ETHIOPIA

Privatization and Valuations Training Program for Ministry of Industry

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Privatization and Valuation Training Program for Ethiopian Ministry of Industry

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Dear Ms. Farley:

We are pleased to present five copies of our report on the above-referenced project, which was carried out this summer. The report includes a summary of key project activities and presents our recommendations for future USAID privatization activities.

Price Waterhouse and Abt Associates appreciate the opportunity to assist USAID/Ethiopia and the Africa Bureau's Office of New Initiatives with this project. If you have any questions, do not hesitate to contact Mara Fellouris at Price Waterhouse's Washington office.

Sincerely,

Price Waterhouse

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I. INTRODUCTION

The Transitional Government of Ethiopia (TGE) has undertaken a broad reform program aimed at creating the conditions necessary to make a shift from a highly statist system to a market-based economy. This reform program covers a broad range of areas; among its objectives are limiting the role of the state in the economy, promoting private investment and mobilizing external resources. Privatization is an important component of this program, as the TGE seeks to promote rapid development of a number of sectors, including manufacturing and industrial enterprises. Regarding industrial enterprises, the TGE's economic policy paper clearly states that state ownership of industry will be limited to a selected number of key establishments that are essential for the development of the economy (page 27).

In this context, the Ministry of Industry has selected 50 industrial enterprises for privatization, through divestiture or other means such as management contracting, franchising or employee ownership. The MOI has expressed a desire to move forward with a pilot program, divesting a few enterprises as quickly as possible. A pilot group of four enterprises was selected. All enterprises in the pilot group are small, relatively autonomous in their operations, control small market shares, and have largely domestic procurement needs and sales.[1] The MOI requested USAID assistance to carry out valuations of these four enterprises in an effort to prepare them for privatization; USAID/Ethiopia asked the Africa Bureau to help fund a training and technical assistance program.

A. *Objectives of the Project*

The objective of this project was to provide the Ethiopian Ministry of Industry (MOI) with the services of a short-term technical specialist to train selected MOI participants in financial analysis and valuation techniques and to assist the MOI in carrying out valuations of the four pilot group enterprises slated for privatization.

B. *Scope of Activities and Methodology*

The short-term specialist who carried out this activity, Mr. Charles Moizeau, spent nine weeks in Addis Ababa in June, July and August. Sixteen participants (later reduced to fourteen), some of whom were MOI employees and some of whom were employed by industrial SOEs, were selected by the Ministry to participate in the training program. The participants attended the training program three days a week during the nine week period.

The training covered basic financial analysis concepts and techniques and provided an overview of the most important valuation methodologies, including book value, adjusted book value,

[1] These four companies are: Addis Garment Factory, Anbessa Shoe Factory, Dil Edible Oil Factory, and Kokeb Flour and Pasta Mill.

replacement value and discounted cash flow analysis. Following the period of classroom training, the participants were divided into teams and assigned to carry out valuations of the four enterprises that the MOI had placed in the pilot group. These valuations were treated as "live" case studies, with the participants working closely with the trainer and learning about valuation techniques by actually putting them to use.

At the end of the training course, the MOI and USAID hosted a half-day seminar to present the results of the training program and the MOI's broader privatization efforts, as well as to stimulate discussion about the country's overall privatization program. The Project/Task Manager, Ms. Deborah Dangay, came to Ethiopia to assist in preparing for and carrying out this seminar, evaluate the effectiveness of the training program and aid in the process of identifying various options for further privatization activities.

II. SUMMARY OF KEY PROJECT ACTIVITIES, FINDINGS AND CONCLUSIONS

A. *Training Program*

The first two weeks of the consultant's time (the weeks of June 28 and July 5) were devoted to classroom training, covering three major areas: basic tools of financial analysis, valuation techniques, and other privatization issues.

The scope of work indicated that bookkeeping, auditing concepts and financial statement analysis were to be included in the content of the course. Mr. Moizeau anticipated that many of the course participants would not have a background in accounting and corporate finance in the depth needed to understand the principles of financial valuation. He therefore commenced the course by focusing intensively on basic financial analysis concepts, in an effort to provide the trainees with the tools they would need to later understand and carry out valuations.

Wide variations in the backgrounds of the trainees made it difficult to tailor the course to individual needs and skills. While all 16 participants had university degrees, six had majored in economics, four in engineering, one each in mathematics and statistics, and four in accounting. None had studied corporate finance. All participants were adequately numerate, but only those with accounting training could be expected to be familiar with even the terminology used in any valuation training.

Classroom instruction began on June 29, aimed at defining various asset categories and understanding their value. It then covered the claims on these assets by creditors (liabilities) and owners (capital). Income statement analysis focused on determining an enterprise's commercial viability first, and then its financial viability. In view of the limited time allotted to classroom training, it was decided to omit the subject of funds flow analysis, (i.e., sources and applications of funds). Understanding the linkages between beginning and ending balance sheets on the one hand and the income statement for the intervening period was handled conceptually with direct references to the live case studies.

A portion of the first two weeks of classroom time was given to describing the role of enterprise valuation, both asset and income based, in the privatization process. Replacement value, liquidation value, stock market capitalization and discounted cash flow valuation techniques were covered. Trainees were provided with a 38-page handout which detailed a discounted cash flow valuation, previously written by the instructor for non-financial readers. This was supplemented by making available eight other financial analyses/valuations of state-owned industrial enterprises which the instructor had authored. The legal aspects of privatization and the mechanics of divestiture through auction, direct sale and share flotation were also covered.

Examinations (one to one and a half hour duration for each) were given on July 6 and July 13, in an effort to assess the trainees' level of progress before moving into the valuation methodologies portion of the training. Scores on the first examination ranged between 45 and 86 percent, with a median score of 75 percent; scores on the second exam ranged from 40 to 78 percent, with a median score of 66 percent. The examinations are included in Attachment D.

It should be noted that the two weeks allotted to classroom instruction in the scope of work actually consisted of only six days. The instructor, therefore, had to move very quickly through the subjects to be covered. Despite some reservations about the participants' readiness to move forward and actually carry out valuations, they were divided into four teams, team leaders were selected, and each team was assigned to value one of the four enterprises in the pilot group. Team selections were made by the MOI coordinators in consultation with the course instructor.

B. "Live" Case Studies/Valuations

Beginning the week of July 12, the teams began the work of actually valuing the enterprises. A schedule outlining the intended progress of the teams between July 12 and August 26 was prepared by the MOI and distributed to all participants (included in Attachment D). The teams were to apply four principal methods in carrying out their valuations: book value, adjusted book value, replacement value and discounted cash flow analysis.

The first valuations were based on book value, using published financial statements for the five most recent years. A standardized accounting format (spread sheet), suitable for any publicly-owned manufacturing enterprise, was drawn up and distributed on July 20 for use by the four teams. Terminology was broadly consistent with the MOI's 1987 *Accounting Procedures Manual*, and the placement of entries followed MOI practice -- American accounting convention (the audited statements for the four enterprises were done according to the British system). The spread sheet format adopted is included in Attachment D.

Site visits to the four enterprises were scheduled for July 28 and 29; it was expected that the financial statements of all four enterprises would be spread and their book values established prior to these dates. The instructor coached the trainees in interview techniques and assisted them in preparing for the interviews. A list of well over 100 questions (see handout entitled "Questions Which a Financial Analyst Might Ask," Attachment D) was handed out on July 21. Each team was to prepare itself for a 3-4 hour interview to gather information. The site visits were shorter than planned and the MOI personnel had some difficulty controlling the interviews. As a result, the information needed to complete the financial analyses and apply the three other valuation methods was not obtained as quickly as was hoped.

Following visits to the enterprises, a second valuation was performed on the basis of adjusted book value, taking into account current assets which are unlikely to be turned into cash and liabilities which are not deemed likely to materialize into actual claims. Fixed assets which had not been properly depreciated were also subject to adjustment.

Replacement values were then calculated, and discounted cash flow analyses carried out to derive the values of the enterprises in terms of the discounted projected future cash flows that would be realized from the companies' operations.

In mid August, the MOI teams began preparing written valuation reports summarizing their findings. The MOI teams reached the following conclusions about the four enterprises in the pilot group[2]:

> Addis Garment Factory is saleable as a going concern,
>
> Anbessa Shoe Factory is saleable as a going concern,
>
> Dil Edible Oil Factory is not saleable as a going concern, but has considerable liquidation value (its property sits on valuable residential real estate),
>
> Kokeb Flour and Pasta Mill should be broken into two separate entities: the Flour Mill can be sold as a going concern and the Pasta Factory should be liquidated.

The production of the reports was delayed at almost every stage and none of the four written reports was completed by the planned August 19 due date. In addition to delays in gathering the needed information and completing the valuations, the trainees were hampered by a lack of availability of basic supplies, from paper and pencils to calculators and computers. By the last week of the program, however, sufficient progress had been made by each team for meaningful oral presentations to be made at the August 26 seminar.

When the consulting team (Moizeau and Dangay) left Addis Ababa on August 28, the teams were still finalizing their reports. Although the scope of work for this project does not require written valuation reports to be produced, USAID should continue to urge the MOI to ensure that

[2] Price Waterhouse and Abt Associates do not render an opinion about these conclusions.

the four enterprise reports are finished to its satisfaction, in view of the considerable investment of time and money which has already been made and the fact that the information and valuation results contained in the reports can serve as a valuable input for MOI efforts to prepare these companies for sale. The MOI should decide how the material contained in the reports will be utilized and what specific actions it will take, or recommend be taken, with regard to the four enterprises in question. A suggested approach for follow-on privatization activities by the MOI is contained in section III.B of this document.

C. *Privatization Seminar Sponsored by MOI and USAID*

On August 26th, the Ministry of Industry and USAID sponsored a half-day privatization seminar, held at the Ghion Hotel. The purpose of the seminar was for the MOI to share its experiences in preparing for privatization, particularly those resulting from the financial analysis and valuation training, and to stimulate discussion about the country's privatization efforts in general.

Opening remarks were made by the Vice Minister of Industry and the U.S. Ambassador. Brief presentations were then made by the consulting team (Moizeau and Dangay) on "Selection and Valuation of Privatization Candidates" and "Enterprise Valuation and its Application to the Privatization Process". The MOI training participants then presented the findings and conclusions that resulted from their valuation of the four enterprises in the pilot group. In closing, the Vice Minister for External Economic Cooperation presented certificates of completion to all training program participants and gave a brief talk on the Government's privatization initiatives and the need for external assistance.

That evening, August 26, the MOI hosted a reception for all the seminar participants. This gave the various government officials and private sector representatives who had attended the seminar a chance to further discuss and debate privatization issues in a more relaxed, informal setting.

Both the seminar and the reception were very well attended by senior Government officials, state enterprise managers and high level private sector representatives (see Attachment E for a list of participating institutions). Lively and open discussions were held on a number of key privatization issues, including possible means of financing divestiture, the role of and need for the Government to draw on local expertise, and the problems that can be involved in selecting the most appropriate buyer for an enterprise, who may or may not be the highest bidder. Press coverage of the seminar was extensive (although somewhat inaccurate), with clips being shown on both the Amharic and English nightly news programs and an article appearing on the front page of the Ethiopian Herald (see Attachment E). The seminar was effective in achieving its objectives and did serve to raise consciousness about privatization. In fact, at the evening seminar, a number of officials from other Government agencies stated that they too wanted to carry out valuations and privatize enterprises in their sectors, and would like USAID assistance in doing so. It important that momentum for implementation of the TGE's privatization program be built and sustained; this seminar played a role in that process.

D. *Key Outputs/Deliverables*

The major output of this activity was the successful completion of the training course. Another important output was the design and implementation of the half-day seminar. A number of other documents and deliverables, however, were produced by the consulting team. These include:

- *Textbook prepared for use by the trainees* -- There was no single textbook suitable for this course. Therefore, two books, Analysis of Financial Statements by Leopold A. Bernstein (Dow Jones-Irwin, New York 1984, 381 pages), and Analyzing Financial Statements by Thomas P. Carlin and Albert R. McMeen, III (American Bankers Association, Washington 1993, 344 pages), were used to "manufacture" a single text of about 300 pages. Of the two books selected for source material, one treated financial analysis from the point of view of an equity investor, and the other from that of a creditor. Selected pages were photocopied, scissors and paste "technology" was used to edit a master copy which was then photocopied and spiral bound with front and back covers. A copy of this textbook is included in Attachment D.

- *Two examinations*, administered to the trainees in early July (included in Attachment D)

- *A standardized accounting format spread sheet*, suitable for any publicly-owned manufacturing enterprise, designed for use by the trainees (included in Attachment D)

- *A comprehensive list entitled "Questions that a Financial Analyst Might Ask,"* to be used by the trainees in conducting interviews and gathering information about the SOEs they were valuing (included in Attachment D)

- *A brochure* on the Ministry of Industry's privatization activities, focusing in particular on the financial analysis and valuation training (Attachment F)

- *A draft speech* for the Vice Minister of External Economic Cooperation to deliver at the half-day seminar sponsored by the MOI and USAID (included in Attachment E)

E. *Evaluation of Training Exercise: Key Implementation Issues and Lessons Learned*

Overall, the training exercise was effective in increasing the MOI's understanding of the mechanics and practical aspects of valuation and in stimulating interest in and movement toward implementation of the privatization program. During the Project Manager's trip to Ethiopia in late August, she evaluated the program both formally and informally by talking with the instructor, the Ministry of Industry officials who provided oversight (Dr. Gulelat and Ato Solomon), the USAID/Ethiopia Project Officer (Carla Barbiero), and the trainees. In addition, anonymous questionnaires were distributed to the participants to solicit their opinions about the program. An open discussion about the training program was then held between the participants and the Project Manager. The results of the questionnaires and the discussion are summarized in Attachment G to this document.

1. Key Implementation Issues

As with any activity, some problems were encountered in carrying out the training program. The following issues affected the implementation of the program:

- *When the course commenced, the time that the participants would spend in the training program was decreased, but the amount of material to be covered and the objectives of the training program were not changed accordingly.* In preparing and designing the course, it was assumed that the trainees would be in attendance on a full-time basis. On June 28, however, the scheduled first day of the program, it was revealed that the participants, since they all had full-time jobs from which they could not be released, could only participate in the program on Tuesdays, Wednesdays and Thursdays. This 40% decrease in the number of days the trainees would attend the course was not followed by a corresponding decrease in the amount of material to be covered. The instructor then had to move much more quickly through the material than planned.

- *Attendance on the part of the trainees was poor.* Full attendance was rare, and on many days, less than half of the participants showed up for classes or working group sessions. Some days, especially in the afternoon, there were only 3 or 4 trainees in attendance. This reduced the program's effectiveness as a skill-building exercise, and made it difficult to stay on schedule with the program.

  The attendance problems were, we believe, due to a number of factors, including the need for the non-MOI participants to travel to the Ministry for training. In addition, the trainees were all expected to continue normal performance at their jobs during the training program. When conflicts arose between completing tasks at their job site and attending the training program, the trainees (not surprisingly) chose to stay at work. Because the enterprises for which many of the trainees worked are no longer under the jurisdiction of the MOI, it was difficult for the MOI to require and enforce attendance. Finally, the MOI was itself undergoing a considerable reorganization, with nine functional departments being collapsed into four. These changes directly affected both MOI coordinators for this program, as well as the trainees, and thus understandably diverted their focus away from the training program.

- *There was a divergence of opinion between the trainees and the instructor on the emphasis that should be given to each of the two major components of the training program -- financial analysis and valuation.* The trainees felt that too much time was spent learning basic financial analysis techniques, and that valuation methods were not covered as thoroughly and extensively as they would have liked. The instructor, however, felt that because of the trainees' general lack of understanding of the basic concepts and terminology used in conducting valuations, it was critical that a significant amount of time be spent on financial analysis to give the trainees the tools they would later need to understand and carry out valuations. The trainees' performance on the exams supported this view, and the instructor accordingly concentrated heavily on financial analysis. The instructor was concerned that the Ministry may have initially underestimated the importance of being able to read and understand a balance sheet and income statement; the MOI counterpart later agreed with this view.

2. Lessons Learned

Based on this review of the program, we believe that future training programs following this model would be improved by taking into account the following "lessons learned":

Regarding program design:

- *The training program should be shorter and more focused, with participants being fully released from their jobs for its duration.* Attendance and the participants' concentration and focus would be improved by holding the training program at a site physically removed from the location of the participants' jobs and carrying it out over a shorter period of time, on a full-time rather than part-time basis. It could even be sensible to limit classroom time to six hours daily.

- *Advance preparation should be given a greater focus.* This would enable the course to be more effectively focused and matched to the expectations and needs of the sponsoring agency (in this case the MOI). The contractor/trainer should develop an outline several weeks in advance, have the outline reviewed by the sponsoring agency, and then discuss (over the phone, if need be) whether the proposed topics covered and emphasis and allocation of time to various subjects is satisfactory. In addition, the contractor/trainer should be given more detailed information on the backgrounds of the participants in advance. Decisions about the amount of emphasis to put on each component of the training (in this case, financial analysis vs. valuation) should be based on both the backgrounds of participants and the needs and objectives of the sponsoring agency.

- *If the participants do not have a solid background in corporate finance, it is important that training in financial analysis precede teaching the application of financial valuation techniques.* In this case, it was found that even those participants with an accounting background needed additional financial analysis training in order to fully understand, both conceptually and practically, the valuation methodologies.

- *Classroom training and practical, case-study work (carrying out the valuations) should be integrated, instead of treated as separated modules.* The teams working on the valuations should be reunited every two or three days in order to permit groups to share progress and discuss issues with each other. This would also enhance the cohesion of the overall group.

- *The course should take a more interdisciplinary approach, perhaps using two instructors with different backgrounds, or having regular guest speakers to discuss different topics.* This would be particularly important if the course were, as we recommend, shorter and more intensive. Such an approach would not only be interesting for the participants, but would allow the instructor to draw on the expertise of others and would stimulate lively discussion and debates.

- *The course should commence with a lecture or session on broader privatization issues and a discussion of the purpose and role valuation in the privatization process.* This would give the trainees a framework for the financial analysis training which would follow, helping them understand why it is important to focus on the basics of financial analysis.

- *In preparing materials and curriculum, the instructor needs to adapt text materials published in the West to suit the business environment of the country in which the training is taking place.* Similarly, the accounting procedures used in the country, and those peculiar to state-owned enterprises (especially as concern taxation and distribution of earnings), must be taken into account when planning the curriculum and designing standardized financial analysis formats (spread sheets). This was done for the Ethiopian MOI training program, but the critical importance of these adaptations was reinforced by the instructor's experience with this program.

Regarding program implementation:

- *Administrative management of the program by the sponsoring agency (in this case the MOI) should be fairly tight, in order to ensure that all participants understand the importance of the program and thus attend regularly, are punctual, and complete the assigned work.* It would be highly beneficial for the sponsoring agency counterparts to be visible on a regular basis.

- *Team leaders should play strong role in guiding the performance of their teams.* This would improve the cohesion of the teams and could enable each team to use its members more effectively.

- *More attention should be given to coaching trainees in interview techniques prior to sending teams on site visits to gather information for the valuations.* Collection of required data by means of interviews is difficult when the interviewer is inexperienced or subject to professional or cultural constraints. Coaching in interview techniques, including practice sessions with other trainees, could be of great help in gathering the information. As part of this process, the instructor would also need to emphasize the importance of having a well-prepared agenda and being thoroughly familiar with the subject matter before undertaking the interview.

3. General Conclusions Drawn from the Evaluation

Overall, this project was successful in its two major goals -- training MOI participants to understand and be able to apply valuation techniques and assisting the MOI in carrying out valuations of the four enterprises in the pilot group.

Before this program began, the participants, as well as the MOI counterparts, did not have a very clear understanding of valuation. There was a broad perception that valuing an enterprise was a simple, straightforward process that could be completed by plugging a few figures into a pre-set formula which would result in a clear, objective, and immutable value for the company. The training program was very effective in helping the MOI understand the complexity and inherent subjectivity of valuation and the role it plays in the privatization process.

At the conclusion of the training program, the MOI participants were capable of carrying out basic valuations themselves. While the valuations carried out by the MOI may be preliminary and less thorough and comprehensive than those performed by corporate finance professionals, the capacity to complete them is in itself critical to the government's ability to monitor and control the privatization process. The program was also successful its goal of assisting the MOI to value the enterprises in the pilot group, as valuations of these companies are near completion. In addition, it played a catalytic role in encouraging the MOI (and the government in general) to move forward with privatization.

III. NEXT STEPS/FUTURE ACTIONS

The recommendations and options for further USAID privatization assistance contained in this section are intended to provide input and guidance to the Mission in deciding whether and how it wishes to assist Ethiopia's privatization efforts in the future. These recommendations are not based on a comprehensive review, but on observations made during the training exercise and during a series of brief meetings with Ethiopian government and donor agency officials and private sector representatives.

The natural, and perhaps most effective, assistance that USAID could provide would be in the context of the MOI's privatization program. For this reason, we focus heavily on assistance to the MOI, laying out our vision of how the MOI should continue its privatization efforts and recommending specific avenues for USAID assistance. Because of uncertainties surrounding the MOI's future role in privatization, however, privatization assistance to the MOI may turn out to be inappropriate. In case this happens, a menu of other options for USAID privatization assistance is also presented.

In making decisions about future privatization assistance, the Mission should review and assess the activities described here, carefully consider its own priorities and resources, and take into account the impact of the issues described in Section A below.

A. *Key Issues for Consideration by USAID*

The following issues should be considered by USAID when making decisions about future privatization assistance:

1. USAID/Ethiopia's Strategy

The Mission's own strategy will play a key role in any decisions made about privatization assistance. The Mission's four Strategic Objectives are: increased food production, improved rural health care, higher quality primary education, and support for a democratic transition to a permanent Government of Ethiopia. The Mission has also identified two areas, called "targets of opportunity," where it plans to provide additional assistance: emergency and humanitarian aid, and identification and implementation of major economic and administrative reforms by the Government.

Carefully targeted privatization assistance would be an effective means of directly supporting the Mission's program, especially its target of providing aid for major economic and administrative reforms. Given the resources and priorities of the Mission, it does not make sense to develop a large, comprehensive privatization program at this time. There are areas, however, in which USAID has a comparative advantage (transaction-based assistance, in particular, where A.I.D. has played an important and constructive role in many countries) and could provide specific, highly-effective assistance.

2. Institutional Roles and Responsibilities for Privatization

At the present time, there is uncertainty about the future institutional structure of the privatization program and about the role various Ministries, agencies, and government bodies will play. There is currently a National Privatization Committee, whose members are drawn from various ministries. It meets on an ad-hoc basis, providing guidance when requested. In addition, each relevant Ministry has its own privatization committee, charged with preparing enterprises under its jurisdiction for divestiture. To date, the MOI has played a leadership role in this area, being the first to develop a conceptual approach and categorize SOEs for privatization.

It is expected that the TGE will establish a national privatization agency or unit (hereafter called NPA for the sake of convenience) in the near future. There is uncertainty surrounding the timing for establishing this body and the role and powers it will have. One source indicated that the NPA would be established by the first week of September, others stated that, because the TGE has been saying for nine months that this agency is about to be established, it is impossible to know how long it will really take. Another source said that the subject of the NPA should not even be discussed at this point, because there has been no public confirmation by the TGE that it will in fact be established.

In this environment, it is difficult to know what the roles and responsibilities of the various ministries and institutions will be. Possible scenarios range from virtually all authority for privatization implementation resting with the NPA, if and when it is established, to a division of responsibilities between the national agency and the sectoral ministries. What can be expected is that the creation of the NPA will centralize the process and diminish the sectoral Ministries' privatization responsibilities. It is likely that the NPA will be headed by a Government employee, rather than by a person with private sector experience, and that it will operate closely with other Government agencies, which, in practice, is likely to distance it from dialogue with the private sector.

In addition, the management structure for SOEs has recently changed. In the past, supervision and direction of SOEs was provided by sector corporations, reporting to various sectoral Ministries. Boards of Directors were recently appointed for each SOE to replace the sector corporations in directing and managing the enterprise. The intent was to transfer more authority down to the enterprises, but in practice the Boards of Directors report directly to the Prime Minister's office, creating more centralized management.

The Ministry of Industry is eager to move forward with privatization of industrial enterprises; it will almost certainly ask USAID to provide additional assistance (other sectoral ministries may also request USAID assistance with privatization). The MOI believes that it can obtain authority from the Prime Minister's office to begin privatizing SOEs, and feels that it will take six months or so for the new privatization agency to become operational, even if it is established immediately. In the meantime, the MOI wants to press forward with its privatization initiatives. The MOI's privatization responsibilities, however, are likely to be more circumscribed as the NPA is established and becomes operational, and there is reason to believe that it may be difficult for the MOI to maintain its mandate to undertake divestiture.

3. The Role of Other Donors

Other donor agencies will be playing an important role in the privatization process, especially the World Bank and the UNDP. There are expectations that the new privatization agency (if established) will draw heavily on assistance from these two organizations. The UNDP, in particular, plans to provide wide-reaching privatization assistance as part of its "Managing Economic and Technical Change" project. This assistance, which would be provided jointly by several donor agencies including the World Bank, the IMF, the European Community and bilateral agencies such as USAID, covers a wide range of areas, including training, procurement of computer hardware and software, public relations, and restructuring SOEs that are to remain under Government ownership.[3] What is unclear is the role that each donor will play in carrying out the different elements of this program. In this context, USAID will need to coordinate closely with the UNDP and other donors.

4. Major Categories/Goals for Privatization Assistance

USAID privatization activities would fall into one of two general categories: activities whose overall goal is to strengthen the enabling environment for privatization, and those directed at encouraging and assisting the TGE to begin implementation. Assistance with the enabling environment would be aimed at creating the conditions and framework needed for privatization to succeed, and could include assistance with legal, policy, and institutional issues. Implementation/transaction assistance would be designed to encourage the Government to move forward with implementation of its privatization program, and to assist it in doing so.

The Mission could provide useful assistance under either category, depending on its own objectives and the requests of the TGE, although implementation/transaction assistance is likely to have a greater impact. To date, there has been a great deal of discussion about privatization and little action. The time is ripe for implementation, and the TGE clearly needs assistance in this area. Issues related to the privatization environment can be dealt with on a case-by-case basis as enterprises are divested, with lessons being learned from practical experience. If Ethiopia waits until all legal, policy and institutional issues are settled, implementation will be delayed indefinitely.

B. Privatization Program for MOI and Recommendations for USAID Assistance

As stated above, our recommendation is that the Mission focus its privatization assistance on the Ministry of Industry, provided that the MOI is able reaffirm the status of its mandate to undertake divestiture. Because the MOI has already built some momentum for privatization, has trained its staff, and has expressed its intention to move toward implementation, this seems the most logical and practical avenue for continued privatization aid by USAID.

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[3] The program is described in detail on pages 26-49 of the UNDP *Management of Economic and Technical Change* document entitled "Annex 4: Sub-Programme 5A.4 on Public Sector Review and Institutional Strengthening"

The recent issuance of about 270 licenses to private investors to undertake new investments in the industrial sector is likely to crowd out investment in SOEs. This, combined with potential delays in establishing the NPA and a need to sustain the momentum that has already been developed, argues for the MOI to proceed now with privatization. Building off the pilot program it has already started, the MOI should plan to kick off its implementation efforts by divesting one company as quickly as possible. One successful transaction could demonstrate that privatization is realistic and can succeed, and could serve as a catalyst for other privatizations.

We recommend that USAID assist in preparing for and executing this first, demonstration transaction, as it would be a focused and high-impact avenue for privatization assistance. USAID has proven that it has the capacity to provide effective transaction assistance in countries worldwide. One such demonstration transaction is currently underway in Burundi.

1. Privatization Approach for the MOI

The approach we recommend be followed by the MOI is laid out below. If this approach, which is very action-oriented, is followed, the MOI will need to engage in active dialogue with the Prime Minister's office and other Government agencies and will probably receive a large number of inquiries from the private sector. Throughout the process, the Vice Minister of Industry should be kept informed of activities and new developments so that he can effectively respond to questions and serve as a conduit for information.

Step 1: Complete the valuation reports carried out by the training program teams

Given the investment of time, money, and human resources that has already been made, and the fact that the reports can serve as a valuable input for actual privatization, the MOI should ensure that the valuation reports on the four companies in the pilot group are completed by the teams as soon as possible, and that they meet with the MOI's full satisfaction.

Step 2: Reaffirm the MOI's authority to undertake privatization

While the reports are in the final stages of production, the MOI needs to reaffirm the status of its mandate to undertake privatization. The Vice Minister of Industry will need to hold discussions with the Prime Minister and his advisors to clarify this situation. There are three possible outcomes to this effort: 1) the MOI could be told that it does not have, and will not be given, authority for divestiture; 2) the MOI could be told that no decisions will be made in the next few months, while the institutional question is unsettled; or 3) the MOI could be told that it does have the authority for divestiture (at least in the short-term, in the absence of a fully operational NPA).

If the MOI is *not* given the authority for divestiture, it will need to discuss its role with the National Privatization Committee (or with the NPA, if established) to obtain a better understanding of its responsibilities for privatization.[4] If the MOI *is* given the authority to move forward with divestiture, we recommend that it proceed with the following steps (assisted by USAID -- see section III.C).

Step 3: Select an enterprise for the first transaction

If it is given a mandate to carry out transactions, the next step will be for the MOI to select an appropriate candidate for the demonstration transaction. This should be one of the four enterprises in the pilot group, for which preliminary valuations have already been conducted; the work done by the trainees was intended to be a first step in the privatization process and shouldn't be wasted. The enterprise selected should be saleable as a going concern and likely to attract private investment. It should also be one that is unlikely to draw the MOI into a battle with a former owner and one that does not have great potential for labor problems. Keeping in mind that the objective is to demonstrate that privatization is possible in Ethiopia and to build support for it, the MOI should select the enterprise it thinks will be least difficult to divest and most likely to succeed.

Step 4: Define the MOI's information and technical assistance needs

At this point, the MOI will be ready to develop a privatization action plan and move forward with the transaction. Because this has not yet been done in Ethiopia, the Ministry will need outside advice and assistance. In this step, it should define the specific areas where additional information and technical assistance will be needed to proceed. If the MOI wants USAID assistance (as we recommend), the two organizations should meet to define a plan or program for assistance.

It is recommended that a consortium or team of local and foreign firms and individuals be put together. Use of local individuals and firms should be maximized, as they will have detailed knowledge of the Ethiopian context and will be less costly. They will not, however, have any experience with privatization, which our experience tells us is critical, and will therefore need to be supplemented by a foreign firm or individuals that can bring experience to the consortium/team[5]. This consortium/team, which would include a legal advisor, an auditor or audit firm, and a firm or individuals experienced in privatization transactions, would work together to assist the MOI throughout the process.

It is critical that a MOI staff member (one of the participants in the training program) be

[4] It is not recommend that the MOI begin appraising and valuing the other 46 companies on its "privatizable" list, without any concrete plans for divestiture. An enterprise must be analyzed and valued just prior to divestiture; if this is done in advance, the appraisal and valuation work may well have to be redone.

[5] In addition, many government have found that using foreign advisors to assist with divestiture can help reassure the business community and the public that the transaction is being carried out in a fair and impartial manner. This is particularly true if many of the most capable local firms are perceived as having very strong political interests.

assigned to work with this consortium/team *on a full-time basis*, serving as an integral part of the team. The primary purpose for this would be to ensure that the Government's interests are represented and considered throughout the process; a secondary benefit is that it would build off the recently completed training program and deepen the skills of the MOI staff.

Step 5: Prepare a privatization action plan for the enterprise

Once the MOI's information and technical assistance needs are defined, the next step would be for the consortium/team to focus on appraising the technical, financial and strategic strengths and weaknesses of the enterprise, establishing the value of the enterprise given the results of the appraisal, and determining the most appropriate method for privatization. If one of the four pilot group companies is selected, some time and effort will be saved during this step.

This phase would result in a "Privatization Action Plan" that would provide a blueprint to be followed during the execution phase. The Privatization Action Plan would present conclusions and recommendations with respect to the company appraisal, the valuation, target investors, the privatization method, the sales strategy, the proposed capital structure of the enterprise post-privatization, and proposed restructuring (if any).

Step 6: Execute the transaction

Once the preparatory work outlined in Step 5 above has been completed, the MOI will be ready to proceed with the transaction, selling the company at an optimal value, within a reasonable period of time, and to an acceptable buyer. To do this, the tasks that would need to be completed include: making exploratory contact with target investors; implementing any restructuring needed (if any); preparing an information memorandum; developing a "short-list" of potential investors and holding in-depth discussions with selected candidates; preparing documents for an invitation to bid; recommending key selection criteria; and disseminating information and handling public relations. For this first transaction, the MOI would need assistance with most or all of these tasks.

Follow-on Transactions

Once the first transaction has been completed, it will be important that the momentum not be lost. The MOI should select a few more enterprises for divestiture, considering enterprises outside of the pilot group, and apply the same criteria for selection as described in step 3 above. Ideally, the MOI will have received some feedback and suggestions from the private sector by this point, and will have clearer ideas about which enterprises would be the most attractive to investors. The preparatory tasks described in Step 5 would be applied to these companies, which would be divested within a predetermined time frame.

Given the uncertainties in the privatization environment, it is difficult to make more detailed recommendations on actions to be taken by the MOI after the completion of the demonstration transaction.

2. Recommendations for USAID Assistance

Demonstration Transaction

USAID could play an important, constructive role in assisting the MOI to carry out its first, demonstration transaction (if the MOI is able to do so). USAID should, as the financier of the valuation training exercise, encourage the MOI to complete the reports started by the four valuation teams. Once this is done, and provided that the MOI receives clearance to proceed with privatization, the Mission should meet with the MOI to more clearly define a program of assistance with the first transaction.

We envision a strong program of USAID-sponsored technical assistance, carried out by a consortium or team of specialists, as described in step 4 above. The MOI is likely to need assistance with almost all tasks described in steps 5 and 6; these are all areas where USAID has provided very effective aid in other countries. (Attachment H includes a copy of the Scope of Work for the USAID/Burundi demonstration transaction mentioned above.)

Transaction Advisor

USAID should seriously consider providing a short- to medium-term transaction advisor to the MOI[6] after the demonstration transaction has been completed and the MOI is ready to privatize other enterprises. The advisor's purpose would be to help the MOI maintain momentum for the privatization program by helping it execute and close transactions. The presence of such an advisor has, in other countries, accelerated the privatization process, and could also help broaden the investor base and provide hands-on training for the MOI staff.

The transaction advisor should be a senior-level specialist with an investment banking background who has experience with actual privatization transactions. Specific types of advice to be provided could include: advice on the feasibility of transactions; identification of sale strategies; development of pricing strategies; identification of potential investors; preparation of timetables, prospectuses and other sale documents for transactions; and tactical advice during negotiations with third parties. While providing the types of assistance outlined above, the advisor would also be working to transfer his/her knowledge to members of the agency and prepare them to carry out these tasks themselves. The transaction advisor would need to stay a minimum of three months, and would ideally stay for about six months.

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[6] Or to whichever agency or government body is given authority to proceed with privatization transactions.

C. *Other Options for USAID Privatization Assistance*

If the MOI is not given a mandate to undertake privatization, USAID should consider other options for providing privatization assistance to the TGE. This section contains a menu of options for USAID privatization assistance that are not aimed at the MOI. It is not an exhaustive list or program design, as this project focused primarily on training and did not include a thorough review of the country's privatization program.

In planning privatization activities, USAID might want to consider creating a niche or special role for itself in stimulating dialogue with and involvement by the private sector in the privatization program. Transparency requires that a certain distance be created between the public and private sectors; this creates an environment in which an independent third party (such as USAID) can play a constructive role as an information broker and intermediary. Other donors (especially the World Bank and the UNDP) are likely to focus their assistance on government activities, creating an even greater need for an intermediary between the public and private sectors. Specific activities could include workshops to foster dialogue between public and private sectors or anonymously conducted surveys covering issues such as which privatizable SOE would be most attractive to private sector investors. Most of the activities suggested in this section could be designed in a way that would support a USAID decision to play the role of intermediary.

1. USAID Privatization Activity/Program Design

If the MOI will not be the focal point for privatization assistance, the Mission should consider bringing out a consultant for two weeks or so who would focus exclusively on evaluating and designing privatization activities and providing USAID with a plan for moving forward. The consultant would meet with government officials (Ethiopian Privatization Committee, the Ministry of Planning and Economic Development, the Ministry for External Economic Cooperation, sectoral Ministries), other donor agencies (the World Bank, the UNDP, the European Community), and private sector institutions (such as accounting and consulting firms), as well as review relevant documents. A key objective would be to gain a better understanding of the current and expected future roles and responsibilities of various government bodies engaged in privatization. Based on the meetings and review of written materials, and on an understanding of the Mission's priorities and available resources, specific privatization activities would be suggested and designed, and a plan for implementing those activities prepared. This activity could be a valuable means of ensuring that USAID resources are used in efficiently and that privatization support is provided in a way that has the greatest possible impact.

2. Transaction Assistance to the National Privatization Agency

If the NPA is to be given sole authority for privatization implementation, USAID should consider offering to provide it with the same type of transaction assistance described in section III.B above, including assistance with a demonstration transaction and provision of a transaction advisor. The rationale for providing the assistance and the tasks to be carried out would remain essentially the same.

3. Specialized Technical Assistance in High-Priority Areas Related to Privatization

USAID could provide short-term advisors in specialized fields that would assist the TGE in defining policies to resolve high-priority issues key to privatization process. Important privatization-related issues include: restitution/compensation to former owners; establishing criteria for the write-off of uncollectible inter-enterprise debt; employee stock ownership plans; the banking sector's ability to serve privatized enterprises and newly-created private enterprises; transformation of SOEs into limited liability companies and related issues (e.g. whether bankruptcy laws permit an insolvent enterprise to be constituted under the Companies Act -- if not, it must be recapitalized); and communications and public relations.

4. Sector Specific Assistance

USAID might also wish to provide sector-specific privatization assistance, as was done effectively in Bangladesh where the Mission focused its privatization program on the fertilizer sector. In this case, USAID should select a sector that is consistent with its overall strategy and would have a relatively high impact.

One obvious sector for this kind of assistance, although by no means the only possible one, would be trucking. Privatization assistance to the trucking sector has been under discussion for a number of months and is consistent with the Mission's overall program (even being mentioned in the May 1993 "Back to the Future" concept paper). Assistance for the trucking industry could take one of two forms: a sector-wide assessment that addresses the privatization of all main parastatal truck fleets, or a focus on the WTOE fleet, which moves food aid and disaster-related cargoes. See Attachment H for illustrative scopes of work for both of these activities.

5. Institutional Assistance to the New National Privatization Agency

Another area for USAID activities would be direct assistance to a national privatization agency, if one is created, or other institution with responsibility for privatization. A new agency is likely to have a great need for assistance in a range of areas, including institutional strengthening and developing a dialogue with the private sector.

One area that might be particularly helpful would be USAID assistance to define the powers and authority given to the NPA and the role of sectoral ministries in implementation of the privatization program. (Note: The UNDP may already be providing this type of assistance.) Institutional strengthening assistance could also include activities such as establishing operational procedures, developing a data base and monitoring system to track the privatization program, establishing an adequate information system and training its staff (see suggestions under "Training"). The UNDP's Management of Economic and Technical Change program calls for institution building assistance to "establish the organizational capacity for the execution of privatization" (Annex 4, page 40). USAID should discuss with the UNDP its plans and the plans of other donor agencies to provide institutional strengthening assistance to the agency responsible for privatization, in order to determine whether and how USAID can assist in the process.

6. Training Programs

Additional training for TGE or SOE staff would promote awareness and understanding of important privatization issues and would further build the skill base needed to implement the privatization program. Training should be closely tied to implementation needs and expected future activities; it should serve as an input for privatization activities, rather than being seen as an end in itself. Training could focus on broad privatization issues (for those with wide-ranging privatization responsibilities) or on specialized topics that appear to be high-priority, such as property rights, bankruptcy law or communications/public relations. Training could take place in Ethiopia, regionally, or in the U.S.

Local Training Programs:

USAID could design and organize training programs in Ethiopia on key privatization issues (such as the MOI valuations training course). Such programs could be carried out by Ethiopian training centers, if they have the right expertise, regional organizations or U.S. institutions, a number of which have extensive experience in preparing and carrying out privatization training programs in developing countries.

Regional Training Programs:

Regional training programs could be designed, developed, and held in Ethiopia with participants from other countries in the region. Alternatively, the Mission could sponsor Government or SOE personnel to attend training programs offered elsewhere in the region, such as Kenya. Regional programs would offer the advantage of putting Ethiopians in contact with their counterparts in other countries who are dealing with many of the same issues.

U.S.-Based Training Programs:

U.S.-based training could also be attractive. A number of U.S. institutions, including Intrados IMG, the Center for Financial Engineering and Development (CFED), and the International Development Training Institute (IDTI) offer courses that are relevant to privatization. What follows is an indicative list of the types of courses offered by these institutions. There are undoubtedly other courses as well that would be helpful.

Privatization Management and Implementation, (Intrados)

Bank Restructuring Seminars, (Intrados)

Advanced Executive Management Program on Privatization, (IDTI)

Privatization Implementation in Africa: A Technical Workshop, (CFED)

Valuation Strategies and Techniques: Critical Factors in Successful Privatization Transactions, (CFED)

Enterprise Restructuring: Strategies and Techniques for Market-Based Competition, (CFED)

Restructuring Banking Institutions: Techniques for Managing Successful Turnaround, (CFED)

Most of these courses are two weeks in duration, and are usually well-attended by privatization officials from countries all over the world. This could be an excellent way for Ethiopian officials gain an understanding of lessons learned elsewhere. USAID/Ethiopia might consider sending all senior officials from a new national privatization agency to the U.S. for a two-week program. (For example, the twelve members of the Cameroonian Privatization Commission were recently sent to the U.S. for this type of training.) This would not only be a good way to give the new agency's management an early crash course in key privatization issues, it would also strengthen the relationship between the agency and USAID, thus allowing USAID to play an even more constructive role.

Other Training Options:

In addition, there are a variety of creative ways to design specialized training programs, study tours or mini-internships. Price Waterhouse was in contact with a number of institutions in Eastern Europe last spring following a USAID/Ethiopia request to look into possible options for privatization study tours in Eastern Europe. A number of interesting possibilities were raised by Eastern European training institutions. For example, the Anglo-American Business Institute in the Czech Republic has designed a course called "Negotiating Privatization Transactions" that includes modules on strategic analysis, financial analysis, valuation, and privatization methods. The institute said it could organize a similar course for a group of Ethiopians. Such a course, either taught in Eastern Europe or in Ethiopia could be very helpful.

Before planning any training activities in Eastern Europe, however, the Mission would need to ensure that it would not be violating the A.I.D. regulation requiring training to take place in the host country, in the host country's region, or in the U.S.

ATTACHMENT A

Scope of Work

22

DELIVERY ORDER STATEMENT OF WORK

BACKGROUND

The industrial sector in Ethiopia is dominated by public enterprises. Over the years, the number of loss-making public enterprises has been increasing. There are several reasons for poor performance including highly centralized management at the ministry level, the inability of individual enterprise managements to hire and fire, and the policy of confiscating the operating surpluses of individual enterprises.

Ethiopia is now experiencing a profound socio-economic and political period of transformation. As part of its economic reform program, the Transitional Government of Ethiopia (TGE) has articulated and issued a series of policy directives and measures that reflect a policy shift towards the establishment of a market-oriented economy. The TGE's Policy Framework Paper highlights the aim of reducing the public sector's role in the productive sectors and confining its activities to areas where it is able to demonstrate a clear comparative advantage.

While the TGE has not as yet developed a comprehensive national plan of action, to date a number of preparatory steps and initial activities, e.g., establishment of task forces and training, have been taken by concerned ministries of government. Plans are underway to restructure, shut down or sell public enterprises to the private sector. Progress has already been made in re-establishing public enterprises as autonomous entities which could function in a competitive market environment.

Privatization of public enterprises in the manufacturing sector is a major component of the 1992/1993 reform program of the Ministry of Industry (MOI). A five member committee has been established to coordinate and carry out activities related to the privatization program of the manufacturing sector. The plans, activities and reports resulting from the committee's work are assessed and guided by the MOI's privatization task force which is headed by the minister. Final decisions on major actions or policies are subject to the review and approval of the National Task Force, chaired by the prime minister.

The committee's program for 1992/93 consists of the following activities: categorization, choice of modality, valuation and implementation. This committee has selected public enterprises to be divested on the basis of certain economic criteria. 50 industries are targeted for full divestiture; 23 are identified for partial divestiture. The industries to be maintained as state-owned and operated over the short- and medium-term are selected on the basis of their scale of operation, linkage effects, foreign exchange earning capacity, strategic role in economic development and market share. The categorization exercise has already been completed by the MOI and approved by the National Task Force.

In addition, an ad hoc task force of professionals (including MOI staffers and industry/enterprise staff) consisting of accountants, economists, and engineers, has been established to initiate preliminary activities of valuation. The MOI already has an adequate database on general background, financial performance, production, sales, manpower, future plans, etc., on each publicly-owned industry. Furthermore, the ad hoc task force is now engaged in collecting additional data on four (4) particular industries selected for the valuation exercise.

The principal sectors in which the MOI-related enterprises operate are edible oil, beverages, flour and milling, leather and tanning, printing and publishing, soap and detergents, and textiles. Most, if not all, of the smaller enterprises can be characterized as having to operate in competitive markets as the sectors they are in already appear to have active competition from the Ethiopian private sector or imports from the franca valuta system.

Looking into the nature and scope envisioned to be required for the valuation exercise, the MOI contacted USAID/Ethiopia in March 1993 concerning its desire to obtain outside technical expertise. On April 7, 1993, a formal request for funding assistance in relation to written terms of reference prepared by the committee was submitted to USAID/Ethiopia by the MOI through the Ministry of External Economic Cooperation. In essence the MOI views outside assistance as important to ensuring that it formally establishes a rational and appropriate system for valuating the enterprises that can be consistently applied over the course of its privatization program.

USAID/E has indicated its willingness to assist the MOI to obtain the necessary expertise to effectively undertake the valuation exercise. Refinements to the MOI's terms of reference have been made in consultation with the MOI's privatization committee and have benefitted from reactions provided in recent visits to Addis Ababa of the REDSO/ESA Privatization Expert. In that regard, the MOI has determined that its overall program will be divided into tranches, with the first tranche inclusive of training and actual valuation of four enterprises planned for divestiture.

ARTICLE I - TITLE

PD&S Funded - Technical Assistance and Training Consultation for Ministry of Industry Valuation Program

ARTICLE II - OBJECTIVE

To provide the short-term services of a privatization/valuations specialist to:

(1) train participants from the Ministry of Industry (MOI) specifically in the practical aspects and appropriate methods of valuation specifically and in the general with regard to overall stages/requirements associated with privatization such as financing, deal structuring, and negotiation;

(2) assist the MOI in carrying out valuations of four (4) enterprises selected by the MOI for divestiture. These four enterprises will be treated as "live" case studies, with valuation work being conducted concurrently with the training program described in paragraph (1) above.

ARTICLE III - STATEMENT OF WORK

A. Upon arrival, the specialist will meet with the USAID Project Officer and the MOI officials to finalize the details concerning course content and timing and the valuation schedule for the effort.

B. The specialist will be responsible for providing two (2) weeks of theoretical and practical training in valuation specifically and privatization generally to the members of the MOI's working-level committee on privatization. Bookkeeping, auditing concepts and financial statement analysis should be included in the course content. Other aspects of privatization that should dealt with by the training program developed by the contractor include financing, deal structuring, negotiation and legal requirements.

C. The specialist will be expected to collaborate extensively with the two coordinators from the MOI privatization committee who will eventually train additional MOI staff in valuation techniques over the course of the MOI privatization program.

D. Over a six (6) week period, unless otherwise modified by the MOI and USAID, the specialist will be expected to work with and assist the MOI in conducting valuations of the following companies:

- Addis Garment
- Kokeb Flour Mill
- Di Edible Oil
- Anbessa Shoe Factory

The process(es) to be employed in valuing these companies will be explained in detail to the MOI staff members participating in the training program, and work on the valuations will, to the extent possible, be carried out concurrently with the training, with these four companies serving as "live" case studies.

E. The specialist, with the assistance of the contractor's U.S. Project Task Manager and the MOI coordinators, will be responsible for performing a stock-taking exercise with trainees to review the training and technical assistance provided in order to determine whether the program objectives have been met. In order to assess the trainee's views on the adequacy of the training provided by the contractor, anonymous questionnaires will be administered by the Contractor to participants for completion. The results of the completed questionnaires will be reviewed by the contractor in collaboration with the MOI coordinators and shared with USAID for consideration in planning future training programs of this nature. The specialist will also be expected to assist the MOI coordinators in assessing the performance of trainees, and relatedly suggest additional training that may be required.

ARTICLE IV - REPORTS

A. In collaboration with the MOI team leaders and with the contractor's U.S. Project Task Manager, the specialist will be responsible for providing a draft report (four copies) prior to his/her departure from Addis Ababa to the Ministry of Industry and USAID on the accomplishments of the training program and valuation exercise. This report shall include a discussion of the next steps and related sequencing that would follow in the MOI's privatization program. Specifically, the report will define the training, technical assistance and funding requirements the MOI anticipates requiring to proceed with the program. It is expected that this document will be shared with donors for co-financing support.

B. Copies of all the seminar materials, reference documents and publications used or prepared by the specialist for this effort will be made available to the MOI; the MOI may make copies to keep if desired. Since it is assumed that a computer/word processor will be used in report drafting and software valuation packages will be developed by the specialist in compiling the valuation data and individual reports on the enterprises, computer floppy diskettes will be submitted to the MOI in addition to 10 copies of the final report.

ARTICLE V - RELATIONSHIPS AND RESPONSIBILITIES

The contractor will work under the general direction of the Chief of the USAID Program Office in Addis Ababa. The specialist will be expected to work directly with and report to the MOI coordinators, i.e., Dr. Gulelat Kebede (Chairman, Privatization Committee) and Ato Solomon Wole (Member, Privatization Committee).

ARTICLE VI - PERFORMANCE PERIOD AND WORK DAYS ORDERED

A period of up to 10.66 weeks for the specialist (9 weeks in-country) is authorized to perform the above statement of work. The specialist is expected arrive in Addis Ababa o/a June 28, 1993. For payment purposes a six day work week is authorized. The contractor's U.S. Project Task Manager is authorized 15 work days, including time spent in Addis Ababa starting o/a August 21, 1993 to conduct the evaluation and prepare follow-on recommendations. The subcontractor's project task manager is authorized 4 work days and the intern is authorized 9 work days.

ARTICLE VII - SPECIAL PROVISIONS

A. With the exception of preparatory work to be conducted in AID/Washington and at the subcontractor's office in Cambridge, Massachusetts, the work will be performed in Addis Ababa.

B. Provision for office space and training facilities for the contractor will be provided by the Ministry of Industry in Addis Ababa.

C. Qualifications. The privatization/valuation specialist must be highly qualified technically to train mid- to senior-level officials in the techniques/methods of enterprise valuation and the concepts and theories associated with privatization in general. The specialist should have the minimum of an MBA or a related degree in finance. Work experience should include practical hands on involvement in conducting or leading valuation exercises and extensive divestiture, corporate finance and mergers and acquisitions experience, ideally with a variety of types of industries - including those manufacturing consumer non-durable goods.

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ATTACHMENT B

Meeting/Interview List

List of Meetings/Interviews

Government of Ethiopia

Mr. Girma Yigebru	Vice Minister, Ministry of Industry
Mr. Gulelat Kebede	Head, Planning and Programming, Ministry of Industry
Mr. Solomon Wole	Ministry of Industry
Mr. Tegenyework	Ministry of Planning and Economic Development

USAID/Ethiopia

Mr. Walter North	Deputy Mission Director, USAID/Ethiopia
Mr. William Douglass	Program Officer, USAID/Ethiopia
Ms. Carla Barbiero	Program Officer, USAID/Ethiopia
Mr. Satish Mishra	USAID/Ethiopia

UNDP

Ms. Neguest Mekounen	Program Office, United Nations Development Program (UNDP)

Ethiopian Private Sector

Mr. Kassahum Jembere	Secretary General, Ethiopian Chamber of Commerce
Mr. Shiferaw Bekele	General Secretary, Addis Ababa Chamber of Commerce
Mr. Tadewos Harege-Work	General Manager, East Africa Investment Securities Pvt. Ltd. Co.
Mr. Gizaw Mamo	General Manager, Audit Services Corporation
Mr. Getachew Kassaye	Getachew Kassaye & Co. (audit company)
Mr. Bruck Kebede	General Manager, Limat Consultancy
Mr. Matheow	General Manager, Addis Garment Co.

ATTACHMENT D

Deliverables

1. Schedule for live case studies/valuations
2. Course Manual/Textbook (bound separately and attached)
2. Exams
3. Handout "Questions a Financial Analyst Might Ask"
4. Standardized Spreadsheet Format

ACTIVITIES	DATE JULY (1993)										AUGUST (1993)										
	12	13	14	15	20	21	22	27	28	29	3	4	5	10	11	12	17	18	19	24	25
1.Forming study team and selecting team leaders.	+++																				
2.Finish lecture and conduct test on financial statement analysis.	+++	+++																			
3.Distribution of text materials and financial statement copies of the four enterprises to all participants.			+++																		
4.Distribute blank financial statement format (sprade sheet) to the four teams for re-arrangement.			+++																		
5.Completing the sprade sheet's and computing ratios.			+++	+++	+++																
6.Collect production and sales data from Production,Technic and Sales Department.				+++	+++																
7.Formulation of questioneer by each team for discussion with the respective enterprise managers.			+++	+++	+++	+++	+++														
8.Field visit.								+++	+++	+++											
9.Complete internal and external data collection and begin analysis.										+++											
10.Prepare table of contents and get approval for write-up.										+++											
11.Each team is expected to complete every analysis and write-up within six days.											+++	+++	+++	+++	+++	+++					
12.Valuation and recommendation based on the findings and completing of the work.																	+++	+++	+++		
13.Oral presentaion by the team leaders. (20 minutes alloted to each team.)																					
14.Seminar and evaluation of the project.																					

6 July 1993 NAME ______________________

FINANCIAL ANALYSIS AND VALUATION TRAINING

First Examination

1. Why are Fixed Assets depreciated for accounting purposes?

2. What are the three categories of inventory likely to be held by a manufacturer?

3. When the divestiture or an enterprise is planned, valuation of the enterprise is normally performed by both the seller and the buyer. Which of these two valuations is most important?
   a)

   Why is this so?

   b)

4. What are the three elements of a balance sheet?

   a)

   Which element represents things which have value?

   b)

   Which two elements represent claims on those things?
   c)

   What are the two categories of claimants called?

   d)

   What equation shows the relationship between the three elements of a balance sheet?

   e)

5. After the financial statements have been examined and analyzed, the financial analyst will need to learn more about the enterprise. Name three, or more than three if possible, sources of information which the analyst might sensibly consult.

6. Which is the most liquid: current assets, fixed assets, other non-current assets?

1,2

7. What will happen to fixed assets during the business cycle?
   a)

   What accounting treatment will be given to the fixed assets to reflect what has happened to them?

   b)

8. For a businessman in Ethiopia, which of the following assets would be the most liquid? (Use numbers to list in order with the most liquid first).

   - A swimming pool full of water.
   - A savings account at Commercial Bank of Ethiopia.
   - A current account at Barclays Bank in London.
   - A six-month blocked account at Commercial Bank of Ethiopia.
   - A current account at Commercial Bank of Ethiopia.
   - A hundred birr banknote.

9. Financial Statement Analysis is the starting point for the valuation of an enterprise. What two financial documents pertaining to that enterprise will the financial analyst be most likely to examine first?

10. In order for the sale of an enterprise to occur, what must be the relationship between the seller's valuation and the buyer's valuation?

11. What is expected to happen to current assets during the business operating cycle?

12. What is the average of 10, 12 and 29?

13. What are the three methods of valuing inventory?
a)

Are all three methods based on cost of inventory?
b)

14. Should the financial analyst, telephone, visit or write human sources of information about an enterprise?

15. Is inventory always considered to be a current asset?

16. If an account receivable is due to be paid after one year, what kind of an asset will it represent?

17. What is the weighted average cost of 100kg of flour bought for 11 birr, 150 kg of flour bought for 12 birr and 50kg of flour bought for 20 birr? all three prices are per kg.

18. When it has been decided to sell a public manufacturing enterprise (PME), what factor is more important than the agreed-upon selling price?

19. Which asset in the following pairs is the most liquid?
a) A box of pink plastic screws which all measure 13 1/2 centimeters in length, or a box of steel screws with assorted lengths of 10, 15, 25 and 50 centimeters?

b) 10 litres of diesel fuel which cost 75 birr, or 100 centilitres of perfume made from jasmine flowers which cost 7,500 birr?

c) A hundred birr banknote or 100 one-birr banknotes?

d) A promissory note signed by Ato Thomas or an account receivable from Ato Thomas?

20. Why is it helpful to have an early discussion about the history of an enterprise?
a)

What should the financial analyst be evaluating during such a discussion?
b)

21. Under what conditions might the cost of inventory not be used when calculating its value?
a)

What figure other than cost might be used?
b)

22. If an account receivable of 1,000 birr is due within six months, but it has been outstanding for 18 months, will its value still be considered to be 1,000 birr?
a)

What accounting entry will reflect any change in its value?
b)

23. Why would an enterprise give credit to a customer thereby creating an account receivable, instead of receiving cash?

24. In a market economy who is the king?

NAME________________

13 July 1993

FINANCIAL ANALYSIS AND VALUATION TRAINING

Second Examination

1. Do banks ever borrow money?

2. If sales revenues increase, what 3 things could happen to their quality?

   a)

   If their quality declines, what expense category would be affected?

   b)

3. Banks charge interest on the credit they extend to borrowers. Name a source of credit which an enterprise could use without paying any interest.

4. How may an enterprise's return on investment be measured?

5. What are three components of debt service?

6. How does operating profit differ from net profit before income taxes?

7. Name two ways that net profits may be distributed?

8. Name two accounts in the balance sheet where net profits which are not distributed might appear?

9. Why might a loan whose terminal maturity occurs after 10 years affect an enterprise's current liabilities?

10. Name a ratio which measures liquidity?

11. What is the danger of a buyer paying too high a price to purchase an enterprise?

12. Give an example of other income?

13. Looking at an income statement, how might you determine if an enterprise is financially viable?

a)

How might you determine if it is commercially viable?

b)

14. Why is it more accurate to compare inventory to cost of goods sold rather than to sales revenues when computing inventory turnover?

15. How is the amount of working capital calculated?

16. What is a grace period?

a)

b) Why does it exist?

c) What component of debt service does it apply to?

17. In analysis work, which should come first: the numbers or the conclusions?

18. Why is it important for at least interest to be paid on a debt?

19. Name an important skill which can be acquired by participating in the management of an enterprise?

20. What are two reasons why the claims of owners and creditors on the assets of an enterprise would tend to become less distinct from one another?

21. Give an example of extraordinary income.

22. What is a commitment fee?

a)

b) Why do banks charge a commitment fee?

23. Give an example of an asset utilization ratio?

24. What ratio, in smallest numerical terms, equals 75 percent?

a)

What proportion which adds up to 100 equals 75 percent?

b)

25. Name a term to describe the style of management characterized by regular conversations between an enterprise's management and its workers?

26. Is selling expense included in cost of goods sold?

27. What is the risk if the new owner of an enterprise is given deferredpayment terms by the seller of that enterprise?

28. What are the two components of sales revenue?

a)

b) What arithmetical operation is performed to these components in order to compute the sales revenue?

29. What are the 3 "Cs" (three words which begin with the letter C) of credit?

a)

b) Which one is most important?

C) Why is this one the most important?

30. What would you expect to be the difference in an enterprise's performance if the owner(-s) is/are given the shares free of any charge, or if the shares must be paid for?

31. What three questions should a banker ask a client who wishes to borrow money?

a)

b) Which of the three answers to the questions does the banker have the least control over?

c) Which of the three answers to the questions does the banker have the most control over?

32. Give two examples of non-monetary benefits which a worker could expect to receive from his employment?

33. What is usually the largest liability on a bank's balance sheet?

34. Define break-even point?

35. If the last of a series of scheduled repayments of a loan is larger than the preceding repayments, what is it called?

a)

b) What might happen to this last repayment if the borrower cannot pay it?

QUESTIONS WHICH THE FINANCIAL ANALYST MIGHT ASK

The financial analyst must always be asking himself the basic question which relates to the commercial viability of the enterprise in question: "Does this enterprise deserve to stay in business?" This question has nothing to do with who owns the enterprise. The owners should be able to receive a positive return on their investment at least equal to what they could receive if they placed their money in the bank or bought a government bond. If there are other producers of the same goods who are more profitable, and if overall manufacturing capacity exceeds the market demand for those some goods, then it becomes difficult to justify the ongoing existence of the enterprise if it is unprofitable.

In order to calculate the total losses of an enterprise, the cost of subsidies it receives must be added to its operating losses, or subtracted from its profits. If the actual financial cost of these subsidies cannot be quantified, then they must be fully described in the text of the analysis.

The analyst must be prepared to discuss numerous aspects of an enterprise. General areas include its history, financial condition, operating performance, production, sales and marketing, competitive environment, management and labour, and identification of major problem areas. A full treatment of these areas necessarily precedes any valuation of the enterprise, whether such valuation is based on the assets of the enterprise, or its ability to generate profits. And, logically enough, the first valuation technique used is valuation based on book value, for it has been preceded by an analysis of the enterprise's financial accounts as they actually are, together with comments on instances where the values ascribed to assets and liabilities may not be consistent with Generally Accepted Accounting Practices.

The financial analyst must, based on his portrayal of the enterprise's accounts, be able to perceive trends as they appear when changes occur from one year to another. Also the interrelationships between various financial statement quantities, conveniently shown as ratios, need to be studied.

Once the numbers have been put in their proper places, the analyst must "go behind the numbers" in order to discover why the numbers are what they are. This research entails visiting the enterprise and asking questions of the management. Return visits are frequently necessary. In addition to the enterprise, the analyst should also "go behind the numbers" by speaking with other logical sources of information besides just the enterprise's management. These include the enterprise's suppliers, creditors, customers, competitors, owners, labourers and regulators.

Some, but certainly not all, of the questions which are usually asked are those which appear in the following categories:

History

This is a safe and non-controversial area in which to begin learning about the enterprise from its present management. Also, the management's knowledge of the enterprise's history is an indicator of their ability, for an understanding of what went right or wrong in the past very probably will help the management steer the enterprise wisely in the future. Major changes in ownership, operations and financial performance should be noted. The analyst should not only record what happened, but should be prepared to ask why as well.

Sales and Marketing

Although state-owned manufacturing enterprises tend to focus most heavily on producing goods, it is only sales, and the later ability of the sales to turn into cash, which define the commercial viability of an enterprise. To the extent that the revenues produced by these sales exceed the costs, the financial viability of the enterprise may then be judged. If production of goods is uneconomic by an enterprise, then one must seriously doubt the logic of continuing to produce them at that enterprise since other sources of supply can probably be found. In any event, after learning about the enterprise's history, it is usually a mistake to allow the management to proceed to a discussion of production because that risks using up most of the available time on a subject which, although it may be of overriding interest to the enterprise's management, is not necessarily of equal importance to the financial analyst. Questions which relate to Sales and Marketing often include:

1. Physical quantities sold, by product line, and revenues. Often, this information can be obtained before the enterprise if visited. Remember, there is no point using up precious time and the goodwill of one's hosts by asking questions of the enterprise's management to which the

financial analyst should have been able to learn the answers himself.

2. Total number of clients. If any client accounts for 10-15 percent of total sales, one should learn who that client is.

3. If sales are made through a distributor(s), learn who he (they) is (are). What are the terms which govern the relationship between manufacturer and distributor? How is the distributor paid? Is he allowed to sell on credit terms? If so, does he then share responsibility for bad debt losses? What percentage of sales are returned, and why? What discounts are offered? Who are the end buyers, how much do they pay, where are they located?

4. Who are the sales prospects who could become converted to actual customers, or eventual end buyers?

5. Are export sales a possibility?

6. Who are direct competitors? Domestic producers or importers? What advantages do they possess in terms of price, quality, diversity of product line, adequacy of stocks, packaging, distribution and subsidies or other favored treatment which is not generally available.

7. What are actual or likely sources of indirect competition in the form of substitutable products or services?

8. What is the overall size of the market for each major product line? Is it growing or shrinking?

9. What share (expressed as a percentage) does the enterprise have of the overall market for each major product line? Is this share growing or shrinking?

10. What regulatory benefits does the enterprise enjoy, in terms of subsidies, price controls which hold down costs, protective tariffs which limit competition?

11. What regulatory disadvantages is the enterprise faced with, such as price controls which limit selling prices, purchase requirements which limit the choice of where needed goods and services may be acquired?

12. What significant commercial disputes remain unsettled? What is their nature: pricing, quality, delivery times, or non-payment?

13. How are prices set? How much flexibility does management have to increase or decrease selling prices?

14. How is credit policy towards custmers determined? Can management grant or restrict credit to the enterprise's customers?

15. What forms of advertising and promotion are being used now, or would be used if possible, in order to increase sales.

16. What projections of sales and profits have been made in connection with planning the future of the enterprise? What are the projections for the various cost categories?

Current Assets

17. Name of the bank where cash is held.

18. All accounts receivable, regardless of their age, must be debts owing to the enterprise which arise from the normal commercial activity of the enterprise. This means the sale of goods or services which the enterprise is normally engaged in. Not to be included in accounts receivable are sales of the fixed assets of the enterprise or "clean" loans. Clean loans are loans which are made with no underlying commercial transaction, for example, one enterprise lends money to another enterprise with no exchange of goods or services in return. If such amounts are already carried as receivables, and there are no underlying commercial transactions which constitute the normal activity of the enterprise, then these will have to be included as other receivables, or due from affiliates,or, if the debt is evidenced by a promissory note, notes receivable. It is obvious that amounts due from affiliates can include both debts arising from bonafide commercial transactions and clean loans. It will be useful to learn how much of due from affiliates is in each category and then to mention this either in a footnote to the balance sheet or in the text of the written analysis.

19. Accounts receivable must first be separated into those which are "current", (i.e., those which have not been outstanding beyond the agreed upon settlement date) and those which are past due. Then the latter category should be classified according to being past due less than three months, less than six months but more than three months, less than 12

months but more than six months, less than 24 months but more than 12 months and more than 24 months. Any large past due receivables which have been reduced through partial payments should be so noted in the text of the analysis.

20. Are sales being made to customers who represent past due accounts receivable? What maximum amounts and what selling terms apply to such sales?

21. In order to determine the concentration of accounts receivable, any single debtor, both current and past due, who represents more than 10-15 percent of total accounts receivable should be identified.

22. Has there been any general change in the enterprise's credit policy, i.e., have overall sales terms been made more lenient or more strict? If so, what are the reasons?

23. What provisions have been established for accounts receivable which are considered doubtful? What considerations govern the amount of provision in relation to a given account receivable?

<u>Inventory</u>

24. What is the breakdown of inventory between raw materials, work in process and finished goods?

25. What policies govern the quantities of raw materials which are acquired and maintained? How do these quantities relate to the number of days of production?

26. How much time passes between when major categories of raw materials are ordered and when they are delivered?

What problems are encountered in acquiring raw materials?

27. Do any contractual purchasing agreements exist for acquiring raw materials? Are there restrictions with regard to quantities which must be acquired or prices to be paid?

28. How are raw material purchase costs established?

29. What accounting principle is followed with respect to additions to and withdrawals from inventories (LIFO, FIFO or Average Weighted Cost)?

30. Are there any provisions applied to inventory to account for the loss of value which could result if the inventory were to become unmarketable because of spoilage or obsolescence?

31. Have inventories been revalued, either up or down?

32. Are the carrying costs of inventory computed? If so, how much are they reckoned to be?

33. Is the cost value of inventory calculated at its weighted average cost?

34. How much, in terms of quantity and value, inventory is over one-year old? What is the breakdown of this old inventory among raw materials, work in process and finished goods?

Fixed Assets

35. When were the major items of Fixed Assets acquired?

36. What was the original cost? Accumulated Depreciation? Book Value?

37. What was the origional design capacity of major machinery items?

38. What is the present estimated maximum capacity?

39. What is the current estimated cost of a new machine, or a used machine, which could produce the same quantity and quality, regardless of its country of origin.

40. What is the total depreciation expense in the latest year? Does this reconcile with the difference between the accumulated depreciation at the end of the year minus the accumulated depreciation at the beginning of the year?

If not, why not?

41. Is the condition of the buildings judged to be satisfactory? If not, what is wrong?

42. Have there been any revaluations of Fixed Assets? If so, when and with what effect?

43. Of the equipment acquisitions, which have been for replacement purposes, or for improving existing production, or for undertaking the manufacture of new products?

44. What new capital expenditures are planned or desired? What is their objective?

45. How will these capital expenditures be financed?

46. What are the estimated market values of the enterprise's Fixed Assets.

47. What Fixed Assets are not being used at all, or only partially used?

Non-Current Assets

48. Be sure to fully understand what the various Non-Current Assets are and why they exist. If it is unlikely that certain non-current assets will ever be able to realize their stated value, then they should be written off, or, as an intermediate step, a provision for their eventual loss of value should be established.

Current Liabilities

49. What credit limit applies to the bank overdraft facility. What bank is involved? During the past year, what were the maximum and minimum amounts borrowed? What interest rate is charged?

50. What are the duration, interest rate and collateral requirements relating to Short-Term Bank Loans?

51. How often does the enterprise visit the bank? How often does the bank visit the enterprise?

52. What credit terms have been given by the enterprise's suppliers? What has been the enterprise's payment experience? Are there debts to suppliers of required goods and services which are past due? How late? Why? What penalizing effects have been noted, or could occur?

53. What amounts are past due with respect to taxes and duties?

Long-Term Liabilities

54. For long-term bank loans, what was the original amount borrowed, what is the principal amount outstanding, what are the repayment terms, interest rate, penalty interest rate, what amounts are past due, what defaults have occurred either with respect to payments or covenants agreed to between borrower and lender, what assets are pledged as collateral? Are future earnings partially assigned to the lender?

54a. What debts have been cancelled?

55. Debts owing to affiliates. Are these the result of commercial tranactions or "clean" borrowings? How long have these been outstanding? Have there been or will there be partial payments?

56. What is the extent of unfunded pension liabilities and unfunded staff benefit obligations?

57. What is the nature of deferred liabilities and what is the likelihood of the necessity to service these liabilities, thereby causing an expense to the enterprise?

58. What contingent liabilities exist? What legal actions are pending against the enterprise?

Capital Accounts

59. Are there former owners who have not been compensated? What is the amount of their claims? What is the likelv

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amount that could be paid to them? When might such payment be made?

60. What additions to equity have occurred? Have any of these resulted from the conversion of debt? Have any been the result of revaluations of assets?

61. What policies currently govern the payment of dividends?

62. What regulations and policies govern the amounts and types of reserves which the enterprise must or should maintain?

Production

63. What has been the "down time" over the past year for each major product line? What are the causes, e.g., non-availability of essential raw materials or vital inputs (labour, transport, fuel, etc.), or breakdown of machinery? What has been the evolution of such interruptions, getting better, geting worse?

64. What are start-to-finish manufacturing times for each major product line?

65. What are monthly production quantities for each major product line?

66. What bottlenecks exist in the productive process?

67. What are production costs by major product line? What volume must be sold in order to reach the break-even point?

68. How are fixed costs allocated to each product line?

69. What is the breakdown of research and development expense between what is expensed and what is capitalized?

Staff

70. What are rates for employee turnover, absenteeism, overtime?

71. What major factors affect employee productivity.

72. What is the recent history of strikes, work stoppages or slowdowns?

73. Has the number of employees grown or shrunk? Has labour productivity increased or decreased?

74. What are the remuneration rates for overtime? How are wages set? What bonuses are paid and under what conditions? What is the estimated value of non-cash benefits paid in relation to the total payroll cost (excluding overtime and bonuses)?

New Directions

75. What methods are being studied in order to achieve greater production economies?

76. What ideas have been proposed to increase revenues?

77. What consideration has been given to forming joint ventures, or merging with another enterprise. If any steps were taken, what happened?

78. What are the "dreams" of the enterprise?
Where does it want to go? What directions might it take if certain major problems did not exist?

Ratios which should be computed as part of a financial analysis are:

1. Current Assets divided by Current Liabilities (A ratio expressed to three significant figures).

2. Current Assets minus Inventories divided by Current Liabilities (A ratio expressed to three significant figures).

3. Gross Profit (Loss) divided by Sales x 100 (Percent, two significant figures)

4. Operating Expense divided by Sales x 100 (Percent, two significant figures).

5. Net Profit (Loss) divided by sales x 100 (Percent, two significant figures).

6. Cost of Goods Sold divided by Average Inventories (A Number ~~ratio~~, three significant figures).

7. Sales divided by Average Fixed Assets (net of depreciation, i.e., book value). (A number ~~ratio~~ three significant figures.)

8. Fixed ~~Total~~ Assets (at their historical cost) divided by sales x 12. This shows the indicated number of months at year end required for one birr of assets to produce one birr of sales. (A number only, or number of months).

9. Average Accounts Receivable divided by sales x 365. (Number of days).

10. Total Depreciation Expense divided by the Opering Book Value of all Depreciable Assets x 100. (Percent, two significant figures.).

11. Gross Profit (Loss) divided by Average Total Assets x 100 (Percent, two significant figures.)

.../

12. Net Profit (Loss) divided by Average Total Assets x 100. (Percent, two significant figures).

13. Interest Expense divided by average total loans from all sources x 100. (Percent, two significant figures)

14. Total Liabilities: Total Capital Funds. (A proportion which adds upto 100).

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Tables which usually appear in a financial analysis:

1. Balance Sheets for five years, with the most recent year at the left and the earliest year at the extreme right.

2. Income Statements for five years, with the most recent year at the left and the earliest year at the extreme right.

3. Cost of Goods Sold. A breakdown of these amounts as they appear on the Income Statements.

4. Operating Expenses. A breakdown of these amounts as they appear on the Income Statements.

5. Reconcilement of Capital Accounts, Needed to show the allocation of undistributed earnings (losses) to the appropriate accounts in the capital section of the balance sheet.

6. Manufacturing and Sales Performance. Each product line is shown, with the budgeted production, actual production, budgeted sales, actual sales, opening finished goods inventory and closing finished goods inventory.

BALANCE SHEET

ASSETS

CASH ON HAND AND AT THE BANK		______
NOTES RECEIVABLE		______
ACCOUNTS RECEIVABLE		______
LESS PROVISION FOR DOUBTFUL DEBTS,	______	______
INVENTORY, ______		
LESS PROVISION FOR DECLINE IN VALUE,	______	______
STORES AND SPARES		______
ADVANCES, DEPOSITS AND PREPAYMENTS		______
DUE FROM STAFF		______
CURRENT ASSETS		______
INTANGIBLE ASSETS, ______		
LESS AMORTIZATION,	______	______
FIXED ASSETS AT COST, ______		
LESS ACCUMULATED DEPRECIATION,	______	______
BUILDINGS AND OTHER WORKS IN PROGRESS		______
DUE FROM AFFILIATES, ______		
LESS PROVISION FOR DOUBTFUL DEBTS,	______	______
ASSETS TRANSFERRED TO GOVERNMENT		______
TAX REIMBURSEMENTS CLAIMED		______
INVESTMENTS AND ADVANCES		______
DEFERRED EXPENDITURES		______
OTHER NON-CURRENT ASSETS		______
NON-CURRENT ASSETS		______
TOTAL ASSETS		______

LIABILITIES AND CAPITAL

BANK OVERDRAFTS		______
SHORT-TERM LOANS		______
CURRENT PORTION OF LONG TERM DEBTS		______
NOTES PAYABLE		______
ACCOUNTS PAYABLE, ______		
LESS DISCOUNTS RECEIVED,	______	______
CAPITAL CHARGE PAYABLE		______
INCOME TAX PAYABLE		______
RESIDUAL SURPLUS TAX PAYABLE		______
OTHER TAXES AND DUTIES PAYABLE		______
ADVANCES, DEPOSITS AND PREPAYMENTS RECEIVED		______
ACCRUALS		______
DUE TO AFFILIATES		______
CURRENT LIABILITIES		______
DEFERRED LIABILITIES		______
LONG TERM LOANS		______
DUE TO FORMER SHAREHOLDERS		______
UNFUNDED PENSION FUND LIABILITIES		______
OTHER UNFUNDED STAFF OBLIGATIONS		______
OTHER LONG-TERM LIABILITIES		______
LONG-TERM LIABILITIES		______
TOTAL LIABILITIES		______
STATE CAPITAL		______
GENERAL RESERVE		______
OTHER RESERVES		______
TOTAL CAPITAL FUNDS		______
RETAINED EARNINGS (ACCUMULATED DEFICIT)		______
TOTAL LIABILITIES AND CAPITAL		______

INCOME STATEMENT

GROSS SALES, ____________

LESS DISCOUNTS, COMMISSIONS, RETURNS AND SALES TAXES, ____________

NET SALES	________
COST OF GOODS SOLD	________
GROSS PROFIT (LOSS)	________
OPERATING EXPENSE	________
OPERATING INCOME (LOSS)	________
(INTEREST EXPENSE)	________
OTHER NON-OPERATING INCOME	________
(OTHER NON-OPERATING EXPENSE)	________
NET PROFIT (LOSS) BEFORE TAX	________
INCOME TAX	________
EXTRAORDINARY INCOME (LOSS)	________
NET PROFIT (LOSS)	________

COST OF GOODS SOLD

RAW MATERIALS	________
STORES AND SPARES CONSUMED	________
MANUFACTURING WAGES, SALARIES AND BENEFITS	________
OTHER LABOUR EXPENSE	________
ELECTRICITY, FUEL AND OTHER UTILITY EXPENSE	________
REPAIRS AND MAINTENANCE	________
DEPRECIATION	________
OTHER MANUFACTURING EXPENSES	________
OPENING INVENTORY, BR.__________	
CLOSING INVENTORY, BR.__________	
INVENTORY RECONCILEMENT	________
COST OF GOODS SOLD	________

OPERATING EXPENSE

SELLING AND DISTRIBUTION EXPENSE	________
GENERAL AND ADM. WAGES, SALARIES AND BENEFITS	________
OFFICE SUPPLIES	________
REPAIRS AND MAINTENANCE	________
INSURANCE	________
RESEARCH AND DVLPMT. EXPENSE (UNLESS CAPITALIZED)	________
DEPRECIATION	________
OTHER OPERATING EXPENSE	________
OPERATING EXPENSE	________

RECONCILEMENT OF CAPITAL ACCOUNTS

NET PROFIT (LOSS) AFTER TAXATION	________
LESS TRANSFER TO GENERAL RESERVE	________
LESS DIVIDENDS PAID	________
AVAILABLE FOR TRANSFER TO RETAINED EARNINGS	
RETAINED EARNING (ACCUMULATED DEFICIT)	________
OPENING RETAINED EARNINGS (ACCUMULATED DEFICIT)	________
TRANSFERRED FROM NET PROFIT (LOSS)	________
ADJUSTMENT TO PRIOR YEARS' RESULTS	________
CLOSING RETAINED EARNINGS (ACCUMULATED DEFICIT)	________

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Important Note

In order to avoid making the balance sheet and income statement excessively complicated, footnotes should be used to give additional information in verbal form and/or with a brief tabular presentation which provides a more detailed breakdown of information appearing in either the balance sheet and income statement. As an example, rather than list each and every long-term loan on the balance sheet itself, long term loans should be footnoted. In the related footnote, would appear: "Includes loan payable to ABC Bank, original amount ________, granted on _________, at ______ percent p.a. interest, with equal semiannual repayments beginning on ____________ and ending on __________." To the right of this explanation would be the amount outstanding as of the balance sheet date.

In the case of the income statement, detailed breakdowns of Cost of Goods Sold and Operating Expense employ separate tables for that purpose.

Finally, the capital accounts must be reconciled from one year to another so that amounts resulting from the immediately preceding period's operations, which are not distributed outside the enterprise, properly appear in the intended capital accounts. It may occur, but it should be avoided to the greatest extent possible, that adjustments are made to the results of prior operating periods, in which case the amount adjusted must be noted in order for the opening retained earnings (accumulated deficit) amount to equal the closing retained earnings (accumulated deficit) of the immediately prior period.

ATTACHMENT E

Seminar Materials

1. Seminar Program
2. List of Seminar Participants
3. Draft Speech for Vice Minister of MEEC
4. Newspaper Article about Seminar

SCHEDULE FOR THE SEMINAR
ON THE FINANCIAL ANALYSIS AND VALUATION OF
PUBLIC MANUFACTURING ENTERPRISES

Date: Thursday, 26, August 1993

Venue: Ghion Hotel

8.45 - 9.15 AM	- Arrival of invited Guests and participants
9.15 - 9.30 AM	- Key Note Address H.E/Vice Minister of Industry/
9.30 - 9.45 AM	- Key Note Address H.E/Ambassader of USA/
9.45 - 10.00 AM	- Coffee Break
10.00 - 10.30 AM	- Selection and Valuation of Privatization Candidates . Mr. Charles Maizeau
10.30 - 11.30 AM	- Presentation of Reports on Four Enterprises
11.30 - 12.00 noon	- Enterprise Valuation and its Application to the Privatization Process . Ms. Deborah Dongay
12.00 - 12.15 PM	- Presentation of Course Completion Certificates . Guest of Honour
12.15 - 12.30 PM	- Principal Address . Guest of Honour
18.30 - 20.00 PM	- Reception at Ghion Hotel

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Seminar on Financial Analysis and Valuation of Public Manufacturing Enterprises

List of Participating Organizations

Prime Minister's Office
Ministry of Industry
Ministry of Works and Urban Development
Ministry of State Farms, Coffee and Tea Development
Ministry of Transport and Communications
Ministry of External Economic Cooperation
Ministry of Trade
Ministry of Planning and Economic Development
Hotel and Tourism Commission
National Bank of Ethiopia
Commercial Bank of Ethiopia
Ethiopian Chamber of Commerce
Addis Ababa Chamber of Commerce
UNIDO
UNDP
EEC
World Bank
USAID
Addis Garment Factor
Dil Edible Oil Factory
Anbessa Shoe Factory
Kokeb Flour and Pasta Factory

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Principal Address

It has been a great pleasure to be in your company this morning, and especially to award the *certificates of training* to all those who have worked hard in this just-concluded training program on financial analysis and the application of valuation techniques for privatization.

The Ministry for External Economic Cooperation has been active in seeking external sources of support for Ethiopia's planned privatization program. Because privatization is an important component of our country's New Economic Policy, the government is already taking steps to ensure that we have access to the types of expertise and assistance that can help our privatization program succeed.

It was the Ministry of Industry which originally conceived of the need for training to boost its internal capacity to conduct financial analysis and valuations, as a means of preparing for privatization. Early on, the Ministry of Industry's idea drew the enthusiastic support of the Ministry of External Economic Cooperation and the USAID Mission in Addis Ababa, which agreed to provide the training and technical assistance being sought by the Ministry of Industry. The benefits of learning are well-recognized by this Government. There is a vigorous commitment by its members to continuing to add to our nation's intellectual capital and to enlarge its already considerable stock of human skillls.

The repository of practical knowledge held by the Ministry of Industry is not a treasure which it guards jealously for itself. Today's seminar is only one instance of the Ministry's willingness to share its knowledge and experiences with any and all who are working for the social and economic progress of Ethiopia. I know that the Ministry's generosity in this respect can be counted on in the future.

Having shown us what it can do, it is natural to expect that the Ministry of Industry will be given opportunities in the months ahead, and it will be expected also to accomplish special tasks. This does not mean that its role will in any way operate to the exclusion of other ministries and branches of the Government. We know now that the Ministry of Industry is a good developer of ideas, a competent practitioner and an effective ambassador; these talents can stimulate and provide benefits for all Government bodies.

It is appropriate at a gathering such as this to note the Government's initiative in the establishment of a national privatization commission. Details regarding its organization and functions will be made public at a later date. This step is a logical outcome of the work of the National Task Force on Privatization, and the privatization task forces which exist in several ministries. It is obvious that, as a new organization, the Commission will need to draw on the experiences of the national task force and the various ministries. But it should also be emphasized that this will be an ongoing practice, for the concerned ministries will be expected to build up their knowledge of the enterprises which operate in their sector. Moreover, as the work just performed by the Ministry of Industry in financial analysis and enterprise valuation proves, it can be expected that every ministry which undertakes similarly intense research and the rigorous application of analytical techniques will achieve a quantum increase in the amount of knowledge it has about the workings and the worth of the enterprises in its particular sector.

These are storehouses of information which the privatization commission would have difficulty developing on its own. Nor would it be sensible for the commission to perform such a role, which can be very capably accomplished by various ministries. Freed of this responsibility, the commission will be better able to address the tasks of privatization. I should stress that these tasks go well beyond just the divestiture of Government-owned enterprises. Indeed, it would not be appropriate to transfer an enterprise from public to private ownership, if this means the enterprise will have to struggle in a business environment where there are distortions and excessive limitations that not only make it impossible to measure honestly the enterprise's perforformance, but which unfairly risk the enterprise's ability to exist. Obviously, if it is clear that an enterprise under private ownership is going to be released into such an environment, it will not attract much interest from the private sector when it is offered for sale.

It must be borne in mind that privately owned enterprises face the certainty of insolvency, bankruptcy and liquidation if they are consistently unprofitable. However, if they are competently managed, then their ongoing existence is assured, provided that the marketplace where they operate is fair. And this fairness must extend not just to the enterprise's owners, but also to its workers, the Government, which is a partner to successfully performing businesses as a receiver of income taxes, and above all to the consumer. Indeeed, one key objective of privatization is to ensure that the consumer is rewarded with a geater variety and quality of goods and services, whose cost reflects increased efficiency in the productive process, and whose quantity is such that these goods and services are widely and plentifully available. In addition to its responsibility for improving the infrastructure, the Government's role will be to provide and maintain a regulatory framework which will guarantee that the interests of all parties concerned are kept in equitable balance.

Various stages of any business negotiation require confidentiality, but it will be a major responsibility of the privatization commission to provide the same information and equal treatment to all interested parties involved in a privatization transaction. Procedures which assure the maintenence of a proper arms-length between public and private sectors will be carefully followed at all stages of a transaction. Only with such transparency can the credibility of the Government be preserved throughout the entire duration of the privatization process.

We should accord special recognition to the participants in this Ministry of Industry training program in financial analysis and valuation techniques. Their acquired skills must not be allowed to languish, and they must be utilized by the Ministry of Industry in its plans to move ahead in support of the nation's privatization efforts. The newly-developed skills of government personnel can and should be combined with the resources of the private sector to ensure that the largest possible pool of talent it tapped for the success of our efforts to divest and restructure state-owned enterprises. The talents of Ethiopia's private sector accounting, consulting, and other firms must be utilized by the government whenever possible to assist in the privatization process. Indeed, private sector skills will be not only useful but necessary for certain specialized tasks, such as appraising an enterprise's machinery assets.

Although today marks the conclusion of this two-month training program, it is necessary for tomorrow to mark the beginning of serious thought and planning by the Ministry of Industry on how this considerable expenditure of time and money can be treated as an investment that must provide an ongoing return to all concerned. The Ministry for External Economic Cooperation would be pleased to support and assist with any serious proposals, by the Ministry of Industry or other ministries, for moving forward with the implementation of privatization ations.

In conclusion, I would like to thank the Ministry of Industry for its leadership and seriousness in developing the skills needed for privatization, and I would especially like to thank USAID for its enthusiastic support of these activities and its willingness to respond to the requests and needs of the Ethiopian government. I hope that this partnership in support of privatization will continue as our country moves forward with its new economic policies.

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50 Govt. Owned Enterprises To Be Privatised

(ENA) — The Ministry of Industry said that 50 of the total 104 government-owned enterprises are eligible for privatization.

At a half-day seminar sponsored by the USAID to review the privatization effort of the Ministry it was noted that owing to various reasons the remaining 54 enterprises will remain under the control of the government.

Of the total industries which are to remain in the hands of the government for sometime five involve foreign shareholdings while the rest were characterized among other features by disproportionate market share, heavy dependence on imported raw materials and significant export sales.

When there exists a larger pool of investment capital, a greater degree and diversity of private sector competition with adequate regulatory mechanism in place and international trade increased the cases of the 49 government enterprises will be re-examined with an eye to their privatization, according to the Ministry's statement presented to the meeting.

The statement added that in a bid to promote the private economic sector the Ministry in collaboration with the USAID had provided a 2-month training for 16 financial analysts.

Mr. Marc Baas, U.S. Ambassador to Ethiopia stressed the need for privatizing government-owned enterprises and encouraging the participation of entreprenures.

Ato Israel Kidane-Mariam, Vice Minister of the Ministry for External Economic Cooperation, said that privatization is an important component of the country's new economic policy. "The government is already taking steps to ensure that we have access to the types of expertise and assistance that can help our privatization programme succeed", the Minister added.

Foreign experts who gave the two-month training have suggested that the entire privatization process shouldn't take a long time.

Apart from the 104 government enterprises, there are 3021 small and medium size private industries in the country

ATTACHMENT F

Brochure on MOI Privatization Activities

(Attached Separately)

ATTACHMENT G

1. End-of-Training Questionnaire

2. Summary of Results of Questionnaires

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Financial Analysis and Valuation Techniques for Privatization

Training Program
Sponsored by
Ministry of Industry of Ethiopia
The U.S. Agency for International Development

June 28, 1993 through August 27, 1993

Instructor: Mr. Charles Moizeau

The purpose of this confidential survey is to assess the effectiveness of this training program. Your honest evaluation will help us understand both the strong and the weak points of this program, so that we can improve future training sessions. Thank you for taking the time to answer these questions thoughtfully.

SCALE:

1 = Yes, agree strongly
2 = Agree
3 = Somewhat agree
4 = Disagree somewhat
5 = No, disagree strongly

I.	COURSE OBJECTIVES & CONTENT	1	2	3	4	5
a.	Were the course objectives clearly communicated to you before the training started?	1	2	3	4	5
b.	Were your expectations for this training course met?	1	2	3	4	5
c.	Was the training program effective in teaching you the fundamentals of financial analysis techniques as needed to conduct valuations?	1	2	3	4	5

d.	Do you believe that this training was effective in teaching you the mechanics and practical aspects of valuation?	1	2	3	4	5
e.	Do you feel you gained an understanding of the following valuation methods:					
	1. Book value and other asset-based methods	1	2	3	4	5
	2. Income-based methods,including DCF analysis	1	2	3	4	5
f.	Do you feel you have a better understanding of the objectives and limitations of enterprise valuation as part of the privatization process?	1	2	3	4	5
g.	Did the course add to your knowledge of other aspects of privatization, besides valuation?	1	2	3	4	5
h.	Specifically, did you learn about:					
	1. Deal financing	1	2	3	4	5
	2. Deal negotiation	1	2	3	4	5
	3. Deal structuring	1	2	3	4	5
	4. Legal requirements	1	2	3	4	5

1. If you answered 3, 4 or 5 on any of the above questions, please explain:

II.	COURSE TOPICS & MATERIALS	1	2	3	4	5
a.	In general, will the topics covered in the training be useful to you in your future career?	1	2	3	4	5
b.	Was the course content presented too quickly?	1	2	3	4	5
c.	Was the course content presented too slowly?	1	2	3	4	5
d.	Did you make use of the textbook, handouts and reference materials provided?	1	2	3	4	5
e.	Was the duration of the classroom work appropriate (including length and frequency of classes)?	1	2	3	4	5
f.	Was the duration of the fieldwork and report-writing phase appropriate?	1	2	3	4	5
g.	Was the subject matter too complex for you?	1	2	3	4	5
h.	Was the subject matter too simple for you?	1	2	3	4	5
i.	From which of the following did you learn the most?					
	1. Lectures	1	2	3	4	5
	2. Classroom Discussions	1	2	3	4	5
	3. "Live" case studies	1	2	3	4	5
	4. Examinations	1	2	3	4	5
	5. Visits to factories	1	2	3	4	5
	6. Reading and self study	1	2	3	4	5

1. a. Which topic do you believe was the most useful (explain)?

   b. Which topic do you believe was the lease useful (explain)?

2. Which reference materials or handouts were the most useful?

3. Did you have language problems with the materials or lectures? Was the level of English too advanced, too easy, or just right?

4. If you answered 3, 4 or 5 on any of the above questions, please explain:

III. LOCATION/LOGISTICS		1	2	3	4	5
a.	Was the site of the training course conveniently located?	1	2	3	4	5
b.	Were you adequately informed of the logistical arrangements for the course (where it would take place, when it would start)?	1	2	3	4	5
c.	Were you given adequate supplies?	1	2	3	4	5

1. If you answered 3, 4 or 5 on any of the above questions, please explain:

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IV.	INSTRUCTOR	1	2	3	4	5
a.	Was the instructor interesting?	1	2	3	4	5
b.	Do you feel the instructor was knowledgeable about basic financial analysis techniques?	1	2	3	4	5
c.	Do you feel the instructor was knowledgeable about general privatization issues/topics?	1	2	3	4	5
d.	Do you feel the instructor was knowledgeable about valuation techniques?	1	2	3	4	5
e.	Did the instructor answer your questions clearly and understand your point of view?	1	2	3	4	5
f.	Was the instructor a good presenter (spoke clearly, slowly)?	1	2	3	4	5

1. a. In general, do you feel the instructor did a good job?

   b. Would you recommend him to teach a similar course elsewhere?

2. If you answered 3, 4 or 5 on any of the above questions, please explain why.

V.	OVERALL	1	2	3	4	5
a.	Overall, were you pleased with this course?	1	2	3	4	5
b.	Were the subjects covered in this course relevant to your job?	1	2	3	4	5
c.	Do you believe this course was relevant to the needs of the Ministry of Industry?	1	2	3	4	5

1. How could this training program have been improved?

2. What were your expectations for this course? Were they met? In what way did the course differ from your expectations?

4. Did you miss any of the sessions (circle)? YES NO

5. Approximately how many sessions did you miss (circle)?

   a. None
   b. less than 20%
   c. 20% to 30%
   d. 30% to 40%
   e. 40% to 50%
   f. more than 50%

6. If you missed any sessions, what was the reason: (check as appropriate)

   ____ Lack of interest in the subject material
   ____ Illness
   ____ Work which could not be postponed or delegated
   ____ Lack of commitment to the training course by your day-to-day supervisor
   ____ Subject matter was not relevant to position/job
   ____ Location of course was difficult to get to
   ____ Other (explain):______________________________

7. Please feel free to make any additional comments about the training program.

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Summary of results of course evaluation/questionnaires

At the end of the training program, questionnaires were distributed to the participants. A total of eleven questionnaires were completed. An open discussion about the training program was then held between the course participants (trainees) and the Washington-based Project/Task Manager, who had not been closely involved with the training. The results of the questionnaires and the discussion are summarized in this document.

I. Course objectives and content

- Most of the trainees felt that the course objectives were clearly communicated to them prior to commencement of the training program. They felt that their own expectations of the course were met, although not completely.
- Trainees felt that the course was very effective in teaching them the fundamentals of financial analysis, but less effective in teaching them the mechanics and practical aspects of valuation.
- Most trainees felt that they did learn about other aspects of privatization (such as deal financing, negotiation, structuring, and legal requirements), but not as thoroughly as they would have liked.

II. Course topics and materials

- Most trainees agreed that the topics covered in the training course will be useful to them in their future careers.
- Reactions to the pace of the course were mixed, but most participants felt that it was too rushed, rather than too slow a pace. They felt that there was a large amount of material covered in a short period of time. In particular, they felt that there was not enough time for the fieldwork and report-writing phases.
- Trainees felt that the textbook, handouts, and reference materials provided were useful, but virtually all of them would have liked even more handouts and materials on valuation methods. They also felt that case studies and reviews of real valuation experiences in other countries would have been very useful.
- Lectures, the "live" case studies, and reading and self-study were the most useful teaching methods, according to the trainees.

- The majority of the trainees felt that the examinations were the least useful teaching method used in the course. Various trainees commented that the exams did not cover the "most useful" (i.e. valuations) portion of the course, that the exams were more subjective than they would have liked, and that the exams contained irrelevant questions.

- Three trainees commented that financial analysis was the most useful topic covered during the course; they viewed it as a building block for carrying out valuations. Most trainees, however, felt that valuation techniques were the most important component of the training, and one they would have liked to have spent more time on. During our discussion, a number of the trainees were quite vehement that not enough time, attention or materials were devoted to valuation techniques.

- All trainees agreed that the level of English used (both by the instructor and in the materials) was "just right" -- neither too advanced nor too easy.

III. Location/logistics

- In general, the trainees felt that the location of the course was convenient and that they were adequately notified of logistical information in advance (where the course would be held, when it would start, etc.). A couple of people, however, strongly disagreed with this, stating that they were given virtually no logistical information and that the location was very inconvenient.

- There was general agreement that it would be better to hold this type of course off-site, in a location as far removed as possible from the job sites of the participants. Even those that felt the location of the course was convenient agreed that their jobs interfered with their ability to concentrate on the training program. There was a consensus it would be effective to shorten the time period (to perhaps four to six weeks) make it a full-time rather than a part-time exercise, and select a location where the participants would be completely removed from their current jobs for the duration of the training.

- Most trainees felt that they did not have access to adequate supplies, especially those needed in preparing the reports (not only computers and calculators, but also basics like paper and pencils).

IV. Instructor

- Overall, the students were pleased with the instructor. They liked his teaching style, and felt that he was interesting, well-informed and tried hard to be responsive to the trainees concerns. They also felt that he was easy to understand, as he spoke clearly and slowly (and they liked his jokes!).

- There was a general feeling that the instructor was more knowledgeable about and did a better job of teaching financial analysis than valuation techniques.

V. Overall

- Overall, the trainees were pleased with the training course. Many of the trainees commented that they felt that additional training, on-the-job experience conducting valuations, or both, is needed for them to realize the full benefits of this initial training program.

- All trainees agreed (many of them very strongly) that the topics covered in the training program are useful and important to the Ministry of Industry.

- The reaction from the participants was mixed on the question of whether their expectations for the course had been met. Once again, many of them cited an expectation that more time would be spent on valuation techniques, rather than on the basic tools of financial analysis.

- The trainees commented that the most important reason for missing sessions (overall attendance throughout the course was very low) was interference by their current jobs. Because they were attending training half-time and working half-time, many trainees found it difficult to attend the course consistently. Many of them did not work for the MOI, and said that their current supervisors (not surprisingly) placed a higher priority on projects at the office than on attending the training course.

- The participants made a number of suggestions for improving the course, including:

  -- hold the training course in a location removed from the participants' day-to-day jobs (a number of people suggested this)

  -- shorten the duration of the course and have it be a full-time, rather than a part-time, activity

  -- have two instructors, each knowledgeable in different areas (i.e. financial analysis and valuation techniques), to provide additional depth and experience for the trainees, and/or split the course into two distinct modules, one on financial analysis and one on valuation techniques

-- extend the duration of the course, enabling the students to get more practical experience carrying out valuations

-- provide books and materials for the participants to read prior to commencement of the program, enabling them to begin with a larger knowledge base

-- start the course with a focus on larger privatization issues, discussing the objectives of privatization; the social, economic and political issues involved in privatization; and the problems and issues encountered in its implementation. This would give the trainees perspective and the "big picture" before having them focus on the details of financial analysis.

-- bring in "guest speakers" (such as lawyers, economists, labor specialists, engineers, etc.) to discuss particular issues, especially some of the sensitive social, political, and legal issues involved in privatization.

-- divide the participants into groups based on their backgrounds and knowledge of finance. Teach the course to each group separately, tailoring it to the needs and understanding of each group. For those with strong finance background, skip much of the initial focus on financial analysis. For those with little finance background (such as the engineers), focus heavily on basic financial analysis tools, as was done with this course.

-- take a more "real world" approach to valuation, with a strong emphasis on learning about and from other countries' privatization experiences.

ATTACHMENT H

Indicative Scopes of Work

1. Scope of Work for USAID/Burundi Demonstration Transaction

2. Scopes of Work for Trucking Sector Privatization/Liberalization

Statement of Work

I. Background

The weight of public enterprises in Burundi's economy has grown substantially since the mid 1970s when the majority of SOEs were created. As of December 1990 there were 86 public enterprises spanning every sector of the economy and employing approximately 12,000 people. Despite support from the Government in the form of subsidies, loan guarantees, tax breaks and other concessions, the performance of many SOEs has been poor. Reasons cited for their poor performance include inadequate preparation of business plans, market surveys and strategic plans, and weak or inexperienced management. Given this record of poor performance, public enterprises have been targeted for reform as part of Burundi's structural adjustment program, which is endorsed by the World Bank. Coordination with the World Bank and major donors will be important to the program of structural adjustment and privatization in Burundi.

The Service Charge des Enterprises Publiques (SCEP), the agency charged with responsibility for privatization in Burundi, has proposed to the Government a program in which certain public enterprises would be restructured, others would be privatized and the remaining enterprises would be rehabilitated. Those companies targeted for privatization are essentially those which are profitable and most likely to attract private investors. Through privatization, the Government hopes to stimulate the private sector, reduce the burden of public enterprises on the state's budget and improve the profitability of public enterprises.

II. Objective

The SCEP has requested technical assistance from USAID/Burundi in connection with the Government's privatization program. The purpose of this consultancy is to develop a set of practical recommendations that will lead to the privatization of a state-owned enterprise in Burundi in a manner that is consistent with the Government's privatization objectives. More specifically, the objectives are to: (1) conduct an assessment of the environment for undertaking privatization in Burundi, which includes an assessment of privatization initiatives and the broader issues of governance related to privatization in Burundi, and to select appropriate candidates for privatization; (2) prepare a privatization action plan for the selected privatization candidate; and (3) successfully transfer ownership of the selected public enterprise to an acceptable group of private investors at an optimal value within a reasonable time (for example, by the end of 1992, assuming an appropriate institutional setting for privatization exists). It is our understanding that the Government of Burundi is eager to achieve tangible results for its privatization program; this scope of work has been prepared in an effort to meet this objective.

III. Approach

PW/IPG's overall approach is based upon five criteria which we believe are essential to the successful implementation of this activity.

1. Multi-Disciplinary Team

Privatizing a state-owned enterprise will require the PW/IPG team to identify and address a number of key strategic, financial, operational, management and regulatory issues as well as enabling environment factors. To this end, it is desirable to form a multi-disciplinary team of U.S. and Burundian professionals with the requisite experience to ensure that a complete and thorough analysis of the state-owned enterprise is performed. The involvement of Burundian professionals will depend on the extent to which PW/IPG finds appropriate local expertise available and might include accountants, financial analysts or Government officials.

2. Government and Enterprise Management Active Participation

Given the collaborative nature of this effort among PW/IPG, the Government and company management, the active participation of these parties and their support and agreement at each stage of the process is fundamental. As stated earlier, coordination with the World Bank and other donor agencies will also be important to the program of privatization in Burundi.

3. Transparent Process

We believe that a transparent process is important for both the privatization of the enterprise and encouraging public support for Burundi's overall privatization program.

4. Quality, Independence and Confidentiality

The Government and company management can be assured that the privatization process will proceed smoothly and will be of the highest quality. In order to ensure confidentiality, we will work only for the Ministry and company management, providing valuation figures and classified information to only these two entities.

5. Foreign Investment Promotion

If it is determined in the course of our analysis that a foreign investor is desirable, we will be sensitive to the Government's and management's specific financial, technical and managerial needs.

IV. Tasks

Below we present a detailed work program for this consultancy. It is divided into three phases: (1) Privatization Environment Assessment and Enterprise Selection; (2) Preparation of Privatization Action Plan, and (3) Execution.

Phase I: Privatization Environment Assessment and Enterprise Selection

Phase I is divided into two areas of work. The first is a Privatization Environment Assessment which includes analyses and recommendations concerning the GRB's privatization program, USAID's privatization initiatives, and the broad governance issues related to privatization in Burundi. The second area of Phase I, which relates more directly to the enterprise-specific effort in Phase II and III of this project, is to select appropriate candidates for privatization which are non-strategic, profitable, and most likely to attract private investment. The areas of Phase I are interrelated in that the selection of enterprises is conditional on a clear assessment of the conditions, potential, and limitations for undertaking privatization in Burundi. To this effect, the team will perform the following tasks:

A. Privatization Environment Assessment

Privatization of state-owned enterprises is a major policy element in USAID's market-oriented economic development strategy. The object of this appraisal is to assess the status of privatization activities in Burundi in order to understand the impetus and goals of the GRB privatization program and determine the feasibility of initiatives for further supporting the program. The Burundi Privatization Appraisal will be distributed to senior public and private representatives and, in conjunction with other IPG appraisals underway in other African countries, serve as a point of departure for possible AID specific support of Burundi's privatization efforts. The Privatization Appraisal includes three sub-tasks which are conducted simultaneously through the review of records and through meetings with officials of SCEP, relevant ministries, and USAID:

1. Analyze the Governance Issues Related to Privatization in Burundi

Privatization involves major transfers of public assets to private sector owners and/or operators. Public understanding of the needs for and the objectives of national privatization programs and a demonstrated transparency in the conduct of the process are fundamental elements in gaining public acceptance and support of what can often be a highly politicized undertaking. Any number of African privatization programs have foundered due to the failure to assess the importance of such governance issues.

For this survey "governance" is defined as the impartial, transparent management of public affairs through the generation of a regime or set of rules accepted as constituting legitimate authority, for the purpose of promoting and enhancing societal values that are sought by individuals and groups. The issues under review include:

- Legitimate authority - Establishing the rules of the game, ensuring their wide dissemination, and policing to ensure adherence. Wide knowledge of who decides and how they decide. Existence of appeal mechanisms.

- Public responsiveness - Decision makers and members of the public share and understand common interests. Incentives are built in to ensure that rules of the game and the game itself continue to be played

- Public accountability - Clear rules of conduct known. Those violating the rules can be replaced. Those with authority can be disciplined for their actions.

- Tolerance of others with a public character - Non state actors can take part in the process. Human rights protected by those operating outside central state authorities. People participate without fear of reprisal.

- Openness of information - Ability to learn how those in authority are handling powers and if they are responding to public concerns. People have access to information.

- Effective public management - Successful application of public resources in solving public problems. People believe that public authorities are doing their job.

2. Assess the Current Status of GRB's Privatization Program

Review and assess the status of privatization programs in Burundi taking into consideration the following elements:

- An overview of the status and trends in the business, financial and regulatory environment. This includes the impact of GRB policies in trade, finance, investment, labor, price controls, subsidies, and subventions as they affect privatization.

- Review of Sectoral Performance and the environment in which privatized enterprises will be operating. Identification of key factors affecting privatization, including: international competitiveness of sectors, impact of regional trading blocs and trade regimes, trade policies of principal competitors and trade partners, and role played by subsidies in industry sectors designated for privatization.

- The government's stated privatization objectives and historical willingness and ability to achieve these objectives.

- The effectiveness of the government's legal and institutional structures for implementing the stated privatization program.

- Form and extent of multilateral lender and donor support.

- Review of the extent and quality of pertinent pre-privatization and privatization studies including strategy formulation, sectoral assessments, and corporate feasibility studies, audits and asset valuations.

- Record of success and lessons learned from on-going transactions.

- Methods, success and difficulties experienced in identifying and attracting investors and/or operators. Potential interest of local private investors and availability of local investment capital.

- Role of foreign investors or operators in the privatization process and their contribution in terms of providing capital, technology, assess to markets, etc. Possible barriers to foreign investment including the posture of key representatives of the public and private sectors in Burundi toward foreign investment.

- Existence of special privatization incentives such as trade, tariff and labor legislation; early retirement incentives and retirement funds; investment code provisions; debt assumption provisions; etc.

- Assess the extent to which local professionals (accountants, financial analysts, or government officials) have requisite skills and are available to participate in Phase I and II of the assignment.

3. Review USAID/Burundi's Privatization Program

Review the Mission's efforts to strengthen privatization programs and positively impact governance issues, including the following:

- Mission's past privatization initiatives and plans for the future in terms of policy and strategy development, SOE restructuring, privatization transaction assistance, pre-privatization feasibility surveys, audits or asset valuations, training and public relations.

- Relationships with lenders and donors.

- Government's perception of USAID's role in the privatization process, and history of requests for assistance.

- Support and assistance missions require from Washington.

- Capacity, capability and interest of existing staff to carry out privatization initiatives.

B. Selection of Enterprises Analysis

The purpose of this task is to select enterprises which are non-strategic, profitable, and most likely to attract private investors, prioritize them, and select one for privatization.

1. Establish *system-level criteria* jointly with SCEP and USAID Burundi. This task involves incorporating analysis of the Privatization Environment Assessment in order to determine the political commitment, aggregate economic performance, and industry sector performance as they apply to enterprise selection.

2. Establish *enterprise-level criteria* jointly with the SCEP and USAID/Burundi to be used in measuring the performance of state-owned enterprises and selecting appropriate candidates for privatization. These criteria might include ratios regarding profitability, liquidity and asset management; market position; economic importance and the extent of government ownership. Prior to commencing this task, agreement will be reached regarding the number and nature of the enterprises to be examined. Enterprises that might be reviewed include AMSAR, COTEBU, CNI, FADA, ONAPHA, OTB, and VERRUNDI.

3. Conduct *Enterprise Assessments* through record analyses and meetings with SCEP, USAID, enterprise management, and other parties. Sub-tasks include:

   - Finalization of performance indicators

   - Assessment of accounting issues in Burundi

   - Assessment of each enterprise's background, performance, and prospects

4. Make *recommendations* regarding prioritization of "first phase" candidates for privatization

5. Prepare revised workplan and schedule for Phases II and III incorporating information obtained as a result of Phase I; prepare a list of information needed in order to advance to Phase II (such as complete audited financial statements, business plans, sales projections, asset inventories and company by-laws).

Principal outputs for Phase I:

A Preliminary Draft Report (PDR) which addresses the Privatization Environment Assessment and Selection of Enterprises analyses.

The Privatization Environment Assessment portion will include:

1. An overview of the national privatization program, its successes and obstacles.

2. Changes in the regulatory, policy and governance environments required to facilitate privatization.

3. Changes in government institutions and staffing required to support privatization.

4. Major areas of opportunity open to the mission in the support of government privatization objectives.

5. Ability of the mission as currently organized and staffed to develop and manage privatization programs.

6. Specific next steps required to accelerate privatization implementation, including specific assistance from A.I.D. Washington.

The Selection of Enterprise Analysis portion will include:

1. The relative importance of the privatization of each enterprise to the GRB.

2. The relative performance of industrial sectors in which Burundi's enterprises are competing.

3. An assessment of the background, operational and financial performance, and prospects of each enterprise based on the forgoing analysis.

4. Ranking of enterprises according to objective criteria.

Finally, a revised workplan and schedule and list of information needs for the next phases will be produced based on the complexity of the enterprise selected and the availability of local professionals.

Deliverables Timeline:

Before leaving Burundi, the Contractor will prepare a detailed outline of principal findings, recommendations and conclusions of the tasks described above in French to be presented in a debriefing at the end of the Phase I field work.

The PDR, which is expected to be brief and to lead cogently to Phase II, will be prepared in Washington, D.C. in English. (It is proposed that presentations and Final Reports be prepared in French and PDR and Draft Reports be prepared in English in order to minimize translation costs). The Contractor shall send 4 copies of the PDR to USAID/Burundi via DHL within 30 calendar days of their departure from Burundi. Following review of the PDR, comments will be faxed to the Contractor within 7 calendar days of the Mission's reception of the PDR. The Contractor will have 15 calendar days from the date of the Mission's faxed comments to produce and pouch 4 copies of the Final Report (English Version) to USAID/Burundi. The Mission will review the Final Report (English Version) within 7 calendar days of its reception and notify the Contractor by fax of its approval and authorization to proceed with translation of the report into French. The Contractor will have 28 calendar days from the day of the Mission's approval to proceed to translate the Final Report in French and to send 12 copies of the Final Report in French to USAID/Burundi via DHL.

Once the Government has reviewed the Final Report, it must determine which enterprise shall be privatized and communicate this to USAID/Burundi and management. The Government should also instruct management to gather the information required by the PW/IPG team for Phase II. Once these steps have been taken, USAID/Burundi shall notify the Contractor to proceed to Phase II.

Phase II: Preparation of Privatization Action Plan

The second phase, Preparation of the Privatization Action Plan, will focus on appraising the technical, financial and strategic strengths and weaknesses of the enterprise selected; establishing the value of the enterprise given the results of the appraisal; and determining the most appropriate method for privatization as described in the Privatization Action Plan.

A. Assess the Enterprise's Technical, Financial and Strategic Characteristics

In order for the team to fully understand the technical, financial and strategic characteristics of the enterprise (which will have a significant impact on the company's valuation and the development of a privatization action plan), certain information is required. In particular, a Business and Technical Review, Financial Review and a Legal Audit should be performed.

1. Business and Technical Review

The purpose of the Business and Technical Review is to gain a clear understanding of the managerial, technological and market forces impacting the company's performance. Following a brief overview of the company's history, management, organization and ownership structure, the team will assess each of the following:

- Products — Range of products, product features and specifications, the production process, technology employed, sources of raw materials, supply contracts, cost per unit (energy, raw materials, labor).
- Markets & Competition — Customer analysis, pricing strategies, sales contracts, distribution channels; competitors, competitive strategy.
- Labor — Number of employees (by category), education and training, labor contracts, salaries and benefits, pension programs, early retirement plans, incentive plans, recruitment needs, redundancy and possibilities for re-deployment.
- Facilities — Physical layout, dimensions and features of buildings and equipment, maintenance and storage, water, electricity, heating, waste disposal, value of property.
- Accounting & Information Systems — Efficiency and accuracy of management information systems, adequacy of reports generated, level of automation.

2. Financial Review

The analysis of a company's financial performance begins with a review of their audited financial statements for previous years, in particular their income statement and balance sheet. With respect to their income statement, key items to be reviewed include total revenues, product margins, overhead expenses, financial expenses and net income. The analysis will center on total values, trends and the variability/volatility of each.

Analyzing the balance sheet requires an assessment of such items as:

- Working capital - average and seasonal needs
- Receivables - ageing and bad debt estimates
- Inventories - accounting methods; investments in raw materials, goods in process and finished goods; and estimated carrying costs
- Land, Buildings & Equipment - original value, depreciation, net book value, accounting methods;
- Short and Long Term Debt - cash flow required for debt servicing, relationships with lenders
- Equity - book value, accounting methods, variability.

Analyzing financial ratios will enable the team to assess the company's performance from year to year on a consistent basis. These include ratios for profitability, asset management, debt management and liquidity. Examples include the company's return on equity and assets (profitability), inventory and receivables turnover (asset management), debt as a percentage of total net worth (debt management) and current assets as a percentage of current liabilities (liquidity management).

3. Legal Audit

Prior to any change in the company's ownership, a thorough review should be conducted of its legal environment. Among the questions to be examined are: Are there currently any legal impediments to transferring the company to the private sector? What licenses or permits are required by law for the company to operate? What safety, environmental, labor or other laws must be observed? Are the company's products or raw materials subject to any price controls? Is the company involved in any legal actions? Are there any contingent claims? Are the company's records with respect to liabilities complete? The answers to each of these questions should help in identifying any legal issues that need to be resolved in order for privatization to proceed. This legal audit should have no impact on the PW/IPG team's level of effort, assuming that it can be performed by an SCEP or Government lawyer.

4. Determination of Investment/Restructuring Needs

Next, the team should recommend to the Government whether it should sell the company "as is", perhaps discounting the price as compensation for certain negative aspects of the company, or whether it should modify its structure in order to sell it and increase the proceeds to the Government. This might include stripping the company of its liabilities, eliminating subsidies, appointing a new chief executive officer to manage the company for a transitional period, or breaking up the company into several smaller companies.

It has been our experience that elaborate programs aimed at rehabilitating or restructuring companies slated for privatization often achieve limited benefits when weighed against the significant cost in terms of time and money they typically involve. While the Government should have this option for its consideration, it is unlikely that the team would recommend restructuring unless it believed the company could not be sold in its present condition.

Principal output: Oral Presentation

The principal output for this objective will be an interim presentation in French to present the results of the Business and Technical Review, Financial Review and Legal Audit, including an explanation of the methodologies used. The team will also make a preliminary recommendation as to whether the company should be sold "as is" or restructured, and whether the enterprise is potentially viable and, if not, explain why it is not viable. The rationale for delivering an oral presentation at this juncture is (a) to promote an open dialogue with the Government and enterprise management and (b) to avoid the inevitable delays and expense and possible loss of momentum resulting from the preparation and revision of formal reports.

B Establish the Market Value of the Enterprise

Next a range of values for the company should be established using at least two valuation methods, one of which should be the Discounted Cash Flow (DCF) method. In valuing the company according to the DCF method, the analysis focuses on the anticipated cash flows of the company that are projected forward based on information concerning the company's expected earnings performance, its depreciation schedule, the anticipated changes in working capital and long-term debt, and any major capital expenditures required. Alternative scenarios may be introduced (for example, a moderate to large capital investment program financed by a new owner) and sensitivity analyses may be performed. The company's future cash flow is discounted at a rate which takes into account not only the time value of money but the particular risks associated with the operation, firms in the industry and the risk associated with investing in Burundi. The result of this analysis rests at the heart of any investor's decision.

The Liquidation Value sets the value of the company equal to the projected proceeds from a forced sale of assets (minus its liabilities).

The valuation methods described above are bound to yield different results. Conceptually, the market value of the company (the price for a transaction between a willing buyer and a willing seller) can only be determined once a buyer has been identified and a selling price has been negotiated. In the interim, a range of values for the enterprise should be selected so as to allow some flexibility in the negotiations process. For example, the Government may wish to sell the company not to the highest bidder (in terms of the cash proceeds generated) but to the buyer who is willing to offer the best combination of cash, management expertise, technology, investment capital and guarantees to retain workers. In addition, the

Government may also want to establish different prices for different buyers (foreign, domestic, management, employees).

Principal output: Oral presentation

The principal output for this objective is an oral briefing in French, the purpose of which is to: (a) explain the valuation methods used, (b) identify the key variables for each, (c) explain any adjustments that were made, and (d) define and explain the final range of values.

C. Privatization Action Plan

The Privatization Action Plan (PAP) is an essential document that provides the blueprint to be followed during the execution phase. The PAP will present conclusions and recommendations for the company with respect to:

- Company Appraisal
- Valuation
- Target Investors
- Privatization Method (private placement, public offering, employee or management buyout, etc.)
- Sales Strategy
- Proposed Capital Structure of the Enterprise Post-Privatization
- Proposed Restructuring (if any)

Principal output: Privatization Action Plan and Oral Presentation

The principal output for this objective is the PAP which incorporates the team's appraisal work, valuation results and step-by-step strategy for privatization into one document. While in-country, the PW/IPG team will give an oral briefing in French to present the privatization strategy and describe key elements of the PAP.

The Draft PAP will be prepared in Washington, D.C. in English. The Contractor shall send 4 copies of the Draft PAP to USAID/Burundi via DHL within 30 calendar days of their departure from Burundi. Following review of the Draft PAP, comments will be faxed to the Contractor within 7 calendar days of the Mission's reception of the Draft PAP. The Contractor will have 15 calendar days from the date of the Mission's faxed comments to produce and pouch 4 copies of the Final PAP (English Version) to USAID/Burundi. The

Mission will review the Final PAP (English Version) within 7 calendar days of its reception and notify the Contractor by fax of its approval and authorization to proceed with translation of the Final PAP into French. The Contractor will have 28 calendar days from the day of the Mission's approval to proceed to translate the Final PAP in French and to send 12 copies of the French translation to USAID/Burundi via DHL.

Once the Government has reviewed and approved the Final PAP, USAID/Burundi shall notify the Contractor to proceed to Phase III.

Phase III: Execution

The principal objective of this phase is the sell the company at an optimal value, within a reasonable period of time, and to an acceptable buyer. The implementation of privatization will require that the following tasks be performed:

- Selection of support organizations (e.g., accounting firm, marketing consultant, investment bank, ESOP consultant, public relations firm)
- Exploratory contact with target investors
- Implementation of legal, financial or operational restructuring if needed
- Preparation of the information memorandum highlighting the company's key strengths, business features and unrealized potential
- Development of a "short-list" of potential investors and in-depth discussions with selected candidates (if direct negotiation method is being used)
- Preparation of documents for invitation to bid (if competitive bidding is used) and recommendadon of the key selection criteria
- Preparation of documents for public placement of shares (if appropriate)
- Information dissemination and public relations.

Principal output: The key deliverables for this phase are the Information Memorandum (in English and French) and bidding documents (to be determined). The final output of this phase is the successful completion of the transaction and the sale of the company.

The Information Memorandum (IM) is a confidential sales document for potential investors. In general, it provides an overview of the company, its marketing strategy, production, business strategy and financial performance, the industry and the investment environment of the host country.

The Contractor shall prepare the Draft IM in Washington, D.C. in English. The Contractor shall send 4 copies of the Draft IM to USAID/Burundi via DHL within 30 calendar days of receiving authorization to proceed to Phase III. Following review of the Draft IM, comments will be faxed to the Contractor within 7 calendar days of the Mission's reception of the Draft IM. The Contractor will have 15 calendar days from the date of the Mission's faxed comments to produce and pouch 4 copies of the Final IM (English Version) to USAID/Burundi. The Mission will review the Final IM (English Version) within 7 calendar days of its reception and notify the Contractor by fax of its approval and authorization to proceed with translation of the Final IM into French. The Contractor will have 28 calendar days from the date of the Mission's approval to proceed to translate the Final IM in French and to send 4 copies of the French translation to USAID/Burundi via DHL. Additional copies will be made as necessary to send to potential investors.

It is difficult at this time to anticipate the additional requirements of the sales process and to propose the best timing for their execution. Furthermore, there can be no guarantee that a sale will be completed within the stated Level of Effort. The Level of Effort and timing will depend on such factors as whether the objective is to seek foreign or domestic investors; to conduct an initial public offering of shares on a nearby stock exchange or a private placement; to reserve shares for an employee share purchase plan or to conduct a management buyout, etc. This matter should be discussed by USAID/Burundi, the Government and the PW/IPG team once Phase III is under way.

V. Positions

Project Task Manager/Quality Control - Price Waterhouse Partner with previous experience in privatization and in providing quality control under the Privatization and Development Contract.

Project Task Manager/Investment Specialist - At least 15 years of experience in investment banking, project finance, or financial restructuring; prior experience in privatization; prior experience in developing countries; fluency in French.

Privatization Specialist - MBA; substantial Africa experience with demonstrated skills in policy and institutional analysis as it relates to privatization programs and the creation of an appropriate "enabling environment" in which privatization can be implemented; in-depth knowledge of AID's African programs and initiatives in related areas; fluency in French.

Economist - Ph.D. with a minimum of two years experience in economic analysis, privatization impact assessment, and/or industry sector evaluation; prior experience in developing countries; fluency in French desired.

Financial Analyst - MBA (or MA with minimum 2 years in commercial or investment banking) with prior privatization experience; fluency in French.

Local Financial Analyst (if available) - Certificate or diploma in financial analysis; minimum 2 years of experience in financial analysis; knowledgeable of the regulatory/investment environment and local accounting practices; relevant industry knowledge desirable.

IPG Country Coordinator - MBA; 2-4 years of experience of project management involving developing countries; French fluency. Responsibilities: serve as principal client contact; ensure smooth transition among Phases I, II and III; ensure objectives of the assignment are effectively met; provide secondary (to Partner) quality control and review of client deliverables.

Industry Specialists - At least 15 years of industry experience; French fluency desired (given that U.S. industry specialists typically are not bilingual).

Local Appraiser (Asset Valuation Specialist) - Minimum 2 years of experience in asset valuation; knowledge of local appraisal standards and practices; relevant industry knowledge desirable.

Trucking Sector Liberalization and Privatization in Ethiopia

Illustrative Scope of Work

Objective. The objective of the assistance is to develop: (i) a clear understanding of the dynamics of the trucking industry and of the performance and prospects for the main parastatal truck fleets; (ii) options for the liberalization of the industry, reform of related government policies and institutions, and the privatization of the main parastatal truck fleets; and (iii)) action programs for industry liberalization and for privatization and/or commercialization of the main government fleets, as appropriate.

Tasks. The main tasks are as follows.

1. Examine and assess the nature, structure and performance of the trucking industry (industry evolution, fleet ownership structure, road transport sector economics, etc.).

2. Critically review the policy and regulatory environment facing the trucking sector and other main issues and constraints affecting development of a more dynamic private sector trucking sub-sector.

   - Key policy and regulatory issues to be reviewed include but are not limited to trucking rates/tariffs; carrier licensing; taxes and levies on vehicle operations; standards and safety; and government institutions.

   - Other issues and constraints to be reviewed include but are not limited to: credit and insurance; availability of spare parts and of repair and maintenance services; training/human resource capacity; and transport associations.

3. Evaluate the options and prospects for shifting the ownership balance in the trucking sector toward the private sector, including strategies to: (i) prevent growth in the public fleet; (ii) stimulate growth in the private fleet; and (iii) reduce the size of the public fleet.

4. Assess the privatization options for the main parastatal trucking fleets, including an explicit evaluation of alternative forms of privatization (liquidation, asset sales, sale of companies as going-concerns, management and/or employee buy-outs, leasing or lease-purchase arrangements).

5. Develop action programs for: (i) liberalization of the road transport industry; and (ii) privatization of the main parastatal truck fleets.

Level of Effort/Budget Implications. Two three-person trips, each lasting 3 to 4 weeks. About 10 days of time for each team member in the US after each trip. Budget estimated roughly at $150-175k. Also could add a seminar/workshop designed to raise key issues and/or build consensus for industry liberalization/privatization plans. Add about another $60k for preparation and conduct of the workshop.

Privatization/Commercialization of WTOE Fleet

Illustrative Scope of Work

A. Elements of a Scope of Work. There seems to be two main issues to be addressed.

- A detailed analysis of transport costs related to the movement of goods by truck carried by WTOE. This should then be used to make recommendations on truck tariffs to be charged.

    - The analysis needs to focus on ton-km costs varied according to: different cargo types; vehicle type, age and size; length of haul; physical road conditions; etc--as appropriate.

    - Distinction should be made between the variable and fixed cost of trucking operations, and donated versus purchased vehicles.

    - Policy decisions will be needed to decide if the truck operations in the future should operate at rates which allow full-cost recovery or only variable costs. Distinction may also be made between routes, e.g. some remote and/or disadvantaged areas may only pay variable cost based rates, whereas others would pay full cost based rates.

    - Inter-temporal issues need to be addressed as well. For example, should full cost recovery rates be phased in gradually over time, say within 3 years, to avoid the "shock" of sharp prices hikes? How frequently and on what basis should rates be changed over time, to account for inflation, changes in the cost of inputs such as fuel, etc.?

- A strategic analysis of the options for the commercialization and/or privatization of the WTOE fleet after the end of 1993 when the "project" ends. This will focus on the financial implications of the top 2 - 3 options selected for WTOE as a whole. Without knowing the options, it is difficult to make detailed comments. However, we can evaluate selected issues such as the following.

    - Is the WTOE truck operation commercially viable? Will the truck operation be financially self-sustaining? If not, from where might the resource gap be filled?

    - What is the 5-year financial profile (balance sheet and income statement) for the WTOE trucking operation, given the strategic option chosen?

    - What is the optimal fleet size/composition? How and at what price should "excess" vehicles be disposed of (ie, privatization and divestment)? If new vehicles are needed, how are they to be financed?

- What are the "optimal" overhead costs associated with a truck operation of a given size?
- What aspects of the trucking operation should be run on a commercial basis -- fuel and spare parts purchase; repair and maintenance services; warehousing; etc?
- If the truck operation is to privatized -- can it be sold as one going-concern; will it have to be broken into su-----ponents prior to privatization (ie, by province/region and/or by type of op----; will the truck assets have to be sold piece by piece, either individually or in "blocks"?

B <u>Level of Effort</u>. This Scope could be accomplished at two levels of efforts. The first is the "which, rough and ready". This would involve two people for a 3-week visit each plus one week of write-up in the US. It assumes that much data is readily available and that the team is not responsible for consensus-building, etc. The second level of effort implies a more detailed analysis, more validation and some effort is made toward consensus-building. This level of effort would be a 2-person team visiting Ethiopia twice, for two three-week trips. The firs trip for base data collection and analysis of costs and ---ndustry dynamics. The second trip to focus more on strategic option elements of an action plan and consensus building. After trip one, ten days is needed in the US for each consultant; and, one week for each consultant after trip 2.

Very "ballpark" costs estimates would be $60k for level one and $140k for level two.