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**PRELIMINARY ANALYSIS
FOR PRIVATIZATION,
MUNICIPALITY OF
CHUQUISACA**

FINAL REPORT

November 17, 1991

Price Waterhouse

November 11, 1991

Mr. Richard Rosenberg
Private Sector Officer
USAID/La Paz
Edificio del Banco de Perú
Esquina de la Calle Mercado y Colón
La Paz, Bolivia

Dear Mr Rosenberg:

Re: Financial Sector Development Project
Contract No. PDC-2206-Z-00-8191-00
Bolivia - Preliminary Analysis for Privatization,
Municipality of Chuquisaca

We are pleased to present five copies of the English translation of the Final Report, Bolivia - Preliminary Analysis for Privatization, Municipality of Chuquisaca.

We enjoyed the opportunity to work with USAID/Bolivia and to provide technical assistance to the Municipality of Chuquisaca.

J. Richard Breen
Director
Financial Sector Development Project

MUNICIPALITY OF CHUQUISACA
PRELIMINARY ANALYSIS FOR PRIVATIZATION

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I. INTRODUCTION

In order to reduce public expenditures and to improve the efficiency and quality of municipal services, the city of Sucre is considering transferring a number of publicly provided services to the private sector. As a first step toward this goal, the Municipality requested technical assistance from USAID/Bolivia to identify the most appropriate municipal services to privatize and to define the steps to follow. The Financial Sector Development Project (FSDP) sent two Price Waterhouse consultants to Sucre for a one week period to carry out this preliminary assessment.

A. Terms of Reference and Scope of Work

The objective of the assessment is to prepare a preliminary analysis of the privatization of certain services and activities provided by the Municipality of Chuquisaca.

The scope of work encompassed:

- o Assessing the political attitudes of Municipal authorities regarding the likely privatization of certain Municipal entities;
- o Defining the selection criteria needed to determine the appropriateness of privatizing certain municipal services;
- o Applying the selection criteria to certain municipal services;
- o Preparing a report recommending the privatization of certain Municipal entities and the establishment of a Municipal organization to manage the privatization program. The objectives and organizational structure of the Municipal authority to manage privatization are described in the report.

B. Team Composition

Price Waterhouse, through the Financial Sector Development Project, provided assistance to the Municipality of Sucre for a period of one week starting at the end of May 1991. The team was led by Guillermo Schmitt, a Partner from Price Waterhouse Argentina who is a specialist in corporate strategy and privatization. Accompanying him was Victor D. Santander, who is the Senior Manager of Price Waterhouse Bolivia responsible for the Management Consulting Practice and has a broad range of experience in private and public organizations.

C. Methodology

The principal method employed in this assignment was that of interview and information gathering. The FSDP team met several times with the Mayor and his staff as well as with members of the Federation of Private Businessmen of Chuquisaca (Federación de Empresarios Privados de Chuquisaca). Additionally, the team met with the general managers of the entities selected as potential candidates for privatization. After finishing the draft report, the team returned to Sucre to meet with the Mayor and his staff to deliver a formal presentation of the findings.

II. GENERAL CRITERIA FOR THE PRIVATIZATION OF SERVICES AND MUNICIPAL ENTITIES

In order to determine if an identified entity is suitable for privatization, it is necessary to apply a systematic analytical method with a well defined focus. With this objective in mind, the team applied a method adapted from the decision tree published by the National Center for Economic Growth in the Publication "Privatization and Development" in 1987. This method has been used successfully in various developing countries in order to select companies appropriate for privatization.

This decision tree presents five criteria which are applied to an entity to determine its suitability for privatization. The five criteria are:

- o There are no compelling reasons for the Municipal Government to retain the company/service;
- o Public funds to continue providing the service to the public are not available or are limited;
- o Privatization will not cause an unacceptable disruption in the provision of an essential public service;
- o The private sector may be able to provide the service with greater efficiency;
- o The private sector expresses a certain degree of interest in providing the service.

1. Are there compelling reasons for the Municipal Government to retain the company/service? --- Yes ----- Retain

No
|
|
|

No
|
|
|

2. Can the Municipal Government provide the capital needed to deliver reasonable services to the public? --- Yes ---

Can these services be borrowed or produced by private groups in a more cost-effective manner?

No
|
|
|

Yes --- Retain
|
|
|

3. Will the privatization cause an unacceptable disruption of an essential public service? -----

No
|
|
|

Yes --- Retain

4. Do private services exist and is private sector interest likely? --- No ----- Retain

Yes
|
|
|

Suitable

Using these criteria, the following companies/services should be considered for privatization:

- o National Automotive Transport Company (ENTTA)
- o Urban Sanitation, Collection, and Transport of Solid Waste
- o Municipal Hotel
- o Municipal Slaughterhouse
- o National Cement Company (FANCESA).

III. PRELIMINARY ANALYSIS FOR THE PRIVATIZATION OF SELECTED COMPANIES

A. Preliminary Analysis for the Privatization of The National Automotive Transport Company (ENTA)

1. Description of the Activity

The National Automotive Transport Company (ENTA) is a decentralized company which provides passenger transportation services within the Sucre city limits.

The market for passenger transport within the city is very competitive and, according to reliable sources, the transport supply is growing.

Currently the private supply of transport is estimated to be:

| | |
|------|------------------------------------|
| 110 | - collectives, organized privately |
| 70 | - minibuses, organized privately |
| 20 | - trufis (taxis of fixed routes) |
| 1000 | - taxis |
| 4 | - radio taxi companies. |

The Municipal Government of Chuquisaca, which authorizes fares, also performs functions related to the planning, registration, and control of urban transport. Until recently ENTA competed in this market based on price: its fare was below the fares authorized for the private sector. While this situation lasted, the operating volume of ENTA was reasonable, as a large part of the population took advantage of ENTA's lower prices.

Recently, the private sector lowered its fares to equal those of ENTA, depriving ENTA of its only competitive advantage. This situation has had repercussions in the market in that demand for ENTA services has fallen significantly. Passengers prefer the quicker and more flexible modes of transport offered by private companies.

2. Description of Resources

ENTA has a fleet of ten reasonably well maintained 1987 10-passenger Fiat buses. In addition, ENTA has eight 1981 21-passenger Dodge minibuses, all in reasonable condition.

The administration of ENTA operates from offices located within the Municipal Armory.

Tools and resources for maintenance are scarce.

3. Financial, Economic, and Operating Information

Financial, economic, and operating information is scant, but the team was informed that, until recently, ENTA's cash flow was sufficient to meet expenses. Given time limitations it was not possible to obtain more detailed information.

Nevertheless, the operation appears to have been running a deficit for some time because the company has not amortized its fixed assets, making it impossible to prevent a deterioration in the company's financial condition.

A financial statement, developed with the help of ENTA staff, for the month of May 1991 is as follows:

ENTA
FINANCIAL STATEMENT, MONTH OF MAY 1991
(in US Dollars)

| | US\$ | US\$ |
|--|------------|-----------------|
| <u>Revenues</u> (US\$ 457 x 20) | | 9,140 |
| <u>Expenses</u> | | |
| Wages and Salaries | 14,786 | |
| Gasoline | 3,145 | |
| Diesel Fuel | 3,289 | |
| Oils and Lubricants | 515 | |
| Tire Replacement | 186 | |
| Repairs | <u>300</u> | |
| | | <u>22,311</u> |
| <u>Financial Operating Deficit</u> | | <u>(13,171)</u> |
| Debts to Supplier | | <u>(2,000)</u> |
| <u>Financial Deficit for the Month</u> | | <u>(15,171)</u> |

Adding a reasonable amount of amortization of approximately US\$ 8,230 per month to the financial deficit, the monthly operating deficit would be US\$ 21,401.

4. Staffing Level

The human resources of ENTA consist of 18 drivers, 2 mechanics, 5 administrative employees, and an administrator.

This staffing level seems reasonable.

5. Weaknesses

- o Strong competition in the market.
- o Slowness of the buses relative to other forms of transport.
- o Financial disequilibrium.
- o Economic disequilibrium.
- o Slowness of certain administrative and maintenance functions.
- o Absence of insurance coverage for accidents and for third party civil liabilities.

6. Principal Strengths and Opportunities

- o Good condition of the buses.
- o Relatively good condition of the minibuses.
- o Private sector interest in acquisition of the fixed assets.

7. Feasibility of Privatization

In the team's opinion, ENTA should discontinue operations and proceed with the sale of its fixed assets. However, the Municipal Government should consider implementing a system to supervise and regulate the city's transport system.

This opinion is based on the following criteria:

- o The Municipal Government's function of running a transport system does not seem justified given the existing supply of private sector options.
- o ENTA does not seem to have competitive advantages in the market, nor the possibility of earning a reasonable profit on its operations.
- o Continuation of the current situation will make the company insolvent.
- o Privatization will not cause any service disruptions.
- o The private sector would be interested in taking over the services.

8. Strategic Alternatives for Privatization

There are various options for the disposition and sale of ENTA's fixed assets.

Sale of the ten Fiat buses, via a national public auction, would be the most attractive alternative for the buses. This sale, to private companies or to the State, would include the transfer of employees.

The most likely alternatives for the eight Dodge minibuses are the following:

- o Financed sale to ENTA personnel. (It would be necessary to carry out a legal study before employing this alternative.)
- o Public auction.

A market valuation of the vehicles taking into consideration their age and condition would be necessary before undertaking the recommended strategies.

B. Preliminary Analysis for the Privatization of Urban Sanitation, and Solid Waste Collection and Transport Services

The analysis of urban sanitation services and of the collection and transport of solid waste, as well as the description of current operations, was prepared using an excellent work entitled "Project for the Creation of the Direction of Management of Solid Wastes" (December 1990) prepared by the engineer, F. Walter Rejas, General Manager of the Department of Urban Sanitation.

1. Description of the Activity

The Department of Urban Sanitation provides the following services:

- o Street sweeping and cleaning,
- o Solid waste collection and transport, and
- o Final disposal of solid wastes.

The sweeping and cleaning of streets is limited to the principal avenues of the city and includes:

- o Sweeping the plazas, parks and avenues of the central zone of the city. The limited extent of this activity is due to a lack of tools and resources.
- o Cleaning the three principal city markets.

The collection and transport of solid waste is accomplished three ways:

- o Residential trash collection, for which four 1986 Ford F-1400 trucks are used.
- o Refuse collection, a service provided primarily to the markets.
- o Collection from metal containers, of which there are only twenty-one 5.5 cubic meter primarily distributed in certain zones. These containers are handled by a compaction truck.

Final disposal of garbage is in special "open air" containers located in the northeast zone of the city, a distance of some 13 kilometers from the center of town.

Approximately 20.95 tons of refuse are collected each day with the existing equipment. This amount is estimated to be about 50% of the total refuse generated daily.

The critical zones of the city are found to be adequately covered unlike areas further from the city center. The daily deficit is already 22 tons. Of this amount, 67% corresponds to zones covered by the system and the remaining 33% comes from different areas not covered by the system.

The final disposition of waste is sub-standard. Technical standards for solid waste disposal are not met. Construction and operation of a sanitary landfill is necessary.

2. Description of Resources

To perform the previously described functions, the Department of Urban Sanitation has the following resources:

Sweeping and cleaning:

- o Carts, wheelbarrows, shovels, straw brooms, etc.

Collection and transport:

- o Four 1986 Ford-1400 compactors
- o Two 1974 Chevrolet truck compactors
- o One 1982 Fiat 190-M hoisting truck
- o Twenty-one 5.5 cubic meter metal containers.

The tasks of sweeping and cleaning are performed by elderly women using handmade, rudimentary tools.

The available equipment for collection and transport of solid waste is considered insufficient given recent population growth, the limitations of the geographic areas covered, and maintenance problems.

3. Financial, Economic, and Operating Information

The annual financial budget of the Department of Urban Sanitation was approximately US\$ 130,000 in 1990.

The percentage composition of the total is as follows:

| | % |
|-------------------------------------|------------|
| Permanent and temporary personnel | 75 |
| Tools, uniforms, lubricants | 24 |
| Utilities (water, light) and others | <u>1</u> |
| | <u>100</u> |

In the opinion of the General Manager of the Department of Urban Sanitation, these amounts did not include costs of vehicle repairs and spare parts.

As part of the Tributary Law (Law No. 843), this service is provided gratuitously.

The Department budget is considered insufficient to serve all parts of the city efficiently, maintain the vehicles adequately, and to support the necessary new investments in equipment.

4. Staffing Level

The Department of Urban Sanitation has approximately 80 permanent and temporary employees: 1 General Manager of the Department, 4 inspectors, 3 sub-inspectors, 28 sweepers, 25 helpers, and 8 drivers.

5. Weaknesses

- o The Department does not meet the requirements of the current population and will be unable to meet those of an expanded population.
- o Trash production has reached volumes which exceed service capacity.
- o Minimum sanitary norms for the disposal of solid waste are not met.
- o Street sweeping and cleaning are limited by the types of equipment used.
- o The available resources for collection and disposal of solid waste are insufficient.

6. Principal Strengths and Opportunities

- o The most important parts of the city show reasonable levels of cleanliness.
- o A good portion of the resources (equipment) is in reasonable condition.
- o Even though the service is currently free, recent polls have shown that people are willing to pay for an improvement in service.
- o The private sector is interested in providing this service.

7. Feasibility of Privatization

In the opinion of the team, it would be highly beneficial to privatize street-sweeping and street-cleaning activities, as well as the collection, transport and final disposal of solid waste from the city of Sucre.

The advantage of privatization is that it would address the problems described in point five in this section, serve the entire city, and improve the efficiency of this service.

8. Strategic Alternatives for Privatization

The best option for privatization would be to contract this service to a private company.

The following phases need to be implemented for privatization:

- a) Complete a legal and economic feasibility study to identify the specific mechanism of contracting and

determining the technical and financial bases of the auction.

- b) Develop and publish the terms of reference for a public auction of the services.
- c) Evaluate the offers.
- d) Award the contract.
- e) Negotiate and sign the contract.

The Municipal Government will reserve responsibility for planning and controlling the activity of the future contractor.

C. Preliminary Evaluation for the Privatization of the Public Slaughterhouse.

1. Description of the Activity

The Public Slaughterhouse, set up in 1981, has the capacity to butcher cattle, sheep, hogs, and goats, and to produce sausages and animal feed from dried blood and bone meal.

According to the information received, the slaughterhouse has only developed its slaughtering capacity, particularly that of cattle.

In theory, the installation's capacity is estimated to be around 500 heads per day, but on average, utilization only amounts to 60 heads per day, resulting in a total of roughly 18,000 to 20,000 heads per year.

In the last three years, the services provided were:

Capacity

| Year | Cattle | Pigs | Sheep |
|------|--------|----------------|----------------|
| 1988 | 18,000 | Not available. | Not available. |
| 1989 | 19,000 | Not available. | Not available. |
| 1990 | 20,000 | 2,078 | 128. |

These data are approximate and correspond to the information received.

Clearly, the slaughterhouse only performs some of its possible activities, and it hardly exploits its capacity to produce sausage and animal feed. Furthermore, only 50% of the refrigeration capacity is utilized.

According to the Municipal Slaughterhouse General Manager, there is no the sausage-making machinery and the equipment for animal feed production from dried bone and blood meal will require investments to be rehabilitated.

2. Description of Resources

Administrative support for this organization is insufficient. The slaughterhouse is managed by one Administrator with the support of managers in each area or operating sector. The majority of these activities are manual because the machinery in these facilities has deteriorated or is only partially functional.

The Municipal Slaughterhouse lacks an adequate administrative structure: manual registries are used to produce quarterly statistics showing activity levels. At the time of the visit, operating reports were not available, therefore the managers estimated the data regarding activity levels.

Although the organizational structure appears to be insufficient from an information and control perspective, it does not hinder day-to-day operations of the Municipal Slaughterhouse.

The installations are oversized in relation to activity levels and capacity utilization. At present, the cauldron and the equipment to produce blood and bone meal do not work, and only two of the four refrigerators are functional.

Maintenance is insufficient due to lack of financial resources.

Sanitary control is deficient and is based only on visual control of the livestock. The Municipal Slaughterhouse does not have a laboratory.

The supply of live cattle which the slaughterhouse receives only accounts for 20% of the originally planned capacity.

There is no marketing function at the Municipal Slaughterhouse, nor have successful efforts been made to take full advantage of the facilities' processing equipment. At the time of the original investment, a feasibility study probably existed, but it was not possible to consult it at the time of the consultancy. In short, the plant is underutilized and inefficient.

3. Financial, Economic and Operating Information

The following information is prepared based on that obtained from the Official Municipal Administrator and the data estimated by the Administrator of the Municipal Slaughterhouse.

Revenues are estimated assuming 18,000 animals are slaughtered annually.

ANNUAL FINANCIAL STATEMENT OF THE MUNICIPAL SLAUGHTERHOUSE
(in US\$)

| | <u>US\$</u> |
|---|--------------------|
| <u>Revenues</u> | |
| For slaughter of animals | \$58,310 |
| For sale of leather | <u>288,000</u> |
| Total Revenues | 346,310 |
| <u>Expenses</u> | |
| Wages and salaries (benefits, vacations, social security) | 72,480 |
| Utilities (water and light) | 22,700 |
| Operating expenses | 6,760 |
| Amortization (estimated at 40% for the building and 60% for machinery and installations from an initial investment of US\$ 1,000,000) | 70,000 |
| Miscellaneous expenses (estimated to be 5% of total expenses) | <u>17,320</u> |
| Total expenses | 189,260 |
| <u>Estimated annual profit</u> | <u>157,050</u> |

Based on this information, the operation is profitable, despite the fact that the total investment is underutilized and that activities such as refrigeration as well as production of bot. blood and bone meal (for animal feed) are not exploited.

The operation is limited to slaughtering livestock and turning over everything to the animal provider except the leather, which then is treated for sale by the Municipal Government. The blood and other elements, that are not returned to the meat provider, are discarded.

4. Staffing Level

Staff employed in the Municipal Slaughterhouse total 60 persons.

- 1 - Administrator
- 1 - Subadministrator
- 1 - Administrative secretary
- 1 - Veterinarian
- 2 - Maintenance workers

- 54 - Employees assigned to the tasks of receiving livestock; slaughter; control of weight, refrigeration chamber, and clean-up; leather treatment, and storage.

Staffing levels could be improved and perhaps reduced by automating more tasks and repairing the available equipment.

5. Weaknesses

- o Excess investment relative to activity and demand for services.
- o Insufficient sanitary control.
- o Insufficient equipment maintenance resulting in underutilization and causing important losses.
- o Lack of development and initiative to improve the utilization of available installations.
- o Lack of an administrative system for operational control.
- o Lack of a water treatment system.
- o Environmental pollution due to inadequately treated waste materials.

6. Principal Strengths and Opportunities

The major strength of the Municipal Slaughterhouse is that it is the only slaughterhouse in the Department of Sucre capable of producing byproducts derived from the slaughter of livestock. However, it is necessary to analyze the consumer market and to rehabilitate the equipment in order to capitalize on this strength.

It is worth mentioning that the livestock growers are interested in the operation.

7. Strategic Alternatives for Privatization

Under current circumstances, the most advantageous strategy would be to grant a contract to the private sector for its operation. As a condition of sale, this contract should be subject to legal restrictions.

The next steps are:

- a) Prepare a legal and economic feasibility study to identify the specific mechanism for the

transaction and to determine the technical and financial bases of the tender.

- b) Develop and publish the terms of reference for a public tender of the transaction.
- c) Evaluate the offers.
- d) Award the contract.
- e) Negotiate and sign the contract.

D. Preliminary Analysis for Privatization of the Municipal Hotel

1. Description of the Activity

For all intents and purposes, the Municipal Hotel has been privatized for several years. This privatization is in the form of a concession contract, dated November 16, 1984, with the company Sociedad Hotelera "Alsur Ltda."

The Municipal Government of Chuquisaca tends to favor selling the hotel.

The team did not undertake a study of the hotel, nor a review of its financial information, since litigation exists between Sociedad Hotelera "Alsur Ltda." and the Municipal Government of Chuquisaca. (It seems that the lessees owe several months of rent.) The next step is to carry out a legal study to determine the possible privatization options.

2. Strategic Alternatives for Privatization

The best alternative would be to sell the Municipal Hotel. A second option would be to lease the hotel. A legal analysis of the possibilities is necessary.

A legal analysis should entail completion of the following phases:

- a) Undertake a study of legal and economic feasibility to identify the specific mechanism for the transaction and to determine the technical and financial bases of the public sale.
- b) Develop the terms of reference for the transaction/public auction.
- c) Publish the terms of reference.
- d) Receive offers.

- e) Study and selection of the best offer.
- f) Negotiate the contract.

**E. Preliminary Analysis for the Privatization of the
Fábrica Nacional de Cemento S.A. (FANCESA) National
Cement Company**

1. Description of the Activity

FANCESA is a company whose ownership is shared equally by the Municipal Government of Chuquisaca, the Regional Development Corporation of Chuquisaca (CORDECH), and the University of San Francisco Xavier (la Universidad Mayor, Real y Pontificia de San Francisco Xavier).

FANCESA mines the quarries adjacent to the cement factory.

Its principal markets are Sucre, Potosi, Santa Cruz, and Cochabamba; in the last two departments FANCESA faces strong competition from other brands.

Installed capacity is 700 tons per day and sales, calculated in 50-kg bags in the past years were:

| | |
|-----------|----------------|
| 1987/1988 | 3,219,004 bags |
| 1988/1989 | 4,178,351 bags |
| 1989/1990 | 3,905,100 bags |
| 1991/1991 | 4,146,773 bags |

These data indicate that capacity is reasonably utilized.

The facilities were constructed approximately 30 years ago and have been expanded over the years. At this time, the company is expanding and plans to increase its capacity to 1,000 tons per day.

2. Description of Resources

The principal resources of FANCESA are:

- o 14 Km of quarries adjacent to the factory
- o An industrial complex which includes: buildings; industrial installations; light, heavy and other equipment; and a paper bag factory.

3. Financial, Economic, and Operating Information

The principal economic and financial indicators of FANCESA are shown below, expressed in U.S. dollars at the exchange rate at the close of each period:

| | 1987/1988 | 1988/1989 | 1989/1990 |
|-------------------------|------------|------------|------------|
| Sales | 7,624,678 | 9,263,666 | 9,470,007 |
| Total Cost of Cement | 6,531,482 | 8,314,015 | 7,382,710 |
| Gross Margin | 1,093,196 | 949,651 | 2,087,297 |
| Net profit | 696,402 | 573,952 | 1,033,444 |
| <u>Total Assets</u> | 1.59 | 1.69 | 1.65 |
| Total Liabilities | | | |
| Net Asset Value | 13,793,005 | 14,221,967 | 14,931,951 |
| <u>Current Assets</u> | 5.60 | 5.64 | 8.65 |
| Current Liabilities | | | |

The following is the current financial situation of the company:

- o Short term investments of approximately US \$8,000,000 are available.
- o Debt of approximately US \$17,000,000 is under negotiation with the Central Bank.

4. Level of Staffing

The level of permanent staff is 229 persons, including some vacant technical administrative and staff positions which will be filled.

5. Weaknesses

- o Slow to respond to market changes.
- o Insufficient resources to assure growth.
- o Lack of modern industrial and operating technology.
- o Underdeveloped administrative systems and control.
- o Poor geographic location relative to its market.

6. Principal Strengths and Opportunities

- o Easy access to principal raw materials.
- o Good quality product.
- o Generates profit.
- o Capable personnel.

7. Feasibility of Privatization

The feasibility of privatization of FANCESA is closely tied to the consent of its owners and the prevailing legal situation.

As of this date, only the Mayor of Chuquisaca has expressed support for privatization; the authorities of CORDECH and of the University of San Francisco Xavier have yet to express their views. If all owners agree, the privatization would be feasible.

Privatization of FANCESA would address the weaknesses described previously, particularly the need for administrative and technological modernization as well as capital.

8. Strategic Alternatives for Privatization

If the Privatization Law is approved in Congress, the best alternative would be to sell the company. If there is no change in the legal system, the other option for privatization would be to contract with a private company. The contractor would be responsible for the extraction of raw materials, the operation of the plant, and the distribution and sale of its products.

The legal system governing the activities of FANCESA is not clear. The first step to be taken is a study of the legal system to determine possible alternatives for privatization, such as a joint venture. Following that, the next steps are:

- a) Complete a feasibility study to determine the method of privatization and to establish the legal, technical, and financial bases for the sale.
- b) Prepare and publish the terms of reference for a public auction of the concession.
- c) Evaluate the offers.
- d) Award the contract.
- e) Prepare and sign the contract.

IV. ORGANIZATION AND RECOMMENDATIONS FOR THE NEXT STEPS IN THE PRIVATIZATION PROCESS

Once the Municipal Government of Chuquisaca has decided that the entities mentioned in the preceding chapters could be privatized, it should begin the implementation phase of privatization.

This phase should be carefully planned and executed.

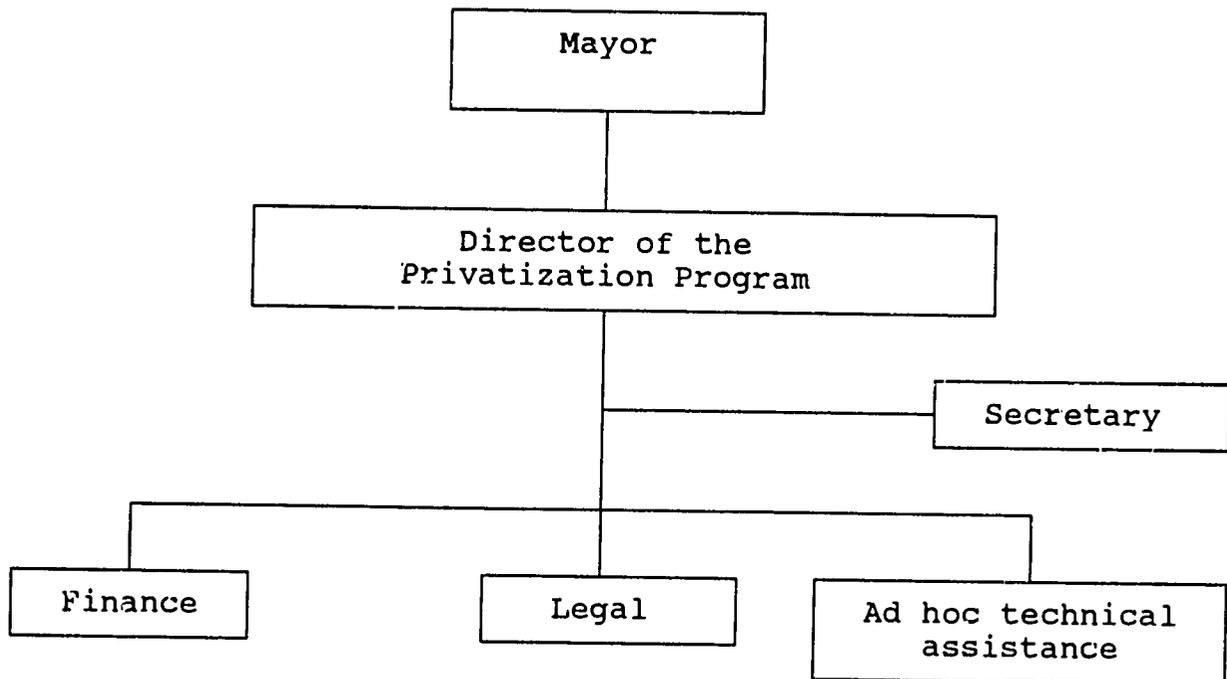
To fulfill its responsibilities and promote confidence in the privatization program, the Municipal Government of Chuquisaca should establish a formal process to provide legitimacy and transparency to the individual operations.

The Municipal Government of Chuquisaca should manage the privatization process at the highest level of government.

A. Directorate of Privatizations

The Municipal Government should establish a Directorate of the Privatization Program to be responsible for implementing the program. The Directorate would be composed of a Director and staff with financial and legal experience, as well as an ad hoc technical staff.

An organization chart of the unit is presented below:



B. The Role of the Director of the Privatization Program

It is imperative that a prominent citizen of Chuquisaca, with an unquestionable reputation for integrity and knowledge of both the public and private sector be named by the Mayor as Director of the Privatization Program.

The ideal attributes for the Director of the Program would be: high technical competence, integrity and the confidence of elected officials and of the public and private sectors.

In addition, the Director must be dedicated to the program full-time.

C. Public Relations Strategy

It will be essential to plan and execute a public relations campaign designed to clarify the objectives and scopes of the processes to implement the program and to break the myths that normally are associated with processes of this type.

The campaign should have as its appointees:

- o members of the press
- o opinion leaders
- o members of the Municipal Government of Chuquisaca
- o members of the Departmental Government
- o certain members of the Central Government.

D. Labor Strategy

Many countries embarking on the privatization process are implementing personal participation schemes; a system wherein a portion of the shares of the new companies or concessions are handed over to the employees of the entities being privatized.

E. Legal Strategy

The absence of a clear definition of privatization at the national level, documented in a law, places the process on ambiguous legal territory in Sucre. Taking into account this ambiguity, it is absolutely necessary to undertake a legal analysis of the feasibility of each of these privatizations. This analysis will permit identification of the optimal mechanisms for privatization and the clearest road to follow.

The Municipal Government of Chuquisaca should continue to move in the direction of privatization within the prevailing legal system and on a case by case basis.

F. Priorities of the Privatization Program

For the Privatization Program to be successful, it will be essential to consider what the priorities are and in what order they should be undertaken. The success of the program will depend in large measure on its early results.

Based on information gathered in Sucre, privatization of the following entities should be considered:

1. Department of Urban Sanitation (However, it is necessary to construct a sanitary landfill prior to privatization),
2. Municipal Slaughterhouse,
3. ENTA,
4. FANCESA (its priority will grow once the Law of Privatization is approved in Congress),
5. Municipal Hotel.

Each of these entities meet the privatization criteria cited earlier: political will on the part of key authorities and positive impact on quality and efficiency.

G. Strategy for the Valuation of Companies

In all cases it will be necessary to proceed with valuations of the entities and companies to privatize. Due to complexities inherent in the process, countries have found it useful to delegate the responsibility for valuations to specialized consulting companies.

H. Development of Terms of Reference for the Offers

The development of terms of reference is a complex, multidisciplinary activity which establishes obligations and responsibilities of the parties. It will be one of the principal functions of the Directorate of the Privatization Program.

The terms of reference for the concession of a public service normally will contain the following items:

- Objective of the public auction
- Legal treatment - applicable norms
- Impediments to potential bidders
- Contractor requirements
- Announcements - bids and dates of the public auction
- Presentation of bids
- Prequalification

- Adjudication and award of the contract
- Administrative and technical regulation of the contract
- Obligations of the contracting party
- Delegation of powers to the contractor
- Service and use of goods by the contractor
- Relation of the contractor with the Municipality
- Tariff regime
- Guarantees
- Penalties for failure to fulfill contract terms
- Extinguishment and cessation of the contract
- Tribunal for arbitration
- Terminology
- Workplan to be executed by the contractor
- Contracts of work committed to at the transfer date
- Contracts of supplies ordered at the transfer date
- Credit granted by financial organisms
- Debts of the entity with its personnel
- Profitability bonus
- Reporting system
- Complaint system
- Payment system

It is essential that the terms of reference be clear, equitable, and, at the same time, attractive to the bidders.

V. CONCLUSIONS

In order to reduce public spending and to improve the efficiency and quality of municipal services, the Municipality of Chuquisaca has considered transferring a number of services to the private sector.

The first step in this process is to determine if a company is suitable for privatization. Applying the criteria described earlier to determine suitability, the following companies/services are recommended as priorities for privatization.

- o Urban Sanitation and Transport of Solid Waste
- o Municipal Slaughterhouse
- o National Automotive Transport Company (ENTTA)
- o National Cement Company (FANCESA)
- o Municipal Hotel

This analysis is based exclusively on interviews conducted during a one week consultancy with the Mayor of Chuquisaca, members of his team, and members of the Directorate of the Federation of Private Businessmen of Chuquisaca. The order of priorities may change depending on the results of a deeper analysis addressing legal issues in detail.

In order to carry out the privatization process, a Unit for the Privatization of the Municipality of Chuquisaca should be established.

It would be advantageous to implement the privatization process in a methodical and controlled manner. The function of the Privatization Unit would be to manage the process, to contract the needed technical assistance, to monitor consultants, to establish procedures and policies for the process, and to assure the transparency and legitimacy of the individual operations. It is essential that during the process the Director of this unit have direct access to the Mayor. This will contribute significantly to the success of the project.

Once the Municipal Government of Chuquisaca has decided which entities to be privatize, the following steps are recommended:

- a) Establish a Unit for Privatization.
- b) Prepare terms of reference for the financial and operational evaluation of the companies/services and design an implementation plan for privatization. Technical assistance from consultants to develop these documents will be useful.

- c) Obtain financing and contract consultants to complete the terms of reference.
- d) Design and implement a global and specific strategy for each company/service to be privatize using public information and working materials.