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EVALUATION OF THE DIVESTURE PROGRAM OF CORPORATION COSTARRICENSE DE DESARROLLO, S.A. ("CODESA")

COSTA RICA

1984 - 1988

REPORT BY

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and

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2000 Pennsylvania Avenue, N.W., Suite 2500
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Project No. 71

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Prepared for the
BUREAU FOR PRIVATE ENTERPRISE
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT

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Mr. Tomlinson was Executive Director of the Center for Privatization from its founding in 1986 to his retirement December 31, 1987. During this period he supervised provision of technical advisory services to over 30 countries planning or engaging in privatization activities under a program sponsored by the U.S. Agency for International Development. He previously served as President of the National Planning Association following an 32-year active career with Morgan Stanley & Co. and with The First Boston Corporation, of which he served as Chairman of the Executive Committee. During his service as an investment banker he was involved in all aspects of corporate finance, both domestic and international, including large and small financings, mergers and acquisitions, financial advisory and planning services and foreign government and multilateral development bank financings.

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Mr. Benavides, presently a private consultant residing in Peru, has extensive experience in the managerial and financial areas both in the private sector and in government. During his tenure as Minister of Fisheries in Peru he designed and implemented a plan for the divestiture of Peru's state owned fishing industry and the promotion of private sector activities. He was also Vice Minister of Finance and General Manager of COFIDE, Peru's state development finance company, where he was involved in privatization and restructuring of state owned enterprises.

As a private consultant Mr. Benavides has participated in privatization projects in Bolivia and Panama, and has written various reports and articles on the subject.

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NOTE ON EXCHANGE RATES

Costa Rica uses a system of frequent minidevaluations based on the estimated difference between domestic and international inflation. In 1987 there were 25 minidevaluations with a 17.7% increase in the exchange rate. When dollar or colon equivalents are given in the text for dates in the past, they are expressed in terms of the exchange rate at the time unless otherwise specified. The current exchange rate for the U.S. Dollar is approximately US$ 1 = c 76

EVALUATION OF THE DIVESTITURE PROGRAM OF CODESA IN COSTA RICA 1984 - 1988

EXECUTIVE SUMMARY

Introduction:

The writers have been asked by the Center for Privatization, in accordance with a request from the Agency for International Development (AID), to make an evaluation of the CODESA divestiture program commenced in Costa Rica in 1984 and now well along toward completion. The purpose of the evaluation, as described in the Scope of Work, is "to review the steps taken by the Mission in its ongoing dialogue with the Government of Costa Rica (GOCR) over the divestiture, to appraise the effectiveness of those steps in dealing with the divestiture process as it developed, and to distill lessons learned which may be applicable for future divestiture efforts". We were asked to assess whether the original conception was prudent under the circumstances at the time and evaluate the changes along the way, appraise each of the major elements of the process and determine their respective contributions, review changes in the attitude of the Government of Costa Rica (GOCR) toward the project and, to the extent possible at this date, appraise the political, social, fiscal and economic impact of the process.

Based on extensive interviews in Costa Rica and in the United States in March, late April and early May, 1988, and on our own considerable experience with privatization in other developing countries, it is our conclusion that:

A. The USAID Mission in San Jose has pioneered in a new field with impressive success. The Costa Rica privatization prograam has been a unique experience, but many of the elements designed for it and the problems solved can be useful in planning privatizations elsewhere.

B. Creation of a private sector trust to function as an intermediary in divestiture activities solved problems which might otherwise have led to failure of the program.

C. The use of local currency generated in connection with AID's Economic Stabilization Fund (ESF) programs, and held on deposit with the Central Bank of Costa Rica (BCCR), to offset CODESA borrowings from the BCCR in amounts related to an adjusted cost basis valuation of assets divested was essential to the success of the program, had little (if any) cost to USAID, and facilitated the demonetization of those funds and avoidance of their potential inflationary effect.

D. The key individuals involved in the program, particularly those working on behalf of the USAID Mission, FINTRA and (since mid-1986) CODESA, have done an outstanding job of initiating, planning and carrying out an extremely difficult and challenging task in a highly professional manner.

E. A number of mistakes and miscalculations were made in the planning and carrying out of the program. These were principally (1) a failure to define the valuation method to be employed (or at least to recognize the magnitude of the potential problems which might result), (2) the adoption of an overly optimistic timetable that underestimated bureaucratic resistance, political delays and problems in the individual enterprises (although it did take into account the probable political need to complete divestiture before the end of President Monge's term), and (3) a failure to require a change in CODESA management at the outset of the program, or to require that the law enacted provide for the ultimate liquidation of CODESA at the end of the program. These errors or misjudgments (or, in most of the cases cited, acceptance of apparent political reality) are understandable in the light of the pioneering nature of the program, and in fact correspond to identical mistakes since made in privatization programs in other countries. In the CODESA case the resulting difficulties encountered were resolved as necessary without long term damage to the process.

Background:

During the first few years of the 1980's annual AID funds directed to Costa Rica were increasing rapidly, and by the middle of the decade GOCR was receiving more per capita than any other country except Israel. A major portion of the funds being granted was for balance of payments support and therefore was being used for such purposes as payments on dollar indebtedness, purchases of imports from the United States of machinery, equipment, materials, etc., and meeting other needs for foreign exchange. For each grant received, the GOCR agreed to provide an equivalent amount of local currency in a special account in the BCCR, to be programmed jointly by AID and the GOCR. This arrangement avoided any requirement under Costa Rican law that use of the funds be directed by the legislature, and more than in most other countries AID was in a position to influence their use within the country. Conventionally their use would be to fund expenditures on agreed projects, which had the effect of returning the local currency funds to circulation and significantly increasing inflationary pressures and fueling import demand. Because of this, the IMF imposed a limit on monetization of annual AID grants to $60 million in 1984 ($80 million in 1985). Daniel Chaij, Mission director, had the same concern that the growing ESF counterpart funds threatened to become a major contributor to inflation and import pressures if they were dispensed on conventional projects, and found it important to search for significant allocations which would avoid this.

By 1983 it had become evident that a dominant factor endangering the Costa Rican economic situation was Corporacion Costarricense de Desarrollo, S.A. (CODESA). Founded in 1972 to fund establishment or strengthening of private sector enterprises, it had been subjected to major abuses and had developed an assortment of money losing, mismanaged investments, and was making heavy use of its unlimited access to credit at the Central Bank (BCCR), the latter in part reflecting the fact that CODESA also made loans to other borrowers. CODESA's BCCR borrowings were by then absorbing over one-third of GOCR public sector credit but it was generating only 1% of GNP and less than 0.5% of the nation's employment.

It was clear that anything to improve or restrict the operations of CODESA would be highly beneficial to the Government's budget and economic stabilization plans. There also was beginning to be a recognition in AID generally that privatization or divestiture of government-owned activities of this sort could help to resolve problems created by such entities as prime contributors to the excessive quantities of international debt incurred by developing countries.

Through policy dialogue and extensive negotiations with the Monge administration, Mr. Chaij was able to develop Government support for a program to divest CODESA of its various corporate assets, thereby reducing the drain on the Government budget. While it would have little cost for AID, the support of the latter could be expressed through the cancellation of BCCR ESF credits against cancellation of CODESA debt owed to the BCCR, in amounts which were initially related to the proceeds of the disposal of divested assets. None of the funds applied to this purpose would result in monetization; there would simply be a bookkeeping transaction within the BCCR. Initially an amount equal to the local equivalent of US$140 million was allotted for this purpose. The plan, largely embodied in Law 6955 enacted by the Legislature in 1984, included establishment (by Executive Decree) of a National Commission to oversee implementation of the law by CODESA, and a private sector trust (FINTRA) was established which would be funded at the direction of USAID from the local currency ESF special acccunt to "purchase" holdings of CODESA for packaging and resale to the private sector.

The National Commission

A National Commission was established to enforce and give political respectability to the CODESA divestiture program, being viewed as necessary because of the lack of support for it by the then CODESA management and some politicians. Its membership was bipartisan, since it was recognized that the chances for success of the CODESA divestment program would be dependent on agreement by vocal party factions as well as both major political parties, to assure the continuing support of any successor regime. The initial expectations as to the short time required may not have made the concern for continuity seem an important consideration, but there was concern in AID that the program might not survive a change of administration and this importantly influenced the schedule adopted. In any event subsequent experience all over the developing world suggests that the time expectations were wildly optimistic, so that this protective factor seems to have been prudent.

In the fact, the National Commission proved not to be motivated to press forward with the program, nor to be able to contain widespread political misgivings and foot dragging. As the record shows, very little happened for a year or more because of such problems, and it was only after the inauguration of President Arias and the development of his personal commitment to the program that things began to move. In view of this, the National Commission must be viewed as unnecessary and probably a mistake in the initial planning. That it was not able to paper over the political differences may reflect the degree to which the adoption of the program by the legislature was less the result of political agreement than an acceptance of the clout AID's grants enjoyed.

After President Arias appointed Mr. Edgar Brenes to head CODESA the National Commission became completely redundant because of his personal commitment to the divestiture program, and the Commission's scheduled termination date of March 31, 1988 was only extended a month to assure an orderly winding up of its affairs.

The Private Sector Trust

The independent private sector trust, administered by Fiduciaria de Inversiones Transitorias, S.A. (FINTRA), both having been established with the support and backing of AID, has been an extremely important factor in the progress made in the CODESA program. The keys to its success appear to have been the following:

1. The members of the trust and the staff, who were carefully selected with significant input by Mr. Chaij and the President of the Republic, are all private sector individuals of the highest personal integrity and prestige, and with the energy and varied skills and abilities necessary to the successful carrying out of the trust's purpose. The original trustees were Ernesto Rohrmoser, Carlos Manuel Gonzales, Omar Dengo, Emilio Garnier and Carlos Araya. Their personal standing and commitment has assured the independence of FINTRA. Because of the varied qualifications of this group, FINTRA has functioned very much as a merchant bank in improving the operations of the companies bought and working out arrangements for their sale. If these talents by the trust are not represented in a trust created for similar purposes, hiring a merchant bank would be required to carry out these tasks effectively.

2. Use of the trust serves to assure that, whether or not investments are ultimately successfully sold into private hands, they do not remain under government control in CODESA. In fact, certain assets have been sold directly without passing through FINTRA where sale was feasible, and CODESA holdings headed for liquidation likewise have not passed through FINTRA ownership. However, where improved operation of an enterprise appeared to be necessary prior to sale, transfer to FINTRA has been made.

3. The trust has served to assure that final sales to the private sector are made at arm's length and in the public interest without political interference or the likelihood that favoritism will be used in selection of purchasers or prices. The independence of FINTRA has been carefully guarded, and AID has assisted in defending its freedom of action.

4. In the CODESA divestiture program the creation of FINTRA (with close ties to USAID) was an essential ingredient to make possible the application of ESF credits in the BCCR to cancellation of CODESA debt at levels corresponding to asset valuations. FINTRA and USAID served to diffuse some of the political heat which in any privatization is likely to be generated by the private sale of government assets at prices well below their cost-related values, even though they represent realistic prices for unprofitable enterprises. In another country the mechanism might be quite different, and probably should be, but such a trust may still serve to protect politicians somewhat from accusations of selling the "national patrimony" at apparent distress prices.

5. As a generalization for any privatization program, the logic of forming such a trust is clearly that an organization such as CODESA, given the background of mismanagement, political interference, spendthrift operation and bad investments, cannot be expected to have the competence or motivation to preside over its own liquidation. The techniques required to carry out such a program are sufficiently specialized that the assignment should be given to appropriately qualified persons under conditions of independence. In the CODESA case, the creation of FINTRA provided this assurance. However, President Arias' later appointment of Mr. Edgar Brenes to head CODESA made this possibly less important in the light of his outstanding skills and personal prestige, his lack of identification with prior activities of CODESA, and his dedication to the divestiture program.

The operations of FINTRA are reviewed in detail elsewhere herein, supporting, we believe, the view that it has been a successful and very essential element of the CODESA divestiture program. We strongly recommend that the USAID Mission continue to support FINTRA. We understand the Mission may cast FINTRA loose, providing it with some residual funds for use in managing FERTICA and CEMPASA after their proposed transfer from CODESA. We would recommend, however, that consideration also be given by the Mission to using FINTRA for future Costa Rican privatization transactions supported by USAID, or leaving it with funding enabling it to work on those projects with which AID may prefer not to be identified.

Valuation Problems

Law 5955 provided for a valuation ("minimum bid price") to be set by the Controller General of Costa Rica for each holding of CODESA to be divested. It appears that insufficient thought was given at the outset to defining the valuation method intended, or what might be the effect of a valuation based on original cost of assets adjusted for inflation to provide a replacement cost basis. The Controller General in fact chose this approach and proved intractable when asked to value on a more realistic basis related to reasonable sales prices taking into account the potential or recorded earnings capability. Political considerations made the possibility of any flexibility remote. In the case of ALUNASA, the first major holding to be addressed, the Controller's valuation was the equivalent of about US$52 million - for an operation that had lost substantial sums during its short period of operation and closely resembled a competitive enterprise in Venezuela (with older equipment) built at a cost of about US$8 million. AID approved a credit to FINTRA of US$52 million (equivalent in local currency) by BCCR, with which FINTRA made the purchase from CODESA through an offset (debit) of the same amount on the books of the BCCR against CODESA debt to BCCR. Extensive attempts to market ALUNASA at any price were made worldwide by The First Boston Corporation over a period of more than a year, and a sale was ultimately made (only three submissions that could remotely qualify as "bids" were received) at a price of about US$7 million.

In the past a major criticism of the Mission program has focused on this discrepancy, suggesting that AID funded the apparent very significant difference between FINTRA's purchase cost and the sale proceeds. A careful examination of the transaction form that had been established makes it evident that there was no real cost to AID. [In so saying we except any theoretical loss of an alternative opportunity to use the equivalent ESF credit, although the lack of other means of avoiding the monetization of such a sum - a clearly important consideration - makes this highly academic.] A separate section of this report attempts to explain the effects of this transaction form in detail. The evaluators are quite clearly of the opinion that, given the merits of the program, this criticism of the use of ESF credits was unwarranted. Although local politicians saw AID as having "facilitated" the divestiture through its intermediation, we found little evidence in the community of a feeling that they had passed on actual losses to AID. This may be explained in part by an assumption (inappropriate in the light of anti-inflation constraints) that the GOCR would have otherwise had the funds available to it for use in some other way. The feeling that "Uncle Sam had been taken" was very largely confined to Washington.

Assets of CODESA and Divestiture Progress to Date

At the time the CODESA divestiture program was launched, the Company's records were chaotic. It was ultimately determined that CODESA was the owner of 30 subsidiaries (owned 51% or more) and 12 affiliates (owned less than 50%). Seven of the subsidiaries constituted over 90% of CODESA's net operating assets; their disposition has been or will be as follows:

ALUNASA (aluminum) - purchased by FINTRA and sold to an individual as a going concern.

CATSA (sugar refinery) - transferred to FINTRA (in trust), who is working on sale to cooperatives and individual members of co-ops as required by Law 6955. It is hoped this sale can be completed before year end 1988.

CEMVASA (cement) - after study, sale was found not to be possible; being liquidated.

FERTICA (fertilizer) and CEMPASA (cement) are to be transferred to FINTRA under present plans. The law permits only 40% of them to be sold, preparation for which is being worked on currently; the sale is scheduled to be completed before year end 1988. The remainder will be held and managed by FINTRA in trust for later sale if authorized by the GOCR.

FECOSA (railroad) and TRANSMESA (buses) have been transferred to other government agencies as required by Law 6955.

Two of the remaining 23 small subsidiaries, ATUNES (tuna fishing) and ALCORSA (cotton gins), have been sold to private buyers. Three have been transferred to other government agencies, and the remainder have been or are being liquidated and dissolved.

Of the 12 minority holdings, seven have been or will be sold to private buyers, two have been transferred to other GOCR agencies, two are being liquidated and one (a 40% interest in the Stock Exchange - together with a seat on the Exchange) will be retained by CODESA.

Even liquidation has been found to require considerable time for legal steps; however, complete divestiture by CODESA is expected (with the exception of the Stock Exchange interest and its seat on the Exchange) over the coming year. As indicated above, a 60% interest in FERTICA and CEMPASA will continue to be held by FINTRA as beneficial owner, in trust for possible later sale.

Time Required to Complete Divestiture

Initial planning in 1984 contemplated total divestiture of CODESA assets in about 18 months. Subsequent experience, including difficulties described above, made it evident this was unrealistic. It must be kept in mind that this was (to our knowledge) the first AID experience with a divestiture operation of this kind and there was little precedent to go by. It has been the experience of the Evaluators in a wide variety of transactions commenced more recently, including in particular Honduras, Panama, Ecuador, Peru and Bolivia in Latin America alone, that it is impossible to forecast either the time required or the many problems and delays that will be encountered - politically, bureaucratically, market related or otherwise. Delays or obstacles were encountered in the CODESA program from all these sources. Having in mind the sum total of experience in this regard, the Center for Privatization nevertheless customarily recommends adoption of probably unrealistic target dates as an important discipline to assure that privatization will ultimately be achieved. In reviewing the CODESA experience, we feel the Mission should be commended for helping CODESA and FINTRA to meet and deal with every delay and maintain the momentum of the program. We should note that in the 1986 PAAD a new and far more realistic time schedule was set forth as agreed with the GOCR; this also has not been achieved by the GOCR and AID has been reluctant to press unduly because of the evident progress being made. At the present time those involved confidently hope that the program will be essentially complete over the next year (assuming completion of marketing arrangements for CATSA and the initial blocks of FERTICA and CEMPASA), except for a few remaining legal matters and the transfer of state ownership of FERTICA and CEMPASA to FINTRA for later disposition. The new focus on wide sale to small shareholders makes the time schedule for CATSA and the above mentioned blocks particularly subject to delays. We believe, however, that this new interest in broadening ownership, more appropriate to CATSA, FERTICA and CEMPASA than to companies marketed earlier, is a desirable development, even if it does lead to delays during a new learning process.

It is important to note that the law does not provide for the ultimate dissolution of CODESA itself, although it has at least been deprived of access to BCCR credit for the future. While it was not found politically feasible to include dissolution in Law 6955, it is probable that dissolution of the CODESA corporate shell has little to do with the prospect of any further GOCR forays into parastatal investment and operation, despite past history.

Role of USAID Mission

As indicated above, the Mission Director was primarily responsible for the conception of the divestiture plan for CODESA and for persuading GOCR officials to put it into action. USAID also was the prime mover in the establishment of FINTRA and the private sector trust it administers. It took direct contact with President Monge and later President Arias to keep the process going. This was continued by the Mission Director and later the Private Sector Officer on a "hands on" basis. Essential to this process was the existing strong and well staffed private sector program in the Mission, and two highly skilled Private Sector Officers, at the outset Aaron Williams and since late 1985 Richard Rosenberg. Because of the varied private sector activities being carried on by the Mission, it is evident that an important decision was to retain an outside full-time consultant to stay on top of and keep the process moving. Mr. John Robinson in this role coordinated the program (until the end of March, 1988) by maintaining close contact with all the various parties and working to resolve hangups.

It must be recognized that all these elements should be regarded as contributing importantly to the success of the program.

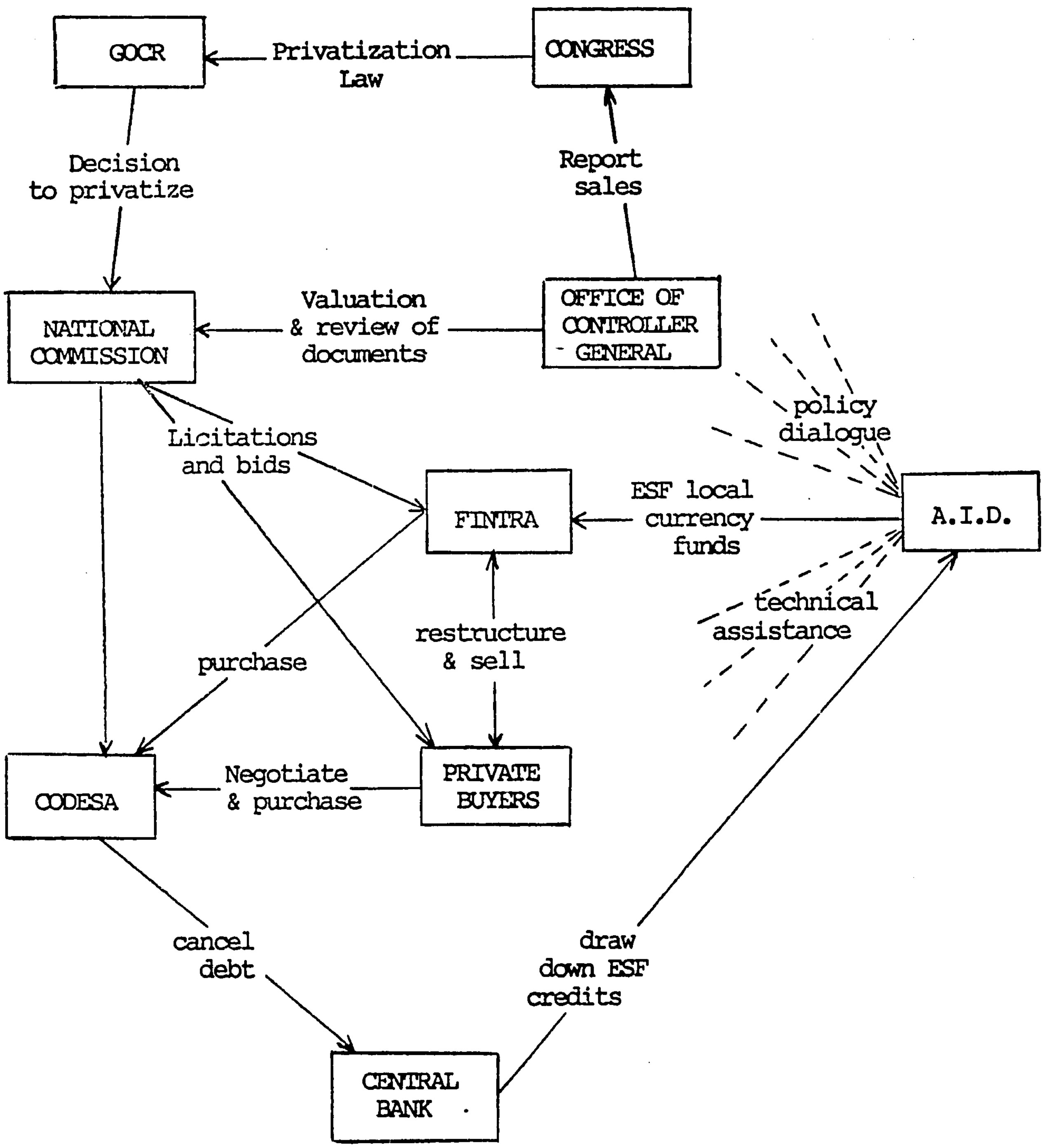
It is clear that, aside from any cost which might be said to attach to the application of ESF credits to purchase of CODESA assets, the staffing (and consultant) expenses in USAID have been very substantial. Such expenses have been rewarded by the very substantial favorable impact of the program on the country, both economically in relation to the heavy costs being incurred earlier by CODESA and attitudinally in the increasingly favorable view toward privatization in general that has developed, reflected not only in the Government but in the press and the views of the general public*. As an important element of a private sector program it must be regarded as having justified the cost and effort invested in it.

The diagram on the next page shows the flow of authority and funds in the process of carrying out the divestiture of a CODESA subsidiary.

* It is understood that the new interest in privatizing other SOE's, such as the telecommunications activities of ICE, has arisen because of the attention focused on the CODESA privatization.

SCHEMATIC DIAGRAM

DIVESTITURE OF A CODESA SUBSIDIARY



Lessons Learned

An important part of this evaluation is to determine what lessons may be drawn from the USAID experience with the CODESA divestiture which might have broad application in other developing countries that may undertake privatization programs. The following, which attempt to take into account other relevant experience also, may be useful:

1. The earliest lesson learned by the Center for Privatization, and one having almost universal application as a basic rule, is that privatization is a political process having economic and financial consequences, rather than the other way around. In developing countries most privatization programs arise out of necessity, stemming from (a) the need to reduce unsupportable losses by state owned enterprises (SOE's) or (b) the inability of government to obtain capital to provide for the needs of SOE's providing important public services. Ideological preconceptions have to be overcome by such practical considerations. The Costa Rican experience is a perfect example, and the reason it became one of the first examples in which a USAID mission has taken part was the recognition by Daniel Chaij, Mission Director in 1984, of this very basic rule, which caused him to choose the approach he used.

2. An essential ingredient for the success of a privatization program anywhere is strong support from the chief executive of the country. The CODESA program has succeeded because (a) President Monge got behind it initially, although it lacked broad political consensus (even in his own party) and, more important, (b) beginning with his inauguration in mid-1986 President Arias has given it strong and continuing support. Without his clear and firm backing it would very likely have died long before now.

It is important to have legislation in place before starting a privatization process, even if not technically required. This will demonstrate a government's commitment.

3. Determination of the current book value of an investment being prepared for divestiture is generally regarded as an appropriate starting place. Unfortunately, this focus tends to lead to exactly the problem experienced in the CODESA case, i.e. that for political reasons governments are reluctant to be seen as selling part of "the national patrimony" at a price below what has been "invested" in it. In fact, enterprises that have been experiencing heavy losses are rarely, if ever, worth what has been invested in them. Excessive original acquisition cost is frequently the reason; in many countries there are examples similar to the ALUNASA case, where the cost of the assets included

a number of elements inappropriate for one reason or another but which, in aggregate, put its "valuation" at about US$52 million - whereas its value to a buyer was more like US$7 to 10 million.

In this regard the lesson to be learned is clearly to make sure at the outset of a privatization program that legal and other arrangements recognize as explicitly as possible that sales will be made at prices reflecting realistically obtainable market prices. It is likely to be a waste of time to require that bids first be invited at the government's total imbedded cost. Valuation procedures should be negotiated in advance with governments and preferably done by independent experts acceptable to the government.

4. The establishment of a central body or unit to carry out the privatization process, headed up by independent and highly respected persons can be a useful way to energize and enforce the carrying out of the program and defuse political criticism. It is important that both political and business leaders be represented in such a body. The National Commission was to perform this role in the CODESA case; it appears to have failed, but later FINTRA (with strong political support from President Arias but essentially a private sector entity) assumed the lead and has been highly successful.

FINTRA, the private sector trust, proved to be a useful vehicle to carry out the divestiture process with USAID support, not only as an instrument to buy and resell companies, but as a "halfway house" where SOE's could be restructured and refurbished (by qualified private sector people) before being offered for final sale. It is important to note that in the Costa Rica example, it was FINTRA (with private sector talents) that was successful and not the National Commission (which provided political protection but was otherwise bogged down in bureaucratic procedures).

5. In planning the divestiture of the holdings of a government owned development institution which has been subjected to all forms of mismanagement, waste, excess employment, corruption and political exploitation, specific legal provision for the ultimate liquidation of the institution itself is highly desirable. In the CODESA case, where there was not real consensus when the legislature enacted Law 6955, we understand it was not found politically feasible to include this. Hence the divestiture effort and expense entails the risk that some future government may wish to revert to practices which got it into trouble. While present plans for a limited future for the CODESA corporate shell are commendable, the only protection against this risk is that CODESA has been deprived of its earlier open access to BCCR credit

- and that also could be restored by future legislative action. Ultimately, the only real protection is public awareness of past disasters, and the CODESA divestiture program has drawn wide (and favorable) public attention.

6. USAID had a high profile in the political and public arena at the time the CODESA program was launched, and in the first years of the process. In the Costa Rica case this was important to progress; it may be equally important to continued success that USAID is now not seen as the prime mover the way it once was. The principals in the Government and in CODESA and FINTRA are now seen as essentially committed and proceeding relatively independently. It is important in any country to give careful consideration to the degree to which the United government and USAID should be in the position where they could be seen as controlling or pressing a privatization program; often success is more likely if its influence and financial support are almost invisible. Recent events in Central America certainly suggest caution in this regard.

7. Whether or not a high profile is found desirable, it is generally important that a member of the USAID staff, or a Consultant, be charged with the full time oversight of a privatization project in which the mission is involved. It is generally agreed that Mr. John Robinson, assigned such a role from 1986 to early 1988, carried out a very important function in the CODESA program.

8. The CODESA experience is a clear demonstration that a divestiture program - for a development institution or a single enterprise - takes more time than might be supposed by anyone who had not been through the process. To a very important degree, the various necessary steps have to be carried out in sequence, and delays are almost inevitable at any stage. The major steps that may be identified and planned for will usually include at least those listed below:

Prioritization of divestiture candidates
Legal steps to prepare enterprise for private sector ownership
Fact finding and description of the enterprise to be divested
Valuation of fixed assets (if needed) and determination of minimum acceptable selling price for the enterprise as a going concern (or, as a later alternative, obtain a "fairness opinion" by an

outside expert when sale has been negotiated
Development of marketing program (broad public sale or single or few buyers)
Determination of realistic offering price
Negotiation or public sale
Consummation of transfer or liquidation

For a program involving all the subsidiaries of an investment company such as CODESA, it would be desirable to have these steps being taken for a number of companies simultaneously, keeping in mind the priorities established. We were told that in the CODESA this was not feasible with the limited number of people available.

9. Early experience with CODESA demonstrates that on adoption of a divestiture or privatization program the existing management of an enterprise or investing institution should not be left in charge of implementing such a program. Not only is it a full time job requiring specialized skills, but most executives in SOE's do not have the time - nor the talents or motivation - to carry out such a process. In the case of CODESA this was fortunately (although belatedly) recognized and President Arias after his inauguration appointed a new and highly qualified CODESA head (Mr. Edgar Brenes) specifically charged with the divestiture program.

10. It is recognized that the attitude toward ESF local currency credits has changed, and that there are few countries where they bulk so large in relation to the economy as Costa Rica. However, the way they were used in Costa Rica was instrumental in making privatization possible; another time under similar circumstances they should perhaps be used for "block grants" to encourage progress, rather than as direct purchases (which gave rise to the "buy high, sell low" perception).

The foregoing summarizes the more detailed information contained in the full evaluation report (of which this Executive Summary is a part) on the CODESA divestiture program prepared by Alexander C. Tomlinson and Ismael Benavides for the Center for Privatization, Washington, D.C. at the request of the U. S. Agency for International Development (AID).

<u>SEQUENCE OF EVENTS IN THE CODESA DIVESTITURE PROGRAM</u>

AID begins conversations with GOCR on Privatization	Summer 1983
Costa Rican Congress approved Law 6955	24 Feb 1984
Arthur D. Little and Coopers & Lybrand contracted to do paper on CODESA in January 1984 - submitted	June 1984
ESR III requires CODESA to develop a divestiture strategy	Aug 1984
Request for assistance by GOCR sent to U.S Ambassador	5 Oct 1984
AID PAAD prepared end 1984, for US$140 million ESF support, and presented	Feb 1985
Memorandum of Understanding (MOU) between GOCR and AID re funding for National Commission	18 Jan 1985
Decree 16007-P-MEC regulating the application of Law 6955	1 Feb 1985
Decree 16520-P-MEC creating National Commission	1 Mar 1985
AID PAAD approved	19 Mar 1985
MOU between AID/GOCR/CODESA/BCCR/ re donation of US $140 mm in local currency	13 May 1985
RFP for technical assistance to FINTRA issued	25 Jun 1985
FINTRA legally established	21 Aug 1985
Selection of Technical Assistance group	2 Sep 1985
MOU between AID and FINTRA (Fiduciary arrangement)	6 Sep 1985
Technical Assistance Contract with IRG signed	4 Oct 1985

Regulation for operation of National Commission issued	Oct 1985
ALUNASA offered by public bid ("licitation")	Nov 1985
ALUNASA purchased by FINTRA	23 Dec 1985
First Boston retained to handle sale of ALUNASA	4 Apr 1986
MOU originally signed between AID and FINTRA on 6/Sep/85 completely amended	7 Apr 1986
President Arias takes office as successor to Monge	8 May 1986
Edgar Brenes appointed President of CODESA	Jun 1986
First actions by new administration on CODESA divestiture (Cabinet resolution No. 15)	24 Jun 1986
Initial licitation for ATUNES	Aug 1986
Initial licitation for CATSA	20 Nov 1986
ATUNES purchased by FINTRA	13 Feb 1987
ATUNES sold by FINTRA	30 Apr 1987
Transfer of CATSA to FINTRA in trust	10 Sep 1987
ALUNASA sold by FINTRA to Gurdian Group	23 Oct 1987

Note: See also schedule of issuance of valuations by the Controller General under "The Valuation Issue and the Controller General of Costa Rica", page 31.

CODESA AND THE DIVESTITURE PROCESS

Numerous documents and reports have been prepared on the history of CODESA and its impact on monetary and credit policies as well as on the general economic situation in Costa Rica. Of particular importance is a report by Arthur D. Little Inc. commissioned by AID-Costa Rica in 1984, which for the first time gave a comprehensive perspective of the situation of CODESA. This section provides a summarized version of many of those reports and other information obtained.

A Brief History of CODESA until 1984

CODESA was a late comer among the Latin American state holding companies set up to engage in development finance. Established by Law 5122 of November 16, 1972, with the stated objective of "strengthening private Costa Rican enterprises within the regime of a national mixed economy", CODESA quickly became an instrument for the establishment of ill conceived and badly mismanaged government investment projects in productive enterprises, created within a statist development orientation. Its major growth occurred during the government of President Daniel Oduber (1974-1978). It was used for political purposes and frequently exploited for financial gain.

The period 1979 to 1984 saw new annual investments averaging 1.5 billion colones. The investment stopped in 1984, after the passage of Law 6955 and the first GOCR covenants with AID. The growth of net operating assets of CODESA is shown below. These figures exclude the effects of passive "pass through" finance activities, and should be considered in the light of experience which has shown that the investments in operating assets were for all practical purposes largely losses the day they were made; real value is typically under 20% of cost:

CODESA

Net Operating Losses
(in billions of colones)

1979	2.2	1983	8.1
1980	3.8	1984	8.0
1981	6.0	1985	7.9
1982	7.3	1986	8.2*

* The ALUNASA sale in 1986 reduced operating assets, but this was offset by bank revaluations to reflect depreciation of the colon.

Articles 28 and 29 of the law creating CODESA granted it virtually unlimited credit from the BCCR, which allowed it to absorb large amounts of resources to fund its investments. Between 1979 and 1984, CODESA's annual share of total BCCR credit increased from 10.7% to 18.2% and, of credit to the public sector, from 28.8% to 52%. At September 30, 1984 total Central Bank credit to CODESA was c 8,801,600,000, or approximately US$200 million, which represented 35.6% of total credit granted by the Central Bank to the public sector. Despite this enormous absorption of resources, also depriving the private sector of productive capacity, CODESA's subsidiaries only contributed 1.8% of GDP and 2,122 jobs, or 0.3% of the total labor force.

At the time Law 6955 was enacted providing for the CODESA divestiture, it owned a total of 30 companies outright, and had partial interests in 12 other subsidiaries and affiliates. Following are the principal holdings, of which the first seven listed account for over 90% of net operating assets (i.e. not including "pass-through" credit operations to non-subsidiary companies):

CODESA's Principal Investments

Name	Business	Origin	Year Established
ALUNASA	Aluminum Mill	CODESA Project	1978
ALCORSA	Cotton Gin	CODESA Project	1977
CATSA	Sugar Mill	CODESA Project	1975
CEMPASA	Cement	CODESA Project	1983
TRANSMESA	Buses	CODESA Project	N.A.
FECOSA	Railroad	GOCR Project	N.A.
CEMVASA	Cement	Private Bankruptcy	1978
ATUNES	Tuna Fishing	Cooperative	N.A.
FERTICA	Fertilizer	Purchase from Private Owner	1960
TEMPISQUE FERRY	Ferry Boats	CODESA Project	1975
STABAPARI	Wood	Mixed Project	1969
DAISA	Agroindustry	CODESA Project	1979

During the 1977-1983 period, all of CODESA's subsidiaries, with the exception of STABAPARI, generated losses, accumulating a total of c 2,059 million for the period, without including revaluation of assets which reduced losses. The A.D. Little report indicates, furthermore, that during the period, losses always exceeded 25% of the assets of all CODESA subsidiaries. CODESA's total losses added up to c 4,990 million at June 30, 1984.

Despite its stated objective, CODESA's actual channelling of resources to the private sector was negligible. Only 14% of its direct loan portfolio had gone to the private sector at June 30, 1984; and of its total liabilities only 4% were oriented to support private sector activities. In sum, CODESA devoted the great majority of its resources to supporting its own unprofitable ventures, while minimizing the flow of resources to more productive ventures in the private sector.

Political Environment Affecting CODESA'S Operation

Until 1984, CODESA was regarded as the model for development by an important part of the PLN party. At the same time, CODESA had also become political booty for the different governments in power since 1972.

Many of the major projects, including CATSA and CEMPASA, were done without complete feasibility studies, and reflected the fact that in the 1970's readily available foreign credit made the purchase of equipment too easy. Jobs were handed out with largesse by the different administrations and overstaffing became a common problem in all the subsidiaries. Despite all the negative signals produced by CODESA, an important number of legislators and politicians actively defended the institution.

It was within this framework and political environment that President Monge decided to act with regard to CODESA.

The Negotiation Process for the Divestiture of CODESA

The economic crisis inherited by the Monge administration, compounded with lack of international reserves and foreign credit, dictated that significant measures were required to improve its finances and obtain foreign assistance.

Policy dialogue leading to the divestiture of CODESA began to take shape during 1983 in a series of conversations held between the AID director, other senior AID officers, and high level government officials, including President Monge himself. These culminated in the drafting of legislation which was enacted in early 1984 as Articles 55 and 56 of Law 6955 "The Law of Financial Equilibrium of the Public Sector". (See Appendix B)

The acceptance of those articles required a great deal of political maneuvering as they generated great resistance and a prolonged debate among the supporters of CODESA. The original version of the law, which among other things had limited to 60% the sale of FERTICA and CEMPASA shares, was changed to reduce that to 40%; other changes were also introduced, none of which made the divestiture of CODESA any easier.

Once the law was approved, President Monge created by decree the "National Commission" which was designed to reduce political frictions and to enforce and give protective coverage to the privatization of CODESA.

Resistance to the divestiture process continued during the Monge administration, not only at the political level, but at the bureaucratic level within CODESA. It was only with the Arias administration, when the privatization program was in pace and President Monge's administration had assumed the political liabilities, that the process really began to show forward movement to achieve its original objective.

CODESA Management in the Divestiture Process

The management of CODESA has played a special role in the privatization process, both in the initial process during the Monge administration, and during the Arias administration, where marked differences can be observed.

At the beginning of the privatization process in 1984, the traditional entrenched CODESA bureaucracy was able to delay privatizations by taking advantage of the rifts in the PLN party on the CODESA issue. Mr. Juan Bonilla, General Manager at the beginning of the process in 1984, and Mr. Luis Garita, Executive President in 1985, either opposed divestiture or took a non-collaborative position. The only transaction carried out in that period was the sale of ALUNASA to FINTRA in December 1985. That transaction enabled CODESA to show a profit in 1985, which was hailed as an achievement by the administration of CODESA, although it was only a product of a sale at the inflated price dictated by the Controller General's valuations.

The Arias administration took office on May 8, 1986, and in June appointed new management for CODESA. Mr. Edgar Brenes, a highly qualified young executive, was named Executive President of CODESA. Mr. Brenes understood his mission clearly, and rapidly established a good working relationship with AID and FINTRA. The Arias administration actively supported the divestiture of CODESA and some of its high level members have a close working relationship with Mr. Brenes.

The administration of CODESA under Mr. Brenes has not only moved rapidly in the sale of many enterprises, but has also liquidated a number of others, including numerous inactive companies. Mr. Brenes has also taken important measures to contract the size of CODESA. Staff has been reduced from 250 to 75, the office has been concentrated in one building and the legal department has been "privatized".

The legislation has made no provision, and none is expected to be made, for the ultimate liquidation of CODESA itself. Mr. Brenes has suggested that it be restructured to serve as an advisor to the private sector, rather than an investor, and there may be an important role for it to play providing research capability for private investment. The government has not taken any position yet on its future. CODESA will not, under present law, have access to BCCR credit, but will retain its minority (40%) ownership interest in the Bolsa Nacional de Valores S.A. (Stock Exchange) and its seat on the Exchange.

CODESA Divestiture Activity Since 1984

The initial time estimates for the divestiture of CODESA holdings (18 months) proved overly optimistic. A more realistic schedule in the 1986 PAAD has also fallen behind. The lack of relevant experience of USAID Mission personnel and other participants contributed to the early delay, as did AID Washington's refusal to allow the Mission to go forward with the original plan (FINTRA purchases at the Controller General's prices) and the necessity of negotiating a new mechanism with the Controller General. Other factors which contributed to the delays included:

- Political and bureaucratic resistance, particularly during the Monge administration.
- Ineffectiveness of the National Commission.
- Time consuming valuation procedures by the Controller General.
- Market limitations within and outside Costa Rica as to possible buyers.
- The new democratization process of President Arias that requires lengthy sales time to involve large numbers of stockholders.
- The complex legal and financial status of many of CODESA's subsidiaries.

Despite these limitations the advances made in the program are notable, particularly during the Arias administration and under Edgar Brenes in CODESA. Compared to other privatization programs, the Costa Rican effort has not been slow at all and has had considerable success. The divestiture should be completed by the end of the Arias administration in May 1990. Esentially a detailed summary status is presented in Appendix C.

Of the 5 major subsidiaries that comprise 80% of CODESA's assets, one, ALUNASA has been sold, CATSA is in the process of sale and CEMVASA is in liquidation. The permitted 40% interest in the two remaining ones, FERTICA and CEMPASA, is expected to be sold in the 1988-1989 period. By the end of 1989 CODESA is expected to have liquidated all remaining corporate shells it owned.

Currently 13 subsidiaries and affiliates are being liquidated, and the process should be completed by the end of 1988. Three major subsidiaries are in the process of sale; CATSA should be sold by sometime in the fourth quarter of 1988, according to the present schedule, and a management contract is expected to be executed for the management of FERTICA by Norsk Hydro by June 30, 1988. Once CATSA is sold, FERTICA and CEMPASA will be the focus of CODESA and FINTRA's efforts until the end of the present administration.

Examination of the sales that have been or are currently being made, i.e. ALUNASA, ATUNES, CATSA and ALCORSA, indicates that the necessary and appropriate procedures have been carried out, and with complete transparency, both by CODESA and FINTRA. No sales have been considered which would depend in any way on the provision of GOCR credit. Significantly, no major public complaints have been voiced about favoritism or unclear sales procedures by CODESA or FINTRA.

The sale of ALUNASA was carried out by an independent and prestigious company, The First Boston Corporation, through an open international search for bidders. That process assured that the ultimate sale price reflected a realistic valuation of the company.

A crucial element in the completion of this effort is the stated policy of the Arias administration to "democratize" the property of state owned enterprises by public sale to a widespread shareholder group in Costa Rica, which has been extended from CODESA to the telecommunications company and other possibilities.

ATUNES was sold by FINTRA as a result of a public invitation for bids ("licitation"), and ALCORSA's assets are being publicly sold by CODESA after two failed licitations to sell the company's shares. CATSA is proposed to be sold in a widespread public offering that aims to attract 250,000 buyers, although an attempt by the GOCR to develop a group of coop members as initial subscribers has not been successful; the sale will be handled by CODESA through the Stock Exchange.

It is difficult at this stage of the privatization process to fully assess the economic, fiscal and social impact of the divestitures, particularly while they are still in process.

Nevertheless, a number of significant favorable developments are evident:

(1) CODESA has received no Central Bank credit since 1985, and has even reduced its outstandings. This has freed up resources for more productive uses in the public sector. See following table:

CENTRAL BANK CREDIT TO CODESA

Balance at Year End

	1984	1985	1986	1987
c million	9,069	8,310	9,106**	7,396
$ million*	191	155	156	108

* Equivalent at year end exchange rate
** Includes interest and FERTICA refinancing in 1986 of c 1,237.5 millior

(2) A substantial portion of ESF generated local currency has been demonetized, allowing for compliance with IMF standby targets and avoidance of inflationary pressures. To date this has aggregated approximately c 6,650 million – equivalent to about 6% of the money supply.

(3) Two major money losing enterprises, ALUNASA and CATSA, have been restructured and are now profitable.

(4) The enterprises retained by the GOCR are being rationalized and restructured to reduce their demand for resources from the budget.

(5) CODESA has been significantly down-sized in order to adapt it to its new role.

(6) Thousands of individuals are becoming shareholders of some of the companies being privatized, dramatically increasing the number of owners of stocks in the country.

THE MAJOR ELEMENTS OF THE CODESA PRIVATIZATION PROCESS

The privatization process of CODESA has included a number of key elements, most of which were a result of policy dialogue between AID and the GOCR, some part of the overall project design by the AID mission, and others part of the political necessity identified by the GOCR to carry out the privatization of CODESA's subsidiaries. These elements, important at one time or another, include:

- the privatization law,
- the National Commission,
- the valuation issue with the Controller General,
- the private trust fund (FINTRA),
- the FINTRA technical assistance contract,
- the use of ESF local currency funds in the privatization process,
- AID management of the privatization project.

Each of these is discussed in a separate sub-section below.

There has been some criticism of the unwieldy and complex structure of the CODESA divestiture program. Nevertheless, our review suggests that the various objectives of the program and the political and other issues, as well as the difficult tasks of restructuring and marketing CODESA's holdings all led to a need for one or another of the components of the structure.

It can be argued that the National Commission was unnecessary, and that the valuation process would have been more realistic if an independent body had carried it out. However, it appears that political realities of the moment created the necessity to involve the Controller General and highly respected politicians in the process.

THE PRIVATIZATION LAW

The final text of Law 6955, as it related to the CODESA divestiture, was not the original text sent by the executive power, but the result of a political compromise between factions of the PLN ruling party, one of which opposed any sale of assets or reduction of CODESA. The end result was a law that authorized the sales, (although some argue that) legally CODESA did not need a law to sell, but also imposed a number of restrictions on the sale. The main provisions of the law were:

(1) Authorization for CODESA to sell its subsidiaries,
(2) Sales were to be made through public invitations for bids ("licitations") and with the valuation of the Controller General of Costa Rica.

(3) A number of enterprises could not be sold because they were "public utilities" under the constitution. (Transmesa, Fecosa, Zona Franca de Exportaciones S.A.)
(4) CATSA and CEMVASA could only be sold to the cooperative sector,
(5) Only 40% of FERTICA and CEMPASA could be sold
(6) Special credit facilities were to be provided by the national banking system to buyers.

Articles 55 and 56 of Law 6955, which enabled the privatization program to begin, reflected the political conflicts within the PLN, and in effect introduced a number of restrictions to the selling process that limited the options for the GOCR and CODESA to divest their holdings. Although those limitations were more evident during the initiation of the privatization process in the Monge administration, the Arias administration has demonstrated considerable flexibility and creativity in the interpretation of the law in order to facilitate sales. This has made possible the CATSA transaction and the plans for FERTICA and CEMPASA, where the use of FINTRA as an intermediate trust may facilitate sales and remove the required 60% continued holdings from direct GORC control.

After the agreement between AID and the GOCR for the 1985 ESF grant, which included the privatization mechanism for CODESA, the GOCR issued Decree No. 16007-P-MEC, dated February 1, 1985, which provided the detailed operating system required by the Costa Rican constitution to put the law into effect. The decree contained the following principal provisions:

(1) The valuation and bidding procedures
(2) The use of the proceeds from the sales by CODESA.
(3) The transfer of those enterprises considered public utilities to direct government ownership.

In addition to the selling restrictions, the principal impediments created in the law and Decree 16007-P-MEC are the valuation procedure, which has been interpreted with extreme rigidity by the Controller General, and the sales procedure which calls for public "licitations" above the Controller General's valuations.

THE NATIONAL COMMISSION

The National Commission for the restructuring of CODESA was created during the Monge administration by Decree 16520-P-MEC of February 25, 1985.

The Commission was created by President Monge in order to provide political protection from factional attacks on the privatization process of CODESA from within the PLN and the opposition and also to enforce the CODESA liquidation as provided by law. The main provision of the decree regarding the Commission are:

(1) It was bipartisan, consisting of three members, all well respected and active politically: Mr. German Serrano of the opposing Unidad Nacional Party, and Claudio Volio and Ricardo Echandi of the ruling PLN party.

(2) The Commission was given ample powers to execute and supervise the sale of CODESA's assets, including:
   a) the authority to carry out the sales and issue public tenders,
   b) coordinate valuations and other actions with the Controller General,
   c) recommend actions to the Central Government.

(3) CODESA could not make any sale without the authorization of the Commission.

Operations of the Commission

The Commission began operations in March, 1985, and its first actions were to coordinate the initiation of the valuation process by the Controller General's office. The first company to be valued was ALUNASA, which was completed in August 1985. Valuation of the remaining seven major enterprises was completed by, July 1987.

After a company was valued, the Commission would prepare the documentation for the "licitation" or invitation to bidders, and remit it to the Controller General for approval. Once approved, after as much as a two months wait, the Commission would, in conjunction with CODESA, publish the offers in national newspapers. Interested parties could then obtain the instructions for offers from the Commission in order to submit proposals by the specified date. Final sales transactions and legal documentation were then negotiated with CODESA.

By April, 1988, the Commission had published "licitations" for all the CODESA subsidiaries that were to be sold on a going concern basis to private buyers, as follows:

COMPANY	STATUS
ALUNASA	Sold
ALCORSA	In process of sale of assets
ATUNES	Sold
TEMPISQUE FERRY BOAT	No bidders, in liquidation
CATSA	Transferred to FINTRA in trust
FERTICA (1)	Deferred, not yet sold to FINTRA
CEMPASA (1)	Deferred, not yet sold to FINTRA

(1) The sale of FERTICA and CEMPASA will occur once the trust mechanism and conditions are worked out between the GOCR, CODESA and FINTRA. Public offerings will be made by FINTRA, and wide distribution is anticipated.

The Commission was terminated on April 30, 1988, and is to submit a detailed report of its activities to the Cabinet.

Funding of the Commission

The operations of the Commission have been financed with funds from the local currency generated by ESF loans, deposited in the AID special account with the BCCR.

The first memorandum of understanding to finance the Commission was signed by AID and the GOCR on January 18, 1985. It was extended and amended ten times until April 30, 1988. The total amount of funds allocated to the Commission add up to the following:

ESTIMATED BUDGET (in colones)
Feb. 1985 - March 1988

Salary for members	9,435,000
Salary executive secretary	2,005,366
Secretarial and administrative services	1,226,788
Various administrative expenses	378,634
Travel expenses	319,550
Consultants fees	11,032,171
Auditors fees	2,070,000
CODESA retirement incentive program	5,000,000
Miscellaneous	1,136,524
TOTAL	32,604,033

The Commission's actual expenditures through April, 1988, when it wound up its operations, totalled about c 29,000,000.

Some Conclusions on the Activities of the Commission

The initial intent for the establishment of the Commission was to set up a buffer or umbrella to give political protection to the privatization process. It was felt at the time that the presence of three well known and respected individuals with close political connections would give the process greater legitimacy and fend off possible attacks from political factions within the PLN and from the opposition. Although this could be said to be correct since there was little overt political criticism of the process, nevertheless, Commission's incompetence, caution and inflexibility combined with bureaucratic resistance in CODESA during the Monge Government and problems created by the valuation issue to effectively prevent any major action. In the end, the lengthy valuation procedures and bidding processes prolonged the life of the commission for more than three years. The record of the Commission does not suggest that it was an important or necessary element in the concept of the CODESA divestiture process.

After the Arias administration took office the need for the Commission was even less apparent, as the political circumstances for its creation because less relevant in light of President Arias' strong advocacy of privatization. Further, the new management in CODESA, with a firm commitment and full political support to carry out the sales of the enterprises, made the Commission completely redundant.

FINTRA, THE PRIVATE SECTOR TRUST

FIDUCIARIA DE INVERSIONES TRANSITORIAS, S.A. (FINTRA) was established in accordance with the "Memorandum of Understanding" (MOU) signed between AID and the GOCR on May 13, 1985, to provide for the management of the trust fund set for the purchase of CODESA's subsidiaries with the local currency generated by the 1985 ESF funds, and their subsequent resale to the private sector. (A detailed description of the proposed trust fund was contained in Annex III of the PAAD for the 1985 ESF facility, submitted to AID Washington in February 1985, which was subsequently approved on March 19, 1985.)

FINTRA has been legally operating since August 1985, and has to date participated in the coordination and supervision of the technical assistance contracts for the evaluation of nine of CODESA's major subsidiaries; it has also served as an important policy instrument for the Costa Rican divestiture program and a vehicle to facilitate the sale of CODESA companies. FINTRA has carried out the successful privatization of ALUNASA and ATUNES, is in the process of privatizing CATSA (which is scheduled to be completed by September 30, 1988,) and is expected to participate in the privatization of FERTICA and CEMPASA before the end of the Arias administration in 1990.

In addition to facilitating the sale of CODESA's enterprises, FINTRA has proved to be successful in carrying out the restructuring of companies in process of sale, avoiding political backlash to the government and AID, and enabling the management of the enterprises to act in an entrepreneurial fashion without the constraints of central government budgetary regulations and the supervision of the Controller General's office.

Establishment of the Trust

The concept of the trust mechanism was worked out between AID and the GOCR in the discussions held during 1984.

The Memorandum of Understanding (MOU) between AID and the GOCR on May 13, 1985 formally laid the ground rules for the establishment of a trust mechanism to facilitate the divestiture of CODESA's subsidiaries and enable AID to use the local currency generated by the ESF grant of US$140 million for 1985 in the purchase of the subsidiaries, thereby assuring its demonetization.

FINTRA was legally established as a corporation under Costa Rican law on August 21, 1985. Its main objective was the management of trusts and trust funds, as well as a broad range of commercial activities. The capital of the corporation was set at 10,000 colones, subscribed and paid by Ernesto Rohrmoser, Carlos Manuel Gonzales, Omar Dengo, Emilio Garnier and Carlos Araya, who were subsequently appointed Directors of FINTRA and Trustees of the Trust. All five men were highly respected successful business men with the personal prestige to assure their independence from GOCR or political dictation. The life of the company was set at five years, at which time it would be dissolved unless otherwise agreed by the shareholders.

The management of FINTRA is entrusted to the President, and in his absence, the Vice President of the Board of Directors, both of whom are also legal representatives of the company.

FINTRA permanent staff is small, consisting basically of an executive secretary, Mr. Gonzalo Vega, a project manager, Mr. Guillermo Arguedas, and a financial administrative manager Ms. Martha Arrea, later replaced by Oscar Gomez. Secretarial and support personnel is minimal.

The Operations of FINTRA

FINTRA was originally designed to participate in most, if not all, of the invitations for bids ("licitations") of CODESA subsidiaries in order to purchase the enterprises, as a buyer of last resort, at the price established by the Controller General of Costa Rica.

In practice however, FINTRA has acquired few companies, having avoided purchasing those that had legal or political problems. In those cases FINTRA has been an instrument of policy dialogue with CODESA and the GOCR.

The operations carried out by FINTRA since August 1985, can be summarized as follows:

Purchase and sale of ALUNASA: The company was purchased on December 23, 1985, for c 2,619,384,827 FINTRA continued the operations of the company while at the same time carrying out a restructuring process, as is detailed in Appendix D. The sale of ALUNASA was entrusted to The First Boston Corporation, which after a lengthy process that included contacting 119 companies in 27 countries worldwide, managed to sell the company 21 months later to a group headed by Costa Rican entrepreneur Rodolfo Gurdian for c 390,275,000.

Purchase and sale of Atunes de Costa Rica, S.A. (ATUNES): Following long and difficult negotiations with StarKist, a creditor, the company was acquired by FINTRA on February 13, 1987 for c 101,519,394 which included c 87.7 million of debts owed to the BCCR. ATUNES was sold through a public "licitation" in April 1987, the best offer being presented by a Venezuelan group Atun C.A. for c 90,000,000.

Establishment of trust for CATSA shares: According to Law 6955 CATSA could only be purchased by the cooperative sector. A trust was established in FINTRA, with the authorization of the GOCR, which will hold the shares of CATSA until they are sold, and in the interim the company will be managed and restructured by FINTRA. The sales process is expected to be completed by September 30, 1988. During 1987, AID donated c 3,500,000,000 to the BCCR to cancel CODESA debt. Of this total c 3,427,584,197 was initially attributed to the price set by the Controller General for CATSA. The actual amount of the net "attribution" by the Controller General will depend on the purchase price received by CODESA for CATSA (expected to be about c 450 million).

Other Activities: In conjunction with AID and CODESA, FINTRA contracted for and supervised the evaluations of the following enterprises by International Resources Group Inc. or its subcontractors under a technical assistance contract (see below). The results of these studies have enabled FINTRA to assess the true situation of the companies and establish realistic values for them:

ALUNASA	FINTRA
ALCORSA	TEMPISQUE FERRY BOAT
ATUNES	CEMPASA
CATSA	CEMVASA
FERTICA	

FINTRA also valued the assets of STABAPARI and DAISA, two of CODESA's subsidiaries.

Current Activities of FINTRA: FINTRA is currently involved in the following activities:

(a) Restructuring and privatization of CATSA
(b) Design of privatization of CATSA
(c) Planning the establishment of a trust and a marketing plan for the privatization of FERTICA and CEMPASA.
(d) Maintaining a policy dialogue with CODESA and the GOCR on privatization.
(e) Negotiating purchase and dispositions of CODESA's 40% share in STABAPARI.
(f) Managing a severance pay fund for discharged CODESA employees.

The Financial Operations of FINTRA

The entire amount of FINTRA's operating costs and purchases of CODESA subsidiaries were designed to be covered by the local currency generated from ESF grants. This has so far included the 1985 ESF grant of US$140 million and an additional estimated US$34 million from the 1986 ESF grant. Transfers would be made from time to time from the AID special local currency account in the BCCR to FINTRA, and the income would be increased by interest earned on any excess funds FINTRA may have, and the proceeds of sales of companies.

Total accumulated expenses for FINTRA's operations, including costs of managing enterprises it has acquired, from September 6, 1985 to March 31, 1988, add up to approximately c 118,814,255 or about US$1,600,000. After initial disbursement from AID, these costs have been funded monthly from interest on deposits and proceeds of the sale of companies.

Considering the time period involved, and the results obtained, FINTRA would seem to be a cost effective institution in the Costa Rican privatization program. Its demonstrated ability to turn losses into profits has paid off in the ability to sell at higher prices than might otherwise have been anticipated.

The use of funds from the AID special local currency account in connection with the CODESA privatization program to March 31, 1988 can be summarized as follows:

LOCAL CURRENCY RESOURCES
COMMITTED TO CODESA DIVESTITURE

RESOURCES OBLIGATED BY AID/GOCR:		
1984 ESF	c 11,401,000	
1985 ESF (US$140,000,000)	c 7,021,990,000	
1986 ESF (US$ 34,000,000)	c 2,031,800,000	
TOTAL BUDGETED		c 9,065,191,000
DISBURSEMENTS FROM ESF SPECIAL ACCOUNT:		
FINTRA:		
Operating expense advances	c 12,932,000	
Alunasa deposit (5% of purchase price)	c 139,778,000	
Alunasa purchase	c 2,795,641,000	
Alunasa working capital	c 50,000,000	
NATIONAL COMMISSION:		
Operating expenses	c 28,895,000	
BLOCK TRANSFERS TO REDUCE CODESA's BCCR DEBT		
1986 Transfer	c 119,282,000	
1987 Transfer	c 3.500,000,000	
TOTAL DISBURSEMENTS		c 6,646,528,000
NET UNDISBURSED RESOURCES		c 2,418,663,000
FINTRA BALANCE		c 903,000,000
RESOURCES AVAILABLE FOR REMAINDER OF PROCESS*		c 3,221,663,000

* The available resources will be increased by interest from CATSA, FERTICA and CEMPASA

(continued...)

ESTIMATED FUTURE DISBURSEMENTS

FINTRA OPERATING EXPENSES (2 years)	120,000,000
DEBT REDUCTION TRANSFERS TO COVER CONTROLLER GENERAL VALUATION	
40% of FERTICA shares	c 1,309,108,000
40% of CEMPASA shares	c 1,722,629,000*
	c 3,151,737,000

** The CEMPASA figure reflects a reduction in the Controller General's valuation to reflect an imminent transfer out of CEMPASA of limestone deposits which the company will probably never need.

The projected deficit in FINTRA's finances could be funded from interest generated in the AID special account in the BCCR, or from the proceeds of sales of the enterprises by FINTRA.

FINTRA is required to present periodic reports (quarterly) to AID, and submit yearly audited financial statements. The auditing firm of Peat, Marwick & Mitchell approved the internal accounting and control procedures which have been followed by FINTRA since its inception.

Comment

Certain criticisms have been made of FINTRA and the privatization process in general, which appear unwarranted in the light of the circumstances in Costa Rica, and particularly if compared to privatization processes elsewhere in the developing world.

Some of the major problems with which FINTRA had to deal with were:

- Bureaucratic resistance on the part of CODESA staff during the Monge administration, delays in valuation and sales procedures, and the natural slowdown of an outgoing administration and startup of a new one over the six months ending in June, 1986 when Arias took office.

- The unexpectedly high prices set by the Controller General for the enterprises valued, which slowed down FINTRA's activities after the ALUNASA purchase in December 1985.

- The extreme difficulty in finding a buyer for ALUNASA, despite the considerable effort expended.

It seems clear that FINTRA has achieved already, or is in the process of achieving, its original objectives. The conception of FINTRA has been undoubtedly prudent, original and creative, and has proved to be an interesting vehicle which may be used in other privatization programs. It has served AID's interests as well as Costa Rica's. Furthermore, FINTRA has proved to be an effective and flexible body able to adapt to the changes in circumstances of the privatization process and the political environment. Over the period of its activity it has built up a technical expertise in privatization and restructuring of state enterprises, which it is hoped can be put to use in future non-CODESA privatization efforts in Costa Rica.

FINTRA has achieved in a significant measure the original objectives of its creation:

(1) It has participated in the purchase and resale of 2 of the 3 CODESA wholly owned subsidiaries already sold: ALUNASA and ATUNES (ACUACULTURA was sold before the creation of FINTRA). It will participate in the sale of three out of CODESA's four remaining subsidiaries (CATSA, FERTICA, and CEMPASA).

(2) It has proved to be an adequate vehicle to ease the transfer and restructuring of CODESA's enterprises before sale to the private sector.

(3) It has permitted the use of ESF funds by demonetizing them in a way which is positive for the GOCR economy.

(4) It has minimized AID's involvement in the privatization process, such criticism as there has been not having originated in Costa Rica, and furthermore has also shielded the GOCR from the political heat generated when necessary restructuring measures are taken.

THE FINTRA TECHNICAL ASSISTANCE CONTRACT

The privatization program of CODESA's subsidiaries, agreed to between AID and the GOCR, also involved the provision of dollar-funded technical assistance to FINTRA and CODESA for the evaluation of the enterprises from a technical/financial viewpoint and the establishment of commercial values for them.

The RFP was issued on June 28, 1985, to solicit proposals from four firms selected by AID staff. First Boston (which later joined IRG), Morgan Grenfell, Arthur D. Little Inc., and International Resources Group Inc. (IRG). On August 7, 1985, three participating consortia made offers:

a) Arthur D. Little Inc., Ulhin, Morton Badley & Welling Inc.

b) Morgan Grenfell, Coopers & Lybrand, IESC

c) International Resources Group, Price Waterhouse and First Boston (FBC)

The regional contracting officer in Panama was requested to negotiate with the above consortia in the indicated order of precedence.

The PIO/T was submitted on September 30, 1985, and approved by the Mission Director on October 19, 1985. A memorandum of understanding was signed between AID and the GOCR on September 30, 1985, for the use of PO and E funds to finance the hiring of the technical advisor.

The contract between AID and IRG was signed on November 22, 1985. The initial contract was for US$667,692 of which US$288,500 was obligated the first year, US$200,000 obligated the second year, and US$120,000 the third year. On December 31, 1987 when the IRG contract was completed, the total cost added up to US$592,692.26.

The IRG contract was concentrated on the larger and more complex CODESA subsidiaries. The participation of First Boston and Price Waterhouse was minimal. While First Boston did valuation and diagnostic work on ALUNASA under the IRG contract, the international marketing and negotiation was done on a success fee basis of resale proceeds under separate contract between FINTRA and First Boston/Interfin. In the light of the extensive marketing effort mounted, their fee of 32.9 million colones was a reasonable one by prevailing investment banking standards.

For much of its work on individual enterprises, IRG relied on subcontractors that were specialized in the activities of those companies. CATSA was evaluated by F.C. Schaffer & Associates of Baton Rouge, Louisiana, the cement companies CEMPASA and CEMVASA by Mr. Kenneth D. Simmons, and FERTICA by Manderson & Associates and Price Waterhouse. Overall the subcontractors and staff hired by IRG were well qualified to fulfill FINTRA requirements.

IRG prepared detailed reports and participated in the restructuring of ALUNASA, ATUNES, ALCORSA, FERTICA, CEMPASA, CEMVASA and TEMPISQUE FERRY BOAT.

Their reports have been reviewed and have been found for the most part to be satisfactory, and the evaluators concur with Mr. John Robinson's favorable assessment of the quality of the work involved. The problems that occurred during the execution of the Technical Assistance program were mostly due to: (1) an overly optimistic initial timetable, (2) operational delays due to IRG's apparent lack of capacity to handle AID administrative procedures, (3) problems derived from a lack of adequate coordination between FINTRA and IRG on the sequence and timeliness of reports, and (4) a confusion arising from an unclear reporting relationship to AID and FINTRA by IRG. This latter problem was solved by an amendment to the contract in December 1986, which required IRG to submit work plans for each activity it carried out, which could be approved by the AID project manager. IRG's work functioned more smoothly after that change was instituted.

Conclusion

The activities carried out by IRG specialists, and the individual company reports prepared by IRG, have proved to be a valuable tool for AID, FINTRA and CODESA, enabling them to have a realistic overview of the enterprises and their market values, and a clear idea of the measures necessary to restructure or liquidate the business. Without the information provided in the reports submitted, any action by FINTRA and CODESA would have been difficult to plan.

THE VALUATION ISSUE AND THE CONTROLLER GENERAL OF COSTA RICA

The Controller General of Costa Rica, who as in most Latin American countries reports directly to Congress, was designated to play a crucial role in the privatization process under Article 55 of Law 6955, and Decree 16007-P-MEC. He was authorized to:

a) Appraise all the companies to be privatized, and establish the minimum value for the sale.
b) Approve the tender documents and the sales notices in each case.
c) Resolve any appeals by the bidders.
d) Report all sales to the Costa Rican Congress within 30 days of execution.

The assignment of responsibility to the Controller General, for carrying out the valuation process for the enterprises which CODESA was to privatize, proved to be a crucial issue in the execution of the privatization process and how it was viewed externally.

The Valuation Method

A major problem arose when the Controller General's office decided to use "the adjusted book value of assets method" to value the companies. This method consisted in adjusting the value of all fixed assets by indexing them upwards to reflect the national rate of inflation and devaluations of the currency and applying depreciation to the new values. Liabilities maintained their book value.

A clear indication of the Controller General's line of thought on the valuation issue was a section introduced in all his official valuations entitled "Methodology", which stated the following:

> "An enterprise can be valued according to liquidation value, an earnings multiplier, the value of expected dividends, a sales to equity ratio, adjusted book value, insurance value and others"
>
> "Taking into account the high risk involved to quantify the value of shares, projected on information on the basis of merely speculative variables or unconfirmed data, this office decided to use the adjusted book value method, with the purpose of obtaining a just and reasonable price for the shares"
>
> "The method in reference is based on the premise that the equity of a company is equal to the adjusted value of the assets at a set date, less total liabilities".

The above indicates clearly a preconceived intention to use the valuation method to cover the government's original investment costs rather than determining value of the companies as going concerns. The end product was inflated values that did not reflect the market value or the earnings potential of the companies. The first valuation, that of ALUNASA, produced a value of c 2,796 million, while the market price of the company was closer to c 400 million at the time. A potential loss of such magnitude brought the privatization program to a halt while attempts were made to persuade the Controller General to adopt a more realistic approach. It was not possible to get him to alter his view.

Some of the justifications by the Controller's office for the method employed were:

(1) A political responsibility, as values had to be reported to Congress.

(2) There were no comparable companies to provide reference values, as the companies were "unique" in Costa Rica.
(3) Lack of adequate information
(4) The valuation of fixed assets were made by the tax administration which generally values assets at high prices for revenue purposes.

Valuations Carried Out by the Controller General

Between 1984 and 1987 the following valuations were completed by the Controller General. The disparity with values actually realized from sale or expected to be realized is apparent.

Company	Date	Value (c millions) Contr.General	Realized
ALUNASA	Aug 1985	c 2,796	c 390
ALCORSA	Oct 1985	c 289	c 45*
ATUNES	Apr 1986	c 102	c 90
CATSA	Jun 1986	c 3,428	c 450
CEMVASA	May 1986	c 1.123	N.A.
FERTICA (40%)	Nov 1986	c 1,309	N.A.
CEMPASA (40%)	Jul 1987	c 2,090	c 532*

*estimated

As can be observed from the time span involved, the valuation process was lengthy, and was one of the major causes for the delay in the privatization process. The Controller General has argued that poor accounting records, lack of information and lengthy procedures by the tax administration valuators were the cause for the delays.

Conclusion

The lengthy valuation procedures and the inflated prices for the companies that the Controller General produced were one of the main causes for the delay of the privatization process, and for the creation of the "buy high - sell low" problem which generated internal conceptual problems in AID.

It is generally felt by those involved in the process that the Controller General viewed the valuation issue from a political standpoint, and took the "safe" route, using the adjusted book value method which in theory would reflect the original investment by the GOCR.

Could the Controller General have acted differently? Possibly, if the valuation method had been negotiated with him, in advance of any pronouncement, and technical assistance supplied. On the other hand, the availability of local currency ESF credits and the need to demonetize them made the difference less critical. Furthermore, under the circumstances, it is likely that any Latin American Controller General would have adopted the same protective approach.

ESF LOCAL CURRENCY FUNDS IN THE CODESA DIVESTITURE PROGRAM

The original divestiture project envisioned the use of the equivalent of US$140 million in ESF funds to be applied through FINTRA to the purchase of the shares of CODESA subsidiaries. The mechanism was quite simple and straight-forward: for each purchase of a CODESA company by the FINTRA trust an equivalent amount of local currency would be debited to the AID special local currency account in the BCCR and credited to CODESA's debt with the BCCR, in essence a book transaction, with no monetary consequences.

Use of the ESF Funds:

Questions have been raised (primarily in Washington, where there has been some misunderstanding of the mechanism) as to whether this was an appropriate use of ESF local currency funds.

ESF loans and grants for balance of payments support program have been a major part of AID assistance to Costa Rica, in the following amounts (millions of dollars)

	1983	1984	1985	1986	1987
Amount	$155.7	$130.0	$160.0	$ 80.6	$120.0
As % of Exports	18.3%	13.0%	17.0%	7.4%	10.8%

AID management of local currency funds generated under ESF programs has varied from mission to mission. In the Costa Rican case it was based on direct mission control for programs agreed with the government. Project design, implementation and management have followed established AID procedures and monitoring, while the amount of direct AID involvement in execution has varied.

The amount of currency obligated by AID for its various programs in Costa Rica on September 30, 1987 added up to c 19,348,087,000, of which c 7,034,793,000 or 36.36% were obligated for the CODESA divestiture project, the largest of all the programs. On December 31, 1987 the balance of the AID special account with the Central Bank was c 15,676,000,000 (equivalent to US$248,825,390).

The AID special account with the BCCR has been increasing due to the continuous ESF programs since 1983. The balance in the account has evolved as follows:

AID SPECIAL ACCOUNT WITH BCCR

Year End (millions of colones)			
1984	1985	1986	1987
4,478	8,880	13,803	15,676

The continual growth of the special account clearly (despite the CODESA program of cancellations) reflects the cautious handling of local currency enerated by ESF grants and loans.

Economic Significance of ESF local Currency

The significance of ESF transfers to Costa Rica, and the build up of local currency in the special AID account with the BCCR has been a subject of concern to BCCR and to AID and other international agencies, in particular the IMF and the World Bank.

The unrestricted monetization of the special account colones (if disbursed for use within Costa Rica) could, because of the size of the account in relation to the economy, have devastating consequences on the monetary program of the BCCR, on inflation, on import demand and on the general economic stabilization objectives of the GOCR.

The balance of the special account at December 31, 1987 (c 15,676,00,000) is equal to about 14% of the money supply, and seven times the currency issue of the BCCR in 1987.

Accordingly, limits have been established in conjunction with the BCCR and the IMF on the amount of local currency funds generated under the ESF program that could be permitted to enter the economy under the Costa Rican AID programs. The amount has fluctuated between US$60 million and US$80 million per year. The remainder is held in the AID special account in the BCCR. The problem is then to dispose of those funds in a way that will result in demonetization. This problem had a fundamental role in the design of the CODESA privatization program.

Conclusion

The AID mission in Costa Rica, creatively designed a process whereby two major objectives were to be obtained, the divestiture of CODESA and the reduction of the special account through demonetization. What in effect happens when AID uses the ESF generated colones in the special account to reduce CODESA's debt with the BCCR is that the funds are simply transferred on the BCCR books from the special account to the CODESA debt account, reducing both accounts.

While there may have been alternative uses for the funds in the special account there would have been substantial risk in using more than a very minor portion of them. An open economy the size of Costa Rica can simply not absorb those resources without creating enormous import demand and inflationary pressures. The most appropriate alternative would have been a simple write-off of the funds, or an indefinite sterilization which is politically difficult to handle. The effect, demonetization, is achieved just as well whether an amount in the AID special account is written off or applied to "pay" an inflated "price" for a CODESA company.

In sum, the process designed to use the ESF local currency funds for the privatization of CODESA has achieved the important goals of privatizing a number of enterprises, reducing a drain on the economy and solving a monetary problem in a fashion consistent with the BCCR's and the GOCR's overall objectives of economic stabilization. The funds at AID's disposal were used to solve a significant political problem - the sale of investments at well below their cost - as they were being at the same time cancelled or written off. It was this legerdemain which led to suspicions in Washington of "buying high and selling low", which had no factual basis. If this conception is "stood on its head" and it is asserted - as in many countries - that the ESF funds are really at the disposition of the recipient government, then it will immediately be seen that the GOCR itself footed the bill for the divestiture price discrepancies and acquiescing in this use of the funds instead of insisting on their being invested in some other use.

USAID MANAGEMENT OF THE CODESA DIVESTITURE PROGRAM

AID participation in the privatization of CODESA's subsidiaries has been very active, both in the policy dialogue and the execution of the program.

The concept and project were developed by Daniel Chaij, AID Mission Director in high level meetings during 1983 and 1984 with top officials and ministers of the Monge administration.

Initiation of the Project

As the result of the policy dialogue the GOCR submitted the "Law of Financial Equilibrium" to Congress, which included two articles on the privatization of CODESA's subsidiaries. The law was approved, after a prolonged debate in Congress, in February of 1984. This step was the starting point of the privatization program in Costa Rica.

The AID mission then retained the consulting firms Arthur D. Little and Coopers & Lybrand to assist in the design of a divestiture strategy for CODESA. Their report was a valuable document.

Between July 1984 and February 1985, the final details were worked out for the establishment of the privatization program, including the establishment of the trust, the sales process, the monetization issue, and the valuation issue. The PAAD submitted in February 1985 and approved the next month reflected in general terms all those details. All the concepts and the final procedures designed were a product of concerted efforts of AID officers, and advisors, and high level officials of the GOCR. The 1985 PAAD states on page 30 "Due to the sensitive nature of the activities and requirements surrounding the GOCR's proposed divestiture of CODESA enterprises, negotiations have been carried on at the highest levels, and in confidence. Thus, the details of the proposed covenants have not yet been fully reviewed at the staff level of the GOCR ". The AID mission's treatment was appropriate for a project of this sort. In view of its political sensitivities, any other handling could have created problems before the project got off the ground.

The Implementation of the Project by AID

Problems arose when the actual execution of the privatization program began. The valuations by the Controller General proceeded very slowly. CODESA management resisted the privatization process and delayed most initiatives to start the execution of the program, through lengthy procedures and political discussions.

It is difficult to attribute the principal failures and delays in the implementation of the privatization program to AID. It is true nevertheless that, through lack of experience, Chaij in his initial planning and the Mission staff when implementation got under way failed to foresee some of the practical issues that arose, particularly after an optimistic timetable had been established.

Finally the sale of ALUNASA was carried out in December 1985. At that time CODESA management was more interested in appearing to generate a profit on its books from the sale of ALUNASA, than in the divestiture itself. However, the magnitude of the difference between what FINTRA paid and what it could get for ALUNASA slowed the project, because of the concerns expressed, and at the same time the upcoming change of administration paralyzed the government.

With the initiation of the Arias administration, most of AID's problems with the privatization program disappeared. The President became committed to the process and appointed Edgar Brenes to CODESA, who easily established a close relationship with AID and FINTRA, and rapidly began executing the program originally designed. The arrival of Mr. Jack Robinson as project manager in November 1986, added to the impetus given to the process by the Arias government.

It can be concluded that had the GOCR originally appointed the right people to carry out the program and established more expeditious procedures for the sale of the enterprises, the delays would have been less and the political problems substantially defused.

Concluding Comments

From our evaluation of all the steps taken by AID from the initiation of the privatization negotiations to the execution of the process, and the procedures followed in each case, we have concluded that the Mission Directors in Costa Rica and the other AID officers involved acted properly in designing and helping carry out a complex program with multiple goals and in a difficult political environment.

The lack of experience in the privatization process itself did cause some mistakes such as an overly optimistic timetable, underestimating initial opposition within the CODESA administration and the possibility of problems in the individual enterprises. Nevertheless, the main problems and delays were caused by persons and institutions within the GOCR and CODESA, and not AID, which was resourceful in solving them.

Overall, the privatization program in Costa Rica was ingeniously conceived and planned by USAID which also played a vital role in developing and maintaining the momentum of the program; delays in carrying it out have been caused by circumstances not primarily attributable to the Mission.