

ACTION MEMORANDUM FOR THE DEPUTY ASSISTANT ADMINISTRATOR  
(ACTING)

FROM : PRE/PPR, Bruce E. Bouchard   
SUBJECT : Privatization of Government-Owned Sugar Mill in  
Costa Rica

Problem: Your authorization is required to obligate \$50,000 from the Investment Packaging grant project (940-0002), Capital Markets Analysis sub-project (940-0002.05) to complete the privatization of a government-owned sugar mill ("Central Azucarera Tempisque, S.A.") in Costa Rica.

Discussion: To date you have authorized \$1,300,000 through FY 1985 for the Capital Markets Analysis project (see Attachment 1), and we have obligated (or approved for obligation) a total of \$882,021 (see Attachment 2). This request of \$50,000, will bring to \$932,021, the total amount obligated or reserved for obligation. We submitted a Congressional Notification for FY 1984 in the amount of \$600,000. The CN expired without objection on May 22, 1984 (see Attachment 3).

The activity for which we are requesting your approval to obligate \$50,000 will allow us to take through the privatization process a state-owned enterprise in Costa Rica.

We recently completed an analysis of four state-owned enterprises in that country to determine candidates for privatization. These were:

- "Central Azucarera Tempisque, S.A."
- "Aluminios Nacionales"
- "Cementos del Pacifico"
- "Fertizantes de Centroamerica"

Costa Rican legislative and other constraints have led us to conclude that the most attractive company in terms of its potential for privatization is "Central Azucarera". It is particularly interesting since the transfer of ownership could be made to private agricultural cooperatives.

With regard to procurement, this project will be handled consistent with AID guidelines. There are no human rights issues which would effect undertaking of this activity.

Recommendation: That you approve obligation of an additional \$50,000 under the Capital Markets Analysis project (940-0002.05) and indicate your approval by signing below and the attached PIO/T.

Approved: C.S. Gandy *CSG*

Disapproved: \_\_\_\_\_

Date: 8/6/84

Clearances:

PRE/PPR, JGelb *JG* Date 8/6/84  
GC/PRE, SCarlson \_\_\_\_\_ Date \_\_\_\_\_

August 6, 1984

MEMORANDUM

TO : SER/CM/SOD/PDC, Ms. Judith Johnson  
FROM : PRE/PPR, Bruce E. Bouchard *BE Bouchard*  
SUBJECT : Request for Issuance of Work Order and  
Justification and Approval for use of External  
Resources for Consulting Services

A. REQUEST

1. I recommend that you negotiate a Work Order under Indefinite Quantity Contract (IQC) No. PDC-0001-I-00-3172 with Coopers and Lybrand for the services in the attached PIO/T No.
2. This is an AID/W funded PIO/T. The AID/W project manager who will administratively approve voucher requests for payment is Bruce E. Bouchard.
3. The required services should start 30 days from the date of this request.
4. Informal contacts indicate that the contractor will propose the following individuals (list name and category of specialization):  
  
James Haybyrne                      Aldo Baetti  
  
In addition, professional staff from C&L's affiliate in Costa Rica will be proposed.
5. The person in this office to be contacted concerning this request is:  
  
Bruce E. Bouchard, telephone No. 235-2274, Room No. 635

B. REQUIRING OFFICER CERTIFICATIONS

I certify that to the best of my knowledge:

1. The required work is not a fragmentation of a known long-term requirement for the services of the recommended contractor.
2. No AID employee or other individual resources, such as experts and consultants or personal services contractors, are available on a timely basis which can properly be used to perform the required work. Documentation supporting this certification is available in the requiring office files.
3. No AID employee has suggested to the recommended contractor that the placement of an order is conditioned upon the contractor's utilization of an individual or individuals not initially located and identified by the contractor.

C. JUSTIFICATION AND APPROVAL FOR USE OF EXTERNAL SOURCES FOR CONSULTING SERVICES OR FOR THE PREPARATION OF STUDIES OR REPORTS

1. Justification

(a) Need and Utilization

As part of the Agency's private enterprise initiative, the Bureau for Private Enterprise has been receiving numerous requests for and exploring the financial and other requirements for privatizing state-owned enterprises as one means of broadening capital market development in selected countries. The Bureau has been experimenting in this area, trying to determine an appropriate role for AID in the privatization process.

Our objective in this particular activity is to complete the privatization process on one state-owned enterprise to learn as much as we possibly can about the process. This will help us determine an appropriate further role for the AID, more specifically the USAID missions, in this process. We expect this activity to cost approximately \$50,000.

(b) Review of Prior Work

This subject area, privatization of state-owned enterprises, is a new one for the Agency under the private enterprise initiative. Work done to date by the Bureau for Private Enterprise represents the only in-depth analytical work by AID on the subject.

(c) In-House Capability

Because this is a new field for AID, the Agency does not have the type of staff expertise required to complete the assignment. In addition to strong financial and capital market analysis skills, this work requires expertise in and experience with the myriad of problems associated with state-owned enterprises and appropriate strategies to follow in structuring their privatization.

2. Approval

I approve the requested work and the use of persons other than AID direct hire employees in the performance of the work.

BY: Charles S. Gormly  
TYPED NAME: Charles S. Gormly *ASB*  
TITLE: Deputy Assistant Administrator (Acting)  
DATE: 6 August 1984

Statement of Work

BACKGROUND

AID, through the Bureau for Private Enterprise (PRE) has begun to play a role in the privatization of state-owned enterprises in selected countries. In Costa Rica, several firms have already been identified as potential candidates to take through a privatization process. One company in particular, a sugar mill ("Central Azucarera Tecupisque, S.A."), offers the potential for transfer of ownership to private agricultural cooperatives. The financial, market and other analytical work to complete this process needs to be undertaken.

Background materials including historic performance and projections have been completed and will be provided to the contractor. These will serve as the basis for additional required analyses.

ARTICLE I - TITLE

Costa Rica Capital Market

ARTICLE II - OBJECTIVE

To complete the financial and other analytical work required to transfer ownership of the "Central Azucarera Tecupisque, S.A." (sugar mill) from government to private agricultural cooperatives.

ARTICLE III - STATEMENT OF WORK

A. General: The contractor will be expected to complete the financial and other analytical work required to develop an appropriate strategy for privatizing the aforementioned sugar mill. An appropriate capital structure for the privatized sugar mill also will be proposed.

B. Specific: Tasks which the contractor must complete in order to achieve the objective indicated in Article I and in Section A above are as follows:

1. Analyze and value the business to determine a fair market price. This will require:

- (a) Review of historic performance and projections for future business;
  - (b) Product analysis, including its quality for targeted markets and required changes;
  - (c) Market analysis for the product(s) both domestically and internationally;
  - (d) Price analysis in selected markets determine potential margins and breakeven volume;
  - (e) Overall competitive analysis to include existing and potential businesses in the industry; and
  - (f) Evaluation of assets.
2. Recommend an appropriate capital structure for the privatized business; including:
- (a) Sources and levels of both debt and equity;
  - (b) Terms and conditions;
  - (c) Government involvement, if any; and
  - (d) Possible ESOP.

This may be viewed as a process, if it is more feasible than outright transfer of ownership. That is, over time an increasing percentage of the ownership could be transferred to private holders of equity until such time as the government is no longer a participant.

3. Recommend an appropriate management structure for the privatized business. Many options should be explored including a possible management contract for a fixed period of time until new managers are adequately trained. This too may be viewed as a process which results in cooperative ownership and management of the business.

ARTICLE IV - REPORTS

Two reports will be submitted covering the above points as follows:

(1) Draft report in original and two (2) copies will be submitted simultaneously to the USAID Mission in Costa Rica and PRE/PPR no later than 80 days after issuance of the Work Order.

(2) Final report in original and four (4) copies will be submitted simultaneously to the USAID Mission in Costa Rica and PRE/PPR no later than 100 days after the issuance of the work order.

In addition, immediately following submission of the final report (i.e. within 10 days), the contractor will be required to conduct a formal de-briefing of USAID, PRE "Central Azucarera", "CODESA" and other appropriate Costa Rican officials on the findings and recommendations of the report.

ARTICLE V - RELATIONSHIPS AND RESPONSIBILITIES

A. The contractor will be under the general supervision of Mr. B. Bouchard, PRE/PPR, and he must approve any changes in the Work Order.

B. While in Costa Rica the contractor (and teams) will be under the guidance and supervision of Mr. A. Williams, USAID/San Jose. Mr. Williams will confer with Mr. Bouchard on changes in the work order determined in the field.

ARTICLE VI TERM OF PERFORMANCE

This Work Order shall require 120 days to complete.

ARTICLE VII - WORK DAYS ORDERED

Director -	25 days
Director -	20 days
C&L Costa Rica -	30 days
	<u>75 days</u>

ARTICLE VIII - ILLUSTRATIVE BUDGET

Salaries

Director	25 days @ 556.77	13,919.25
Director	20 days @ 552.77	11,135.40
C&L Costa Rica	30 days @ 595.00	<u>17,850.00</u>
	Sub-Total	<u>42,904.65</u>

Travel

5 trips to Costa Rica @ \$500/trip

Sub-Total 2,500.00

Per Diem

50 days @ \$60/day

Sub-Total 3,000.00

Miscellaneous

In-Country travel	1,000.00
Report reproduction, other costs	<u>595.35</u>

Sub-Total 1,595.35

Total 50,000.00

ARTICLE IX - OTHER

A. Duty Post: Most of the work will be performed in Costa Rica.

B. Logistic Support: The contractor will be expected to provide all needed logistic and administrative support. The USAID Mission will assure availability of required sugar mill and government officials.