

P13-ABE-876

79821

**QUARTERLY PROGRAM PERFORMANCE REPORT
THIRD QUARTER 1992**

INTERNATIONAL EXECUTIVE SERVICE CORPS

**CENTRAL AND EASTERN EUROPE
AND THE BALTIC NATIONS**

COOPERATIVE AGREEMENT NO. EUR-0023-A-00-1002-00

I. EXECUTIVE SUMMARY

IESC'S Central and Eastern European program at the end of the third quarter 1992 covers Albania, Bulgaria, Croatia, the Czech and Slovak Federal Republic, Estonia, Hungary, Latvia, Lithuania, Poland and Romania. As anticipated in the second quarter, IESC opened an office in Vilnius, Lithuania in July 1992.

IESC activity in the territory of the former Yugoslavia has not resumed since it was halted on December 11, 1991. As of September 30th 1992, the office in Be'grade has been closed down and operations in Yugoslavia terminated. In the CSFR, the satellite office in Brno has also been closed down as of September 30th.

In August, IESC held its quadrennial Country Director's conference here in Stamford. Eleven Country Directors from Central and Eastern Europe attended and several AID representatives from Washington also attended. During the conference the Country Directors participated in several regional, Central and Eastern Europe meetings and discussed upcoming activities, specifically plans for Public Administration and Trade and Investment Services.

The Defense Conversion Program has firmly been put in place, evidence of IESC's flexibility and ability to respond quickly to the various needs in Central and Eastern Europe. Two IESC teams of advisors have established themselves in Warsaw and Bratislava, and have started detailed technical assistance projects with many of the defense industries located in their areas of assignment. Already one transaction has been recorded in Bratislava and there are several more potential transactions being discussed.

According to current available figures, IESC VE's completed 61 projects (TA and TIS) in Central and Eastern Europe and the Baltics during the third quarter 1992. The total number of completed projects since the inception of the program is 420. The revised figures for projects completed in the second quarter is 105 and the total number of projects completed at the end of the second quarter was 359. In addition, there are currently 84 projects in the recruitment or active stages in the region. (This figure does not include the 101 projects that are on hold in Croatia and Yugoslavia)

IESC's Trade and Investment Services group is actively pursuing leads that will result in transactions (Joint ventures, co-ventures) in the region. These trade and investment leads are the result of the programming efforts of the country-specific Project Officers in Stamford, and their counterparts in IESC's offices in Central and Eastern Europe.

Since program activities began, eighteen transactions (joint venture, co-venture) have been completed including six during this quarter. Nine sector surveys have also been completed this year in such diverse areas as food processing and printing distribution.

Thirty-five ABLE studies, providing valuable market information to C&EE companies, have also been performed by IESC this year. Fifteen of these were completed in the third quarter.

II. INTRODUCTION

This program performance report is inclusive of all IESC program activity in Central and Eastern Europe and the Baltics from July 1st, 1992, through September 30th, 1992. Section III is a description of the financial considerations for the quarter. Section IV describes several typical Technical Assistance projects that took place during the quarter. Section V gives an overview of Trade and Investment Services activity and section VI gives a similar overview of Defense Conversion activity in the region, followed by a conclusion to the report.

Attachments include 1) a chart of Funding Obligations and Expenditures and 2) project summaries for Technical Assistance projects completed during previous quarters.

III. FINANCIAL CONSIDERATIONS

At the end of calender year 1991, \$1,679,000 of the obligated amount for the period January 1991 to February 20, 1992, was remaining. On December 31, 1991, IESC requested additional funding of \$7,985,000 to cover the period January 1, 1992, to September 30, 1992.

In March 1992, AID obligated \$5,355,000 but extended the period of the newly obligated amount to cover February 21, 1992, to February 20, 1993.

Revised expenses during the first quarter of 1992 totalled \$1,150,000. During the second quarter revised expenses totalled \$1,837,000.

During the third quarter of 1992 estimated expenses totalled \$1,974,000. These include field support at \$285,000, Country Offices at \$385,000 and TA and TIS projects at \$1,075,000. Estimated expenses for ABLE consulting reports totalled \$30,000.

An amount of \$1,289,000 was promised in August 1992, and is included in the estimated balance remaining of \$3,311,700. However, when considering actual obligations and our current rate of approximately \$2,000,000 expenditures per quarter, we expect to run out of funds before the end of 1992 unless the \$1,289,000 gets obligated.

Attachment 1 shows the obligated amount and the expenditures to the end of the third quarter, 1992. Included in Attachment 1 is Amendment 4 for \$1,200,000, for Defense Conversion. The chart shows totals both excluding and including Defense Conversion.

IV. PROGRAM ACTIVITY - Technical Assistance

IESC Technical Assistance projects continued to grow in number during the third quarter, with 59 projects completed in a wide range of industrial and functional areas. Examples of areas in which IESC provided assistance include marketing, privatization, tourism, finance and banking assistance. We include here examples from three countries, and numerous project summaries are enclosed as Attachment 2.

HUNGARY: Technical Assistance to Local Government.

The newly elected administrative body of the township of Nagykovacsi (population 3500) asked IESC for short term assistance with an analysis of present activities and suggestions for increasing the revenue base and designing an effective organizational system for local government offices, management and administrative activities.

The VE, after extensive analysis of the local conditions, issued a final report recommending action and outlining specific options in a variety of areas including: identifying new and improved revenue sources, organizational structure, budgeting, intergovernmental relations and long-term goals. The Country Director, Agnes Budai noted that "VE Cornett really did a great job...The client feels that the implementation of the VE's recommendations will be very beneficial... Experiences of this project are likely to be published, and could serve as a model for other local communities."

CSFR: Banking/Business Plan Development.

The client, a joint stock company intends to become the first fully private bank in CSFR and plans to offer credit to small, emerging entrepreneurs. Responding to the clients request, the VE trained the bank officials on business plan development; he then helped to develop, write and print an elaborate business plan for the company. The VE also reviewed and elaborated on the nature of banking in the U.S. After the project, the assistant Country Director commented, "Our client learned a lot of important things..... The banking sphere is in very bad condition, therefore this kind of project is very important."

LITHUANIA: Product Diversification for Fertilizer manufacturer.

The client, a large manufacturer of Nitrogen fertilizers undergoing privatization, requested technical assistance in the production of

house paints. By diversifying production into house paints, the client hopes to counteract anticipated supply problems with raw materials from the former Soviet Union.

VE Satas, an experienced chemical engineer, observed on arrival that the company had a good market niche for diversification into more complex organic chemical products. The VE found that they could use the same equipment to manufacture water-based outdoor paints that they presently use to manufacture polyvinyl acetate emulsion. Consequently, he introduced the necessary relevant acrylic polymerization technology, and discussed the emulsion polymerization process in detail. The VE also provided other advice including recommendations to purchase cheaper U.S. equipment over the more expensive Western European equipment and recommendations on the manufacture of polyester for fiber manufacturing. In addition, the VE introduced the company to a Swiss colleague interested in purchasing large quantities of their products.

After the project, the client commented, " VE Satas was very helpful to us The discussions and information on acrylic polymerization were useful, and we expect to implement this process in our plant."

V. PROGRAM ACTIVITY - Trade and Investment Services

IESC's Trade and Investment Service Group for Central and Eastern Europe provides a variety of services and has developed a wide range of clients both in the U.S. and in Eastern Europe. Program activities used to date to generate clients both in the U.S. and in the various C&EE countries include attendance at trade shows, promotion activities in the U.S., cooperation with various intermediary groups in the country, debriefing IESC Volunteer Executives returning from projects in C&EE, and efforts by the resident Country Director and TIS Country Director assistant to promote TIS services in the country.

As mentioned in the executive summary, eighteen transactions have taken place since the inception of the program. This quarter, transactions include, a fast food joint venture agreement in Poland, a magnetic heads production joint venture in Bulgaria and a joint venture agreement between Raytheon and ZTS Martin in the CSFR to manufacture heavy-duty road construction equipment.

In addition, nine sector surveys and thirty five ABLE studies have also been completed since the beginning of the program. Project Officers in Stamford and their counterparts in C&EE have used information from the ABLE reports and sector surveys to generate clients and eventually facilitate transactions. A substantial portion of the leads however, have been identified by IESC Volunteer Executives during the course of their Technical Assistance projects. These volunteers work closely with the

country specific Project Officer in Stamford to develop these leads on behalf of their clients in the region. Examples of current Trade and Investment Services activity for IESC's Central and East European clients follow.

Bulgaria: Magnetic Heads Production

This quarter, the TIS Bulgaria program accomplished its first U.S. - Bulgarian joint venture between the U.S. firm, D.R. International (DRI) and Magnetic Heads Company (MHC) a Bulgarian company. The joint venture resulted from TIS follow-up to an ABLE study for MHC. After the ABLE study was completed, U.S. firms that showed preliminary interest in the project were contacted by the Project Officer. Working as a team, the IESC-Sofia staff and the TIS Project Officer advised these firms on business in Bulgaria and technical issues specific to the project. The team also encouraged DRI to visit Bulgaria and open negotiations with MHC.

In mid-July, the President of DRI visited Bulgaria and signed a letter of intent with the management of MHC. At the same time, DRI and MHC agreed to swap 20% equity in their companies. Since then, DRI technical experts have visited MHC and worked through production details. DRI management is now in Sofia to finalize details of the joint venture. The project is for the joint development, manufacture and sales of magnetic head products for the industrial electronic market in the region. The U.S. firm will provide its Bulgarian partner with working capital, proprietary designs and production technologies, technical assistance, and worldwide marketing and sales. Total planned investment in the project is USD 1.7 million and many of MHC's 500 workers will be put back to work when production begins.

CSFR: Manufacture of Road Construction Equipment

The CSFR Project Officer in Stamford facilitated the visit of a Massachusetts trade mission to Czechoslovakia. The Trade mission consisting of representatives of computer, ecological, electronic, pharmaceutical and other companies from Massachusetts was headed by Governor William F. Weld. While on the Trade mission, Badger company, a division of Raytheon met with IESC Prague staff in an effort to locate suitable electronic companies in the Czech Republic as possible joint venture partners.

The CSFR Project Officer in cooperation with the IESC Bratislava Defense Conversion team arranged for high level representatives of Raytheon to meet with the management of ZTS Martin and ZTS Detva

two large defense industries. As a result of the meetings between ZTS Martin and Raytheon, a memorandum of understanding was signed by both parties on September 24th. Raytheon in cooperation with ZTS Martin intends to manufacture heavy duty road construction equipment to be marketed and sold in Central and Eastern Europe.

Romania: Fast Food Joint Venture Feasibility

The Romania Project Officer and the Bucharest staff coordinated a visit of a U.S. company interested in identifying partners in the fast food business in Romania in early August. The U.S. company has entered into discussions with two Romanian companies. One company would offer a site inside a hotel with a very good location in Bucharest; this site is currently equipped to be a cafeteria. The other Romanian company presented an idea to sell corn dogs at stands or booths at train stations in Bucharest, an idea looked upon favorably by the U.S. firm. The U.S. company plans to return to Romania for further discussions if the business plan meets their objectives.

Hungary: Sourcing of Leather products

The Stamford based Project Officer for Hungary contacted a large Texas Fort Worth leather importer who was dissatisfied with the uneven quality of leather shipments from his principal supplier in China. The importer indicated his willingness to consider Hungary as an alternative supplier. The Project Officer's counterpart in Hungary subsequently attended a leather goods trade fair in Budapest and was able to identify an excellent Hungarian tannery that had export experience. Contact information was then conveyed to the Fort Worth company. The Fort Worth company has sent the Hungarian tannery a sample of the product it would like to source from Hungary; the tannery has responded that it can provide the material at a competitive price. Discussions between the two parties are ongoing.

Poland: Fast Food Joint Venture

As a result of IESC introductions, and substantial follow up and intermediation, the first phase of a joint venture between Pizza Haven of the U.S. and Mini Menu, a Polish company has begun. The initial phase of the agreement began in August 1992, when the first fast food kiosk was set up in Warsaw. The U.S. company provided equipment to set up the kiosk and is currently training the Polish workers. An IESC VE, a former McDonalds executive, in addition to providing Technical Assistance to the Polish company, helped to qualify potential sources of meat for use in the kiosks.

If the first kiosk is successful, phase II of the agreement calls for the creation of a formal Joint Venture in the form of a separate legal entity set up as a limited liability company under Polish law. The intent is to set up 25 such kiosks in the Warsaw area with the potential to expand to other parts of Poland in the future.

VI. DEFENSE CONVERSION

IESC's Defense Conversion program was set up in May this year to respond to the need for defense industries in C&EE to change production and find new markets in the west. The program provides two Defense Conversion teams, one in Warsaw and the other in Bratislava on year long assignments in an effort to provide joint ventures or other investments which will result in the conversion of the defense production facilities to civilian production in the private sector.

This quarter, the IESC Defense Conversion teams have established themselves and have started detailed Technical Assistance projects with many of the defense industries located in the areas assigned. In Bratislava, the team has visited, assessed the capabilities of and provided technical assistance to nine plants and three research institutes. In Poland the team has visited the 5 plants viewed as a priority by the U.S. government: PZL Kalisz, PSL Wola, PZL Warszawa II, Warel and Stocnia Polnocna. They have also gained access to five additional plants as a result of their effective work and thorough follow up activity.

The industrial restructuring advisors in both Bratislava and Warsaw have worked very closely with the IESC Stamford office to develop supplemental Technical Assistance projects and to promote these former defense companies to U.S. firms as potential joint venture partners. A recent agreement between Raytheon and ZTS Martin in CSFR to manufacture asphalt pavers is the first transaction in defense conversion, and came as a result of close cooperation between IESC in Stamford and Bratislava and the industrial restructuring advisors (refer to TIS section).

IESC Stamford is also continuing to hold discussions with U.S. firms who have shown an interest in the intricate turbines and highly machined gears and crankshafts produced by PZL Kalisz, a company which the Polish Ministry of Industry and Trade wishes to make a showcase for defense conversion.

VII. CONCLUSION

IESC began assistance to Central and Eastern Europe under the euphoria of the collapse of the Berlin wall and the subsequent collapse of Communism. High initial expectations were tempered by

the almost insurmountable difficulties and challenges faced by these countries as they attempted to transform their economies. Despite these difficulties, IESC has been able to adapt its' assistance to the varying circumstances and needs of these countries and the results are finally beginning to bear fruit both through TA and TIS projects.

This quarter IESC gave a presentation to a group from both the public and the private sector on opportunities for U.S. companies in foodprocessing in C&EE. One of the VE's making a presentation, who spent six weeks in Poland in 1990 diagnosing problems in companies, noticed a big difference in these companies when he returned in 1992, particularly those with young management. He notes that for one company he, " advised the plant to make meat processing equipment... they went to Germany, got the specifications from a German company, made the equipment to German standards, and now they are exporting, earning hard currency and doing business."

The VE has other examples of companies he has assisted to access overseas markets. Together with the IESC Stamford and Warsaw office, he has also been instrumental in setting up a fast-food joint venture between a U.S. and Polish company in Poland (see TIS section). This was the VE's first formal presentation to U.S. companies on potential opportunities for investment but he hopes to be able to do so even more. The VE's example is not an isolated one and outlines the direction of the IESC program towards the Multiple Business Service approach. Under this approach all of IESC's resources, TIS and TA, use the VE's expertise to provide quality services to both domestic and overseas clients.

FUNDING OBLIGATIONS AND EXPENDITURES

Quarterly Program Performance Report to AID
Third Quarter 1992

International Executive Service Corps
Central and Eastern Europe and the Baltic Nations

Obligation Summary

Initial Award: 10/90 – 2/92	\$5,365,600
Amendment 2: 9/91 – 12/92 (Baltics only)	\$949,000
Amendment 3: 1/92 – 2/93	\$5,355,000
Amendment 4: 5/92 – 5/93, DefConv.*	\$1,200,000
Total Obligation excluding DefConv.	\$11,669,600
Total Obligation including DefConv.	\$12,869,600
Promised 8/92 – 2/93	\$1,289,000
Total with promised amount, excluding DefConv.:	\$12,958,600

Expenditures

10/90 – 12/31/91	\$4,685,900
1/1/92 – 3/31/92	\$1,150,000
4/1/92 – 6/30/92 (Est.)	\$1,837,000
7/1/92 – 9/30/92 (Est.)	\$1,974,000
5/6/92 – 9/30/92 (Est) DefConv.	\$230,000
Total Expenditures to 9/30/92 excluding DefConv.	\$9,646,900
Total Expenditures to 9/30/92 including DefConv.	\$9,876,900

Funds Available

1 Excluding DefConv., Oct 1, 92 – Feb 20, 93	\$3,311,700
2 ONLY DefConv., Oct 1, 92 – May 15, 93	\$970,000

*DefConv = Defense Conversion Activities.

9