

PN ABL-222

22052.

FILE COPY

**APPRAISAL OF THE PROSPECTS FOR ESTABLISHING
A WORKERS' PARTICIPATION IN OWNERSHIP PROGRAM
GUATEMALA**

REPORT BY

Juan Guillermo Espinosa

FILE COPY

**CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue, Washington, D.C.**

Project No. 54

May 1988

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

CENTER FOR PRIVATIZATION

The Center for Privatization was established in 1985 to provide expert advisory services to developing countries and their indigenous private sectors in planning and implementing programs to divest and privatize their state-owned or controlled enterprises and activities. The Center is fully funded under a major contract between Analysis Group, Inc. and the Agency for International Development. Participating subcontractor companies include:

Arthur Young & Co.
Equity Expansion International
Ferris & Company, Inc.
International Phoenix Corporation
Public Administration Service

The Center draws upon its consortium of six companies, and others when appropriate, to provide a wide range of qualified specialists in fields from agriculture, industry, financial and other services, transportation and utilities with experience in areas related to privatization, such as:

Corporate Restructuring
Employee Stock Ownership
Equity Placement
Financial Analysis and Valuation
Labor Relations
Legal and Regulatory Studies
Macro/Micro Economic Analyses
Marketing and Market Research
Project Design and Evaluation
Strategic Planning
Taxation

**This Report was prepared under
AID Contract No. DPE-0008-C-00-5850-00
between the Agency for International Development
and Analysis Group, Inc.**

Juan Guillermo Espinosa is a senior economist in the Department of Economic Affairs, Organization of the American State (OAS), and a professor at the Inter-American Training Center in Economics and Statistics (CIENES), of the OAS in Santiago, Chile. He is a Civil Engineer (Universidade de Chile, 1965) and holds an M. (1971) and Ph.D. (1975) in Economics from Cornell University.

APPRAISAL OF THE PROSPECTS FOR ESTABLISHING
A WORKERS' PARTICIPATION IN OWNERSHIP PROGRAM
GUATEMALA

REPORT BY

Juan Guillermo Espinosa

CENTER FOR PRIVATIZATION
2000 Pennsylvania Avenue, Washington, D.C.

Project No. 54

May 1988

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

Table of Contents

I. Purpose of the Mission	1
II. Special Characteristics of the Mission	1
III. Main Findings of the Mission	2
A. Policy Environment	2
B. Potential	4
IV. Summary and Recommendations	7
Appendix Professional Contacts	10

I. Purpose of the Mission

The main objective of this consultancy was to "perform a preliminary assessment of the appropriateness and/or potential" for establishing a Program of Workers' Participation in Ownership (WPO) in Guatemala.

II. Special Characteristics of the Mission

The present consultancy is the result of a request from the Center for Privatization (CFP) to the Department of Economic Affairs, Organization of American States (OAS), and a special arrangement was developed between the two institutions to fulfill the mission. (It should be underscored that the OAS provides technical cooperation in response to requests from the governments of its member states, and does not promote any specific approach to member countries.) After briefing and coordination by phone with CFP officers in Washington, D.C., the consultant went from Santiago, Chile, to Guatemala City, Guatemala. After a week he proceeded to Washington, D.C., and met with CFP, OAS and Agency for International Development (AID) officials.

III. Main Findings of the Mission

A. Policy Environment

The general prospects for developing a privatization program which may include some form of WPO in Guatemala are as follows:

1. Host Government

There is a favorable environment in the upper technical levels of the government institutions consulted: Ministry of Finance, Banco de Guatemala, AVIATECA and CORFINA. Generally, top-ranked officials have a similar views and well-defined purposes with respect to privatization and the development of a WPO program, and are open to discussion.

2. Business Climate

The private sector of Guatemala (i.e., the one corresponding to the largest or most important firms of Guatemala) has at present several representative organizations. The main three are CACIF, Camara Empresarial (CAEM) and Camara de la Libre Empresa. It was only possible to interview members of CAEM, and they seemed to be most favorably disposed toward WPO development. Their

views were positive although not enthusiastic: they agree with the idea of WPO, providing the employee stock ownership represents a minority share.

3. Labor Awareness

It was not possible to learn the views of labor on these issues since no meetings were arranged with labor groups, leaders or representatives.

4. Preliminary Conclusions

Bearing in mind that Guatemala has a small public sector and therefore only a few possible public enterprises which could be transferred to the private sector, in general there is more than an acceptable level of approval for WPO, and that in the future there will probably be support for WPO and for an implementation plan on an experimental basis. Everyone interviewed agreed with the need to have "successful experiences" soon. On the whole, those interviewed are accessible for dialogue, and willing to go ahead at the present time.

Guatemala, however, has a dual economy in which income is unevenly distributed nationally, and the

average training/educational level of workers is low. In recent months there seems to have been some discussion of the possibilities of developing labor unions. Therefore, any initiative for WPO should include workers with an acceptable level of education or understanding of the concepts of worker ownership. It would also be best to try to develop a WPO plan from its inception without competing with labor unions.

B. Actual Potential

Given the favorable attitude toward establishment of WPO expressed in the interviews and gathered from other information in Guatemala City, the evaluation of the actual potential for WPO needs to be approached in the following manner.

There is the possibility of establishing a successful WPO program which could be implemented in short start-up time within existing firms. If it is assumed that, given the existing positive environment, a plan of activities is to be implemented, three lines of action can be outlined:

1. To attempt to develop a form of WPO at the broadest level, i.e., in the largest or most

strategic public enterprises (AVIATECA, GUATEL, FLOMERCA, etc.).

2. To attempt to establish WPO initially as a pilot project by selecting a few medium to small enterprises, such as the state finance corporation (CORFINA).
3. To attempt to implement WPO in a few private firms where entrepreneurs are interested in development of employee participation in ownership.

There is room for all three of the above mentioned approaches in Guatemala, but there seems to be more potential for the second line of action proposed with CORFINA, where assistance and cooperation has already been requested of CFP.

With regard to the first line of action, it seems that the government is conducting on-going conversations regarding AVIATECA, but it is less clear how negotiations are proceeding in the case of GUATEL and the others. The advanced state of negotiations on AVIATECA suggests that it is better not to interfere in this case at this stage. Public officials involved in these negotiations have

indicated that the employees of AVIATECA will be included in the newly-created mixed enterprise now under consideration.

In the cases of FUATEL and FLOMERCA, some objections to their privatization have been raised by the army, despite the fact that public officials at the highest technical levels are open to considering their partial transfer to the private sector. Until these issues are resolved, it is suggested that these cases are not ready for any form of WPO.

In the private sector, two main points can be stated. A greater emphasis will supposedly be placed on enterprise which at present are part of the public sector, and in the private sector there seems to exist the idea that development of WPO may be an alternative way of getting extra financing.

If CFP is going to consider entering into some form of WPO with a few firms in the private sector on an experimental basis, a financial evaluation of those enterprises will need to be concluded before implementation in order to avoid enterprises with serious liabilities or market and/or financial problems,

CORFINA is considered most viable for WPO, as it has fewer restrictions placed on it and is the closest to the scope of work of this consultancy. This recommendation does not, however, take into account details of the portfolio of enterprises today in the hands of CORFINA, nor has it studied the legal possibilities of transferring CORFINA firms to the private sector, or and other related topics.

IV. Summary Recommendations

Based on the interviews and information collected during the one-week visit to Guatemala City, the main recommendations of this report can be summarized as follows:

1. There is concrete potential for establishment of some form of WPO in Guatemala.
2. Of the three possible lines of action discussed in this report, CORFINA is the most promising, and is recommended for action.

To this end, it is recommended that an implementation plan for a preliminary stage in the field should be developed. This plan should include:

1. An in-depth appraisal of CORFINA;

2. The preparation of a list of viable enterprises, organized according to objective priority criteria, in order to select one or two firms which could serve as demonstration cases.
3. A more direct (first-hand) appraisal of the potential cases, and in particular, the views of labor and management within each firm.
4. A preliminary study and recommendations for legal, economic and organizational schemes to be used in developing the first WPOs.

In order to achieve this goal, it is recommended that a professional group be formed, to include among others:

1. A lawyer to study (a) the legal possibilities of CORFINA; (b) the tax incentives from the standpoint of WPO; (c) the available legal form of the organizational structure which could be recommended to implement WPO.
2. An organizational expert to (a) hold discussions with managers, employees and workers; (b) recommend the most suitable form of internal organization; (c) advise on the type of contract which may be established by the

enterprise with CORFINA (in their legal and economic aspects).

3. An economic and financial analyst to evaluate the selected firms, their financial status and their market prospects.

APPENDIX

Contacts

Date	Official	Contacted by
5/18	Jose Rolz President, CONAPEL	Juan G. Espinosa Elaine D. Murphey
5/19	Ing. Otto Becker Lic. Peter Lamport Camara Empresarial	Juan G. Espinosa Elaine D. Murphey Joaquin Glaesel
	Luis A. Sepulveda Mrs. Victoria Perlata OAS Office	Juan G. Espinosa
	Jose Rolz President, CONAPEL	Juan G. Espinosa Elaine D. Murphey
5/20	Juan Jose Font President, Quimicas de Centroamerica	Juan G. Espinosa Elaine D. Murphey
	Anthony Cauterruci Director, USAID Joseph Lombardo Ms. Rosario Reyes	Juan G. Espinosa Elaine D. Murphey Joaquin Glaesel