

PRELIMINARY PRIVATIZATION STRATEGY

FOR

CORPORACION DOMINICANA DE
EMPRESAS ESTATALES (CORDE)

DOMINICAN REPUBLIC

REPORT BY

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CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue NW - Washington, D.C. 20006

Project No. 82

November 1988

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

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TABLE OF CONTENTS

<u>Chapter</u>	<u>Page</u>
I. SCOPE OF WORK AND BACKGROUND	I-1
II. ISSUES INVOLVED IN DEVELOPING A PRIVATIZATION STRATEGY FOR CORDE	II-1
III. SELECTION OF COMPANIES FOR SUBSEQUENT STUDY	III-1
IV. SCOPE OF WORK RECOMMENDED FOR A SUBSEQUENT STUDY	IV-1
 <u>Appendix</u>	
A. COMPANY DATA	A-1

I. SCOPE OF WORK AND BACKGROUND

A. Scope of Work for this Assignment

The purpose of this assignment was to carry out a brief review of the 25 corporations in the portfolio of a government holding company, Corporacion Dominicana de Empresas Estatales (CORDE), in the Dominican Republic.

The assignment included discussions with the CORDE director and other CORDE officials, plant visits, and discussions with USAID officials to determine:

- Whether sufficient commitment existed on the part of CORDE and the Dominican government to implement privatization strategies for specific companies in the portfolio
- A general approach for carrying out a subsequent study to develop these strategies, if the commitment exists to do so.

The work entailed interviews with the director, operations coordinator, and the five industrial group coordinators of CORDE, and the manager and marketing director of the Compania Dominicana de Aviacion. Seven plant visits were made and the managers and production managers of each plant were interviewed. Operational and financial data were collected for all 25 companies, except for Chocolatera Sanchez, which is shut-down. CORDE also holds a minority ownership of 19 additional firms, some of which are very large operations. These were not covered in this review.

The work was coordinated with the Private Enterprise Division of the USAID, and briefings were provided to the USAID Director and the U.S. Ambassador.

B. Background of CORDE

CORDE was established in 1961-62 after the death of Trujillo, the dictator. The companies owned by Trujillo were confiscated by the government and CORDE was set up as the holding company for them.

The companies range in size from the cigarette company, employing more than 1,600 employees, to a small tire retreading firm employing only 12. Some of these companies have been continuously profitable; others have been variable in terms of profits; others have suffered major losses and have constituted major drains of capital for the government. The consortium may be technically insolvent; however, it has been kept afloat by borrowing about US\$76 million from various sources. Nearly half of these loans, US\$34 million, were provided by the Banco de Reservas, a government bank that shows little inclination, at present, to collect the outstanding amounts.

Fourteen of CORDE's companies were unprofitable in 1986 and twelve registered losses in 1987. Financial statements prepared through May 31, 1988, showed that 20 companies had been profitable in the 5-month period, although these figures are somewhat suspect. Nevertheless, four unprofitable firms were performing so poorly that the consortium showed a net loss overall. It should be noted that annual financial statements have not been audited in the past; therefore, the true financial status of CORDE is difficult to ascertain. Difficulties in collecting inter-company accounts receivable and loans may also be contributing to a severe shortage of working capital experienced in most CORDE firms. To make things worse, most of CORDE's companies are operating with equipment, much of it original, that is now obsolete. They are suffering from frequent break-downs, and the spare parts for the machinery, in some instances, are no longer available. Many are also suffering from frequent power outages.

In addition to the shortage of working capital and obsolete equipment, productivity is also hampered by frequent power outages, frequent turn-over in plant management, and uninspired labor.

Consortium labor has remained constant at about 8,000 employees during the past decade. Exhibit I-1 lists the companies in CORDE's portfolio, their product lines and the number of employees in each company. The employment total does not include employees in the principal office of CORDE, which is estimated at around 200 persons.

CORDE, under a new director as of 8 months ago, has a plan to turn-around the consortium. The steps in this plan are to:

- Improve profits consortium-wide, delaying debt repayment where possible
- Achieve profits at each firm commensurate with the scale of each plant
- Eventually amortize its debts
- Sell off some participation in the companies to employees and private investors.

Recently, President Balaguer announced that the government was considering the introduction of some privatization steps to help overcome some of the financial problems of the public sector. On July 7, 1988, Balaguer announced that the private sector would be allowed to generate electricity in the future, a step that would alleviate problems in a sector dominated by a state-run monopoly.

Another important step has already been taken by CORDE and the management of the Compania Dominicana de Aviacion. Dominicana is currently the most unprofitable corporation in CORDE's portfolio, losing RD\$55 million (US\$ 8.7 million) in 1987. To pull itself out of its tailspin, Dominicana has solicited management contract and

investment proposals from 24 foreign airlines. Management hopes that it can turn the operations over to a foreign CEO whose company will invest \$20 million to \$30 million in the ailing airline. The amount that can be invested will depend upon an independent valuation of the airline's assets and the amount of participation negotiated -- Dominicana is willing to sell up to 49% of the company.

The decisive action by Dominicana is having a beneficial effect upon CORDE management who believe that they might use a similar strategy to turn-around other ailing firms in its portfolio. This outlook may constitute a "window of opportunity" for work in privatization, although no major divestitures are foreseen in the near future, as will be discussed below. It was concluded that there is sufficient commitment on the part of CORDE management to proceed with a subsequent, more in-depth study as soon as possible.

The remainder of this report discusses specific issues involved in developing strategies for sale of equity shares to employees, Dominican investors, and foreign investors; management contracts (with and without participation); leases; and divestiture of excess or idle assets. It also discusses the firms in CORDE's portfolio which might be most fruitfully analyzed during a subsequent study to develop strategies for introducing private management and investment into these operations. The last chapter presents a detailed scope of work for the study, which would constitute the next step in this process.

EXHIBIT I-1

CORDE COMPANIES AND EMPLOYMENT*

<u>FOOD GROUP</u>	<u>PRODUCT OR SERVICE</u>	<u>EMPLOYEES</u>
Molinos Dominicanos CxA	flour	840
Refineria de Sal	salt	300
Distribuidora de Sal	salt distribution	150
Molinos del Norte	flour	100
Aceites Vegetables AMBAR	vegetable oil	287
Chocolatera Sanchez	processed cacao	6
 <u>TEXTILE AND SHOE GROUP</u>		
Tejidos Antillanos	textiles	550
Fabrica de Sacos y Cordeleria (FASACO)	bags, rope and twine	500
Industrial de Calzados	shoes and boots	50
Teneria - FA2	leather	125
 <u>INDUSTRIAL GROUP</u>		
Industria Nacional de Papel	paper	700+
Industria Nacional de Vidrio	glass	700+
Fabrica de Baterias Dominicanas	batteries	60
Compania Anonima Tabacalera	cigarettes	1,600
Fabrica de Clavos Enriquillo	nails, barbed wire	35
Pinturas Dominicanas	paint	300
 <u>SERVICE GROUP</u>		
Dominicana de Aviacion	airline	694
Seguros San Rafael	insurance	150
Tecnometal	equipment repair	14
Atlas Commercial Co.	vehicle & parts sales	5
Planta de Recauchado	tire retreading	12
Sociedad Inmobiliaria	real estate	25
 <u>MINING GROUP</u>		
Marmoleria Nacional	marble	210
Fabrica Nacional de Cemento	cement	463
Minas de Sal y Yeso	salt & gypsum	300
TOTAL		<u>8,176</u>

*Does not include principal office of CORDE.

II. ISSUES INVOLVED IN DEVELOPING A PRIVATIZATION STRATEGY FOR CORDE

This chapter discusses issues in developing greater private sector participation in CORDE, including:

- A workable compromise for CORDE
- Limits to the tools of privatization that can be used
- Rationale for proceeding
- Requirement of a presidential-level commitment to proceed beyond the next stage.

A. There must be a Compromise between CORDE'S Goals and a Realistic Privatization Approach

There are evident limits to the extent of privatization that can take place in the near future in the Dominican Republic. A high degree of statism continues to exist, with the proposed management contract and sale of participation in the Dominicana airline and the recent pronouncements by President Balaguer as the only loosening of this policy. Therefore, privatization will proceed slowly and no divestitures, other than those involving small, idle businesses or assets, are foreseen in the near future.

As the Dominican government is unlikely to give up ownership control of the CORDE businesses, even management contracts will require political consensus and decisions. This is so because CORDE serves as a part of the political machinery for the party in control. Rewards to an individual serving the party well could include being named to serve as a manager or employee of a CORDE company. It was estimated by a CORDE official that each company absorbs about 20 political appointees. Reducing employment under a

management contract or lease arrangement may also be resisted; however, Dominicana has been able to cut its work force from 1,164 employees in 1987 to 694 in 1988, primarily because its situation was perceived by all parties as desperate.

If CORDE could achieve its goals, it would probably prefer to:

- Improve the working capital position of companies in its portfolio
- Upgrade the equipment of its companies to increase the efficiency and profit
- Achieve self-sustainability of its portfolio, so that it would not have to depend on financing from the Banco de Reservas
- Increase its political constituency through increased employment.

However, these goals cannot be achieved without some restructuring of its operations. Without some changes, CORDE will be faced with a continuously worsening operating and financial situation caused by break-downs, lack of raw materials and other manifestations of a tight cash flow. It is not anticipated that the Banco de Reservas, a government-owned bank, will make new bail-out loans to CORDE companies, due to the general credit squeeze and inflationary pressures currently experienced in the Dominican Republic.

CORDE's goals may be reached, however, through changes that involve private sector management and investment in its firms. While this will not transfer ownership of public sector companies to the private sector, this involvement and its positive effects may be the best that A.I.D. can hope for in the near future. Too much pressure to divest could cause the Dominican government to retreat

to a posture of inaction. Instead, it will be far better to create several joint public-private arrangements that produce positive economic effects. These could result in models for greater private sector involvement and complete divestiture, in some cases, in the future.

B. There are Limits to How Far Privatization Can Go in the Short-run but the Subsequent Study Should Plan for the Ultimate Divestiture of the CORDE Subsidiaries

As noted above, the Dominican government is cautiously contemplating further private sector involvement in the CORDE companies. The likely alternatives for this involvement discussed with CORDE include the following:

- Management contracts, with and without participation
- Leases of companies
- Sale of shares to employees and the public-at-large
- Divestitures of small inactive companies or excess assets.

No sales of going concerns or relinquishment of majority control are anticipated in the near-term. Management contracts and leases may be recommendable for those firms that are "inherently viable," but which are presently unprofitable or only marginally profitable. In the cases of management contracts with participation and leases, the private sector participants will want full management control, including decision-making power over personnel questions. This could create some shock and resistance. Therefore, the approach should be a gradual, non-threatening one, with each privatized CORDE company paving the way for the next. In the privatization plan for each corporation, benchmarks should be set up to measure progress towards divestiture.

As seen in Appendix A, some CORDE firms are consistently profitable, even though they have competition and their products' prices are controlled. These companies may be able to issue shares for sale to employees and the public-at-large. Such ownership could exert positive pressures upon the companies' management, especially if some of the new shareholders are institutional investors. However, there are many preliminary steps required before shares can be sold:

- Annual audits of the firms would have to be carried out by auditing firms adhering to international standards and norms
- Audits would have to be based on objective valuations of fixed assets and equipment
- Provisions for elections of boards of directors representing the shareholders would have to be established
- Education of employees and the public on what is a share, dividends, etc. would have to take place
- A promotional program for the sale of shares would have to be set up
- A mechanism for exchange of shares after their initial sale would have to be established.

In order to make such a process successful, the next study should choose one or two good possibilities for sale of shares. Theoretically, the government could sell off more than 50% of the shares and still retain effective control of a company; however, it is unlikely that it will be willing to sell more than that percentage, at least in the beginning.

In the more in-depth study of the CORDE portfolio there are several companies that should not be considered for privatization at this time. These include several monopolies: the glass plant (Industrial Nacional de Vidrio); the two flour mills (Molinos Dominicanos; Molinos del Norte); and the salt distributor (Distribuidora de Sal) and probably the salt refinery (Refineria de Sal). The best way to deal with these monopolies will be to liberalize the markets in which they operate, allowing competition to stimulate their efficiency and lower prices to the consumers.

A related group are those involved with mining: the marble mining and finishing operation (Marmoleria Nacional) and the gypsum and salt mine (Mina de Sal y Yeso). The mines are perceived as national patrimony; therefore, private sector involvement would not be politically acceptable. It should be noted, however that if CORDE fails to manage the gypsum operation in a profitable manner after its recent restructuring efforts, it probably offers the greatest potential returns of all the wholly-owned companies in CORDE's portfolio. It could become an excellent joint venture, management contract, or lease possibility if CORDE's restructuring efforts fail.

In a related vein, the consultant attempted to identify those firms in the CORDE portfolio that operate in a price competitive manner. It was ultimately learned that all operate under a price-control regime. One must hasten to add, however, that many of these companies appear to be subject to strong competition, usually derived from one to five companies.

C. Inaction by A.I.D. May Result in Losing an Opportunity for Privatization

One of the elements of the A.I.D. strategy should be to minimize assistance that would improve the well-being of CORDE. Conceivably, assisting individual firms to restructure themselves, re-equip and pay off debts could entrench CORDE further. One must

entertain the possibility that one strategy for A.I.D. would be to do nothing and allow CORDE to collapse under the weight of an unbearable financial burden. However, other donors might subvert this strategy by financing the re-equipping of the plants at subsidized interest rates as long as a sovereign guarantee is provided. A team of experts financed by the Government of Italy was scheduled to arrive in September-October 1988. European donors often provide such assistance in order to stimulate equipment sales by their manufacturers.

It is not likely that CORDE will be able to resolve its cash problems for two reasons. One is that, although it is unlikely that the Banco de Reservas, the major creditor, will push for repayment of its loans or foreclosure, it is also unlikely to provide new financing. A private commercial bank would also be unlikely to lend to CORDE under the present circumstances.

Secondly, CORDE could stop the cash hemorrhage caused by Dominicana and allow several other failing firms to close-down (the cement plant might be a perfect candidate), allowing CORDE to continue to operate, albeit in a lackluster manner. However, this is unlikely to happen for political reasons. Thus, the cash shortage pressure upon CORDE will continue.

Therefore, the rationale for recommending that A.I.D. urge CORDE to take the next step, a more in-depth analysis of selected companies along with the preparation of several firms for privatization, is as follows:

- Cash flow pressure upon CORDE will continue
- CORDE appears willing to open itself up to a broad-scale analysis and is willing, in an unprecedented manner, to consider recommendations for more private sector involvement and investment in its operations

- The steps taken by Dominicana, while not consummated yet, are positively influencing the government concerning what can be done.

As long as the assistance is to an individual CORDE firm, and not to CORDE as the holding company, the opportunity for increased private sector involvement and investment will merit A.I.D. assistance. Conceivably, this action could eventually break down some of the general statist tendencies and resistance to private sector involvement in previously state-run activities.

D. Ultimately A.I.D. Will Want a Commitment from the President Concerning Privatization

Because the government is authoritarian and decision-making is centralized, A.I.D. will want to assure that it has presidential permission to proceed with any privatization action beyond the study described below in Chapter IV. Failure to achieve such a commitment may, except in very small divestitures of properties that have few political implications, result in the failure of the project.

All recommendations made in the subsequent study should be couched in terms of the political benefits that will accrue to the government: increased employment (e.g. an unprofitable firm cannot grow), demonstration to the public that it is cleaning up the portfolio in a businesslike manner, generating private sector support through fair bidding procedures, paying dividends to employees to stimulate plant efficiency, etc. If the actions of CORDE are construed as politically and economically beneficial, privatization can probably continue without much resistance.

If the government demonstrates a strong commitment to a privatization program, there may be an opportunity to utilize the recently approved debt-equity conversion program to facilitate it. This program might be used by local and foreign investors to purchase some of the larger, profitable or potentially profitable

CORDE operations. Having just been approved, this program should be operational in early 1989.

III. SELECTION OF COMPANIES FOR SUBSEQUENT STUDY

This chapter classifies CORDE's companies in order to select those that should be analyzed on an in-depth basis in the proposed study of the CORDE portfolio. Appendix A contains brief summaries of all companies in terms of:

- Products
- Market, market share and competition
- Number of employees
- Source of raw materials
- Utilization of plant capacity
- Other salient operational information
- Sales and profit performance during the past five years
- Outstanding bank debt as of June 30, 1988.

To select the companies for the subsequent study as well as to project the possible action that might result, we have applied the following criteria:

CRITERION

RATIONALE

Monopoly

Should be excluded from subsequent study as privatization not beneficial unless competition is introduced. The introduction of competition should be part of a future study.

Mining operation

Should be excluded from subsequent study as company is perceived by

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CRITERION

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Mining operation

Should be excluded from subsequent study as company is perceived by

the public as national patrimony. Minas de Sal y Yeso should be included in a future study if government restructuring efforts do not give good results.

Profit performance
(last five years)

If firm has been consistently profitable over the last five years, there may be an opportunity to sell shares to employees and the public. If unprofitable, but determined to be inherently viable, there may be a requirement for a management contract or a lease.

Bank debt

Large bank debt may put pressure on CORDE to privatize

Operational status

If shut-down, there may be an opportunity to liquidate quickly without much political resistance.

Dominicana is not included because it is already undergoing operational restructuring and taking steps toward privatization. Chocolatera Sanchez, the shut-down cacao processor, has been included because it may offer an opportunity for liquidation or a lease arrangement. Atlas Commercial is also shut-down, and there may be several others that should be inventoried and valued for liquidation.

Exhibit III-1 identifies those companies that should be included in the subsequent analysis and Exhibit III-2 lists those companies and suggests preliminary privatization strategies that may be applicable, based on the profitability and operational status of each firm.

EXHIBIT III-1
APPLICATION OF SELECTION CRITERIA TO
CORDE PORTFOLIO

Company	Monopoly	Mining Operation	Profit Performance	Bank Debt (RD\$m)	Operational Status	Subsequent Study
Molinos Dominicanos	Yes	Nb	Profitable	26.00	Operating	Nb
Refinería de Sal	Effectively	Nb	Unprofitable	1.8(?)	Operating	Nb
Distribuidora de Sal	Yes	Nb	Profitable	0.00	Operating	Nb
Molinos del Norte	Yes	Nb	Profitable	0.00	Operating	Nb
Aceites Vegetales AMBAR	Nb	Nb	Profitable	4.40	Operating	Yes
Chocolatera Sanchez	Nb	Nb	N.A.	1.20	Shut-down	Yes
Tejidos Antillanos	Nb	Nb	Unprofitable	7.60	Operating	Yes
Fabrica de Sacos y Cordelería	Nb	Nb	Profitable	0.90	Operating	Yes
Industrial de Calzados	Nb	Nb	Unprofitable	0.20	Operating	Yes
Tenería - FA2	Nb	Nb	Unprofitable	0.90	Operating	Yes
Industrial Nacional de Papel	Nb	Nb	Profitable	35.00	Operating	Yes
Industrial Nacional de Vidrio	Yes	Nb	Profitable	7.70	Operating	Nb
Fabrica de Baterías Dominicanas	Nb	Nb	Profitable	0.30	Operating	Yes
Compañía Anónima Tabacalera	Nb	Nb	Profitable	2.00	Operating	Yes
Fabrica de Clavos Enriquillo	Nb	Nb	Unprofitable	0.50	Operating	Yes
Pinturas Dominicanas	Nb	Nb	Profitable	1.90	Operating	Yes
Seguros San Rafael	To Govt.	Nb	Profitable	0.00	Operating	Nb
Tecnometal	Nb	Nb	Unprofitable	0.00	Operating	Yes
Atlas Commercial Company	Nb	Nb	Unprofitable	1.40	Shut-down	Yes
Planta de Recauchado	Nb	Nb	Unprofitable	0.10	Operating	Yes
Sociedad Inmobiliaria	Nb	Nb	Profitable	0.00	Operating	Yes
Marmolería Nacional	Yes	Yes	Profitable	0.80	Operating	Nb
Fabrica Nacional de Cemento	Nb	Nb	Unprofitable	27.80	Operating	Yes
Minas de Sal y Yeso	Yes, gypsum	Yes	Unprofitable	0.02	Operating	Nb

EXHIBIT III-2

FIRMS SELECTED FOR SUBSEQUENT STUDY
AND PRELIMINARY PRIVATIZATION STRATEGY

<i>Company</i>	<i>Preliminary Privatization Strategy</i>
Aceites Vegetales AMBAR	Management contract with participation
Chocolatera Sanchez	Sale of assets or lease
Tejidos Antillanos	Management contract with participation, or lease
Fabrica de Sacos y Cordeleria	Sale of shares to employees and public
Industrial de Calzados	Management contract with participation, or lease
Teneria - FA 2	Management contract with participation, or lease
Industrial Nacional de Papel	Sale of shares to employees and public after debt reduction
Fabrica de Baterias	Sale of shares to employees and public
Fabrica de Clavos Enriquez	Management contract with participation, or lease
Pinturas Dominicanas	Sale of shares to employees and public
Tecnometal	Lease or sale as going concern
Atlas Commercial Co.	Sale of assets
Planta de Recauchado	Lease or sale as going concern
Sociedad Inmobiliaria	Not predictable
Fabrica Nacional de Cemento	Management contract with participation

22

IV. SCOPE OF WORK RECOMMENDED FOR A SUBSEQUENT STUDY

The Private Enterprise Division of USAID/Santo Domingo had prepared a draft scope of work for the subsequent study as part of the background material for this review. Based on a brief review of CORDE's portfolio and discussion with CORDE and USAID officials, the scope of work has been re-formulated below.

The main elements of the scope of work recommended are as follows:

- Review the performance and status of CORDE companies listed in Exhibit III-2 in terms of:
 - History
 - Management and organization
 - Products, markets, competition and prices
 - Assets and their condition
 - Special issues (legal, political, labor, etc.)
 - Summary of financial performance
(assess viability of unprofitable firms)
 - Interest expressed by private sector in privatization options
 - Privatization options
- Recommend a privatization strategy for each company reviewed, if feasible, including procedures for implementation. All recommendations will be limited to increasing private sector involvement and investment in specific companies and/or sale of issues to employees and the public
- Identify remedial actions that may be preconditions for privatization

- Define a valuation methodology for those firms in which participation would be sold to the public-at-large, employees, management or private sector interests
- Review any existing laws pertinent to management contracting, leasing, foreign investment, issuance and sale of shares and liquidation of government-owned assets, and prepare guidelines for such agreements and/or activities
- Identify sources of financing available to private sector interests for operating or investing in CORDE companies, and estimate additional financing required, if appropriate
- Establish criteria for establishing a priority ranking of CORDE firms for potential privatization activities
- Recommend at least three to four candidates for implementation in the short-run
- Once CORDE has agreed to implementation steps, refine procedures, draft contracts, leases, etc., and assist CORDE in implementing the program agreed upon.

During the last phase, if it appears that additional technical assistance to CORDE will be beneficial, the contractor should define a detailed technical assistance program that will help CORDE meet its goals and objectives in attracting private sector capital.

It is anticipated that the analysis phase of this project will require 120 person-days to be provided in a 3-month period. The implementation phase is anticipated to require an additional 40 person-days that will be handled with a contract amendment, if required.

The personnel required for this project are:

- Privatization specialist
- Financial/valuation specialist
- Industrial engineer
- Local attorney specialized in contracting and lease arrangements
- Privatization assistant (to inventory and inspect inactive assets).

APPENDIX A
COMPANY DATA*

INDUSTRIAL GROUP

Industrial Nacional de Papel

Products: Paper, carton paper
Market: 80% of local market; 2 competitors
Employees: 700+
Raw Materials: 90% imported
Utilization: 70-80%

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	13.2	18.9	24.6	29.5	34.5
Profits (Losses)	(.6)	.5	1.7	2.9	4.3

Bank debt 6/30/88
Banco de Reservas \$ 649,974
Banco de Reservas 9,901,257

Guarantees provided 6/30/88
VOITH 25,094,818

Industrial Nacional de Vidrio

Products: Bottles (for beer, rum, soft drinks)
Market: 80% of local market; only producer
Employees: 700+
Raw Materials: local silicon sand and recycled glass (40%)
Utilization: 60%
Other: Requires US\$3 million to rehabilitate bottle-forming machines

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	18.0	20.6	37.0	34.2	32.2
Profits (Losses)	2.0	2.9	5.9	(4.9)	6.7

Bank debt 6/30/88
Banco de Reservas \$7,702,797

*Source of data was interviews with CORDE industrial group coordinators and selected plant managers and production managers.

Fabrica de Baterias Dominicanas

Product: Vehicle batteries; wet cell
Market: 20% of local market; 5 competitors; monopoly supplier to the government
Employees: 60
Raw Materials: 95% imported from U.S.; 5% recycled
Utilization: 90% (1 shift)
Other: Machinery in good condition; could add a production line and double production, or production could be increased by working an additional shift

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	1.0	1.5	2.0	2.2	3.0
Profits (Losses)	.04	.3	.4	.3	.6

Bank debt 6/30/88
Banco de Reservas

\$294,868

Compañía Anónima Tabacalera

Product: Cigarettes
Market: 35-38% of local market; has declined steadily due to Philip Morris competition
Employees: 1,600
Raw Materials: Largely sourced locally; some paper and flavors imported
Utilization: 80%
Other: Electricity outages problematic

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	56.3	68.0	72.7	81.1	89.7
Profits (Losses)	5.9	9.7	7.9	7.9	8.8

Bank debt 6/30/88
Banco de Reservas

\$2,143,333

Fabrica de Clavos Enriquillo

Products: Nails, barbed wire
Market: 30% of local market; 4 competitors
Employees: 35
Raw Materials: All wire imported
Utilization: 70%
Other: Needs additional machinery (stretcher, galvanizer) costing approximately US\$600,000

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	.8	.7	.8	.6	1.5
Profits (Losses)	(1.06)	(.2)	(.1)	(.3)	(.1)

Bank debt 6/30/88
Banco de Reservas

\$452,875

Pinturas Dominicanas (PIDOCA)

Products: Exterior and interior paint
Market: 35% of market; 3 competitors; controlled prices
Employees: 300 (considered excessive)
Raw Materials: 100% imported
Utilization: Unknown
Other: Also has can factory employing 50 persons; this factory provides cans to other users, including the AMBAR plant

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	6.0	10.4	13.4	17.4	21.8
Profits (Losses)	.3	2.1	1.5	2.6	2.8

Bank debt 6/30/88

Banco de Reservas
Citibank

\$1,568,133
340,000

FOOD GROUP

Molinos Dominicanos

Product: Flour
Market: 100% monopoly; markets output of both CORDE mills
Employees: 840
Raw Materials: imported, PL480 program
Utilization: Unknown
Other: Prices controlled causing massive deficits; wheat imports will be more expensive with devaluation of peso; has 33% private ownership

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	54.5	80.3	145.3	136.2	129.5
Profits (Losses)	.0	7.4	5.4	5.7	(8.9)

Bank debt 6/30/88

Commodity Credit Co.

US\$25.96 million

Molinos del Norte

Product: Flour
Market: Supplies Molinos Dominicanos
Employees: 100
Raw Materials: Imported
Utilization: Unknown
Other: Acquired by government in 1984

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	privately	privately	.5	1.4	1.4
Profits (Losses)	owned	owned	(.6)	1.2	.4
Bank debt 6/30/88					\$0

Refineria de Sal

Product: Refined salt
Market: 80% of market not served; 1 competitor; considerable importation
Employees: 300
Raw Materials: Local sources
Utilization: Equipment obsolete
Other:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	1.8	2.3	3.2	3.0	3.7
Profits (Losses)	(.2)	(.2)	.3	(.4)	(.1)
Bank debt 6/30/88					\$0

Distribuidora de Sal

Product: Distribution and sales of bulk salt
Market: Monopoly; price controlled
Employees: 150
Raw Materials: Handles salt from two salt refineries

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	5.5	6.1	9.0	8.7	9.3
Profits (Losses)	.6	.8	1.2	.5	1.0
Bank debt 6/30/88					
Banco de Reservas					\$0

Aceites Vegetales AMBAR

Products: Soy and cotton seed cooking oil
Market: 20% of market; 4 competitors
Employees: 287
Raw Materials: Imported PL-480 oil; cotton seed locally produced (limited amount); lack of raw materials
Utilization: 50-70%
Other: Machinery in good condition; may be possible to develop sunflower raw material supply; cotton seed very limited; electricity outages reducing operations

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	8.3	10.9	19.1	17.4	18.2
Profits (Losses)	.1	1.3	3.4	1.9	.7

Bank debt 6/30/88
Banco de Reservas \$1,067,762
INESPRE 3,424,805

SERVICE GROUP

Dominicana de Aviación

Service: Airline with 4 passenger planes (of which two are operational) and 2 cargo planes
Market: Routes to San Juan, Miami, New York; charters to Madrid and Milan; 3 U.S. competitors (American, Eastern, Pan Am)
Employees: 694, down from 1,164 in 1987
Utilization: 90% load factor, but is operating with only two planes; one was embargoed by IRS in Miami; led to re-negotiation of debts, restructuring of operations
Other: In September 1988 anticipate having the other two passenger planes functioning; seeking privatization arrangement with another airline

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	46.2	72.8	213.2	189.9	114.2
Profits (Losses)	.6	6.3	5.5	(22.3)	(55.4)

Bank debt 6/30/88
EXIMBANK US\$ 6,327,653
Banco de Reservas RD\$17,159,863

30

Seguros San Rafael

Services: Provision of life, general, health and automobile insurance
Market: Monopoly supplier to the government; has competitors for private market
Employees: 150

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	32.9	36.7	43.2	50.0	59.3
Profits (Losses)	1.6	2.4	3.3	2.4	3.3
Bank debt 6/30/88					\$0

Tecnometal

Service: Repair of equipment, mainly boilers, air conditioners, motors
Market: Considerable competition
Employees: 14
Other: Plant in transition; plan to fabricate parts for various industries in the CORDE consortium, thus moving into manufacturing

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	N.A.	N.A.	.2	.3	.1
Profits (Losses)			.002	(.04)	(.1)
Bank debt 6/30/88					\$0

Atlas Commercial Company

Products: Sales of vehicles and parts
Market: None, currently closed
Employees: 5
Other: Has fixed assets and 50s auto part inventory that could be liquidated

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	.5	.5	.4	.08	.007
Profits (Losses)	.008	(.009)	(.2)	(.2)	(.09)
Bank debt 6/30/88					
Banco del Comercio			\$ 35,272		
Banco de reservas			1,377,941		

Planta de Recauchado

Service: Retreading vehicle and agricultural equipment tires
Market: 4 competitors in vehicle tire retreading, but is only company in the agricultural tire area, on which it plans to focus its operation
Employees: 12
Other: Plant currently undergoing rehabilitation, including upgrading of the physical plant, electrical system, boiler and compressor

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	.3	.7	.9	.6	.6
Profits (Losses)	(.04)	.04	(.05)	(.1)	(.1)
Bank debt 6/30/88					
Banco de Reservas				\$51,275	
Banco de Reservas				73,139	

Sociedad Inmobiliaria

Service: Real estate holding and management
Market: Activities limited primarily to properties owned by the company
Employees: 25
Other: May be much more valuable than balance sheet indicates

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	.4	.5	.7	1.0	.8
Profits (Losses)	.1	.3	.4	.4	.3
Bank debt 6/30/88				\$ 0	

TEXTILE AND SHOE GROUP

Tejidos Antillanos

Product: Cotton cloth for sacks, diapers, gauze, clothing; widths of 36, 45 and 60 inches; limited production of cotton-polyester blend cloth

Market: Less than 10% of local market; 30% of local market supplied by this company and five competitors

Employees: 550

Raw Materials: 100% cotton produced locally; polyester imported

Utilization: 25%; many machines shut down due to lack of parts; has no operating power plant; output at 7,500 yards daily

Other: Flat roof is leaking causing damage to machinery; much of the equipment very old, using slow wooden shuttles in looms; some equipment from Eastern Bloc making procurement of parts difficult.

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	3.1	5.0	5.0	5.2	6.0
Profits (Losses)	(.6)	.4	(1.6)	(1.7)	(1.2)

Bank debt 6/30/88

Citibank	\$ 588,428
Citibank	641,207
Banco de Reservas	6,364,866

Fabrica de Sacos y Cordeleria (FASACO)

Product: Bags, rope and twine from sisal and polypropylene bags

Market: 80% of sisal product market; 10% of poly bag market; 10% of poly bag market. FASACO has six competitors in polypropylene market.

Employees: 600

Raw Materials: Reduced availability of sisal forcing a shift into bags of polypropylene, which is imported

Utilization: 55%

Other: Has its own electricity generator; will buy another; wants to buy new extruder

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	5.3	6.9	9.1	9.2	11.0
Profits (Losses)	(.3)	.7	1.1	.8	(.025)

Bank debt 6/30/88

Citibank	\$ 543,288
Banco de Reservas	240,000
Citibank	87,500

Industrial de Calzados

Products: Men's medium price range shoes and boots
Market: Share unknown; considerable competition by large and small plants
Employees: 70
Raw Materials: Leather supplied by another CORDE firm, Tenerife - FA2; shortage of raw materials due to lack of working capital
Utilization: Unknown; produces 2,000 pairs monthly, has obsolete equipment
Other: Has its own electricity generator

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	.7	.8	1.9	1.8	1.0
Profits (Losses)	(.5)	(.6)	.03	(.2)	(.5)

Bank debt 6/30/88
Citibank

\$158,373

Tenería - FA2

Product: Leather (cowhide)
Market: 20% of market share; supplies Industrial de Calzados; three competitors located in the northern zone
Employees: 128
Raw Materials: Hides supplied locally; all tanning materials imported
Utilization: Can produce 3,000 s.f. daily or 60,000 to 65,000 s.f. monthly
Other: Would like to upgrade machinery through purchase of a dyer, splitter, squeezer.

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	.5	.4	2.9	2.6	5.0
Profits (Losses)	(1.2)	(.9)	.2	(1.5)	1.3

Bank debt 6/30/88 -
Citibank
Banco de Reservas
Citibank

\$ 72,778
154,096
713,800

134

MINING GROUP

Marmolería Nacional

Product: Marble, onyx and travertine; marble and travertine used primarily for construction
 Market: Market share unknown because of imports by architects and construction contractors; however, national law requires 10% of public building exterior surfaces to be covered by marble; has monopoly over local production
 Employees: 210
 Raw Materials: Sources are two mines located at Samaná (marble) and Vicente Noble (onyx and travertine)
 Utilization: Mining equipment poor; finishing equipment in good condition; could extract 10 times more material
 Other:

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	N.A.	N.A.	2.0	2.0	2.5
Profits (Losses)			.6	(.5)	.5
Bank debt 6/30/88					
Banco de Reservas				\$838,798	

Fabrica Nacional de Cemento

Product: Portland gray #1 cement
 Market: 20-25% market share; two competitors, both private; price controlled by government; small amounts imported
 Employees: 463
 Raw Materials: Imports klinker; gypsum supplied locally by Mina de Sal y Yeso, a CORDE operation
 Utilization: Unknown; equipment is in very poor condition
 Other: Operation involves grinding klinker and mixing with gypsum

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	22.7	26.3	34.2	22.4	51.5
Profits (Losses)	(2.9)	(3.7)	(6.1)	(8.8)	(7.0)
Bank debt 6/30/88					
Banco de Reservas				\$ 6,956,913	
Banco de Reservas				1,133,721	
Guarantees provided					
Citibank					\$19,775,980

Minas de Sal y Yeso

Product: Gypsum and salt
Market: 100% of local gypsum market, exporting small amounts to Colombia; reported high demand in the region; unknown share of local salt market
Employees: 300 (gypsum); 28 (salt)
Raw Materials: Resources owned by CORDE
Utilization: Low in both operations; gypsum operation has 3 large trucks, 2 loaders, 1 tractor, 1 grader and 1 crusher; gypsum output is strongly constrained by condition of railway (31.5 km) between mine and port; salt extraction is a manual operation.
Other: CORDE is entering into a technical assistance contract financed by Canadian aid to provide specialists for 4-month period to correct operational deficiencies and procure several pieces of equipment; CORDE claims that gypsum exports could finance its entire deficit and pay off its debts, estimating that exports of US\$30 million could be achieved

	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>
Sales RD\$m	N.A.	N.A.	1.7	2.0	3.8
Profits (Losses)			(.7)	(.4)	(.2)