Employers' Contribution		94,084	186,661	369,385
Other direct taxes	731	44,271	25,332	40,999
TOTAL	2,075	139,954	462,993	1,460,088

Source: Data provided by the Ministry of Economy, Finance and Planning, September 2005 in FCFA and converted to US$; no data was available on the SONATRA Air Senegal's contributions in the 1990s to the Treasury without the charges on landing, lighting, parking, passenger service, security, cargo, fuels and air navigation facility.

[5] "Air Senegal Continues to Expand," in AfroNews, July 11, 2005, p.1
[6] Yaw A. Debrah and Oliver K. Toroitich, "The Making of an African Success Story: The Privatization of Kenya Airways," in Thunderbird International Business Review, Vol. 47 (2), March-April 2005, p. 224

ASI has also been paying other indirect taxes as well as the charges on landing, lighting, parking, passenger service, security, cargo, fuels and air navigation facility have not been reported anywhere.

Note that the value of the airplane provided by Air Maroc is not included as a separate benefit. To do so would be double counting since the value to the government is already included in the dividend, tax and reduced subsidy streams. The same is true of the cost of the landing rights.

What about the counterfactual of alternative entry? Unlike consumers and employees, a significant portion of the government benefits would have persisted after the lag. That is, the government's ownership return (dividends after ten years) and the reduced subsidy would not have been offset by the new firm. So the government is a net winner.

2.6. STRATEGIC PARTNER AND INTERNATIONAL DONORS

RAM had a "south-to-south alliance" strategy of expanding its services over West Africa and beyond. As it began to face overcapacity in Europe and the Middle East RAM was keen on venturing into markets that are underdeveloped and therefore poised for future growth. Senegal has provided an opportunity for implementing this strategy. We have not been able to get the details but presumably RAM charges its own prices for the maintenance work it provides to ASI's fleet as well as training of its staff from time to time in Rabat. As a fully state-owned enterprise, RAM could afford to have a long term vision and not seek immediate return on its investments. So it has been willing to accept ASI's small profit.

The international donor community, namely the World Bank, was active in the privatization effort only during the 1998 international tender. The World Bank loan to the air transport sector provided additional funds to restructure the labor force and the balance sheet and to make additional investments improving air transport infrastructure.[7] However, once the international tender failed, the subsequent negotiated deal was the outcome of the efforts of the GOS, and, more precisely, the Ministry of Air Transport and Tourism and ASENA, Senegalese Air Transport Security Company. The GOS is proud to point out that they have proceeded with this transaction totally on their own without the assistance of the World Bank.

2.7. OVERALL ECONOMY

ASI contributes to national tourism which the GOS (and the international donors) were keen on developing. ASI relies on Senegal's three major international airports (Leopold Sedar Senghor International Airport, Dakar; Cap Skirring Airport, Casamance; and Saint Louis Airport) for its international services. The number of tourists is expected to double from 500,000 in 1998 to 1 million in 2005. Most of these tourists arrive via European airlines or in special charters but recently some via ASI.

ASI is also contributing to regional development by increasing inter-regional communications among major cities in Senegal. However, the airline has not contributed to the development of Senegalese capital markets. ASI has not been floated yet and there are

[7] World Bank, 'Project Appraisal: Second Transport Project," Report # 19023-SE, March 10, 1999

no plans to do so in the near future. This is in contrast to the significant contribution of Kenyan Airways when its shares were floated in 1996 constituting the largest share issue in the country at the time.

2.8. SUMMARY OF RESULTS

Given that what was sold was a non-operating entity, all stakeholders have gained other than whoever would have seized the market if RAM hadn't. However, those gains are likely to have been modest for all but RAM because for the others they would have ceased when the other airline entered. This is not a criticism of the transaction, but the inevitable consequence of privatizing into competitive or potentially competitive markets.

3. WHAT EXPLAINS THE RESULTS?

3.1. INTERNAL FACTORS

3.1.1. Political Commitment

Mr. Abdou Djiouf, former President of Senegal, was personally behind the sale effort in 1999. Mr. Abdoulaye Wade, the newly elected President since 2000, carried through the negotiated deal with RAM. He fully supports the experience, expertise and the good image that the strategic alliance with RAM has brought to ASI. This commitment is even more important in terms of post-transaction management.

3.1.2. Absence of Government Interference and Sustainability

ASI remains 100% owned by two African governments. Yet it has not suffered the fate of other African state-owned airlines (see below for details). Why? It is not that governments could not intervene to pursue non-commercial objectives. Rather it is that they have chosen not to. The Senegalese Minister of Air Transport and Tourism, Ousmane Masseck Ndiaye, has recently urged ASI "never to grant air tickets to traveling members of the government." He and other responsible officials have apparently learned the dire commercial consequences of non-commercial government intervention from the failures of both Air Afrique and ASI.[8] The GOS, therefore, as a mater of policy prohibits interference with ASI's commercial decisions. The members of the ASI Board fully support this decision and there is a common understanding that the interference in the past had been responsible to the demise of both the SONATRA Air Senegal and AIR AFRIQUE. A key question is whether or not this commitment will be sustained in the future, as at Singapore Airlines, or abandoned by some subsequent government, remains to be seen.

3.1.3. Altered Privatization Modality

After it failed to get a majority partner through a competitive international tender, the GOS did not give up but instead aggressively sought a negotiated deal. It also decided to do it all alone without any assistance from the international donor community. The GOS maintains

[8] "Air Senegal Expansion Continues," in Afro News, July 11, 2005, p.2

that if it had not insisted on finding a partner on its own, the sale effort could have failed. In evaluating this claim, one has to ask how much of the success was due to abandoning competitive bidding and how much to the exit of Air Afrique. If competitive bidding had been tried as Air Afrique was going under, might the assets have attracted more interest and perhaps a better deal than was realized through negotiation? We discuss this possibility below.

3.1.4. Strength of Strategic Partner

The successful sale of ASI is attributed to the financial and managerial strength of RAM with a world-wide presence, in markets with high development potential. In 2001, RAM has initiated a strategic vision with the objective of turning the company into a national multiple service entity and driving force tied to Morocco's economic development. RAM boasts of having built an international and domestic network while the debt-ridden African airlines need billions of dollars to modernize their ailing fleets and meet rising fuel prices to stave off competition from European and Middle Eastern carriers. In many African countries, the Middle Eastern airlines are perceived as "elephants and sharks because the cash-rich Middle Eastern governments do not shy away from pumping in money their state-owned airlines and buying modern equipment and gearing up for the challenges ahead."[9]

President Wade was well aware of this. He recently stated that ASI has been operating for "the last four years but with fifty years of experience."[10] ASI's General Manager (and formerly the Director of Marketing at ASI and before then the Resident Representative for Air Maroc in Senegal) maintains that the partnership with RAM has enabled the enterprise to enjoy many advantages such as purchasing, marketing and training offered by the mother company. This strategic alliance is also helping the airline successfully tackle the competitive pressures in its external environment. In a turbulent operating environment characterized by raising fuel prices, growing overcapacity in markets, falling yields and poor financial performance for airlines, competition remains fierce. Small carriers find it extremely difficult to compete in a changing environment of increasing domination by very large companies (mega-carriers) and new global alliances.

This is also an example of how strategic alliances enhance the profitability of large airlines like RAM by enabling them to expand networks through the operating synergies in ticketing, maintenance, handling security and joint marketing. Through this alliance, the partners secure access to a more comprehensive route network with far less risk and enjoy economies of scale and scope which would otherwise be beyond the reach of RAM and Air Senegal alone. RAM's image and reputation provides some assurance to ASI's passengers and clients that they will receive quality service. It is similar to what KLM's image has done for Kenya Airways after privatization.

[9] "Debt-ridden African Airlines Needs Billions," in AIRwise News, January 23, 2006
[10] "Reception du Nouveau Boeing d'Air Senegal International: Un bel example de cooperation Sud/Sud," Journal d'information generales, Senegal, July 15, 2005, p. 2

3.1.5. World Bank Loan to Air Transport Sector

Even though the GOS did not rely on the World Bank during the last stage of privatizing ASI, it has definitely benefited from a portion of the total loan of US$ 90 million allocated to "maintain and strengthen the national air transport," and "strengthen the role played by the Leopold Sedar Senghor (L.S.S.) International Airport as a hub for international traffic," as well as preparing the national airline for privatization.[11] This loan is still being managed by the Project Coordination Unit (CELCO) at the Ministry of Economy, Finance and Planning. Investments through this loan helped improve civic aviation management, traffic management (including the very run down, dilapidated and inadequate navigation and safety equipment), and obsolete handling equipment as well as upgrade runways at both L.L.S. international and secondary airports.[12]

3.1.6. Exclusive Rights on Domestic Routes

ASI was granted exclusive rights on domestic routes for 10 years. The resulting monopoly structure, however does not contribute to explaining ASI's performance, for two reasons. First, the share of revenues from these routes was trivial. Second, and more importantly, the monopoly conduct did not emerge from monopoly structure. Rather, the GOS required cross-subsidization of these routes out of profits elsewhere.

3.2. EXTERNAL FACTORS

3.2.1. Vacuum Created by Bankruptcy of AIR AFRIQUE

Senegal-based Air Afrique was originally formed in 1961 as a multinational airline by eleven West and Central African governments as an instrument of continued French-African cooperation. After forty years of operations, however, it collapsed in 2000. Air Afrique's demise came after years of financial mismanagement, nepotism and rent-seeking behavior of opportunistic politicians. Prior to the 1980s, Air Afrique was effectively managed by French expatriate staff holding positions as pilots, mechanics, flight crew and supervisory staff. By the early 1980s, Air Afrique had been indigenized and Africans from the eleven shareholding countries occupied all the top administrative positions. With the completion of the Africanization program, the airline could no longer perform as well as it did under French expatriate management. One observer commented, "Air Afrique's descent was precipitous…. Nepotism, corruption, the contraband of tickets, seats handed to governments that were never paid the business class seats that were reserved for ministers' girlfriends—all these problems were obvious to all."[13]

In January 2001, the World Bank provided a grant of US$ 800,000 to restructure and prepare the company for privatization in an attempt to "save Air Afrique." The shareholders called in an American air-transport consulting firm and hired Jeffrey Erickson, an American-born CEO of Transworld Airlines (TWA), who had also helped to restructure

[11] The World Bank, "Project Appraisal Document: Second Transport Sector Project," Report # 19023-SE, March 10, 1999, p.23
[12] The World Bank, "Project Appraisal Document: Second Transport Sector Project," Report # 19023-SE, March 10, 1999
[13] Yaw A. Debrah and Oliver K. Toroitich, "The Making of An African Success Story," in: Thunderbird International Busines Review, Vol 47 (2), March-April 2005, p. 220

Continental Airlines, to head the management team. Erickson found chaos since the company's accounting system was shut down in 1999. Local offices ran their own accounts and almost every flight was either late or cancelled. Erickson recommended a massive labor restructuring.[14]

In August 2001, after ten hours of talks, eleven heads of states at a summit in Brazzaville, Congo, declared that they would do their utmost for Afrique "not to die." They adopted a rescue plan, originally proposed by the French government (and to be financed by Air France), which would create a new company to take over Air Afrique business. Senegalese President Abdoulaye Wade personally announced that Air Afrique's 4,200 employees would be transferred to the new company and another 500 additional employees would be hired. The World Bank, as the major donor for restructuring Air Afrique, insisted that the new company could not transfer all workers and it had to cut 2,000 jobs. The eleven heads of states under pressure from various constituencies ultimately decided to reject that plan.[15]

While alternative solutions being sought, the September 11, 2001 attacks in the US compounded the company's problems further. For security reasons, the US authorities banned Air Afrique from flying to New York for over two weeks after the attacks and this cost the company more than US$ 1 million in revenue. Air France, on the other hand, was having its own financial difficulties after September 11 and was no longer in a position to meet Air Afrique's needs.[16] Finally, in February 2002, the company was declared bankrupt and liquidated with its accumulated debt of US$ 458 million.

The success of ASI was clearly greatly enhanced by the vacuum left by the bankruptcy of Air Afrique. The question naturally arises whether or not the sale would even have taken place without Air Afrique's problems. However, when the GOS/RAM negotiations were underway Air Afrique's future was in doubt but had there were still efforts being made to rescue it. RAM says it agreed to establish the alliance with the intention of creating an airline competitive enough to take the markets away from Air Afrique but not necessarily to replace it.

3.2.2. Poor Performance of State-Owned African Airlines

Air Afrique was not the only Sub-Saharan state-owned airline to face serious problems leading to bankruptcy. There are now only three other national airlines still operating in West Africa (Air Burkina, Air Ivoire and Air Mauritanie). Some airlines recently have made the black list too as they have not been allowed to land in European airports (e.g. Africa Lines of Central African Republic, Johnsons Air Limited of Ghana, Silverback Cargo Freighters of Rwanda, Central Air Express of Congo Democratic Republic, International Air Tours Limited of Nigeria).[17] AIS now serves their clientele too.

[14] Yaw A. Debrah and Oliver K. Toroitich, "The Making of An African Success Story," in Thurnderbird International Business Review, Vol 47 (2), March-April 2005, p. 220
[15] "Air Afrique is Dead, Long Live Air Afrique," in www.allAfrica.com., August 15, 2001
[16] "Strike Deepens Afrique Woes," in www.allAfrica.com., October 25, 2001
[17] Jeunne Afrique/L'Intelligent, No. 2330, September 10, 2005, p.21

4. CONCLUSION

The sale of SONATRA Air Senegal transformed it from a bankrupt and shutdown enterprise to a successful and profitable African airline under the management of its strategic partner, Royal Air Maroc (RAM). This is clearly a major success story.

One important reason for that success was ASI's being positioned to take over markets abandoned by the exit of Air Afrique. If you believe that someone else would eventually have entered to serve these markets, then the net welfare gains from sale are likely to have been small. So, this is not a rousing case of net welfare gain, but that is what happens when you privatize into competitive or potentially competitive markets.

Since ASI remains 100% state-owned, a key reason for its success has been the laudable decision of both the GOS and the GOM to not intervene in the pursuit of non-commercial objectives. Whether or not this commitment will be sustained in the future, as at Singapore Airlines, or abandoned by some subsequent government, remains to be seen.

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