



# Public-Private Partnership Stories

## Gabon: Société d'Énergie et d'Eau



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In 1997, Gabon privatized its electricity and water utility, Société d'Énergie et d'Eau du Gabon (SEEG). The transaction was the continent's first privatization of a water and electricity utility involving full commitment for future investment, and the first full concession in Sub-Saharan Africa under a contract that introduced coverage targets for expanding service to previously unconnected rural areas. IFC was the lead advisor to the government in this transaction.

The winning bidder, a consortium of Compagnie Générale des Eaux of France (currently Veolia AMI, an indirect subsidiary of the Veolia Environnement group) and ESB International of Ireland, became a majority shareholder with 51 percent of the capital. The remaining 49 percent of the shares were offered to employees and the public in the first public offering in Gabon. The consortium pledged to more than triple connections over the 20-year concession period and to reduce tariffs by 17.5 percent. The 20-year concession contract covers the production, delivery, and supply of drinking water and electricity in the country, primarily in the three main cities of Libreville, Port-Gentil, and Franceville, which together are home to almost one million people. The transaction closed in July 1997.

*This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.*

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*A Japanese Trust Fund provided funding for specialized consultants in this transaction.*

## BACKGROUND

In the mid-1990s, Gabon was the country with the highest per-capita income in Sub-Saharan Africa, yet only half the households in the capital, Libreville, were directly connected to water, and only 69 percent had electricity. The state-owned SEEG, was the exclusive provider of electricity (84,000 connections) and water (43,000 connections) in Gabon. This represented services to 40 percent of the population for electricity and 66 percent for water services, with most customers primarily located in urban areas.

Although SEEG's overall performance was better than that of many other African utilities, it faced significant challenges: accumulated financial losses exceeded US\$100 million; the state—SEEG's largest shareholder (64 percent)—was delinquent in paying its own utility bills; technical and commercial losses were about 28 percent for water and 17 percent for power; and the network required extensive rehabilitation.

The privatization of SEEG followed a 10-year period of preparation in which important reforms, such as the definition of a legal framework, an increase in tariffs to levels reflecting costs, and a reduction of staff, were implemented. The government sought to privatize SEEG to improve service quality, expand coverage at affordable rates, end fiscal burden and free up public resources.

## IFC'S ROLE

In 1996, IFC was retained by the government of Gabon as the lead advisor for the preparation and implementation of the privatization process. During the preparation phase, IFC conducted a technical and strategic study of the power and water sectors, reviewed the existing legal framework, and proposed a financial restructuring plan for the company. The implementation phase consisted of: (i) developing the privatization strategy, financial model, regulatory guidelines and rate structures; (ii) identifying suitable investors, and preparing the tender documents and share purchase agreement; and (iii) assisting with the bidding process.

Throughout implementation, IFC worked closely with the government to determine the best balance of objectives based on the company's record, market prospects, and degree of investor interest. Generating competitive interest in the transaction was a major challenge, given the perception of high country risk, and SEEG's historic association with a consortium of international water and electricity operators.

## TRANSACTION STRUCTURE

The project involved transferring the control and operations of SEEG to a private operator under a 20-year concession contract. This encouraged interest in the sale, and was considered preferable to unbundling, as it allowed cost reductions through the sharing of resources as well as economies of scale and scope, particularly in rural areas.

To generate true competition, IFC advised the government that no two companies experienced in Gabon's water and electricity sector could bid together. Also, to ensure transparency, bidding was organized around a single, indisputable criterion: the percentage

reduction of tariffs proposed. All qualified bidders agreed to purchase all of SEEG's shares, minus one, at a non-negotiable book value price of \$3.4 million and to subscribe to a capital increase of \$30 million.

The concession contract transferred to the private sector exclusive responsibility for serving major population centers and 30 unserved villages across the country. It was designed mainly as an output-driven contract, defining the requirements for service quality and coverage. The private operator was mandated to invest a minimum of \$135 million in rehabilitation (60 percent in water). Incentive mechanisms were included to reward timely service expansion to more remote regions and to poorly connected neighborhoods.

Gabonese participation was ensured by requiring the winning bidder to organize an initial public offering (IPO) for 44 percent of the company's shares and offer five percent to employees. The privatization resulted in the first sizable IPO in Gabon.

## BIDDING

Three of premier infrastructure firms were prequalified and participated in the bidding: Compagnie Générale des Eaux (currently Veolia AMI, France) with ESB International (ESBI, Ireland); Elyo (Lyonnaise des Eaux Group, France); and SAUR International (France). The award was made solely on the basis of the largest tariff reduction.

In March 1997, the government selected the winning bidder: Compagnie Générale des Eaux in association with ESB International, which proposed a 17.5 percent reduction in tariffs, the best bid. The concessionaire also informally committed to investing another \$130 million over the life of the contract to increase network density and expand service to new centers.

## POST-TENDER RESULTS

- More Gabonese have gained access to clean water and electricity, at no cost to the government.
- Customers were more satisfied with the service than prior to privatization. The company developed innovative technologies, such as prepaid meters, to provide service in hard-to-reach areas.
- Financial performance improved and dividends rose from a contractually guaranteed 6.5 percent of the share price in the first year of operations to 20 percent in 2000.
- Five years into the concession, 80 percent of the contractually required investments had already been made.

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