

**AGENCY FOR INTERNATIONAL
DEVELOPMENT**

**REFERENCE CONTRACT NO.
EUR-0014-C-00-1058-00**

**ENTERPRISE RESTRUCTURING
AND PRIVITIZATION
CENTRAL AND EASTERN EUROPE**

**QUARTERLY PROGRESS REPORT
JULY 31, 1992**

**Coopers
& Lybrand**

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**Agency for International Development
ENE/RME/ED
Room 6923 NS
320 21st Street, N.W.
Washington, D.C.**

Attn: **Mark Karns**

Reference: **Contract No. EUR-0014-C-00-1058**

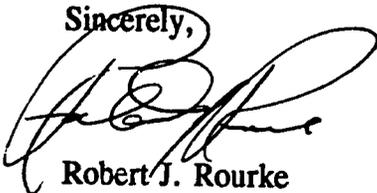
Dear Mr. Karns:

In compliance with the terms of our referenced contract with AID, we are submitting this report on work completed by Coopers & Lybrand during the third calendar quarter from April to June, 1992. The report contains three sections:

- I. **Status of Current Activities - which covers all work on delivery orders awarded during the quarter.**
- II. **Third Quarter Financial Report - which covers the financial status of the delivery orders.**
- III. **Proposals/Concepts Submitted - which summarizes all work currently under consideration by AID for funding under this IQC.**

We welcome any comments or questions that you or other AID staff might have on the report. Please contact me at (703) 908-1650 or Sue-Jean Lee at (703) 908-1664.

Sincerely,



Robert J. Rourke

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SECTION I

Status of Current Activities

I. STATUS OF CURRENT ACTIVITIES

Work performed during the quarter from April through June, 1992 was for three delivery orders:

- **D.O. #4 Latvia Privatization Assistance** - awarded in the first quarter and amended in the second quarter
- **D.O. #7 ESOP Assistance to Hungary's Ministry of Privatization** - awarded in this quarter
- **D.O. #8 Chemko State Enterprise Privatization Phase I** - awarded this quarter

Progress on these delivery orders is briefly summarized below. Activities under delivery orders #1-3 and #5-6 have been completed and they are now rendered inactive.

The chart on page I-4 summarizes the status of all delivery orders awarded to date. This is followed by more detailed profiles on the projects that include information on the scope of work, status, products and deliverables, activities this quarter, activities for next quarter and actions pending. A financial report on the delivery orders is included in the next section.

Progress of Active Delivery Orders

Latvia Privatization - Work in Phase 2 commenced in May and is still ongoing. Working with the Ministry of Agriculture and the AID representative in Riga, the project team developed a work plan for this phase which included reviewing the Latvian Government's approach and strategy for privatization, analyzing privatization legislation and making recommendations, screening agricultural subsectors for direct assistance to selected enterprises, preparing a proposal for follow-on work and identifying candidates for privatization.

During this quarter, the team reviewed privatization legislation and drafted comments for submission to the Ministry. A paper comparing privatization approaches was prepared and presented to the Minister of Agriculture and draft analysis of the Land Reform Act and Collective Farm Privatization Law were also submitted to the Ministry of Agriculture and relevant Latvian analysts. Review of agricultural services privatization legislation, however, will have to be postponed due to a delay in the government legislative process. Therefore, a second request was submitted to AID for amending the completion date of the delivery order to the end of September, 1992. This will allow time for review of this legislation which is expected to be drafted in August. We will keep AID project officers informed of progress on the legislation and how it will impact the planned work for the remainder of the delivery order.

Activities planned for the next quarter will complete objectives of the delivery order. In addition, preliminary work for preparation of the next phase of privatization assistance to the agribusiness sector, which is included in a new delivery order, will be underway.

Two of the Phase 2 team members were in Washington, D.C. during June and provided a brief presentation to AID project officers on the status of the project. At Mark Karns' request, this briefing was summarized in a memo and submitted to AID on July 27. A copy of the memo is included in the annex section of this quarterly report.

ESOP Assistance to the Office of the Ministry of Privatization in Hungary - This delivery order was awarded in May and work was begun immediately with a trip by team members from the U.S. to Budapest for a planning meeting with USAID/Budapest. Since the ESOP law was not passed until mid-June, efforts during the trip were focused on developing a work plan and preparing U.S. and Hungarian officials for a June conference to correspond with the adoption of the law. Work was also commenced on the design of a training and employee communication program.

The June conference was well attended by 1,500 representatives of government, industry, the financial community and the press. David Cowles of USAID/Budapest spoke on behalf of the U.S. Government and Itil Asmon, of the project team, delivered a presentation on international ESOP experience. The conference provided the project team a good opportunity to obtain a current assessment of the sentiments of Hungarian business leaders which enables to better plan the training and education components of the project. A questionnaire was distributed to the participants and responses are being analyzed with help from the Ministry of Finance. Results will be submitted to the Hungarian Government and USAID.

Activities next quarter will focus on finalizing a strategy and action plan for explaining the new ESOP law to the public and preparing materials which can be used by managers and employees considering ESOPs. In addition, the review of financial options for ESOPs and a draft position paper on this subject for discussion with relevant government officials will be completed.

Chemko State Enterprise Privatization Phase I - With the issue of compensation to local nationals still under review by AID, we could not proceed with projects that involved the use of local nationals. After consultation with AID project officers, the Chemko project was divided into two phases, with the first phase utilizing only expatriate consultants, so that the project could be started as quickly as possible. Phase II would be the implementation of the work plan developed in Phase I.

The level of effort in Phase I was for 25 person days of financial planners time and the scope of work included developing a detailed work plan for assistance to Chemko, based on a current up-to-date assessment of Chemko's situation and privatization status. This work was begun immediately after the delivery order was awarded in May. The project team has recently completed the draft work plan and it has been discussed with and agreed to by Chemko's management. The work plan will be submitted for review by USAID/Prague and Bratislava before it is finalized next quarter.

The issue of the need to utilize local national staff in Phase II is currently reviewed by C&L project management. Recommendations on how or whether we could proceed with Phase II before AID reaches resolution on the compensation of local nationals issue will be discussed with AID project officers before we submit a proposal for Phase II.

Delivery Order Status

Delivery Order Number	Project Name	Country of Performance	Budget	Progress
1	Monor State Farm, Phase II	Hungary	\$83,921.00	Final Report submitted to AID, Washington on February 11, 1992. Completion Voucher submitted to AID, Washington on April 4, 1992.
2	Kdl Fruit and Vegetable Processor	Czechoslovakia	\$101,600.00	Final Report submitted to AID, Washington on November 19, 1991. Completion Voucher submitted to AID, Washington on May 21, 1992.
3	TMS Hdice/Silver Machine, S.A.	Czechoslovakia	\$82,430.00	Final Report submitted to AID, Washington, on January 30, 1992. Completion Voucher submitted to AID, Washington on May 21, 1992. Written approval for level of effort change is still outstanding.
4	Privatization Latvia	Latvia	\$384,787.00	Delivery Order amended on April 29, to revise Statement of Work for assistance to the Ministry of Agriculture and to extend date of completion to July 31. Due to a delay in drafting of privatization law, a second amendment to extend the completion date to September 30 was submitted and approved by AID on July 30.
5	Bulgaria - General Privatization Advisory	Bulgaria	\$37,083.00	Final Report submitted to AID, Washington on February 12, 1992.
6	Huta Warszawa Business Valuation	Poland	\$106,553.00	Final report in English submitted to AID, Washington on January 24, 1992. Final report in Polish submitted to Ministry of Industry and Huta Warszawa on January 31, 1992, and to AID Warsaw on June 11, 1992. Completion Voucher submitted to AID, Washington on May 21, 1992.
7	ESOP	Hungary	\$423,758.00	Delivery Order signed May 4, 1992. Work is in progress.
8	Chemko State Enterprise Privatization	Czechoslovakia	\$29,686.00	Delivery Order signed May 22, 1992. Work is in progress.

Delivery Order No. 1

Monor State Farm Phase II

Country of Performance : Hungary
Budget : \$83,921

**Team Members
& Level of Effort**

Billed to AID	:	V. Morobito, Capital/Money Market	21	days
		G. Ovari, Attorney	14	days
		P. Toth, Economist	10	days
		C. Ruggeri, Financial Planner	12	days
		I. Asmon, Financial Planner	15	days
		C. Clarke, Accountant/Auditor	3	days
		R. Benjamin, Economist	<u>9</u>	<u>days</u>
		Total	84	days

Scope:

The objective of this Delivery Order is to provide technical assistance to implement specific deliverables identified in Phase I of Monor State Farm as essential to its rapid and successful privatization. The deliverables will set precedents in ownership, in employee stock ownership of rural based agro-enterprises, and in investment conditions in the agribusiness sector.

Status:

Work on this project has been completed. The final report was submitted to AID, Washington February 12, 1992, and the completion voucher was submitted April 4, 1992. The proposal for Phase III is under revision and discussion with the Hungarian Government and USAID Budapest.

Products and Deliverables:

1. A draft land-lease purchase option mechanism acceptable to the Ministry of Agriculture (MOA), State Property Agency (SPA), and compensation boards;
2. The outline and structure of an Employee Stock Ownership Plan (ESOP) approved by the enterprise council and employees, and consistent with new ESOP legislation and financial institutions in Hungary;

3. Submission of official legal documents for privatization including a Transformation Plan as required by the SPA and MOA;
4. A profile of prospective investors including Hungarian nationals and foreign investors acceptable to the MOA and SPA;
5. A selling memorandum acceptable to the enterprise council, employees, MOA, and SPA;
6. A work plan for implementing Phase III; and
7. Final Report to AID.

Activities this Quarter:

Completion Voucher submitted to AID April 4, 1992.

Delivery Order No. 2

Koli Fruit and Vegetable Processor

Country of Performance : Czechoslovakia
Budget : \$101,600

**Team Members
& Level of Effort**

Billed to AID	:	M. Graham, Financial Planner	13	days
		K. Eisen, Financial Planner	20	days
		M. Svobodva, Financial Planner	4	days
		S. Myslil, Attorney	4	days
		H. Mannion, Marketing/Export Promo.	18	days
		R. Vilice, PDQA	18	days
		H. Cadanova, Accountant	7	days
		E. Mancini, Accountant	5	days
		E. Drayton, Accountant	<u>5</u>	<u>days</u>
		Total	94	days

Scope:

The objectives of this Delivery Order were two-fold: 1) to assist management of Koli with developing a privatization plan acceptable to its management, the relevant agencies of the Czech and Slovak Federal Republic (CSFR), and arms-length investors; 2) to provide the Czech and Slovak American Enterprise Fund (CSAEF) with sufficient information regarding Koli to enable CSAEF to make a determination on whether it should participate in the privatization of the enterprise.

Status:

Work on this project has been completed and the final report was submitted to AID, Washington on November 19, 1991. A completion voucher for this Delivery Order was submitted on May 21, 1992.

Products and Deliverables:

1. Product and market assessment;
2. Evaluation of production plants and processes;

3. Restatement of historical financial information in accordance with international accounting standards;
4. Development of a suggested ownership structure for privatization;
5. Assessment of future prospects;
6. Assessment of risk factors;
7. Business valuation; and
8. Final Report to AID, submitted November 19, 1991.

Activities this Quarter:

Completion voucher was submitted to AID May 21, 1992.

Delivery Order No. 3

TMS Holice/Sliver Machine S.A.

Country of Performance : Czechoslovakia
Budget : \$82,430

**Team Members
& Level of Effort**

Billed to AID	:	J. Gilbert, Financial Planner	19.5 days
		M. Pratt, Accountant	18 days
		S. Nicholas, Marketing/Export Promo.	14 days
		P. Pease, PDQA	7 days
		G. Farkas, Financial Planner	14 days
		S. Myslil, Attorney	<u>0.5 days</u>

Total 73 days

Scope:

The original objectives for this Delivery Order were to assist management of TMS Holice to develop a privatization plan and to provide the Czech and Slovak American Enterprise Fund (CSAEF) with sufficient information regarding TMS Holice to enable CSAEF to make a determination on whether it should participate in the privatization of the enterprise.

However, upon the arrival of our team members in Prague, assistance to TMS Holice was halted by its management due to an unexpected restitution claim. CSAEF later substituted TMS Holice with another enterprise, Sliver Machine, S.A and requested the original objectives be carried out for Sliver.

Status:

Work on this project has been completed. A draft report was submitted to CSAEF on November 15, 1991, and the final report was submitted to AID, Washington on January 30, 1992. A completion voucher for this Delivery Order was submitted to AID May 21, 1992.

Products and Deliverables:

1. U.S. GAAP proforma projected financial statements for Sliver;
2. A market/technical and valuation report; and
3. Final Report to AID, submitted January 30, 1992.

Activities this Quarter:

Completion voucher was submitted to AID May 21, 1992.

Delivery Order No. 4

Privatization Latvia - Phase I

Country of Performance : Latvia
Budget for Delivery Order : \$384,787

Team Members & Level of Effort

Billed to AID :	M. Graham, Financial Planner	24	days
	G. Plato, Financial Planner	33	days
	V. Morabito, Financial Planner	4	days
	R. Muir, Financial Planner	5	days
	R. Rourke, Financial Planner	2	days
	D. Stafford, Financial Planner	19	days
	S. Robertson, Financial Planner	17	days
	M. Blausbergs, Attorney	10.5	days
	J. Cahn, Attorney	22.5	days
	F. Augusti, Attorney	0.9	days
	J. Shopland, Economist	25	days
	A. Lomazzi, Economist	8	days
	D. Lane, Economist	22	days
	T. Parr, Capital/Money Market	<u>14</u>	<u>days</u>

Total as of March 31 207.65 days

Scope:

The objective of this Delivery Order is to assist the Republic of Latvia with developing a privatization strategy.

Status:

Work in the first phase of this delivery order included an assessment of the environment for privatization in Latvia, which was completed in November 1991, and industry reviews for screening privatization candidates in four sectors. A trip report on the first meetings with Latvian officials was submitted to AID at the end of November and an interim report with sector overviews and preliminary data on privatization candidates was submitted to AID and the Government of Latvia at the end of March.

At AID's request, C&L participated in meetings in Latvia with AID representatives during the

March 25-30 trip. From these meetings, the remainder of work under this delivery order was finalized with the Ministry of Agriculture. AID has modified this delivery order to provide two extensions of the period of performance from February 15, 1992 to September 30, 1992.

Per above discussions with AID and the Ministry of Agriculture, C&L is providing technical advisors to assist the Ministry in formulating a privatization strategy for the agro-industry sector. The advisors will work with the Ministry and Latvia's economic institutes to review current policies and regulations, recommend a coordinated government approach to privatizing the sector, and identify four to six agriculture subsectors for which concentrated analysis will be performed in follow-up work. See Phase II summary for additional project information.

A TOR with a new scope of work for follow-on privatization and technical assistance to the Ministry of Agriculture was prepared by AID and is currently in signing for a delivery order.

Products and Deliverables

Phase I (All activities prior to March 31)

1. An overview of privatization in Latvia;
2. An assessment of the current legal framework and issues affecting privatization;
3. An overview of the current financial/capital market;
4. Agreement with the Deputy Minister of the Ministry of Economic Reform to conduct an inventory of three to four key sectors and to develop enterprise profiles to determine the timing and suitability for privatization;
5. Interim report on work completed through January 1992, submitted to AID March 26, 1992. This report included:
 - Overview of four sectors identified by the Ministry of Economic Reform for privatization: construction, sea, agriculture, and industry;
 - Review of 132 enterprises in the four sectors to select candidates for privatization assistance;
 - Profiles for selected enterprises in the four sectors; and
6. Trip to Latvia with AID representatives to meet with the Ministry of Agriculture.

Phase II

See Phase II Summary for additional project information.

Delivery Order No. 4

Privatization Latvia - Phase Two

Country of Performance : Latvia

**Budget for Remaining Work
as Redefined by AID** : \$190,116.00

**Team Members
& Level of Effort
Utilized since**

DO Amendment	:	R. Anderson, Financial Planner	13	days
		V. Morabito, Financial Planner	22	days
		C. Fritsch, Financial Planner	25	days
		N. Melngailis, Economist	22	days
Total			82	days

Scope:

Per discussions with AID and the Ministry of Agriculture, C&L will provide technical advisors to assist the Ministry in formulating a privatization strategy for the agro-industry sector. The advisors will work with the Ministry and Latvia's economic institutes to review current policies and regulations, recommend a coordinated government approach to privatizing the sector, and identify four to six agriculture subsectors for which concentrated analysis will be performed in follow-up work.

Status:

The project team commenced Phase II work in May when they arrived in Latvia and began to develop a work plan. They reviewed the Latvian Government's privatization strategy and legislation. The team also presented a paper comparing privatization approaches to the Ministry of Agriculture. A draft analysis was prepared for the Land Reform Act and Collective Farm Privatization Act and submitted to the Ministry of Agriculture and relevant Latvian analysts for review, and a briefing was held with AID Washington. The project is currently ongoing; a review of agricultural services privatization legislation has not been started because of a delay in the government legislative process. The delivery order has been amended to last until September 30, 1992.

Activities This Quarter:

Initial contacts were made with the Ministry of Agriculture, USAID Riga, farmers, and agribusinesses. Agricultural and agribusiness economic and statistical data were collected, and the workplan was developed for current phase activities. Several meetings were held with senior Ministry of Agriculture officials to discuss the government approach to privatization. The team met with AID Project Officers Mark Karns and Mary Beth Allen in Washington, DC on June 29 to discuss project to date. A summary from that meeting was requested by Mark Karns and was sent to his office on July 27. A copy is attached as Annex A: Summary of June 29 Briefing Requested by Project Officer Mark Karns.

Activities Next Quarter:

1. Completion of identification of four sectors;
2. Preliminary privatization strategy for dairy processing sector, meat processing, grain processing and agricultural services will be developed;
3. List of candidate firms for privatization will be developed and priority ranking will be made;
4. Macro-level analysis of agriculture and agribusiness price, taxation, land privatization, trade, credit, corporate governance, input supplies, labor and employment will be completed; and
5. Determine terms and conditions and acceptable model for the formation of dairy producers associations.

Delivery Order No. 5

Bulgaria - General Privatization Advisory

Country of Performance : Bulgaria
Budget : \$37,083

**Team Members
& Level of Effort**

Billed to AID	:	S. Gerard, Financial Planner	12.5 days
		D. Parish, Financial Planner	6 days
		C. Ruggeri, Financial Planner	<u>16.5 days</u>
		Total	35 days

Scope:

The objective of this Delivery Order was to provide technical assistance to educate the Privatization Agency of Bulgaria on the mechanics of contemporary financial concepts related to privatization and to design a major project to provide focused comprehensive assistance to the Privatization Agency in these areas.

Status:

The trip to Bulgaria was completed in November 1991. A scope of work was developed and submitted to the AID representative in Bulgaria in November. A final trip report with a revised scope of work was submitted to AID, Washington February 12, 1992. A completion voucher for this Delivery Order will be submitted pending Coopers & Lybrand's confirmation of total accrued costs.

Products and Deliverables:

1. Provision of technical advice and counsel to the chief officers of Bulgaria's Privatization agency in the areas of business valuation, bankruptcy, and liquidations;
2. Development of a scope of work for follow-on consultation for a focused privatization plan for the country; and
3. Final trip report to AID, submitted February 12, 1992.

Actions Pending:

Submission of completion voucher to AID.

Delivery Order No. 6

Huta Warszawa Business Valuation

Country of Performance : Poland
Budget : \$106,553

**Team Members
& Level of Effort**

Billed to AID	:	M. Graham, Financial Planner	9.5	days
		H. Slayen, Financial Planner	.5	days
		K. Eisen, Financial Planner	17	days
		K. Scott, Financial Planner	17	days
		L. Rickard, Financial Planner	17	days
		A. Thomas, Financial Planner	17	days
		P. Melling, Financial Planner	5	days
		H. Winiarz, Financial Planner	4	days
		G. Zielinski, Financial Planner	2	days
		G. Skrzyszewski, Accountant	<u>3</u>	<u>days</u>
		Total	92	days

Scope:

The original objective of this Delivery Order was to complete a business valuation of Huta Warszawa, a steel mill in Poland. The purpose of the valuation was to confirm that the value placed on the assets was reasonable in the establishment of a joint venture between the Government of Poland and Lucchini of Italy. Following the team's arrival in Poland and discussions with the IDA, Huta Warszawa, and AID, the scope was changed to providing an indication of potential value of the proposed operating joint venture with Lucchini.

Status:

Work on this project has been completed. The final report in English was submitted to AID, Washington on January 24, 1992. The report in Polish was submitted to the Ministry of Industry and Huta Warszawa on January 31, 1992, and to AID, Warsaw on June 11, 1992. A completion voucher for this Delivery Order was submitted on May 21, 1992.

Products and Deliverables:

1. Visits to the central office and plant of Huta;

2. Discussions with key management concerning the business operations, market strategy, financial conditions and future prospects;
3. An analysis of the Company's historical financial performance;
4. An analysis of projections for future business operations provided in a feasibility study completed by McLellan and Partners, Ltd, subsequently corroborated by Company management;
5. An analysis of historical and expected trends in the steel industry;
6. Translation of Polish financial statements to "Western style" format;
7. Research on the Polish economy and the steel industry in Poland;
8. A valuation sensitivity analysis;
9. Final Report in English to AID Washington, submitted January 24, 1992;
10. Final Report in Polish to the Ministry of Industry and Huta Warszawa on January 31, 1992, and AID Poland on June 11, 1992; and
11. Completion voucher, submitted to AID on May 21, 1992.

Activities this Quarter:

C&L Warsaw's submission of the final report in Polish to the Ministry of Industry and Huta Warszawa on January 31 and to AID Poland on June 11, 1992.

Submitted the completion voucher to AID May 21, 1992.

Delivery Order No. 7

Building in the Hungarian Ministry of Privatization Capabilities to Privatize through Employee Ownership

Country of Performance : Hungary
Budget : \$423,758

**Team Members
& Level of Effort
Utilized**

I. Asmon, Financial Planner	21	days
C. Ruggeri, Financial Planner	9	days
P. Gehrlich, Financial Planner		days
V. Morobito, Financial Planner	4	days
R. Schweighofer, Financial Planner		days
C. Sermon, Financial Planner		days
G. Emrich, Mgmt/Labor Relations Spec.		days
J. Foldes, Mgmt/Labor Relations Spec.		days
R. Schott, Mgmt/Labor Relations Spec.	8	days
B. Cosloy, Attorney	9	days
R. Ludwig, Attorney		days
Total	51	days

Scope:

The objective of the technical assistance is to provide the office of the Minister for Privatization with support in implementing a significant employee ownership program as a component of privatization.

Status:

Funding for the Hungarian ESOP project was approved in May and the team's first trip to meet with the USAID representatives in Budapest took place the last week in May. ESOP legislation was not passed until mid-June and, therefore, our efforts during this trip focused on working out individual team member responsibilities and a work plan. The team also worked with US and Hungarian government officials to prepare them for a conference scheduled for June 19 to correspond with the adoption of the law. The project team commenced work on the design of a training and employee communication program. They decided not to spend a lot of time on these issues until the law was passed.

Activities this Quarter:

Several activities were in process at the end of June, including preparation of a training strategy, training materials, a review of financing options, and a review of institutional framework.

The June 19th conference was attended by 1,500 representatives of government, industry, the financial community and the press. David Cowles of USAID Budapest spoke on behalf of the US government and Itil Asmon of the project team delivered a presentation on international ESOP experience. The conference presented us with an excellent opportunity to "take the pulse" of the sentiments of Hungarian business leaders so that we can better focus the training and education process. We prepared a questionnaire which was distributed to the participants. The responses are currently being analyzed with help from the Ministry of Finance. Both US AID and the Hungarian government are keen to learn the results of the questionnaire.

Activities Scheduled for Next Quarter:

The primary focus of activities through the end of September is to finalize a strategy and action plan explaining the new ESOP law to the public and prepare materials which can be used by managers and employees considering ESOPs. In addition, we endeavor to complete our review of financing options for ESOPs and draft a position paper on this subject for discussion with relevant government officials.

Delivery Order No. 8

Chemko State Enterprise Privatization

Country of Performance : Czechoslovakia
Budget : \$29,686

**Team Members
& Level of Effort**

Utilized	:	Jeremy Drew, Financial Planner	5 days
		John Cromack, Financial Planner	9 days
		Catherine Drayton, Financial Planner	6 days
		J.R. Friday, Financial Planner	5 days
		Total	25 days

Scope:

The objective of this Delivery Order is to develop a detailed work plan for the privatization technical assistance for the Chemko State Enterprise, enabling an up-to-date assessment of its current situation and needs.

Status:

Work has been completed to develop a detailed workplan for Chemko privatization assistance. A draft project plan has been discussed and agreed to with Chemko management. The document will be issued to USAID representatives in Prague and Bratislava the week of July 27. A Slovak language version will be issued to Chemko and the Slovak Ministry of Industry the week of August 3.

Activities This Quarter:

The project team traveled to the Slovak Republic in May for a work site visit. After an assessment of Chemko's current position, the team developed a statement of work. A draft project plan has been completed and presented to Chemko management and has received approval.

Activities Next Quarter:

John Cromack plans to visit Pat Lerner in Bratislava the week of August 3 to discuss the project plan. A draft plan will be finalized and submitted to AID.

SECTION III

Proposals/Concepts Submitted

III. PROPOSALS/CONCEPTS SUBMITTED

As reported in the last quarterly report, the consideration of any projects involving local nationals is on hold pending AID's resolution of the issue of compensation for local nationals. While several of the projects we have proposed do involve local national staff and are therefore on hold, we also have a few that do not and are currently under discussion with AID for funding this fiscal year.

As of the end of July, we are about to be awarded a delivery order for privatization assistance to agribusiness enterprises in Latvia as follow-on work to Phase 2 of delivery order #4, Latvia Privatization Assistance. In addition, we have also included in this section a task order issued in July by AID, on a competitive bid basis, for the technical assistance in the banking sector to the Government of Hungary. Award of this is still pending decision by AID.

The status of these concepts/proposals are reported in the chart on pages III-3 to 6 and are summarized by country below:

Bulgaria

- **Assistance to the Privatization Agency, Phase II** - replaced by chemical sector privatization screening study for Ministry of Industry
- **Chemical Sector Study/Sector Overview and Screening for Privatization Candidate** - under discussion with AID for possible revision of scope of work and funding this fiscal year
- **Four Agriculture Concepts** - (all are on hold for consideration next fiscal year)
 - SOFIA Ministry of Industry Privatization (proposal was submitted in June but there is no funding for this fiscal year)
 - FAMOUS Agricultural Coops Reorganization
 - TRAMS Machine Tractor Stations
 - RESCUE Privatization of Seven Agribusiness Coops

Czech and Slovak Republics

- **Chemko State Enterprise Privatization, Phase II** - under review by project management team for need to utilize local national staff in this phase; if local nationals are needed, project will most likely be on hold pending AID's decision on issue
- **Slovak Ministry of Economy/Privatization Assistance to Three Enterprises** - on hold pending AID's decision on local nationals but project is not likely to be funded this fiscal year
- **Land Use Management, Property Title and Mortgage Financing Infrastructure** - no response by AID; assume there is no funding this year

Hungary

- **Monor Phase III** - replaced by COMPASS
- **COMPASS** (Consulting to the Ministry of Privatization-Agricultural Support Project) - proposal has been submitted and AID is currently reviewing for delivery order to be awarded this fiscal year
- **Assistance to Banking Sector** - TOR issued in July by AID for competitive bid; AID to decide on winning proposal
- **HEART** - per AID, other projects have taken priority; no funding this year

Latvia

- **Agribusiness Privatization** - delivery order to be awarded end of July

Central and Eastern Europe

- **Environmental Impediments to Privatization** - no further response from AID; assume no funding

Project Concepts Status

Country of Performance	Project Concept Name	Description	Proposed Budget	Date of Initial Submission	Status
Bulgaria	Bugaria Phase II	Development of a focused privatization plan based on information gained on Delivery Order No. 5, Bulgaria - General Advisory. Replaced by Chemical Sector Project.	\$341,000	Nov-91	Revised scope of work was submitted to AID as part of report for DO #5. AID has indicated that project would not likely be funded prior to passage of privatization legislation.
	Bulgaria Chemical Sector	At the request of the Ministry of Industry, overview of the chemical sector to screen potential privatization candidates. Statement of Work under review for revision to more direct privatization assistance to more specific enterprises.		03-Mar-92	Proposal submitted to AID Bulgaria and Washington 25 June. Currently under revision of Statement of Work.
	SOFIA Ministry of Industry Privatization	State-Owned Factories into Agribusiness: assisting the enterprises of the breweries, wineries and oil extraction subsectors (which are under the aegis of the Ministry of Industry) to become privately-owned, economically viable entities.		Feb-92	Proposal Submitted to AID 25 June.
	FAMOUS Agri. Co-ops Reorganization	Forming Agricultural Market-Oriented Units for Specialties; assistance to the "wholesale" reorganization of many of Bulgaria's 1300 state-created agricultural cooperatives into voluntary cooperatives, limited-liability companies or		Feb-92	Concept submitted to AID Bulgaria and Washington DC for consideration under the next fiscal year's funding. No new activity.
	TRAMS Machine Tractor Stations	Transformation and Restructuring of Agricultural Machinery Stations: furnishing technical assistance necessary for privatizing state-owned machine tractor stations and for creating in Bulgaria the other conditions necessary for an adequate supply of agricultural machinery services.		Feb-92	Concept submitted to AID Bulgaria and Washington DC for consideration under the next fiscal year's funding. No new activity.
	RESCUE - 7 Agribusiness Privatization	Restructuring the Cooperative Union's Enterprises: helping the Central Cooperative Union (CCU) to privatize its common assets (seven agribusinesses) to the member coops.		Feb-92	Concept submitted to AID Bulgaria and Washington DC for consideration under the next fiscal year's funding. No new activity.

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Project Concepts Status

Country of Performance	Project Concept Name	Description	Proposed Budget	Date of Initial Submission	Status
Czechoslovakia	Cherko, Phase II	Implementation of detailed work plan developed in Cherko Phase I, Delivery Order #8.	\$497,155	12-May-92	Work plan will be submitted to AID as a deliverable under D.O. #8. Currently under review by project management team for need to utilize local national staff in this phase; if local nationals are needed, project will most likely be on hold pending AID's decision on the issue.
	Slovak MOE Assistance	Technical assistance in privatization in Slovakia for three enterprises identified by the Ministry of Economy.	\$1,308,100	05-Nov-91	On hold pending AID's decision on local nationals but project is not likely to be funded this fiscal year.
	Land Use Management, Property Title and Mortgage Financing Infrastructure	Provision of technical assistance to the CEE governments in developing a regulatory and administrative framework for land use management, property ownership, and mortgage financing. Work is proposed in two phases, Preliminary Research/Assessment & Analysis, using Czechoslovakia as a model template.	\$575,000	26-Sep-91	No response by AID. Assume no funding is available this year. A second copy was sent to C. Keller 11Feb92. Awaiting AID response.

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Project Concepts Status

Country of Performance	Project Concept Name	Description	Proposed Budget	Date of Initial Submission	Status
Hungary	Monor Phase III	Completion of privatization of Monor State Farm by the sale of the farm. Project is replaced by COMPASS.	\$450,400	10-Jan-91	Scope of work is under revision and discussion with Hungarian government and AID Budapest.
	COMPASS	Consulting to the Ministry of Privatization - Agricultural Support Project.	\$299,730	25-Jul-92	Proposal has been submitted and AID is currently reviewing for delivery order to be awarded this fiscal year.
	Assistance to Banking Sector	Restructuring of commercial banking operations.		22-Jul-92	TOR issued in July by AID for competitive bid; AID to decide on winning proposal.
	HEART	Technical assistance to the MOA and SPA for transformation of the Hungarian state farm subsector and establishing precedents for transformation of the co-op, agro-processing and agro-distribution subsectors.		29-Aug-91	Per AID, other projects have taken priority; no funding this year.

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Project Concepts Status

Country of Performance	Project Concept Name	Description	Proposed Budget	Date of Initial Submission	Status
Latvia	Latvia Agribusiness Privatization	TOR continuation of Latvia Privatization Delivery Order #4. General Privatization Assistance to the Ministry of Agriculture, including sector screening privatization of an individual enterprise.			Awarded as Delivery Order #9 30 July 82.
CEE	Environmental Impediments	Study on environmental impediments to privatization	\$500,000	26-Sep-91	No further response from AID; assume no funding.

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ANNEX A

Summary of June 29 Briefing

Requested by Project Officer Mark Karns

LATVIA COUNTRY BRIEFING

June 29, 1992¹

This summary is based on field experience in Latvia from May 14 through June 19, 1992.

1. Latvian approach to privatization: A decentralized approach is followed. The Ministry of Economic Reform provides oversight, individual line ministries are responsible for implementation. Privatization Commissions are appointed with responsibility over a designated enterprise or industry sub-sector
2. Farm land privatization: Private use rights to land have been assigned to individuals, at no cost, as of June 1991. Distribution is based on two principles: a) restitution to former owners (prior to 1940) or their heirs, and b) accumulated "sweat equity" (based on labor earnings on the collective or state farms since their formation). Legislation is being developed to transfer free and clear ownership titles in the near future. Under this process, land ownership patterns will be similar to those prevailing in 1940. Most new farms have between 15 and 50 ha. of crop land. 50 ha. of cultivatable land is the maximum distributed under the privatization process.
3. Non-land farm asset privatization: All non-land farm assets for each collective and state farm have been valued. Share certificates have been issued to current and former employees (sweat equity principles) and to former asset owners (restitution of former property rights). Machinery have been grouped into semi-economic units (tractor, plow, harvesting equipment etc.) and sold to individual or group holders of share certificates. Share holders are encouraged to sell or swap shares, thus developing an informal market.
4. Breakup of collective and state farms: All collective and state farms are given transitional joint stock company status. They can rent or lease land previously distributed to individuals but are prohibited by law from owning land. This provides an incentive for individual private farm land and farm ownership to develop. It is estimated that some 40,000 private farms existed by mid 1992. It is expected that about 60,000 will exist by the end of 1992 and up to 100,000 after 1993.
5. Legislation to privatize processing and agro-service industries: Sub-sector legislation to privatize agro-processing and agro-service industries is moving through Parliament. The agro-processing law is in its third reading with mid July as the target date for passage. The agro-service legislation has been through it's first reading. The C&L/Chemonics team is working with Latvian professionals in the Agrarian Economics Institute and the Academy of Sciences responsible for drafting these laws and have provided input. The basic decentralized approach

¹ Prepared by C. Fritsch and N. Melngailis

followed for privatizing collective and state farms is being followed. Once enacted, the legislation provides the basis within which enterprise privatization takes place.

6. Status of dairy processing industry: The dairy processing industry will be the first agro-industry to be privatized. The C&L /Chemonics team has begun initial analysis of the ten sub-sector groupings slated to be privatized. It is expected that the initial sector analysis will be completed by the end of September 1992. In general, the industry structure has changed little since the mid 1960's. Since nationalization in the 1940s, there have been few, if any, plant consolidations, and little, if any, work force consolidation. Consequently, equipment is mostly old, the industry is inefficient and has considerable excess employment. Some central plants can be transformed into reasonably efficient private sector operations but many will have to be closed, and staff laid off if a competitive industry is to be established. Short term returns to investment are quite low in this industry suggesting minimal interest from foreign investors. There are political factions which strongly oppose major foreign investment, citing the fact that the industry has for many years been the major national earner of foreign currency.
7. Price distortions from market liberalization: Price distortions from market liberalization are quite severe, affecting both farmers and wage earners. Between the first quarter of 1991 and the first quarter of 1992, average wage monthly earnings rose about 3.3 times while producer prices for dairy products rose about 11 times. Basic grains rose about 4 times. Oil and gas products, and farm machinery are close to world level prices. They increased more than 22 times over the period.
8. Deteriorating terms of trade for agricultural exports: The major market for dairy products has been the former Soviet Union and now the Russian state. Under prevailing barter arrangements the value of Latvian dairy products traded with Russia has been reduced by half since the first quarter of 1991 as Russia charges world prices for petroleum products exported. Surpluses, subsidy policies and product dumping practices followed by Western countries makes Latvian dairy products non-competitive in western markets.
9. Collapse of state banking and trading systems: Centralized state trading and banking mechanisms have collapsed and private sector trading and banking institutions have not yet been established. Consequently, funds from state trading stores selling dairy products are not being returned to the state banking system and processing firms lack alternative mechanisms to collect moneys owed them. As a result, farmers have not being paid since May for their products sold through the state trading network.
10. Short term problems faced by Latvian agriculture: Latvia has moved more quickly than any eastern European country in effectively privatizing farm land and collective farms. Markets have been liberalized and privatization of specific agro-industry sub-sectors is imminent. Price

disequilibria prevails as former stable (but economically irrational) price levels are set free and a new set of price equilibria, based on free market principles, is not yet established. Western banking and corporate legal institutions are not yet in place as substitutes for the previous set of socialist institutions. The following problems need to be addressed:

- lack of short and long term credit availability to accommodate the fast pace of farm privatizations;
- deteriorating terms of trade with Russia and inability to compete in western markets with traditional agricultural exports;
- rapid increase in costs of imported farm inputs;
- strong farmer demand for government subsidies to make up losses from breakdown in state trading system and rapid price increases in purchased inputs
- grain shortages -- due to breakup of former trading patterns -- may reduce availability for dairy and meat industries as human population needs are met first.