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UNITED STATES OF AMERICA
AGENCY FOR INTERNATIONAL DEVELOPMENT
REGIONAL DEVELOPMENT OFFICE/CARIBBEAN

November 2, 1994

MEMORANDUM

DATE: November 2, 1994

REPLY TO
ATTN OF: *P.B.* PDO, Paul Bisek

SUBJECT: PACR - Grenada Privatization Assistance - 538-0198

TO: POL/CDIE/DI, Ms. Lee Clift

Please find the above subject PACR conformed copy for your files. Thank you.

PROJECT ASSISTANCE COMPLETION REPORT

PROJECT TITLE : GRENADA PRIVATIZATION ASSISTANCE
PROJECT NUMBER : 538-0198
FUNDING PERIOD : SEPTEMBER 27, 1992 - FEBRUARY 28, 1994
LOP FUNDING : \$500,000
IMPLEMENTING AGENCY: GOVERNMENT OF GRENADA/PRICE WATERHOUSE
PACD : FEBRUARY 28, 1994

I. PURPOSE

To formulate a Government of Grenada (GOG) comprehensive divestiture and liquidation program for selected Government activities and Government-owned enterprises that would most effectively contribute to economic stabilization. The project was also intended to assist the GOG to reduce recurrent costs and increase revenues through preparation of selected liquidation and privatization valuations leading to the disposition of Government-owned enterprises.

An additional objective of the project was to transfer liquidation and privatization expertise to the GOG.

II. BACKGROUND

Following presentation of a National Economic Development Strategy to a sub-group of the (CGCED) by the Prime Minister of Grenada on June 5th, 1992, USAID determined it could provide technical assistance to the Government to further refine and strengthen its adjustment program through divestiture of Government-owned enterprises.

A Limited Scope Grant for \$500,000 was provided by USAID to the Government of Grenada on September 29, 1992 for such assistance with the understanding that an international U.S. consultancy firm specializing in privatization would provide the services.

The Price Waterhouse International Privatization Group (PW/IPG) was contracted by the USAID Caribbean Regional Development Office (RDO/C) through a buy-in to the Privatization and Development (PAD) project in December 1992 to provide the services.

The specific activities comprised the following five components:

- Assessment of Privatization & Liquidation Opportunities
- Enterprise Valuation (of two GOG-selected enterprises eligible for privatization as going-concerns)
- Enterprise Marketing Assistance (for two GOG-selected enterprises for which valuations are performed)
- Public Information Program Assistance
- Capacity-Building & Training

A contract modification was executed in September 1993 which provided extended marketing assistance, including promotion activity, investor search, bid evaluation, and negotiations assistance, to the first enterprise for which a valuation was performed (the Grenada Electricity Services Ltd., or GRENLEC), and marketing assistance to the second enterprise (the Gravel, Concrete & Emulsion Production Corporation, or GCEPC) under a limited scope, including the production of information memoranda and formulation of an investor search strategy. Additionally, the modification re-defined the Public Information Program Assistance component to shift emphasis away from an active PW/IPG role in implementation to advising the GOG's Privatization Sub-Committee in program development and specific programming to support the GRENLEC privatization. Finally, the modification specified that the Training component was to include the GOG counterpart's participation in one US-based privatization effort.

The PW contract was consequently extended to February 28, 1994.

III. SUMMARY OF INPUTS AND ACCOMPLISHMENTS

Component 1: Assessment of Privatization & Liquidation Opportunities

The PW/IPG team met with representatives of the various Ministries, including the Ministry of Finance, the Ministry of Labor, the Ministry of Works & Communications, and the Ministry of Agriculture, as well as other GOG agencies, private sector organizations (e.g., the Chamber of Commerce), and labor representatives. The information collected contributed to the macro-economic analysis of Grenada's environment for privatization. The team also met with the management of each of the eleven state-owned enterprises in order to gather financial data and assess the operational performance and constraints of the enterprises. This data allowed the team to identify the areas of inefficiency in the operation and management of the enterprises in order to determine those privatization options which were most appropriate to the enterprise, in light of the GOG's program objective of efficiency improvement.

A privatization strategy was recommended which outlined the process of privatization management and implementation and suggested a phased divestiture plan for the eleven enterprises.

Component 2: Enterprises Valuations

The Grenada Electricity Services Ltd. (GRENLEC) and the Gravel, Concrete & Emulsion Production corporation (GCEPC) were selected by the GOG as the two companies to be valued. The engagements by PW/IPG built upon the findings for the respective enterprises as documented in the Assessment report, and contained the following:

- **Country Overview:** Summary of economic indicators, the national privatization effort, and other macro-economic factors relevant to the enterprises' operations;
- **Operating and Financial Analysis:** Detailed examination of the operating and organizational environment of the company, and historical financial analysis;
- **Valuation:** Appraisal of enterprise value based upon alternative methods and scenarios, in order to derive a range of defensible value estimates.
- **Privatization Plan of Action.** Discussion of the privatization options for the enterprise and key issues, and a privatization action plan detailing the critical steps in the process.

Two detailed valuation reports were produced to show the GOG the various factors which impact enterprise value, and to provide a systematic approach for evaluating privatization options based upon enterprise conditions which can be easily applied in the review of other enterprises.

Component 3: Privatization Marketing & Execution

PW/IPG designed and produced a detailed information memorandum which served as the primary marketing document for both the GRENLEC and GCEPC privatization offerings. For GCEPC, the GOG limited the marketing effort to local and regional (e.g., Trinidadian and Barbadian) investors through newspaper advertisements. This marketing effort was successful in drawing three complete, responsive bids. Disposition was not finalized as of the PACD.

For GRENLEC, a large-scale marketing effort targeting local, regional, U.S. and other international investors was launched in July 1993. PW/IPG contacted over 150 companies active in the industry to notify them of the GRENLEC investment opportunity in addition to having the offer was advertised in the Grenadian, Barbadian, Trinidadian and Jamaican press. On October 20, 1993, seven companies submitted complete and responsive bids for a strategic interest in GRENLEC.

PW/IPG also worked with the Sub-Cabinet Privatization Committee to develop a two stage evaluation process for the bids. Stage 1 of the evaluation reviewed the bids for compliance with the minimum requirements listed in the information memorandum. Bids which met the minimum requirements were then examined in stage 2 in four areas: the Bidder Profile, the Financial Component, the Management Component, and the Conditions of Sale. PW/IPG evaluated the bids and presented the findings to the GOG for consideration. As a result, three bids were short-listed and the responsive investors interviewed by the GOG. In December 1993, the GOG selected WRB Enterprises Inc. as the top bidder.

From December 1993, PW/IPG worked with the GOG in negotiating the terms and conditions of the GRENLEC sale with WRB Enterprises Inc. PW/IPG's assistance focused on ensuring that the GOG's interest was reflected in the final contract. PW/IPG played a key role on the GOG's negotiating team and participated in all negotiating sessions. As of February 28, 1994, the final meetings had been held with WRB to discuss key contract issues.

Component 4: Public Information Program

PW/IPG developed a Public Information Program Strategy for implementation by the Privatization Sub-Committee. The strategy proposed program development along three tracks. The first involved on-going general promotional activities aimed at educating the public about the privatization process and generating support for privatization initiatives. The second was focused on transaction-specific programming, (e.g., in the case of GRENLEC, rate-payers were concerned about unregulated rate increases) intended to generate demand for investment participation in target privatization offerings. Finally, Management/Employee information programming, would address the concerns of the enterprise workforce.

Additionally, the project provided a local public information specialist to assume responsibility for the development of the GRENLEC promotion activities. These included a series of radio and print advertisements encouraging wide-spread local participation in the public offering of a block of shares in the company immediately following the execution of the contract with the strategic investor, WRB. These activities were judged successful in terms of generating public sector and significant investment demand.

Component 5: Training & Capacity-Building

Throughout the implementation period, PW/IPG's approach emphasized close collaboration with GOG officials, documentation of technical approaches and methodologies, formal presentations of project findings, and on-the-job training to key officials. PW/IPG aimed to: 1) build awareness of key privatization implementation

issues; 2) present privatization management approaches which were successful in similar settings; 3) provide detailed project deliverables which could be used as reference "manuals" for future privatization efforts; and 4) develop the skills of key officials to implement privatization transactions. The positive impact of these efforts was evidenced in the GOG's ability to utilize effective information programming to rally public support and demand for privatization issues. Thus, key officials have the ability to direct new privatization efforts, should additional divestitures remain a priority of the GOG.

Additionally, PW/IPG identified and coordinated the participation of the GOG Counterpart in the two-week Privatization Management & Implementation seminar conducted by INTRADOS. The course provided an overview of various privatization implementation issues, and reinforced the hands-on experience gained by the Counterpart in working with PW/IPG and GOG privatization officials.

Total funding utilized by PW/IPG in providing the services was \$471,154.82.

IV. DEVELOPMENT IMPACT

GRENLEC was finally divested in September 1994 through the dogged determination of the GOG and now offers the opportunity for broad-based national participation in an enterprise that has direct impact on the lives of the populace as well as the economic development of the country. Also, the transfer of privatization skills to Government officials gives them the capacity to effect other divestments.

V. RECOMMENDATIONS FOR CONTINUING MONITORING

None

VI. LESSONS LEARNED

For specialized technical assistance interventions, it is essential that renowned and proven expertise be obtained both in the selection of the firm and the composition of the implementation team.

Drafted by:  GPS:PMedford:U:\TDOPUB\DOCS\GRENPRIV.PAC

Clearances:
GDO:ROwens  10/28/94
PDO:RMacken  10/21/94
CONT:MHorween  10/18/94
C/GDO:RCohn  10/27/94

10/18/94