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**Deloitte Touche
Tohmatsu**



Slovak Ad Hoc Advice

Final Report

*Delivery Order No. 15
Contract No. EUR-0014-I-00-1056-00
Eastern Europe Enterprise Restructuring and
Privatization Project*



*U.S. Agency for International Development
ENI/EUR*

July 1996

**Deloitte Touche
Tohmatsu
International**



July 9, 1996

Lawrence Camp
U.S. Agency for International Development
ENI/PER/EP
Room 3206, SA-15
Washington, DC 20523

**Re: Contract Number EUR-0014-I-00-1056-00, Slovak Ad Hoc Advice,
Delivery Order #15, Final Report**

Dear Mr. Camp:

As specified in section C.3.(c)(2)(A)(i) of the referenced contract, this letter and the enclosed report represent the Final Report for the referenced delivery order. As required, we hereby provide the following information:

1. Summary of the accomplishments of the Delivery Order:

During the contract period (May 22, 1992 to September 30, 1995), there were many accomplishments, covering a broad range of activities. For example, the Slovak Ministry of Economy (MoE) strengthened its relations with international organizations, sought and achieved increased technical assistance from organizations such as USAID and EC PHARE, and began the process of improving the image of the Slovak Republic as an attractive investment destination.

At the commencement of the assignment the Advisors met with officials of the MoE and other economic agencies to determine what specific kinds of economic advice were being sought and how this advice would be most appropriately delivered. After this step, the Advisors prepared a report detailing their visit and findings to USAID and the Slovak Government.

The Advisors also prepared the following background papers and reports for the MoE:

- *Private Sector Infrastructure Development: The Potential for Build-Own Operate/Build-Own Transfer (BOO/BOT) in Slovakia*
- *A Technical Unit for Standard Privatization for the Ministry of Economy*

- *Direct Foreign Investment (DFI): The Main Policy Issues*
- *Terms of Reference for an Analysis of Inter-Enterprise Arrears in Slovakia.*

The Advisors performed the following tasks (the scope of work did not number these tasks nor were they carried out in this specific order):

- **Task 1:** The MoE specifically requested assistance in developing industrial policy. For this task the Advisors:
 - Recommended that the government adopt an “enabling” rather than an “interventionist” approach to industrial policy. The specific recommendations to the government were: continue privatization as a primary instrument of restructuring; promote foreign investment; orient towards export in trade policy; develop capital markets; and facilitate private provision of economic infrastructure.
 - Assisted the MoE in completing the industrial policy paper and securing approval by the Economics Council; aiding the MoE’s foreign investment unit on policy and implementation; and providing advice in the areas of economic policy, privatization, infrastructure, and trade.
 - Discussed with the MoE the role of industrial policy in overall economic policy; privatization plans for the chemical industry; and the problem of inter-enterprise arrears.
- **Task 2:** The Advisors assisted the MoE in drafting a foreign investment policy.
- **Task 3:** Two Privatization Advisors developed a privatization and implementation plan for the Slovak Republic as a precursor and condition of release of World Bank funds. The Slovak Ministry of Administration and Privatization of National Property (MAPNP) formally requested USAID technical assistance for the development of a Privatization Plan encompassing all Slovak institutions involved in the Large-Scale Privatization Process. The objectives of this task included the development of a plan enabling the privatization of 33% of the value of all state-owned enterprises, and in the process, identify the bottlenecks in the privatization process and offer plans for alleviating the bottlenecks.
- **Task 4:** The Advisors performed diagnostic studies of ten Slovak enterprises to determine their viability or non-viability as private enterprises. This task included preliminary research to gauge the level of bank capitalization and analyze its potential impact on enterprise restructuring in relation to debt conciliation. The Advisors completed the diagnostic reviews of the ten enterprises. Preparation of restructuring plans for these companies concluded under Delivery Order #33. All activity related to these companies and the debt conciliation analysis was performed under Delivery Order #33.

- **Task 5:** The Advisors carried out a financial review of the National Property Fund (NPF) covering four areas.
 1. *A study of the NPF's accounts receivable for closed privatization transactions.* Payment to the NPF for shares of enterprises that are privatized is, in some cases, scheduled over a number of years. This study reviewed the timeliness of these payments.
 2. *An analysis of investment guarantees.* Some privatization transactions are structured to include specific or general guarantees from the NPF. This analysis quantified the potential exposure to the NPF resulting from these guarantees.
 3. *A review of the NPF portfolio.* The NPF is the entity that holds shares of enterprises slated for privatization. This review included an inventory of their holdings, including a high-level valuation of the portfolio.
 4. *An analysis of cash flow projections.* NPF cash flow consists of revenue from the sale of enterprises and dividend income and expenses for required contributions to the state budget. This analysis provided a three-year projection of cash-flow.
- **Task 6:** This task placed a "transactions' team" in the Ministry of Privatization (MoP). The objective of this assistance was to aid the MoP in the sale of Slovak enterprises to foreign investors, and to support public relations/public education campaigns for the second wave of privatizations. Full scale implementation of this task proceeded under Delivery Order #35.
- **Task 7:** The Advisors provided expert Slovak industry and legal assistance to the coupon privatization process. Through this task, USAID funded the direct expenses of individuals selected by the MoP. The Slovak industry experts and lawyers assisted with the preparation of title, claims, and incorporation documentation for all the companies expected to go through the second wave of coupon privatization.
- **Task 8:** This task supported USAID's effort to confront the bad loan over-indebtedness problem. A macroeconomist completed a detailed report which identified alternative debt resolution schemes and their macroeconomic effect on the Slovak economy. The economist assimilated data with a view toward formulating a financial programming framework. Several alternatives for resolving the bad loan/enterprise over-indebtedness problems were selected and analyzed. The economist spent 20 days in Slovakia to refine and validate findings in the local environment.
- **Task 9:** An Advisor evaluated the loan portfolio of the National Bank of Slovakia. This assistance enabled the National Bank to define guidelines for its own borrowing as well as

that of the government entities and state companies which are the recipients of state loan guarantees.

- **Task 10:** The Ministry of Finance (MoF) requested short-term assistance in the area of capital markets regulation. Assistance focused on:

- The structure and organization of trading as it currently occurs in the Slovak equity market
- The role and regulation of investment funds in the Slovak market
- The relationship between the four components of the equity markets that currently exist
- Review of the proposed amendments to the security markets law.

2. Overall description of the activities under the delivery order and the significance of these activities to USAID and/or the beneficiary organization:

- Assistance to the National Bank in reviewing and evaluating its loan portfolio enabled it to define guidelines for its own borrowing as well as that of government entities and state companies which are the recipients of state loan guarantees. Beyond the immediate benefit to the National Bank of obtaining more favorable loan terms, a greater comprehension of the covenants in its existing loans will contribute to improving its credit rating and that of the Slovak Republic. Ultimately improved debt management opportunities will facilitate the transformation from a centrally-planned system to a free market economy.
- For the MAPNP, the Advisors trained ministry officials and enabled them to improve their performance and enhance the privatization process further. The project improved the institutional capabilities of government authorities and national professionals, so that they are able to participate in the privatization process to a greater extent and in a more sophisticated manner.
- The Advisors provided practical ad hoc economic advice to the following entities: Center for Strategic Studies, Deputy Prime Minister for Economic Affairs, and the National Budget and Economic Committee of Parliament on various specific and general matters related to free market reform, privatization, and government economic policy.
- Slovak entities that received assistance under the auspices of this delivery order were those engaged in the economic reform process. They were: the MoF, MoE, NPF, and the MoP. Our advisory tasks needed to be implemented by these Ministries in order for the Slovak Government to receive a World Bank loan.

3. Information on level of effort and location of performance for individuals involved:

NAME	TOTAL	LOCATION
Antonides	69.000	Slovakia
Berg	7.000	Slovakia
Bierman	40.000	Slovakia
Bohmanova	4.625	Slovakia
Brombaugh	2.000	Slovakia
Carlson	39.000	Slovakia
Coates	7.000	Slovakia
Conner	13.375	Slovakia
Csakanyiova	31.750	Slovakia
Dubé	17.000	Slovakia
Farmer	45.250	Slovakia
French	36.188	Slovakia
Frost-Hansen	53.000	Slovakia
Gold	11.500	Slovakia
Goulden	10.375	Slovakia
Green	20.250	Slovakia
Hlasny	37.125	Slovakia
S. Hudak	45.438	Slovakia
Kerr	17.500	Slovakia
Kochav	14.000	Slovakia
Kuntz	.625	Slovakia
Larsen	59.000	Slovakia
Lees	7.500	Slovakia
Letko	50.569	Slovakia
Main	26.625	Slovakia
Marshall	111.000	Slovakia
Martiskova	9.626	Slovakia
McLindon	130.000	Slovakia
Mraz	3.750	Slovakia
Ott	40.750	Slovakia
Pring	39.563	Slovakia
Robinson	2.000	Slovakia
Steiner	40.875	Slovakia
Stephany	90.000	Slovakia

NAME	TOTAL	LOCATION
Turek	29.000	Slovakia
Vega	1.500	Slovakia
Vido	23.063	Slovakia
White	38.500	Slovakia
Wiant	33.198	Slovakia
Wood	55.625	Slovakia
TOTAL	1314.145	

4. The methods of work used:

The Team worked in an advisory capacity to several Slovak Ministries. Specialist Advisors came to Slovakia and worked with the particular Ministry to complete the task.

The Advisors trained Government counterparts on how to implement change for a free market economy, how to carry out the privatization plan, and how to improve the National Bank's loan operations.

5. Report on the location, number and nationality of trainees and type, duration, and purpose of training, if any:

While there was official training for this delivery order, the Advisors regularly incorporated the training of their counterparts into their daily work. By having our experienced accountants, auditors, financial planners, and other experts work closely with local nationals on these tasks, transfer of skills, knowledge, and technology was a desired by-product and attractive outcome.

6. Comments and recommendations regarding unfinished work and/or project continuation and direction:

Deloitte Touche Tohmatsu agreed with USAID that there was a need to expand two of the tasks into separate delivery orders with a greater scope and a budget to carry out the work. These are the Transaction Team (DO #35) and the Enterprise Restructuring (DO #33).

Some of the recommendations include:

- Providing additional assistance to speed the program of enterprise restructuring and debt conciliatory program sponsored by various international organizations.

- Offering training programs to develop the general business and financial skills of the MAPNP and NPF staff. This is critical to the success of the privatization program. Of particular need, will be training programs targeted at the staff of the NPF concerning the functioning of capital markets, transaction negotiation strategies, and evaluation of business and financial plans.

7. Description of any modifications to scope of work outlined in the delivery order:

Modification 1 -- The original Scope of Work was expanded to include the following.

The purpose of this assignment was to give practical economic advice to any of the following entities: Center for Strategic Studies (CSS), Deputy Prime Minister for Economic Affairs, and the National Budget and Economic Committee of Parliament on various specific and general matters related to:

- Free market reform
- Privatization
- Government economic policy.

Modification 2 -- The original Scope of Work was expanded to include the following.

Slovak entities to receive assistance under the auspices of this delivery order are those engaged in the economic reform process. They are: the MoF, MoE, NPF, and the MoP. In this regard, the first two tasks enumerated below, must be implemented as part of the World Bank's conditionality for an EFSAL:

Diagnostic Studies: The government and the commercial banks have agreed that the commercial banks will negotiate and implement restructuring or liquidation plans with their most problematic borrowers. The government has agreed to establish a Steering Committee to serve as the driving force behind the preparation, negotiation, and implementation of the work-out plans for these enterprises.

USAID has agreed to provide funding for the engagement of technical assistance to develop work-out plans for 10 of these enterprises. The objective of this assistance is to develop, negotiate, and implement work-out or liquidation plans between the commercial banks and the companies selected.

The assignment was divided into three phase: diagnostic, development of restructuring/ liquidation plans, and implementation.

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Audit of the National Property Fund: The Slovak National Property Fund is the government holding company responsible for managing all state-owned assets until they are privatized. Currently, it is estimated that the NPF has \$1 billion in assets under its control. A complete financial audit of its assets is required prior to the commencement privatization activities.

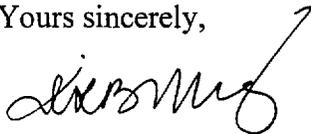
Capital Markets: The MoF requested short-term assistance in the area of capital markets regulation. Our assistance focused on:

- Structure and organization of trading as it currently occurs in the Slovak equity market
- The role and regulation of investment funds in the Slovak market
- The relationship between the four components of the equity markets that currently exist
- Review of the proposed amendments to the security markets law.

Ministry of Privatization: We provided assistance in three areas: voucher privatization (support in retaining Slovak lawyers and industry specialists to assist in the selection and processing of the firms to be included in the second wave of voucher privatization); public relations (support for the development of a domestic public relations/education program to publicize the second wave and for an international public education program to convey the message that Slovakia is receptive to foreign investment); and sales to foreign investors (support for a transaction team of corporate finance/mergers and acquisitions specialists to assist the MoP and the NPF in sourcing and negotiating bids by foreign investors).

In addition, as required, we submit this final report concurrently with the "completion voucher" and release described in Section B.4.(a)(3) of the contract.

Yours sincerely,



Deborah Billig
Senior Consultant