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**STATUS ASSESSMENT OF PRIVATIZATION AND
THE ARMENIAN POWER SECTOR**

Revised

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EXECUTIVE SUMMARY

INTRODUCTION

Although notable progress has been made in Armenia with respect to power sector restructuring, regulatory reform and commercialization, the effort to promote private sector participation through privatization of existing enterprises and investment in new facilities has achieved limited results. In the project team's view, the condition of the power sector in a number of problem areas can only be improved through privatization. These interrelated problem areas include: (1) the unacceptable level of collections; (2) the lack of incentives for economic efficiency; (3) insufficient managerial and technical abilities; (4) a need for capital to rehabilitate the sector; (5) continued disturbances to utility operation due to government intervention; and (6) poor customer service.

The purpose of this report is to briefly assess the status of power sector privatization in Armenia. This report describes the issues that affect private sector participation and provides a review of the limited power sector privatization that has taken place. The project team's recommended approach to privatization is also summarized.

STATUS OF PRIVATIZATION

Considering all sectors of Armenia's economy, only a small percentage of enterprises have been converted to private ownership. To date, privatization has been notably limited to small enterprises and agricultural sector assets, although some arrangements have been made recently to sell a number of large enterprises to foreign investors. The lack of progress is due to a number of factors, including reluctance by the government to release control of industries that may be considered strategic, limited investor interest and minimal efforts to entice foreign investment. The majority of enterprises privatized so far have been purchased using vouchers distributed by the government for the purposes of allocating ownership of state enterprises. Although vouchers achieve the noteworthy objective of expanding ownership, this method of privatization does not necessarily attract investment into an enterprise. The experience with privatization has been mixed. Some enterprises (e.g., consumer goods) have prospered somewhat; however, others lacking markets in the short-term have simply been stripped of their assets.

The level of privatization in the power sector is even more limited given that the sector remains almost completely under state ownership. The first two phases of a hydropower facility privatization project have been completed, with additional plants slated for a third phase. In addition, a number of power sector enterprises have been identified by the Ministry of Energy as

assets to be privatized. However, limited progress has been made thus far to prepare these enterprises for privatization. A number of obstacles to moving ahead with privatization exist including confusion over whether the Government of Armenia intends to attract foreign investment and the limited consensus on the need for and approach towards privatization.

SUMMARY OF RECOMMENDED NEXT STEPS

The steps provided below outline for USAID's consideration possible areas for the project team's continued assistance.

Meet with Armenian government officials to help shape privatization policy. Discussions should continue with the Government to win approval of the project team's recommendations.

Prepare a written critique of the Ministry of Energy's draft privatization proposal. The critique should comment on the proposal's shortcomings and identify how the project team's recommended approach is superior; it should be submitted to the Minister of Energy as soon as possible.

Consider holding a conference on privatization in Spring, 1998. Contingent on the level of progress made over the next several months, this conference would take place in the U.S. and be designed to promote private investment in the Armenian economy.

Work with the Ministry of Energy and Ministry of Finance & Economy to amend the Energy Law. Changes to certain aspects of the Law should be encouraged to improve the prospects of successful privatization.

Coordinate with the World Bank on privatization efforts. The project team should coordinate with the World Bank privatization team on policy recommendations, timing and meetings with counterparts. There is a risk of potential duplication of effort if this does not take place.

Prepare a white paper on concessions and leases. In response to interest expressed by the World Bank, a paper could be developed to identify the pros and cons of how these approaches may apply to the power sector in Armenia.

Consider a short paper on transmission privatization experience. The paper would demonstrate how transmission privatization has been handled in other nations.

Conduct a series of workshops on the project team's recommendations on privatization. Topics would cover aspects of the team's work to date and future efforts.

Monitor other strategic investor initiatives. The team should continue to follow the privatization efforts targeted at several large enterprises in Armenia.

Support the initiation of the privatization process for generation and distribution enterprises. The project team should serve in an advisory capacity to the Ministry of Energy, Ministry of Privatization and Ministry of Finance and Economy on the development of a privatization program for the generation and distribution sectors.

Develop an information base on enterprises to be privatized and provide technical assistance on a public information and investor relations campaign. The team could create summary documents on enterprises scheduled for privatization to help prepare for privatization and assist the Ministry with dissemination of information and interaction with investors.

Consider an additional privatization tour. The project team recommends considering a subsequent privatization tour focusing on privatization through the use of strategic investors.

Based on this assessment, it is clear that pursuing adoption of a coherent privatization strategy and timetable should be given very high priority.

CHAPTER 1

INTRODUCTION

1.1 OVERVIEW

This report has been prepared with the support of the U.S. Agency for International Development (USAID) as part of the energy sector privatization and restructuring technical assistance provided under contract CCN-0002-Q-03-3152-00. The purpose of this report is to briefly assess the status of power sector privatization in Armenia. To date, there has been only limited activity in this regard. Given that increasing private sector participation is a strategic objective of USAID and a stated objective of the Government of Armenia (GoA), this report describes the issues that must be considered to encourage private sector participation. These include the legal and regulatory framework promoting privatization, privatization approaches that have historically been used in the Republic and specific features of the power sector that serve as obstacles to privatization. Additionally, this report provides a review of the limited power sector privatization that has taken place as well as the latest Ministry of Energy proposal for privatization. Finally, a summary of the project team's recommended approach to privatization is provided.

This is a companion document to the report entitled *Development of a Privatization Strategy for the Armenian Power Sector* (hereafter, "Strategy Report"). The main difference between the two is that this report is meant to advise on the barriers to privatization and the next steps USAID may wish to consider to help promote power sector privatization in Armenia. The latter report is meant to serve as a guide for Armenian policy-makers to better educate them on the reasons privatization should be promoted, the weaknesses in the present investment environment, the changes that can be made to improve the investment environment and the privatization approach recommended by the project team.

1.2 THE NEED FOR INCREASED PRIVATE SECTOR PARTICIPATION

Armenia, in comparison with many of the other Newly Independent States, has made considerable progress in the areas of power sector restructuring, regulatory reform and commercialization. The former vertically-integrated state-owned utility Armenergo has been restructured including the divestiture of generation and distribution. At present, generation is for the most part organized into six major state enterprises; a few small privatized facilities exist. Eleven distribution utilities have been created. Within the next three years, the dispatch and transmission functions are required by law to be separated. This unbundled industry structure is now enforced through licensing provisions in the Energy Law prohibiting joint ownership of assets.

In the area of regulatory reform, the nation has lagged until quite recently. With the formation in April of the Armenian Energy Commission and its subsequent codification in the June passage of the Energy Law, the regulatory reform underway has accelerated rapidly. In the commercialization area, considerable improvement has been witnessed in the management of the power sector (especially in the distribution enterprises) and collections have improved three-fold from levels two years ago (from 20% to 60%).

Although notable progress has been made in several key areas, there are still several weaknesses seen in the Armenian power sector. First, corporatization has progressed very slowly and is still in the early stages of implementation. Second, the commercialization of the sector continues to be hampered by a lack of will regarding disconnection and political interference in the day-to-day operation and management of the utility. Incentives are still misaligned such that the benefits that can be gained from efficiency improvements are left untapped.

One continually problematic area has been promoting private sector participation both through the attraction of direct investment for new facilities and privatization of existing enterprises. At least three foreign development proposals for new energy sector facilities have been discussed and debated since 1994 with no closure taking place. As for privatization of existing facilities, since 1993, there have been repeated pronouncements from various parties in government that power sector privatization is a high priority but there has been little follow-through to date. Armenergo has been on the list of enterprises to be privatized for the past two years with no action so far being taken.

Increasingly, it has become clear that the logical next reform step is privatization. In the project team's view, it is only through privatization that several of the problems in the sector can be ameliorated. These problems include: (1) the low level of collections; (2) the misalignment of economic efficiency incentives; (3) the lack of sufficient managerial and technical expertise; (4) the lack of capital for rehabilitation; (5) the on-going political interference in utility operation; and, (6) the poor quality of customer service found throughout the sector. Certainly, these problems are interrelated. The low level of collections results, in part, from the misalignment of efficiency incentives. The low level of collections also contributes to the lack of capital available for maintenance and rehabilitation. Political interference in the connection and disconnection of consumers undercuts the utility's ability to enforce more stringent payment policies. Significantly increasing the role of the private sector is the most likely solution to address these problems.

1.3 ORGANIZATION OF THE REPORT

This report is organized into a series of chapters. Chapter 2 provides an overview of privatization in Armenia. It describes completed privatization transactions and upcoming offerings, the institutional and legal framework for privatization, and privatization methods that have been used to date.

The status of privatization in Armenia's power sector is described in Chapter 3. Current

privatization efforts are described along with the Ministry of Energy's recent draft proposal for power sector privatization. This chapter also discusses obstacles to privatization and preferred privatization methods for the power sector.

Chapter 4 concludes with a series of suggested next steps for USAID's consideration that outline the possible areas for continued assistance with Armenia's privatization efforts.

CHAPTER 2

ARMENIA'S PRIVATIZATION BACKGROUND

2.1 INTRODUCTION

This chapter provides an overview of the experience with privatization in Armenia to date. Completed privatization transactions and upcoming offerings are summarized and the institutional and legal framework for privatization as well as privatization methods that have been historically employed in Armenia are described.

2.2 STATUS OF PRIVATIZATION IN ARMENIA

As of February, 1997, 4,000 small-scale enterprises¹ and 860 medium and large scale enterprises have been privatized according to the State Board of Calculation and Denationalization (SBCD).² While progress has been made in terms of privatizing small enterprises, private ownership of medium and larger enterprises has been more limited. In some cases, the government has been reluctant to relinquish control of enterprises viewed as strategic to the economy or important for social reasons (e.g., employment). In other instances, solicitations have been canceled or postponed due to insufficient investor interest. Foreign participation in privatization has been minimal to date. While in some respects Armenia may be seen as a favorable country in which to invest given its highly qualified and cost-competitive labor market, many foreign investors appear to be taking a "wait and see" approach. Exhibit 2-1 lists some of the largest major privatizations to date in Armenia when measured by their valuation.

¹ The government develops a list of enterprises to be privatized in its annual privatization programs. Enterprises included in the privatization program are categorized in terms of size (i.e., small, medium, or large).

² Coles, Walter, Armenia Assessment Report, January, 1997

**Exhibit 2-1
Selected Largest Privatized Enterprises in Armenia**

Enterprise Name	Industry	Valuation (Drams Million)	Valuation (US\$ Million)
Abovian Beer Factory	Beverage	1,321	2.9
Vanadzor Plant "Automatic"	Optical Mechanical Devices	958	2.1
Yerevan Tobacco Company	Food	774	1.7
Yerevan Champagne and Wine Factory	Beverage	737	1.6
Noembrian Winery	Beverage	502	1.1
Idjevian Mechanical Plant	Mechanical Items	157	.3
Yerevan Nonalcoholic Beverage "Osharak"	Beverage	71	.2

Note: Twenty percent of the ownership of each enterprise was given free-of-charge to the employees of each enterprise shown above; the price shown is for the remaining eighty percent ownership share.

Source: Hagler Bailly

The fact that the enterprises listed in Exhibit 2-1 represent the largest enterprises to be privatized in Armenia to date illustrates the lack of significant accomplishment in privatization except for small enterprises and agricultural sector assets. Recently, however, there has been more aggressive movement.

In 1996, the government announced its plans to sell ten large enterprises to foreign investors through the use of an international tender. Wasserstein Perella was initially contracted by the Armenian Government, with support from the World Bank, to organize the tendering process and sell the enterprises. The work is being conducted simultaneously for all ten enterprises. The enterprises to be privatized include: Armentel (national telecommunications company); Nairit (industrial chloroprene rubber and related products); Polyvinyl (polyvinyl and vinyl acetates); Rubin (calcium carbide); Vanadzor (acetate yarn); Cognac Factory of Yerevan (trademark "Ararat" brandy); Gyumri (textiles); Araks (shoes); Luis (incandescent and fluorescent light bulbs); and Mars (electronic devices).

The pending privatization of the Armentel phone monopoly to U.S. investors has attracted a great deal of negative attention from the Armenian press. Although terms of the pending deal remain somewhat sketchy, the privatization has been characterized as Armenian investment in the U.S.

rather than the other way around. This appears to be the result of the terms of the deal which will give the U.S. investor exclusivity in terms of development of all communication infrastructure for at least fifteen years. While details of the proposed deal are not yet confirmed, there is a growing sentiment among the citizenry that it is not in the public interest. Should the privatization of Armentel proceed under terms that the public views as unacceptable, the transaction could serve to catalyze public opinion against foreign investment. This transaction will need to be closely watched as it has the potential to profoundly complicate the sale of power sector assets to foreign strategic investors.³

2.3 PRIVATIZATION RELATED LEGISLATION

There are numerous laws affecting the privatization process and investment environment. By far the most significant law is the Law on Privatization and Denationalization of State-Owned Enterprises and Unfinished Construction Sites (Privatization Law).

2.3.1 Privatization Law

Numerous laws have been passed since 1991 to create the legal framework for privatization. The Privatization Law is the main law influencing the process of privatization in Armenia. The law defines the organizational and legal framework for privatization and specifies the conditions for, and process of, privatization. A translation of the law's main points is included in Appendix A.

The Privatization Law specifies four methods for privatization including:

- ▶ **Open Subscription.** Shares are sold per a specified price, with a target valuation, available to all who submit a bid. Shares are allocated on a pro-rata basis in the event of an oversubscription.
- ▶ **Auction.** Ownership of a state-owned enterprise is subject to a price-based bid process. The primary difference between an auction and an open subscription is that the share price is predetermined in an open subscription, whereas it is based on bid prices in an auction.
- ▶ **Domestic Tender.** This method is used for more complex enterprises in which the sale is to be determined according to multi-dimensional criteria (i.e., price, business plan, management expertise). Foreign firms may freely participate in a

³ The three bids received from international parties for the privatization of ArmenTel were recently rejected by the Armenian Government for not meeting the proper requirements. The bidders are being allowed to adjust and resubmit their bids. (Source: Noyan Tapan press agency, September 4, 1997.)

domestic tender, although publicity is not mandated outside Armenia.

- ▶ **International Tender.** This is same process as a Domestic Tender, with the exception that foreign participants are specifically sought, and domestic companies are prohibited from participating. Privatization vouchers may not be used in this case.

The law also permits leasing of state enterprises and concessions.

Armenia's Privatization Law allows the use of privatization certificates (vouchers) for acquisition of state-owned assets. Privatization certificates have a face value of 20,000 drams (about US \$40),⁴ but a market value of about US \$12. When used in privatization, certificates are counted at face value, and as a result, little cash is used to pay for state-owned assets sold in Armenia. According to the SBCD, vouchers were used as the payment form for more than 99 percent of the enterprises privatized in Armenia between February, 1995 and October, 1996.

In some areas, the law is excessively prescriptive, such as regarding enterprise valuation. The law calls for valuation of state-owned enterprises according to rigid formulations and does not take into account the fact that the value of the asset under consideration will be determined by what investors are willing to pay for it rather than by what the government determines its value to be. The law's requirement that an enterprise not be sold for less than 50 percent of the designated minimum bid price has resulted in numerous failed privatization attempts.

Overall, however, the law is satisfactory in that it provides a fair amount of flexibility to the government in how to structure a privatization and which enterprises should be privatized. The law does not appear to conflict with using a strategic investor approach in the privatization of the power sector. The only clear weakness is in the use of vouchers by foreign parties. The law restricts the use of vouchers to Armenian citizens and firms and does not permit their use by foreign parties. Given that an active secondary market for vouchers exists and voucher-based investment funds are also permitted, it is unusual that the use of vouchers by foreign parties is restricted. In actuality, this is a fairly simple restriction to overcome through either using a joint venture arrangement with an Armenian enterprise or setting up an Armenian subsidiary directly to purchase the vouchers and make the bid.

2.3.2 Energy Law

After four years of development, an Energy Law was passed by the National Assembly on June 9, 1997. Two of the law's stated major objectives are to encourage investment and promote competition within and between energy subsectors. These principles show the government's commitment to privatizing the energy sector and are a good basis for an improved investment

⁴ At the current exchange rate of 500 drams to the dollar.

environment in Armenia. More importantly, the law takes steps to formalize the authority of the Energy Commission, enforce an unbundled sector structure and permit open access to transmission and distribution.

The law establishes a five-member Energy Commission with responsibilities for tariff-setting, licensing, contract approval and quality of service considerations in the electricity, natural gas and district heating sectors. The Commission is solely responsible for tariff-setting; there is no right of appeal over a Commission decision related to tariff level or structure. A two-year transition period is allowed to provide for gradually increasing tariffs to a level of full cost recovery. Operating licenses are required for electricity generation, transmission and distribution enterprises. Import and export licenses are also required. A license holder cannot have an ownership stake in any other licensed enterprise without Commission approval, thus essentially enforcing a functionally unbundled sector structure. Bilateral contracts between generation or import licensees and either distribution licensees or consumers are permitted subject to the approval of the Commission.

There are, however, a few weaknesses in the law that may complicate the privatization of the power sector. Although the establishment of the Energy Commission is a very positive development, its funding mechanism may jeopardize its actual, or perceived, independence. Another difficulty is the requirement that annual production quotas be specified for each generation enterprise. The specification and enforcement of the quotas will be the responsibility of the Energy Commission. Early signs indicate that the Commission will be quite lax in this area thereby potentially muting any negative impact that could be perceived by an investor. An additional difficulty is that the law establishes a method for allocation of revenues during shortfall periods when collections are below 100 percent. This provision was added to the law in an attempt to ensure higher cash flow to the generation enterprises. Although the objective is laudable, it is far more preferable to address the settlements problem directly through the establishment of formalized and transparent settlement procedures.

2.3.3 Other Laws Related to Privatization

Other laws related to privatization include the Law on Enterprises and Entrepreneurial Activities (1991), the Law on Privatization and Denationalization (1992), the Law on the State Register of Enterprises (1993), the Foreign Investment Law (1994), the Pledge Collateral Law (1995), and the Bankruptcy Law (1995).

The Foreign Investment Law sets forth protections and guidelines for foreign investors in Armenia. It provides for free repatriation of profits out of the country, freely fluctuating exchange rates, and 100 percent foreign ownership of businesses in Armenia including electric generation. The primary purpose of the Foreign Investment Law is to place the foreign investor on the same legal footing as domestic Armenian citizens and companies. Other important aspects of the Law include:

- ▶ prohibition of nationalization without a court ruling and full restitution;
- ▶ a waiver of duty on imported raw materials and exported manufactured goods;
- ▶ a requirement that disputes between the government and foreign investors be handled in Armenian courts. (Disputes between private parties can be handled in any manner.)

It should be noted that it is standard practice in international investment in the power sector to allow for international arbitration for settling disputes. Mandating dispute resolution in Armenian courts will likely pose a difficulty for investors seeking project financing.

2.4 GOVERNMENT BODIES INVOLVED IN PRIVATIZATION

The Privatization Law calls for a highly coordinated approach among numerous government agencies and establishes the processes and institutions for carrying out privatization in Armenia. The law requires the creation of a government body to oversee and administer matters of privatization. Numerous administrative agencies have been created and then replaced by successor organizations over the past two years. The first group responsible for administering the privatization program was the Privatization Commission, which was replaced by the Inter-Ministerial Privatization Committee (IMPC), which was active from 1993 through 1996. According to officials interviewed within the Ministry of Energy and Ministry of Economy in 1995 and 1996, the IMPC was viewed as ineffective, having failed to accomplish any energy sector privatization and having not realized any significant cash proceeds from privatization. Accordingly, the IMPC was replaced by the Ministry of Privatization and Foreign Investment (now renamed the Ministry of Privatization) in 1996 as part of a presidential decree on government restructuring. A translation of the decree can be found in Appendix B.

The Ministry of Privatization was created in order to centrally house agencies involved in the privatization process. The responsibilities of the Ministry of Privatization are set forth in the Ministry's charter, which was published on January 29, 1997 (See Appendix C). The main tasks of the Ministry are to:

- ▶ Develop annual programs of privatization and denationalization of the state-owned enterprises and uncompleted construction sites, as well as draft laws relating to the amendments and changes suggested for those programs;
- ▶ Organize the procedure of privatization and denationalization; discuss the submission of privatization and denationalization bids; develop the draft Decrees relating to the privatization and denationalization of the state-owned enterprises and uncompleted construction sites (except in the case of leasing state property granted to the working staff without the right of its buyout); and,
- ▶ Carry out the preparatory works for the privatization of the enterprises by creating

the commissions or proposing the preparatory works of the privatization to be carried out by the relevant ministries, departments, and state management regional bodies.

The Ministry of Privatization has responsibility for drafting the annual program of privatization for the consideration of the full government. This program includes the enterprises and other assets to be privatized and the method of privatization to be used. Once the Government (Prime Minister's Office) has approved the annual program, it is submitted as a draft program to the National Assembly in the Autumn of each year. The National Assembly and the President may approve it as submitted or modify the program as they see fit. Once a privatization program is approved, the Ministry of Privatization is responsible for overseeing its implementation.

An important body within the Ministry of Privatization is the State Board of Calculation and Denationalization (SBCD), which is responsible for valuing assets that the Ministry has selected to be privatized, making recommendations regarding the method of privatization to be used, and for implementing certain types of privatizations (share subscriptions and auctions, but not tenders). Asset valuation within the SBCD is carried out by the Division of Calculation and Assessment, which is also responsible for maintaining statistical information on privatization in Armenia.

In addition to government agencies, several private firms, including financial consultants and privatization advisors, are involved in the privatization process. Armaveni is a private firm that works with the Ministry of Privatization to publicize upcoming privatization offerings. Armaveni also provides information on privatization legislation and processes to the investment community.

CHAPTER 3

POWER SECTOR PRIVATIZATION

3.1 STATUS OF PRIVATIZATION IN THE ARMENIAN POWER SECTOR

In early 1997, the Ministry of Energy and the Ministry of Privatization announced plans to privatize the power sector. The first two phases of a pilot program to privatize small hydroelectric power plants were successfully completed by September, 1997. A tender for six additional hydro facilities is also planned. Although the first two phases of the small hydro privatization represent an initial foothold of private ownership and control, the power sector nonetheless remains largely state-owned.

According to former Minister of Economy Varam Avanesian, power sector privatization will commence in earnest by 1998.¹ Mr. Avanesian said that there should be an international tender to select experienced operators for the power companies. According to other reports, the government will likely retain a majority stake in the generating stations, while giving a strategic partner 100 percent operating responsibility.² The 1996/1997 privatization program lists major energy enterprises, including Armgazprom, Armenergo and the Hrazdan Thermal Station, as assets to be privatized. (A translation of the program can be found in Appendix D.) However, since publication of the program, limited progress has been made in preparing these enterprises for privatization. The Ministry of Energy's latest privatization proposal indicates that the state will fully privatize certain power sector enterprises while retaining up to a 51 percent share in others. These various viewpoints demonstrate a significant difficulty with power sector privatization in Armenia; there is not a consensus as to the approach that should be taken or the objectives that the privatization process should achieve.

This chapter describes the experience to date with power sector privatization in Armenia. It focuses on the first phase of the small hydropower process, reviews the Ministry of Energy's latest privatization proposal and discusses the proposed privatization of the not-yet-completed unit 5 of the Hrazdan Thermal Station.

¹ Reuters News Service, April 12, 1997.

² Independent Power Report, "Armenia to Solicit Investors for All Non-Nuclear Plants, About 2,800 MW," May 2, 1997.

3.1.1 Small Hydropower Privatization

In 1993 the National Assembly proposed a pilot program to privatize 25 small hydroelectric facilities. The total capacity of these plants is approximately 85 MW and the average capacity factor is about twenty percent. After the program was officially established through a government resolution, the Ministry of Energy embarked on a first round of sales which focused on eight facilities with a total capacity of approximately 12 MW.³ The purpose of the pilot small hydropower privatization program was, in part, to provide the Ministry of Energy with experience on how to develop a fair and transparent power sector privatization process in preparation for the upcoming sale of larger generation stations and distribution networks.

The first round of the pilot program featured a competitive tender for the plants. A working group was established to value the assets and manage the bid process. This group was later superseded by a tender commission within the Ministry of Energy. Foreign companies and individuals were permitted to participate in the process and there was some publication of the tender announcement in the international trade press, but no bids were received from foreign investors.

Of the eight plants slated for the first round of the pilot program, seven were successfully privatized in April, 1997; one plant received no bids. Overall, the results of the first round were generally positive. The process laid out by the tender commission was for the most part followed. More than one bid was received for each of the entities that was ultimately privatized and the bids exceeded the valuation. However, several recommendations were suggested by the project team on how to improve the second round of privatization including: (1) better advance publication in the trade press; (2) determination and announcement of the wholesale tariff prior to the bidding; (3) clearer definition of the commercial terms (e.g., water use charges); and, (4) more complete technical information. A full evaluation of the first round of the small hydropower privatization has been prepared by the project team and can be found in Appendix E.1.

Seven additional small hydropower facilities were initially targeted for a second round of privatization. Three of these were being leased by non-Armenergo operators prior to the start of the privatization program. Before the second round began, each of the three owners exercised their right to purchase their respective facility, so these units were removed from the tender process. One additional facility was included in the second round for a total of five plants. The tender process for these five facilities occurred during the period of July through September, 1997. There was significant competition on one of the projects, a single bid from a foreign

³ Resolution N. 321 of the Government of Armenia, September 30, 1996. Originally, 25 small hydropower facilities were to be included in the pilot but this was reduced to eight after a year of debate and analysis. This represents about one percent of installed capacity in Armenia.

interest on two of the facilities and no bids on the last two. Additional information on the second round is contained in Appendix E.2.

Some of the project team's recommendations for improving the second round were adopted, especially in clarifying the commercial conditions. The rules were better defined during the second tender, and a one-year fixed price for the purchase of power was offered. The tender also may have been somewhat better publicized given interest from a foreign party, but apparently the foreign investor made a substantial effort from their end to obtain information from the Armenian government. Minimal improvements appear to have been made for the second round with respect to clarifying the privatization goals and providing sufficient technical information.

A third privatization round of six more small hydroelectric facilities is planned, although it is unlikely that these will attract substantial interest even from domestic parties. The remaining plants in the original group of 25 will not be tendered; one of these will be held for strategic reasons and the others will be sold with larger hydroelectric cascades.

Although the tender commission implemented only a few of the project team's recommendations to improve the second round, the weaknesses identified with the pilot privatization program will become more critical for the tenders of the distribution systems and larger hydroelectric cascades.

3.1.2 The Ministry of Energy's Privatization Proposal

In July, 1997, the Minister of Energy submitted the Ministry's energy sector privatization proposal to the Prime Minister. The proposal summarizes sector privatization activities to date and presents a schedule for subsequent privatization offerings within both the natural gas and electric power sectors. A copy of the proposal can be found in Appendix F. Noticeably absent from the proposal is any discussion of the Ministry's privatization goals and objectives and its preferred privatization method. Noteworthy elements of the proposal include the following:

- ▶ The Ministry appears to be advocating that for energy sector enterprises to be privatized, twenty percent of the shares should be offered to employees of the enterprises free-of-charge. This has been the standard approach employed in Armenia. However, it is no longer required by law to provide free shares. Apparently, the Ministry is planning to introduce legislation in the National Assembly to mandate the twenty percent allocation.
- ▶ The proposal is vague about its plans to divest power sector enterprises. The proposal states that "the privatization of electric network companies will be carried out gradually by reducing the state share to 34 percent." There is no discussion of what is meant by "gradually" and no explanation regarding the rationale for the remaining 34 percent ownership share. The 34 percent ownership share requirement will be viewed negatively by potential investors as it exceeds the minimum ownership requirements for a blocking minority share under Armenian law.

- ▶ The proposal indicates that privatization of Armenergo, which will carry out the transmission and dispatch functions, will follow privatization of generation and distribution enterprises. In addition, the state will maintain a 51 percent share.
- ▶ The proposal does not specify the type of privatization method to be used for a given enterprise. It implies that the method will be determined based in part on the type of enterprise and upon completion of an in-depth review of each enterprise.
- ▶ The proposal mentions that privatization of the Vanadzor Thermal Power Plant will be contingent upon a joint determination by the Energy Commission and the Government. Acknowledging the role of the Energy Commission in the privatization process is a significant positive development.
- ▶ The proposal also emphasizes the Ministry's desire to "attract local investors to the greatest extent." There are a very limited number of domestic investors who can provide the capital as well as technical and managerial expertise required for adequate sector rehabilitation. To the extent that the Ministry discriminates against foreign investors, this may severely constrain opportunities for investment in the sector. Conversely, if the Ministry takes a more conciliatory view toward foreign investors, local investors may benefit through teaming arrangements for instance.
- ▶ The proposal calls for 100 percent privatization of the Yerevan Thermal Power Plant (YTPP) in the 1998 timeframe. This is a positive development and is consistent with the project team's recommendations that the YTPP be the first large generation facility to be privatized.

Overall, the proposal is incomplete and requires additional detail regarding the Ministry's privatization goals, its preferred methodology, and its policy with respect to divestiture and foreign investment.

3.1.3 Proposed Hrazdan 5 Privatization

As part of its proposal to fund completion of the 300 MW unit 5 of the Hrazdan Thermal Station, the European Bank for Reconstruction and Development (EBRD), in cooperation with other lending agencies, has proposed that term refinancing be accomplished by privatizing unit 5 immediately following its completion. This proposal developed as a result of a review of the possibilities for privatization undertaken by NERA, consultant to the EBRD. It is not clear why a build-own-operate option was not considered as a way to complete the unit. It is possible that this resulted from the consultant's evaluation which indicated that the completion risk was too great to attract investor interest. In the opinion of the Hagler Bailly project team, the simple fact that the investor will be required to assume the sovereign debt for the unit (which may be in excess of \$200 million) will present a serious hurdle given that units of this size are being completed in much better market environments for lower total costs.

Privatization of unit 5 faces several difficulties, two of which include: (1) fuel supply risk; and, (2) electric revenue risk relating to price and payment. In fact, all of the potential risk categories associated with privatization need to be carefully considered in the case of Hrazdan 5.

<u>Risk Category</u>	<u>Hrazdan 5 Condition</u>
(1) Legal environment, regulatory regime	Risky and unproven at present
(2) Privatization Economics	Weak
(3) Foreign Exchange	Risky, weak
(4) Power sales	Risky, weak
(5) Taxation	Largely untested
(6) Financing	Unclear
(7) Comprehensive risk analysis	Not a complete package
(8) Technical engineering	Should be acceptable

Dominating these risks is that the fuel supply depends on the region's fragile and variable geopolitical status. It is a level of risk that is not consistent with project financing. In the best case, the investor will adjust downward their valuation of the plant to account for fuel supply disruption. The plant would sell electricity when fuel is available. In the event of a supply disruption, the station would be excused from its power supply obligation. It would be similar to a tolling arrangement. Such an arrangement means the investor's return is likely to be risk-adjusted downward because the revenue stream is not predictable.

A second significant risk area is electric revenue and payment. The energy regulatory framework, although improving rapidly, is not yet sufficiently developed to support privatization in terms of enforcing payment to suppliers by power purchasers such as Armenergo. The lack of creditworthiness of most potential power purchasers, including the transmission company, the distribution companies, or end-users, also raises the payment risk. A government guarantee on electrical energy purchasers would be viewed by investors commensurably with the financial strength of the sovereign credit.

A preliminary analysis of the value of unit 5 of the Hrazdan Station was completed by Hagler Bailly using conventional assumptions about fuel and electricity prices. By way of comparison, wholesale electric prices in Armenia were approximately US \$0.022 per kWh in 1996. The following table shows that the Hrazdan 5 unit will require a wholesale tariff of US \$0.036 per kWh just to cover the costs of a US \$200 million investment, *assuming no return on that investment*. Realistically, it is more likely that the wholesale tariff will need to be in the range of US \$0.055 to \$0.07 per kWh in order to attract even a minimum of investor interest.

Component	Cost per kWh	Assumptions
Fuel Cost	\$0.020	US \$2.00 per MMBtu gas @ 10,000 Btu per kWh
Operation and Maintenance	\$0.003	Industry Standard
General & Administrative, Insurance	\$0.003	Industry Standard
Capital Recovery	\$0.010	\$200 million over 10 years @ 300 MW, 80% availability
Total Revenue Requirement	\$0.036	

Privatization of the Hrazdan 5 unit will face some exceedingly difficult obstacles under present conditions. The requirement that the investor assume the sovereign debt will be particularly problematic given the size of the debt and the lack of a sufficient market for the relatively higher priced power inflated to account for the debt repayment obligations. Additionally, there will be a host of practical difficulties encountered during the process of privatization; for instance, this privatization is targeted at one unit in a station of multiple units. Joint assets and common operations will need to be addressed. There may also be political difficulties due to the amount of public attention that has been focused on this facility and the lack of success to date on efforts to complete it.

3.2 OBSTACLES TO PRIVATIZATION IN THE ARMENIAN POWER SECTOR

There are numerous obstacles found at present in the Armenian power sector to privatization. This is not to imply that privatization cannot take place. On the contrary, this indicates that the Government of Armenia and its ministries need to recognize these obstacles during the development of a privatization strategy and understand that ultimately, failure to address these obstacles will either limit investment attraction altogether or, at a minimum, increase the threshold returns required by investors. Exhibit 3.1 provides a list of the obstacles that need to be addressed during the development of a privatization strategy. Recommendations on those steps the Armenian government can take to overcome each obstacle are addressed in Hagler Bailly's Strategy Report.

Exhibit 3-1 Obstacles to Armenian Power Sector Privatization

Economic Policy Issues

- ▶ Lack of consensus in government and lack of trust among the citizens in the privatization process
- ▶ Risk of foreign exchange fluctuations, customs duties, etc.

Regulatory Issues

- ▶ Unclear settlements procedure; cash flow constraints from customers to distribution utilities to transmission and generation subsectors

Asset Related Issues

- ▶ Physical condition of power sector enterprises
- ▶ Overvaluation of assets
- ▶ Lack of readily available financial information on state-owned enterprises

Sector Issues

- ▶ Electric sector debt; lack of creditworthiness of Armenergo
- ▶ Lack of domestic fossil fuel, potential for fuel supply disruptions
- ▶ Lack of commercial orientation within sector enterprises

Privatization Process-Related Issues

- ▶ Unclear contact information for government privatization personnel
- ▶ Lack of transparent bid evaluation criteria
- ▶ Lack of full government understanding of investors' perspectives
- ▶ Lack of investor awareness of power sector project opportunities in Armenia

3.3 PREFERRED PRIVATIZATION METHODS FOR THE ARMENIAN POWER SECTOR

A number of approaches may be taken in privatizing Armenia's power sector assets. Potential options include initial public offerings, voucher privatization, attracting strategic investors or a combination of these methods. Initial public offerings are typically used in markets where investor interest is high and where the seller has substantial resources available to prepare and promote the offering. Further, adequate financial information is a prerequisite. This is not the case in the Armenian power sector.

Vouchers have been used successfully to privatize state-owned assets outside the power sector including small enterprises and factories. However, the voucher method will not raise the badly-needed capital investment or bring new personnel to the sector. The strategic investor method through tender is the most appropriate privatization technique for Armenia to attract the expertise and capital required to rehabilitate power sector enterprises in the generation and distribution subsectors. This approach is recommended for the following reasons:

- ▶ It has been successfully applied in similar investment environments;
- ▶ It can attract additional management and technological expertise;

- ▶ It permits a more highly focused approach to help restore the electric power sector.

A tendering process in two stages is recommended so that an initial list of qualified investors (“short list”) can be developed prior to bid submission. A “pay-as-you-go” approach is recommended considering the status of the developing institutional framework in Armenia. Pay-as-you-go privatization, if adopted, will permit the strategic investor to offer a nominal initial payment for the asset and agree to a series of investments tied to certain government and regulatory actions. The advantage of this approach is that it reduces the investor’s level of risk and thus has the potential to attract reputable investors. It is also ideal for an investment environment, such as Armenia’s, in which the institutional reform is not yet complete.

Given Armenia’s investment environment at present, to attract the interest of potential investors a clear controlling majority ownership of the enterprise must be offered to the strategic investor. A group can be considered to control the enterprise if it has 76 percent ownership. With a lesser amount of ownership, there is the possibility for a blocking minority share to exist under Armenian law.

Whether the Government of Armenia and National Assembly will support the strategic investor approach is unclear. There have been some positive discussions on this matter; the fact that the Government was willing to undertake a strategic investor approach in other industries is significant. However, if the Armentel strategic investor privatization proceeds in a direction that continues to become politically-sensitive, it is possible that there could be a “backlash” against this approach towards privatization, or worse still, a backlash against privatization altogether.

CHAPTER 4 NEXT STEPS

4.1 SUGGESTED APPROACH TO ENCOURAGE PRIVATE SECTOR PARTICIPATION

In light of the status of privatization in Armenia at present, the following are the suggested next steps for USAID and the project team's work activities.

Continue to meet with Armenian government officials to encourage development of a rational, investor-oriented privatization policy. Initially, discussions should be held with the Ministry of Energy and Ministry of Privatization to win approval of the recommendations outlined in the recently released Strategy Report, with particular emphasis placed on the Strategic Investor/Pay-as-you-go privatization method. In addition, the team should support, as needed, the activities of the Interministerial Privatization Working Group, help the Ministry prepare for discussions with foreign investors, and assist Armenian officials in preparing for the proposed privatization conference to be held in Spring, 1998.

Prepare a written critique of the Ministry of Energy's draft privatization proposal. The Ministry of Energy's draft proposal suffers from numerous shortcomings. In the project team's view, if implemented, this proposal will not successfully attract the investment into the sector required for proper rehabilitation. The proposal is similar in concept to a "boot-strapping" approach towards privatization in which holders of some fraction of ownership continue to funnel monies back into an enterprise and purchase additional shares through the process. The problem is that this approach has not been seen to work in an investment climate similar to Armenia's. It is suggested that the project team prepare a written critique of this proposal and submit it to the Minister of Energy as soon as possible. The critique should also identify how the project team's recommended approach is superior to that proposed by the Ministry.

Consider holding a conference on privatization in Spring, 1998, if the Government of Armenia has a clearly articulated strategy towards privatization and a commitment to attract foreign investment. This strategy should be in place by this Fall; if not, it may be expedient to postpone the conference until such a strategy and commitment is in place. USAID, through the United States Energy Association, has proposed holding an investment conference in the U.S. targeted at the Armenian energy sector. The conference was originally scheduled for October, 1997, but was then postponed due to the lack of progress on a privatization strategy. Proceeding with this conference should be contingent on the level of privatization progress, including adoption of a privatization strategy this Fall, continued progress on conversion of state enterprises to joint stock companies, and improvement in the sector's financial settlements process.

Work with the Ministry of Energy and/or the Ministry of Finance & Economy to amend specific features of the Energy Law. Recommendations for amending include: implement a license-fee based approach for Commission funding; retract the production quotas; and, prevent the collections allocation method from hindering generation privatization (the enacted provision will discourage the use of innovative fund transfer schemes such as escrow accounts).

Coordinate with the World Bank on privatization efforts. The project team should continue to share its recommendations on privatization strategy and discuss the Government response to the recommendations with the World Bank privatization team.

Prepare a white paper on concessions and leases. The World Bank has expressed interest in the use of concessions and leasing in the Armenian power sector. Additional information on how these would be used in Armenia is necessary in order to weigh the merits of these approaches relative to asset privatization. The paper could explain the concepts and identify the pros and cons of how these approaches may apply to the Armenian power sector.

Consider a short paper on transmission privatization experience. Based on the level of the dialogue relating to transmission privatization, it would be helpful to have a short paper demonstrating how transmission privatization has been handled in other nations. This would include a description of the methods for regulating privatized transmission systems.

Conduct a series of workshops on the project team's recommendations on privatization. Potential topics include an overview of the Privatization Strategy report and the team's recommendations to the Ministry of Energy, an analysis of the pro formas pertaining to state enterprises to be privatized, the pros and cons of concessions and leasing when compared with outright asset privatization, valuation methods and discussion on the Strategic Investor privatization method.

Continue to monitor other strategic investor initiatives. The project team should continue to closely follow the activities of the government and its advisors with respect to privatization of several large enterprises such as Armentel, the national telephone monopoly. The success of these efforts will clearly influence the extent to which a strategic investor approach will be acceptable for the power sector.

Support the initiation of the privatization process for generation and distribution enterprises. The project team should serve in an advisory capacity to the Ministry of Energy, Ministry of Privatization and Ministry of Finance and Economy on the development of a privatization program for the generation and distribution sectors. The team has recommended that privatization and the corporatization activities that precede it should commence as soon as possible and begin with the Yerevan Distribution Company and the Yerevan Thermal Power Station. The team should work with the Ministry to apply what was learned with the small hydropower privatization effort to the privatization of larger power sector enterprises.

Assist with the development of improved information on privatization consistent with investor needs. Provide technical assistance on a public information and investor relations campaign. The team could collect and assess relevant financial and operational information to help develop an information offering/prospectus pertaining to the privatization. The way in which information is now presented combined with the difficulty of accessing it indicates a need for assistance to reconfigure the information in a manner more readily understandable by potential investors. The team can also assist with development of a public information campaign designed to increase public support for power sector privatization.

Consider an additional privatization tour. Given the relative success of the U.S.-based privatization tour held in March, 1997, the project team recommends considering a subsequent privatization tour focusing on privatization through the use of strategic investors. This tour should only be considered if the Government of Armenia commits to using the strategic investor approach for privatization of select generation and distribution enterprises. If the Government agrees to adopt this method, it is recommended that the tour focus on countries where the strategic investor method has been used in local privatization efforts.

4.2 CLOSING

Overall, the status of privatization in Armenia is mixed. In some ways, such as sector restructuring and regulatory reform, the country has made considerable progress. In other areas, it is still lagging. Privatization of the power sector is one of those areas. The challenge is to convince Armenia's policymakers that it is only through privatization that the problems now seen in the energy sector can be successfully addressed. As mentioned earlier, it is the project team's opinion that the collections problem will not be entirely solved unless there is a significant increase in the role of the private sector in the management and operation of the utilities. Similarly, the investment needs of the sector cannot be met without seeking private capital. Although Armenia's investment environment is relatively poor, there are many steps that can be taken by the Government of Armenia to improve the likelihood of investment on reasonable terms, several of which are described in the Strategy Report. The focus should be on encouraging the Government to take those steps.

Overall, based on this status assessment, adoption of a coherent privatization strategy and timetable that fully commits to attract foreign investment should receive very high priority. At the same time, other reform initiatives, including achieving the full functioning of the Energy Commission and reforming the financial settlements process are of critical importance to the success of power sector privatization; hence, reform efforts in these areas need to move forward in tandem with the development and implementation of the sector privatization strategy.

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APPENDIX A
SUMMARY OF PRIVATIZATION LAW OF 1992

I. Introduction

This summary covers the main points of law of the Republic of Armenia (RoA) relating to privatization and denationalization of state-owned enterprises and unfinished construction sites.

Article 1: Sphere of Application of Law

Article 1 covers privatization and denationalization of state owned enterprises and unfinished construction sites. It does not cover assets belonging to “social-political” and “public” organizations, nor land and apartments, services provided free of charge, historical sites, and assets regulated by other laws.

Article 2: Definitions

1. State-owned enterprises: belongs to state.
2. Unfinished construction sites:
 - a) land plus an unstarted project
 - b) a partially constructed, but uncompleted enterprise, not put in-service
 - c) a unit “laid-up” (was formerly in-service)
3. Non-state enterprises: 50% or more owned by citizens or collectives.
4. Partially owned by state: state owns 50% or more of ownership.
5. Group of citizens: a group of physical entities united for joint activity.
6. Labor Collective Group:
 - a) current employees
 - b) recent former employees
 - c) retired former employees
 - d) disabled former employees
 - e) less recent former employees
 - f) laid-off former employees due to reorganization or liquidation
 - g) laid-off former employees due to privatization
 - h) dependents of former employee
7. Permanent employee: member of working collective at time of denationalization.
8. Foreign persons or overseas persons:
 - a) other country’s citizens
 - b) other country’s legal entities
 - c) international organizations

- d) physical and legal persons of other countries
 - e) enterprises owned 50% or more by international parties
 - f) joint enterprises owned more than 50% by foreign participants
9. Small privatization: food enterprises, residential, domestic service, maintenance, branches of retail trading.

Article 3: Concept of Privatization

Privatization is the liquidation of state-owned enterprises and unfinished construction sites to benefit the citizens of the Republic of Armenia.

Article 4: Concept of Denationalization

Denationalization is the process of giving discretion and disposition (management control) to citizens of the RoA and others, without alienating the state's right to ownership.

Article 5: Program for Privatization and Denationalization of State-owned enterprises and Unfinished Construction Sites

1. For the phase underway, the priorities, objectives and limitations are defined for every year of the program. A draft of the annual program is to be submitted by the Government of Armenia (GOA) in autumn session of the National Assembly of RoA, which adopts it.
2. A draft shall be developed for the first year which reflects tasks in that year and gives main directions for the next two years. It should also give an analysis of the program's implementation in previous years. The draft shall include:
 - a) criteria governing the choice of which assets to privatize
 - b) a list of enterprises and Unfinished Construction Sites not to be privatized in the coming year
 - c) a list of enterprises and Unfinished Construction Sites to be privatized in the coming year, indicating which are to be privatized by free share subscription and which by employee purchase
 - d) a list of enterprises whose privatization prevents denationalization
 - e) information about the privatization certificate program
 - f) deferred payment plans and payment by F/X
 - g) conditions of foreign participation and usage of foreign investments
 - h) participation by non-profit/charitable public organizations
 - I) preliminary arrangements necessary for privatization
 - j) limitations of authorities of ministries, state departments and local bodies

3. It is not allowed to transfer enterprises from the “yes” list to the “no” list.
4. There could be additions, changes, and amendments to the list of enterprises to be privatized. Volume / number of privatization certificates number is added.

Article 6: Participants of Privatization and Denationalization

1. Who can participate in privatization: citizens and citizen groups, workers, non state-owned enterprises, non state-commercial banks and other financial institutions and foreign persons.
2. Who can participate in denationalization: labor collective (workers) of the enterprise, citizens and citizen groups, non state-owned enterprises, non state-owned commercial banks and other financial institutions and foreign persons.
3. State enterprises, charitable and other foundations can participate in cases where they are allowed in the Program.
4. Citizens and groups can participate directly or form an entity to do so, or may participate through an investment fund in the case of voucher privatization.
5. Legal entities have to identify their ownership in order to participate.
6. There are generally no exemptions from taxes.
7. Former owners of enterprises that were nationalized or had their assets forcibly taken shall participate under the same rules as other participants.

Article 7: Sources of Funds to Purchase State Enterprises and Unfinished Construction Sites

Sources of funds that are allowed include: citizens’ income and savings, incomes of legal persons and enterprises without status of a legal persons, and privatization certificates. With regard to labor groups that want to become an owner, they may use promotion funds, plus loans, credit or other borrowing means. Privatization certificates cannot be used for privatization in cases covered by Articles 31 and 34 of this law.

Article 8: Privatization Certificates

Certificates are to be given only to the citizens of the RoA. Certificates allocated to minors are to given to their parents or guardians. The program gives the procedure and conditions of issuance of certificates. The volume should not be less than 30% of the value of the enterprise or Unfinished Construction Site. The certificates expire per program stipulation. The receipt of a certificate is registered in the citizen’s passport. Citizens don’t pay for the certificate; it is issued

free of charge, except for the costs to cover publishing, distribution, circulation and exchange. The certificates have face value which is announced in units of the lawful currency of Armenia. They may be freely transferred or sold by freely established prices. One person can have as many certificates as can be obtained; there is no restriction.

The state cannot repurchase the certificates. Neither state nor state enterprises can participate in the sale or purchase or trading of certificates. The certificates, which are like payment notes, are taken out of circulation when they are redeemed to pay for a privatization.

Article 8(1): Partial Free Privatization of State Enterprise Property

Twenty percent of a state enterprise property subject to free privatization shall be offered to the employees of the enterprise. Employees that desire to participate in the privatization must have worked continuously for the enterprise for a period of one year prior to the date of privatization.

There are six categories of people who can participate in Partial Free Privatization in addition to the enterprise's current employees. These include:

1. Individuals who have been called to service by the Army.
2. Volunteers for military service.
3. Disabled veterans or dependents of dead veterans.
4. Workers who are disabled due to a workplace accident.
5. Employees who have recently transferred their employment to the enterprise but have not yet served for one year.
6. Members of trade unions.

Joint stock companies, shareholders meeting at company or Partial Free Privatization participants decision says who has right to participate in Partial Free Privatization:

1. Those who lost their principal family supporter and receive compensation.
2. Pensioners before resigning had worked there for at least ten years.

Citizens and all those who participate can use only one of the aforementioned cases for one Partial Free Privatization. Small objects cannot be included in the list of enterprises subject to Partial Free Privatization. Those enterprises included in the list conferred by the Parliament, it is expressed by the state enterprise upon a general meeting with employees, and according to the resulting decision. The Partial Free Privatization is executed at the commencement of the privatization program for the enterprise in question. After Partial Free Privatization, the income or profit of the enterprise that was for the account of the main part of the assets which was state owned is shared between state and participants, irrespective of whether or not employees

were part of the Partial Free Privatization.

Article 9: Rights of Labor Groups (Working Staff, Labor Collective)

All members of the labor collective have equal ownership rights. They can participate based on general or common arrangements. Working staff is granted the following privileges:

1. Priority in acquisition over other buyers.
2. They can retain up to 20% of the enterprise's value.
3. They may defer payment.
4. They are granted the opportunity to pay for shares by using economic motivation funds.
5. Special terms for enterprises in earthquake zones.
6. Discounts for veterans and disabled persons.

Article 10: Rights for Citizens and Citizens Groups

Citizens and citizen groups can:

1. Arrange purchases through employees.
2. Participate in auctions or competitive tenders.
3. Subscribe to or purchase stocks.

Citizens can:

1. Exercise the option to allocate 30% of the shares free of charge to employees.
2. Use a deferred payment plan.

Article 11: Right of Participation for Non-State Enterprises, State Enterprises and Foreign Persons

Non-state enterprises, state enterprises and foreign persons are allowed to participate if there is no contradiction with the program. Foreign persons are allowed to participate approved through the program by means of freely convertible currency. All persons in this category can use payment terms as defined in the program.

Article 12: Rights of Participation in Denationalization

All citizens, groups, non-state enterprises, and foreign persons have equal rights to participate in the denationalization. State enterprises are allowed to become a franchised manager only if

management responsibilities are assigned to the state.

Priority is given to labor collectives if a leasing arrangement will be used for the enterprise. Enterprises with state participation must give priority to the part of the enterprise with non-state ownership.

State enterprises and Unfinished Construction Sites are available with equal priority to citizens of the RoA, groups that are not members of the working staff, foreign persons and non-state enterprises.

Article 13: Interrelations Between Labor Collectives of Privatized and Denationalized Enterprises

For a period of six months after privatization, the minimum number of employees of the enterprise may not be changed. The new owner can breach this restriction if the employees consent and are compensated accordingly.

Within three months, the work force of the privatized enterprise should sign an employment contract with the new management. Within six months, new contracts may be required to comply with the established legal procedure. Employment contracts in-place prior to privatization will be enforced until new contracts are signed.

II. Authorities of the State Bodies in the Process of Privatization and Denationalization

Article 14: Authority of the Supreme Council in the Process of Privatization and Denationalization

1. Adopts the program with changes and amendments.
2. Monitors and implements the process.
3. Together with the President of RoA creates State Commission of Privatization and Denationalization of RoA and appoints its Chairman.

Article 15: Authority of the President in the Process of Privatization and Denationalization

1. Introduces the draft Program.
2. Establishes the rules for issuance and circulation of privatization certificates.
3. Monitors procedure of program of privatization and denationalization.
4. Together with the Supreme Council of RoA creates Privatization Commission.

Article 16: Authority of the Government in the Process of Privatization and Denationalization

1. Adopts resolutions of decisions of State Commission on Privatization and Denationalization of RoA.
2. Issues privatization certificates and implements use as legal tender.
3. Determines categories of enterprises and Unfinished Construction Sites.

Article 17: Authority of the State Commission on Privatization and Denationalization (NOTE: This has been disbanded and superseded by Interministerial Privatization Commission)

1. Established by GOA.
2. Functions:
 - a) develops draft program and proposes to President
 - b) organizes process of privatization and denationalization
 - c) drafts process for valuing property and submits to GOA
 - d) proposes limitations:
 - sum or interest in shares due individual participants sum or interest in shares due other separate participants (members of labor collectives, citizens and their groups, etc.)
 - sum or interest in shares due all participants indicating part belonging to the state
 - e) prepares enterprises for privatization, creating corresponding commissions, or working with related ministries, or Interministerial state manage bodies
 - f) monitors limitations and other bodies involved
 - g) monitors all prep work; get reports from labor collectives, corresponding ministries, Interministerial bodies
 - h) halts non-compliant activities
 - l) on quarterly basis, verifies value of small object, such as land
 - j) discusses proposals, applications, and claims regarding privatization and denationalization
 - k) twice a year submits reports to the government
 - l) fulfills other powers which is it obligated by RoA legislation

Article 18: Authority of State Board on Calculation and Denationalization of the State Owned Property and of RoA in the Privatization and Denationalization

1. Privatization sales to be realized by State Board on Calculation and Denationalization
2. Functions of State Board on Calculation and Denationalization:

- a) evaluates property in order to define the price
- b) carries out the sales
- c) collects sales proceeds
- d) monitors for violations (such as employment covenants), punishes violators
- e) signs ownership (purchase) agreement
- f) creates other authorities as necessary

3. Can organize working groups (local boards), regional offices.

Article 19: Authority of the Ministries of the RoA and State Departments with regard to Privatization and Denationalization

Functions of the Ministries:

- 1. Prepare enterprises for privatization.
- 2. For an enterprises stipulated by legislation of RoA, provide lease arrangement to staff workers.
- 3. Ministries can:
 - a) lease enterprises to staff workers, citizens and others through Tender or auction
 - b) sell to non-public enterprises or mixed ownership (state/non state)
 - c) lease to citizens through Tender or auction
- 4. Offer unfinished construction sites by auction or Tender in order to finish construction.
- 5. Implement decisions of the President of RoA and the government of the RoA.

Article 20: Authorities of Local State Managerial Bodies

Functions of the Local State Bodies:

- 1. Prepare enterprises for privatization.
- 2. For an enterprises stipulated by legislation of RoA, provide lease arrangement to staff workers.
- 3. Local state bodies can:
 - a) lease enterprises to staff workers
 - b) sell to citizens and others through Tender or auction
 - c) sell to non-public enterprises or mixed ownership (state/non state)
 - d) lease to citizens through Tender or auction
- 4. Offer Unfinished Construction Sites by auction or Tender in order to finish construction.
- 5. Implement decisions of the President of RoA and the government of the RoA.

Article 21: Investment Funds

Investment funds are allowed to organize for vouchers markets and for buyers and decreasing the risk of buyers and owners of vouchers. The activities of investment funds are governed by the laws of the RoA.

III. Procedure of Privatization of State Owned Enterprises

Article 22: The various methods of privatization of state enterprises are as follows:

1. Methods of privatization
 - a) sale by auction or Tender
 - b) sale of assets to collective group, organizations, limited liability and stock companies
 - c) sale of shares or stock
 - d) repurchase of leased property
 - e) repurchase of state-owned share by non state-owned part
 - f) international tender
2. Choice of method made by GOA.

Article 23: Submitting and Discussing a Bid

1. GOA is only body that can initiate a privatization of SOEs.
2. Entities listed in Article 5 can initiate a privatization of a small object. Bids are submitted to State Commission on Privatization and Denationalization. Form defined by GOA.
3. Discussion with working staff only allowed for small enterprises. Outlines procedures within small enterprise for voting, deciding on privatization.
4. Before offering enterprise to others, Commission must offer the enterprise to employees.
5. After receiving application from a small enterprise, government must make decision and announce the decision.
6. Rejection of applications may be done for following reasons:
 - a) if applicant has not legal status
 - b) if privatization of small object not according to the program
 - c) if privatization of small object not according to the laws or RoA

Refusal of application can be appealed by judicial process.

7. Privatization ratified by government of the RoA in which the following issues

must be addressed:

- a) legal form of new organized enterprises has to be formulated
- b) scope of work needed to privatize
- c) timing and persons involved
- d) state assets repurchase and timing
- e) discounts and privileges offered
- f) method of managing parts of the enterprise not privatized
- g) who will represent the state in the privatization
- h) procedure of managing the manufacturing and production development and social affairs funds
- I) how the valuation will be done and persons involved
- j) how to set the price
- k) if required, how to set the number of shares of stock for stock sale

Article 24: Preparation of Enterprise for Privatization.

1. Preparation is implementation of all necessary work without which privatization can't be achieved. Specific steps to be defined by State Commission in Privatization and Denationalization.
2. Preparation can include:
 - a) determination of working capital, financial situation review
 - b) restructuring or reorganization of an enterprise
 - c) labor employee changes
 - d) dissolution of enterprise or its subsidiaries
3. Regulation of financial condition can consist of reevaluation, writing off value of assets, account resolution of liabilities and liquidation of some of enterprises, and delayed payments, granting credit with a purpose.
4. Reorganization can occur:
 - a) if it is impossible to privatize the enterprise like overall unit
 - b) if it is impossible to privatize all affiliates of the enterprise in the same manner
 - c) it is necessary to get rid of monopoly status before privatizing
 - d) if it is necessary to achieve production and technological completeness, or to straighten competitiveness of the product in the market
5. Laid-off employees shall receive compensation.

Article 25: Price of Enterprise and Types of Payments

1. State Property Accounting and Denationalization Department sets the price on the basis of audit of the assets of the enterprises and fiscal year annual balance sheet reports according to the established rules of the RoA. Based on this price the enterprises are suggested for purchase to labor collective or working collectives pursuant to the provisions of this law. These prices shall be deemed the starting price during auction or Tender during privatization.
2. Prices for small enterprises are calculated on the basis of re-estimated value of a property and the land occupied. According to the rule and the method of making these calculation there is a correction of indices of values amounts according to the regulation of the RoA and the authorized body.
3. The Government can invite overseas competent experts to help to set the price for them most valuable enterprises and those enterprises that have high competitiveness in the foreign market, and which is defined in the program.
4. Installment purchase payments are allowed.

Article 26: The Regulation of Privatization of State Enterprises Created on The Basis of Labor Collectives. (Purchased by Workers)

1. Privatization to limited liability companies and joint stock companies creates by workers groups shall be done in accordance with resolutions of the GOA and State Commission on Privatization and Denationalization.
2. Details of workers (“initiative group”) meeting procedures.
3. Initiative group registers company and applies to State Board on Calculation and Denationalization for valuation.
4. Limited liability and closed joint venture companies can be formed on the basis of labor collectives.
5. For payments over time, there can be special reductions in the first payment.
6. Profit of the state enterprise and labor payments can go toward the purchase price.
7. Reserve funds, social development funds, production funds, and other funds of the state enterprise are state ownership and are owned according to the decision of the GOA regarding the privatization of the given enterprise.
8. If the enterprise is not privatized due to the failure of the labor collective and within the period of time established by the decision of the GOA, then the GOA shall issue a new decision within month for privatizing that enterprise by other methods defined by this law.

Article 27: Procedure for Small Enterprises Privatization

1. Labor collectives have priority right for purchasing small enterprises
2. The Board of Calculation and Denationalization submits proposal to enterprises' labor collective.
3. The workers collective then, within 20 days, responds to the Board with a proposal and puts down a deposit.
4. Distribution of shares among workers (51% of the workers have to back the deal).
5. Full purchase price is payable in 30 days or over time, or as agreed upon otherwise.
6. In case of deferred payments, payments are made annually, with interest.
7. Surplus economic motivation funds can go toward purchase price.
8. If small units are not privatized due to a default of workers obligation, then priority right is lost.

Article 28: Information about State Enterprises that are Privatized by the Initiative of the Government of Armenia

Information about sale of enterprises shall be published in the mass media at least one month in advance of sale. Information shall include:

- ▶ land, buildings, leases, matters of real estate
- ▶ unfinished Construction Sites and uninstalled equipment
- ▶ raw materials
- ▶ cash and credit availability
- ▶ other assets
- ▶ intangible assets (patents, trademarks)
- ▶ liabilities to the state
- ▶ last three years balance sheets
- ▶ sales revenue by product

This does not apply to small enterprises.

Article 29: Privatization of SOEs by Tender

1. Tender is mandated for:
 - a) enterprises planned to be offered through Tender
 - b) small units not purchased by their staff
 - c) property of liquidated state owned enterprises
 - d) unfinished construction sites

2. Citizens of RoA, groups of citizens, private enterprises, foreign entities have unlimited right to participate in competitive bids.
3. The Commission establishes a Tender board, which makes a public announcement, prepares Tender, realizes it, and determines winner. Winner is bidder whose proposal is most appropriate. Proposal at less than 50% of starting price may be rejected. All proposals may be rejected if none meet minimum requirement. Availability of only one bidder is not grounds for rejection.
4. The GOA can implement Tender for SOEs and Unfinished Construction Sites.
5. If there is no winner of the Tender, the Commission shall outline a new version of privatization.
6. Small enterprises have to comply with local regulations about business activity. If no winner is determined in a Tender for a small enterprise, then the enterprise is liquidated according the defined order per Legislation of RoA.
7. Foreign entities paying in foreign currencies use prevailing exchange rate at Bank determined by Government. A special exchange rate may be defined in advance by the Commission.

Article 30: The Sale of State Owned Enterprises by Auction

1. Auctions will be used to sell:
 - a) enterprises planned to be privatized through auctions
 - b) small units not acquired by local staff
 - c) property of liquidated state enterprises
2. Citizens, their groups, private enterprises, and foreign enterprises have an unlimited right to participate in privatization through auction and working staffs may also participate on a pari passu basis.
3. An auction shall be effected by being proposed by the State Commission and ratified by the Government. The State Board on Calculation and Denationalization creates an auction board which publicly announces auction and carries it out.

The winner of the auction is determined by the highest offered price.
4. The overall process for auction is 1) definition by GOA of terms, formation of auction board, discussing auction proposal, identifying the winner, termination without announcing winner, giving right of privatization to winner.
5. The whole enterprise may be sold, or the part providing management control. The enterprise can be completely sold if working staff agrees.
6. For auction of small enterprises, any restrictions shall be made known.
7. Foreign entities shall participate according to Article 29, Clause 7.

Article 31: Sale of Property of Liquidated State Owned Enterprises Either through Tender or Auction

If an enterprise is liquidated without legal descendant, the property may be sold through Tender or auction:

1. Completely.
2. Divided into parts.

Public announcement should include allowable activities in that region. Purchaser doesn't assume prior liabilities. In case a Tender results in no winner, an auction is announced. If in auction, bid doesn't meet minimum price requirement, new price is set and auction is redone. Proceeds of the sale shall be used first to pay down liabilities.

Article 32: Privatization of State owned Enterprises in the Form of Open Joint Stock Companies

1. Privatization by establishing open shareholders companies is done by proposal of State Commission on Privatization and Denationalization with ratification of the GOA.
2. The State Commission on Privatization and Denationalization is the founder of the joint stock company, determining its capital stock, by-laws, etc. After founding, the ownership is passed to the State Board of Calculation and Denationalization, or in some cases to the corresponding ministry.
3. The State Board of Calculation and Denationalization or whomever is the owner, makes available shares to workers staff.
4. After workers obtain shares, the remaining shares are open to free subscription. Other details.
5. If the privatization is considered invalid, it shall be reformulated per Article 31.

Article 33: Purchase of State Owned Property by Lessee

1. Lessees are entitled to purchase leased property on a negotiated basis (i.e., without competitive bid). Lessee submits a bid to the State Commission on Privatization and Denationalization.
2. Bid is discussed within one month, accepted, or denied. The bid can be denied if:
 - a) bidder cannot act as legal entity to purchase.
 - b) privatization of that enterprise is forbidden by Program
 - c) some limitations are established by law

3. Assuming bid is accepted, State Commission on Privatization and Denationalization prepares resolution containing:
 - a) procedure and terms of purchase
 - b) schedule of deferred payments
4. Price of property should be same as price offered to working staff.

Article 34: Privatization of SOEs through International Tender

1. International Tender is mandated for enterprises planned to be offered through International Tender. The whole unit or a portion of shares of the unit by be sold through International Tender. Citizens of RoA, groups of citizens, private enterprises, foreign entities have unlimited right to participate, as defined in Article 6, point 1.
2. Based on resolution of GOA, the following is done: define time, place, starting price, prepare International Tender, procedures, etc., realize it, and determine winner. Winner is bidder whose proposal is most appropriate. Proposal at less than 50% of starting price may be rejected. All proposals may be rejected if none meet minimum requirement. Availability of only one bidder is not grounds for rejection.
3. Details on procedures.
4. Only one bidder is not a reason to cancel International Tender. If there is no winner of the International Tender, the Commission shall outline a new version of privatization.
5. Privatization Certificates cannot be used in International Tenders.

IV. Privatization of Unfinished Construction Sites

Article 35: The Procedure of Privatization of Unfinished Construction Sites

1. Privatizing Unfinished Construction Sites is done by proposal of State Commission on Privatization and Denationalization with ratification of the GOA.
2. Article 6, point 1 persons defined can participate. Usual procedures for applications and rejections.
3. If no rejection is made, then a decision on privatization should be made in one month.
4. Bids are submitted to State Commission on Privatization and Denationalization.

Privatization of Unfinished Construction Sites is carried out through:

- a) Auction or Tender
 - b) along with non-Unfinished Construction Sites part of an enterprise.
5. Price determined by book value. In case Unfinished Construction Sites is part of non-Unfinished Construction Sites privatization, Unfinished Construction Sites is offered to working staff at that price. For most valuable units GOA can invite foreign experts. Payment can be at once or over time.

Article 36: Selling Unfinished Construction Sites through Tender and Auction

Selling by Tender is done if buyer required to do so by decision of body. Selling by auction is done if buyer has no requirement except to finish construction. Either way should be according to process defined by law. Either way is carried out by State Commission on Privatization and Denationalization.

Article 37: Objective of Spending Proceeds of Privatization

Money from proceeds of privatization goes to the state budget.

V. Process of Denationalization of State Enterprises and Unfinished Construction Sites

Article 38: Leasing State Enterprises Without Giving Right To Buy.

1. According to law, property can be leased without purchase option as follows:
 - a) to working staff as first priority
 - b) others
2. Some entities can initiate lease without purchase option:
 - a) working staff
 - b) citizens and groups of citizens
 - c) legal entities and enterprises without legal status
 - d) foreign citizens
3. Property given for lease is given by ministries, state departments, or local bodies. Prior to giving property to lease, ministry shall offer leasing arrangement in writing to local staff. Staff has 15 days to respond, and may make a bid. If no bid is made, then leasing made be arranged with others through tender or auction.
4. Bid by working staff may be rejected if:
 - a) enterprise is planned to be privatized

- b) if denationalization is forbidden under the program
- c) if not allowed under law

If working staff is bidding to lease, then other group's bids may be rejected.

- 5. Bids should be dealt with in one month, and written response made to bidder.
- 6. If bid is accepted then leasing arrangement is executed.
- 7. Rent set by Ministry is considered starting fee.
- 8. In the absence of another order leasing doesn't preclude future privatization. Lessees acquire same priority privileges as working staff.

Article 39: Leasing Property Through Tender and Auction

The process of leasing state-owned property without right to purchase using Tender or auction is done with the concurrence of the management of the enterprise, the appropriate ministry, state departments, or local bodies of government.

Leasing through auction is done when lessee has no obligations other than relating to interests of worker staff and maintaining production of the enterprise. Objective of then auction is to maximize rent obtained.

A public announcement of Tender or auction should be made.

Article 40: Giving State owned Enterprises for Franchised Management

- 1. Franchising only doe through Tender. Concession arrangements through Tender under Article 29 of this law.
- 2. During implementing franchising arrangements, property remains under state control. Terms, such as rent, maintenance requirements, social guarantees to staff, should also be indicated in public announcement about Tender.
- 3. Allowable franchisees include: working staff, citizens and groups, private companies, enterprises without legal status, foreign citizens.
- 4. Bidders to obtain franchise should state in bid:
 - a) detailed description of functioning and development of enterprise, their financial wherewithal, capital spending plan and sources of financing
 - b) amount of franchise payment, not to exceed amount in public announcement.
 - c) number of employees, structure, wages, social guarantees
 - d) other social measures
 - e) suggestions for other terms of Tender

5. After winner of Tender is determined, franchise agreement is executed.
6. Bid concerning concession can be denied by State Commission on Privatization and Denationalization if:
 - a) franchising is on forbidden list
 - b) if enterprise is on list for privatization
 - c) if forbidden by law

Bids should be discussed within 2 months, with written response sent to bidder.

Article 41: The Procedure For Disposing Of State Owned Enterprises To Newly Created Private Enterprises Or Mixed (State/Private) Enterprises

1. The State Commission on Privatization and Denationalization shall propose the disposition of state owned property to working staff, citizens, etc., which proposal shall be ratified by the Government of the RoA. Enterprises shall be considered mutually owned by RoA and aforementioned entities.
2. Legal structure to be determined by State Commission on Privatization and Denationalization, which also establishes enterprise, sets capital stock, allocation to state and private enterprise, according to:
 - a) value of state property
 - b) future capital needs
3. Denationalization bids are to be submitted to State Commission on Privatization and Denationalization.
4. Bids can be denied if:
 - a) if enterprise is on list for privatization
 - b) denationalization is forbidden by the program
 - c) if working staff exercise priority right to denationalize

Bids should be discussed within 2 months, with written response sent to bidder.

5. If denationalization is not prohibited, then denationalization through State/private company is allowed, but the State part is not subject to sale.
6. Small enterprises may not be denationalized per this Article 41.

Article 42: Denationalization of Unfinished Construction Sites

1. Defined as disposition for the purpose of completion. Finished enterprise shall be jointly owned by RoA and entity chosen to complete works, allocated per many

factors: investment to date, value created by finishing, etc.

2. The State Commission on Privatization and Denationalization shall propose the denationalization of Unfinished Construction Sites which proposal shall be ratified by the Government of the RoA.
3. Priority right to complete Unfinished Construction Sites rests with:
 - a) private enterprises and enterprises without legal status
 - b) foreign entitiesAdditional details about applications, rejection, etc.
4. If no rejection, decision in a month.
5. Denationalization of Unfinished Construction Sites to be carried out through Tender. In public announcement of Tender there should be mentioned portion of state ownership, possibility of buying state-owned portion and terms of purchase. Tender boards to be established by State Commission on Privatization and Denationalization. Denationalization of small enterprises handled by the Board of Denationalization and Calculation.
6. Other details. Value of state-owned portion determined by additional expense to finish construction. Private firm finishing construction obtains same priority right of worker staff for leasing and privatization.

VI. Privatization and Denationalization Transactions

Article 43: The Privatization Agreement

The agreement is signed between seller organization of the State and buyer and should include:

- ▶ name of enterprise or Unfinished Construction Sites
- ▶ description and composition of sold property
- ▶ price, and price of land
- ▶ conditions of usage
- ▶ procedure for transferring ownership
- ▶ form of payments and terms
- ▶ obligations of buyer and seller regarding construction and maintenance
- ▶ social obligations: preschool, sports facilities, training, health, etc.

Article 44: Obligations of Buyer and Seller

Seller must make public announcement to buyers about privatization to give information and documents about property to buyer, buyers obligations, and seller shall dispose of the privatized asset to buyer and fulfill other obligations.

Buyer becomes legal inheritor of unit.

Obligations of buyer and seller per the privatization agreement become enforceable upon registration of the privatization agreement.

Article 45: Documents Satisfying Denationalization

1. Leasing memorialized in leasing agreement. May contain purchase option.
2. Franchising memorialized in franchising agreement.
3. New private enterprise to finish Unfinished Construction Sites memorialized through registration of new enterprise.

Article 46: State Guarantees for Rights of Participants in Privatization and Denationalization

Rights of participants guaranteed by RoA. In case of violation, GOA will direct State Commission on Privatization and Denationalization to void transaction and litigate the guilty party. Appeals will be heard by State Commission on Privatization and Denationalization.

Appeals regarding bidding will be heard by State Commission on Privatization and Denationalization.

Article 47: Identification of on Privatization and Denationalization as Annulled

1. Annulment occurs if:
 - a) resolution specifying privatization and denationalization is annulled
 - b) resolution is violated
 - c) rude violation of rules in auction or Tender
 - d) buyer defaults in payment
 - e) lessee defaults in payment
 - f) buyer is illegitimate - privatization or Unfinished Construction Sites
 - g) counter party buyer is illegitimate - denationalization
 - h) tender is illegitimate
 - I) illegal division or collusion between buyer and seller
 - j) illegal division or collusion in denationalization
 - k) buyer or denationalization participant has insider information or privilege
 - l) transaction agreement is violated
 - m) RoA antitrust law violated
 - n) other grounds defined by law
2. Transactions are nullified by judicial bodies.
3. Disputes to be settled in court or in arbitration

Article 48: Responsibility for Violation

Jurisdiction for handling violations is according to law of RoA.

APPENDIX B
DECREE ESTABLISHING MINISTRY OF PRIVATIZATION
AND FOREIGN INVESTMENT

DECREE ESTABLISHING THE MINISTRY OF PRIVATIZATION AND FOREIGN INVESTMENT (MOP)

THE GOVERNMENT OF THE REPUBLIC OF ARMENIA
DECREE # 13 as of January 31, 1997,
Yerevan

Relating to the RoA authorized state management body responsible for preparatory works for the privatization and denationalization of the Republic of Armenia.

Pursuant to Article 17 of the RoA Law on Privatization and Denationalization of State Enterprises and Unfinished Construction Units and the President of Armenia Decision about the amendments of the RoA Government structure and activity the RoA Government defines:

- ▶ to liquidate the Inter-Ministry State Commission of Privatization and Denationalization according to the specified order of the RoA legislation
- ▶ to reserve the jurisdiction of the Government authorized state management body which is doing preparatory works for privatization and denationalization to the RoA Ministry of Privatization and Foreign Investment
- ▶ to set up a commission for liquidation of the Inter-Ministry State Commission of Privatization and Denationalization and confirm the members of that commission in accordance with the annex

The liquidation commission:

- ▶ upon the completion of liquidation of the RoA Inter-Ministry State Commission of Privatization and Denationalization of and Unfinished Construction Units shall give possession of the property of that commission over to the RoA Ministry of Privatization and Foreign Investments
- ▶ shall take necessary measures to ensure the rights and guarantees of the staff of the RoA Inter-Ministry State Commission of Privatization and Denationalization of State Enterprises and Unfinished Construction Units subject to dismissal

To nullify points 1 and 2 of the RoA Government Decision # 39 as of February 14, 1996 about "Restructuring of the RoA Privatization and Denationalization state commission".

Prime Minister of the Republic of Armenia

A.Sargsian

**Annex to the RoA Government
Decision # 13 as of January 31, 1997**

Composition of the Commission for liquidation of the RoA Inter-Ministry State Commission of Privatization and Denationalization of State Owned Enterprises and Unfinished Construction Units:

1. N.Khachatrian- Privatization and Foreign Investments Ministry of the RoA (Chairman).
2. V.Manukian- Former Chairman of the RoA Inter-Ministry State Commission of Privatization and Denationalization of State Enterprises and Unfinished Construction Units (Deputy Chairman).
3. A.Aslikian- First Deputy Minister of Finance of the RoA, (Chief Treasurer).
4. A.Markosian- Deputy Minister of the Ministry of Privatization and Foreign Investments.
5. K.Kirakosian- Head of the Economic Scientific Management of the Government of Armenia staff.
6. P.Khaltakchian- Head of Management of the RoA State Property Calculation and Denationalization.
7. M.Isadjanyan- Chief Accountant of the RoA former Inter-Ministry State Commission of Privatization and Denationalization of State Owned Enterprises and Unfinished Construction Units.

Head/Minister of the RoA
Government Staff

G.Shahbazian

APPENDIX C
CHARTER OF THE MINISTRY OF PRIVATIZATION
AND FOREIGN INVESTMENT

**CHARTER OF THE MINISTRY OF PRIVATIZATION AND FOREIGN INVESTMENTS OF
THE REPUBLIC OF ARMENIA**

PRIME-MINISTER OF THE REPUBLIC OF ARMENIA

DECREE # 33,
as of JANUARY 29 1997, Yerevan
RELATING TO THE APPROVAL OF THE CHARTER AND THE STRUCTURE OF THE
CENTRAL STAFF OF THE MINISTRY OF PRIVATIZATION AND FOREIGN
INVESTMENTS OF THE REPUBLIC OF ARMENIA

Pursuant to the paragraph 4 of the Government Decree # 360, as of November 17, 1996 "About the measures directed to execute the order of the President of the Republic of Armenia dated as of November 8, 1996":

- To approve the Charter and the central staff structure of the Ministry of Privatization and Foreign Investments of the RoA (attached);
- To recognize invalid the decree of Prime-Minister of the RoA # 63, as of February 19, 1996, "About the approval of the Charter, the Staff and the Structure of the Inter-ministerial State Commission of the privatization and denationalization of RoA state owned enterprises and uncompleted construction units".

Prime-Minister of the Republic of Armenia

A. Sargsyan

I. GENERAL PROVISIONS

The Ministry of Privatization and Foreign Investments of the Republic of Armenia (hereafter the “Ministry”) is the republican body of executive authority of the RoA, which performs the administration of the system at the same time being subordinate to the Government of the Republic (GoA) of Armenia.

- ▶ The Ministry is responsible for the performance of the tasks and functions set before the Ministry.
- ▶ The Ministry is guided by the Constitution of the RoA, the Legislation of the RoA and the given Charter.
- ▶ The Ministry is the juridical person, it has the seal with the State Insignia and its own name.

II. TASKS AND FUNCTIONS OF THE MINISTRY

The main tasks of the Ministry are:

1. To develop the GoA annual programs (hereafter: the Program) of privatization and denationalization of the state-owned enterprises and uncompleted construction sites, as well as the RoA draft laws relating to the amendments and changes suggested for those programs and their submission to the GoA.
2. To organize the procedure of privatization and denationalization according to the program and the Legislation of the RoA; to discuss the privatization and denationalization bids submission; develop the Draft Decrees of the GoA relating to the privatization and denationalization of the state-owned enterprises and uncompleted construction sites (except the cases of leasing of the state property granted to the working staff without the right of its buyout) and present them for approval to the GoA.
3. To develop and present for approval to the GoA the procedures of the property valuation of state owned enterprises and uncompleted construction sites, and the draft normative legal acts for regulation of privatization and denationalization.
4. In compliance with the requirements of the program to propose to the GoA the restrictions to be applied for the participants of the privatization and denationalization in the events and by the order specified by the Law of the RoA “About privatization and denationalization of the state owned enterprises and uncompleted construction sites” (hereafter: the Law).

5. In compliance with the requirements of the program to carry out the preparatory works for the privatization of the enterprises by creating the commissions or proposing the preparatory works of the privatization to be carried out by the relevant ministries, departments, and state management regional bodies.
6. In compliance with the requirements of the program to carry out the preparatory works for the privatization of the uncompleted construction sites by creating the commissions or proposing the preparatory works of the privatization to be carried out by the relevant ministries, departments, and state management regional bodies.
7. To determine, to publish and once a quarter to verify the correction factors for the valuation of the area of the privatizing "small" objects taking into the consideration the minimum and maximum values of the factors which are approved by the GoA.
8. To prepare and carry out the privatization of the state owned enterprises and unfinished construction sites through tender by creating the commissions for this purpose.
9. To supervise the limits of jurisdiction of the relevant ministries, departments, and state management regional bodies with respect to the enterprises which are in the process of privatization and denationalization as defined by the program.
10. To supervise the process of privatization and denationalization (including the preparatory works for the privatization and the leasing of the state enterprises by the working staff of that enterprise) through the reports from the RoA ministries, departments, and state management regional bodies according to the specified order:
 - a) to propose to the GoA to cancel the decisions relating to the privatization and denationalization of state and regional management bodies which contradict the Law, the program, other legal acts of the RoA in accordance with the order specified by the RoA Legislation
 - b) to review the proposals, applications and complaints relating to the privatization and denationalization
 - c) to present the reports regarding the implementation of the current program of the privatization and denationalization to the GoA in accordance with the order specified by the RoA Legislation
 - d) to publish the materials relating to the process of privatization and denationalization
 - e) to research the privatized enterprises and to submit to the GoA the suggestions regarding the arrangements facilitating the economic and social development and promotion of such enterprises
 - f) to involve the research and other organizations as well as individual scientists and experts on the contractual basis in the process of the privatization and denationalization, including for the purpose of expertise
 - g) to develop and accomplish the state policy for the promotion of competition, the

- monopolistic activity and the prevention, restriction and avoidance of unfair competition
- h) to participate in the performance of anti monopolistic policy and competition development jointly with the CIS member countries
 - D) to develop the policy pursuing the protection of the businessmen rights and business regulation
11. To implement the state policy pursuing the attraction of the private investments (including the foreign investments):
- a) to develop legal draft normative acts and their submission to the GoA with the purpose the investments promotion
 - b) to develop and implement the proposals directed to the promotion and development of the small and medium enterprises
 - c) to accomplish the training and practical actions to provide assistance to the enterprises (in particular the privatized ones)
 - d) to render the consultation and information to the enterprises and foreign investors
 - e) to take arrangements, including the seminars and exhibitions, for the foreign investments encouragement
 - f) to develop and accomplish the development and investments attraction programs with the interested parties and organizations jointly
 - g) to prepare the relevant draft contracts and agreements to attract the foreign investments
 - h) to establish the relations with the foreign investors
 - D) to collaborate and strengthen the relationship with the CIS member countries in the private investment sector
 - j) to execute other powers specified by the RoA Legislation

In compliance with its main tasks the Ministry shall perform the following functions:

- ▶ summarizing the analysis of the state property privatization, its ownership, protection and valuation and the proposals associated with such analysis
- ▶ developing the antimonopoly policy and competition promotion programs, their main directions, methodology and mechanisms;
- ▶ anticipating in the development of the main directions for the state investment policy and programs and the establishment of the methods for the tender selection of the entities involved, and the organization of the tenders;
- ▶ participating in the determination of the priority in the usage of the aid provided to the republic, including the loan usage with the purpose of the private investments attraction;
- ▶ participating in the submission of the proposals relating to the establishment of the trade

- representations of the RoA in the foreign countries;
- ▶ establishing the state policy jointly with the interested parties, in the field of the investments collaboration with foreign countries, in particular the CIS member-countries
 - ▶ holding the right of disposition of the property and state shares of the companies in privatization process in the events defined by GoA
 - ▶ obtaining the necessary information for the advancement of the enterprises and foreign investments promotion in accordance with the order defined by GoA

III. MANAGEMENT OF THE MINISTERIAL WORKS

The System of the Ministry includes the integrity of its subordinate enterprises, institutions, organizations as well as the state management republican bodies and their subordinate enterprises, institutions, organizations.

The Ministry performs the functions specified in this Charter within the limits of its competence without restricting the independence of the subordinate state management other republican bodies, enterprises, institutions and organizations which independence is stipulated in the RoA applicable laws. The Ministry establishes business relations and cooperation with other Ministries to develop and resolve the problems arisen between the branches.

On the instructions of the RoA Government the Ministry performs the functions of the owner and the user of the state property granted to the Ministry's disposition. The Ministry ensures the custody of the state property of the state management other republican bodies, enterprises, institutions and organizations in the system.

The Ministry shall:

- ▶ observe all applicable laws of the RoA and this Charter and based on it and in performance of those shall issue orders, instructions and give directives which performance is obligatory for the other republican bodies, enterprises, institutions and organizations of state management as well as citizens
- ▶ issue decrees and instructions jointly with other Ministries, if necessary
- ▶ summarize the application of the experience from the current Laws of the RoA while solving matters within its competence. Based on that develops the proposals for improvement of the RoA Laws and submit them to the Government of the RoA or the Prime Minister
- ▶ participates in the development and discussion of the international draft agreements according to the specified order and within its competence

- ▶ within its competence suspend, terminate or annul the orders and instructions approved by the other republican bodies, enterprises, institutions and organizations of the system state management

The management of the works in the Ministry is performed by combination either board management or one manager: nomination of officials with precisely defining responsibilities for performance of tasks and certain proposals.

The Head of the Ministry is the Minister who is appointed to the respective position and dismissed by the President of the RoA pursuant to the RoA Constitution and by the suggestion of the Prime Minister. The Minister has its Deputies who are appointed to and dismissed from by the Prime Minister of the RoA in consultation with the Minister.

The Minister shall:

- ▶ be responsible for the performance of the tasks and functions given to the Ministry
- ▶ define the degree of responsibility of the Minister Deputies, heads of management and department and other structural subdivisions of the ministry for the activity of the other republican bodies, enterprises, institutions and organizations
- ▶ distribute the responsibilities among the Minister Deputies
- ▶ submit the central structure and the number of the main personnel of the Ministry to the Prime Minister for confirmation
- ▶ give an approval to the draft charters of the other republican bodies of its subordinate state management
- ▶ confirm the charters for the management, departments of the ministry and enterprises, institutions and organizations of the ministry
- ▶ suggest the number of the members of the Board and submit the composition of the Board to the Prime Minister of the RoA for confirmation
- ▶ organize and administer the meetings of the Board
- ▶ conclude, according to the specified order, the labor contracts with the Heads of the enterprises, institutions and organizations within the system of the Ministry.

In the case when the Chairman is not available one of his Deputies shall replace him by his order.

The Board shall be established in the Ministry. The Board shall consist of the Minister (the Chairman), the Deputies of the Minister, the Head of the Board of the State Property Calculation and

Denationalization by position, other senior officials of the Ministry.

At the meetings held periodically (not less than once a month) the Board of the Ministry shall review the draft decisions of the RoA Government relating to the privatization and denationalization of the state enterprises and unfinished construction sites, the matters relating to the operational management, performance checkup, selection of the senior personnel of the state management other republican bodies, enterprises, institutions and organizations of the system, the most important draft decisions and instructions, legislative and normative papers, and discuss the reports of the state management other republican bodies, enterprises, institutions and organizations of the system.

As a rule, the decisions of the Board shall be implemented by the Minister's orders. In the event of any disagreements arisen out between the Minister and the members of the Board the Minister shall exercise his decision upon the notice submitted to the RoA Government or the Prime Minister of the RoA and the members of the Board in their turn can notify about their opinion either the RoA Government or the Prime Minister of the RoA.

The representatives from the other ministries, departments, state management regional administration bodies, state and non-state enterprises, press and mass media and other organizations of the RoA can be invited to the meetings of the Board.

The Ministry shall organize the performance of scientific studies, collection of information, development and dissemination and shall improve and coordinate the cooperation with other countries.

The Ministry shall establish, restructure and liquidate the enterprises, institutions and organizations of the system in accordance with the Legislation of the RoA.

The Ministry shall set the requirements for the professional competency and qualification for the employees of the system, coordinate the selection, assignment and professional improvement of the senior officials of the system.

The Ministry shall give to the enterprises of the system the permission to establish (to liquidate) state owned daughter enterprises and join the economic amalgamations of the enterprises.

The Ministry shall give approval for the distribution of the enterprises, organizations of the system as well as the separated subdivisions of the enterprises.

The Ministry shall give permission to the enterprises, institutions, organizations of the system to invest the state funds outside the RoA, which funds are at the disposal of the Ministry.

According to the order specified by the RoA Legislation the Ministry shall control the usage of the state property which is placed at the disposal of the state management other republican bodies, enterprises, institutions, organizations and also shall permit the alienation or the leasing of the mentioned property.

The financing of the Central Staff of the Ministry is provided only at the expense of the state budget.

The Ministry shall organize the review of the citizens' letters (the applications and complaints) and trying to resolve the problems involved in their letters the Ministry shall also take measures to eliminate the defects of the activity of the enterprises, institutions and organizations of the system which defects are mentioned in the citizens' letters.

APPENDIX D
PRIVATIZATION PROGRAM FOR 1996-1997

PRIVATIZATION PROGRAM FOR 1996/1997

PROGRAM OF THE REPUBLIC OF ARMENIA ON PRIVATIZATION AND DENATIONALIZATION OF STATE OWNED ENTERPRISES AND UNFINISHED CONSTRUCTIONS UNITS FOR 1996-1997

Article 1: Objectives and Main Goals of the 1996-1997 Privatization and Denationalization

Main objectives of the current phase of privatization and denationalization are:

- ▶ completion of "small" units privatization
- ▶ partial privatization of industrial infrastructure sector (communication, energy, transport, etc.)
- ▶ broader application of international competitions; completion of privatization mainly in the agricultural food processing and light industry sectors
- ▶ advancement of the methods of privatization and denationalization
- ▶ methods enlargement and completion of privatization and denationalization of unfinished construction sites (including housing sector)
- ▶ creation of a favorable environment and organizational framework for the growth of privatization and denationalization volumes
- ▶ promotion of foreign investment involvement and development of competitive environment

Taking into consideration the mentioned objectives the program contemplates the following goals:

- ▶ regulate and organize privatization and denationalization process for state enterprises and unfinished construction sites
- ▶ develop a scheme of procedures of preliminary work on privatization and denationalization
- ▶ apply privatization and denationalization forms in the monopoly infrastructures of the economy as successful tools for economic policy
- ▶ establish public services enterprises through privatization and denationalization of the enterprises of key economic importance
- ▶ provide privatization and denationalization of natural monopoly sector (communication, energy etc.) by involving the foreign capital to a large extent
- ▶ introduce privatization and denationalization in proprietor infrastructures as a tool of anti monopoly policy
- ▶ determine:

- privatization and denationalization target measures
- main directions for privatization and denationalization of separate groups of enterprises and unfinished construction sites; their eligibility criteria, principles, preferences and limitations; main ways and payment forms for privatization and denationalization separate groups of enterprises and construction sites
- terms and conditions of foreign investment and participation of foreigners in the process of privatization and denationalization
- main directions of privatization and denationalization planned for 1997-99

Article 2: State Enterprises and Unfinished Construction Units Eligible for Privatization and Denationalization

Enterprises eligible for privatization and denationalization shall undergo the following criteria:

- ▶ priority for privatization and denationalization is given to the enterprises and objects involved in agricultural food processing industry and those supplying and in line with them;
- ▶ the privatization and denationalization of enterprises involved in production of consumer goods and thus impacting immensely on the consumer market of the country;
- ▶ the privatization and denationalization of unfinished construction units of production and social sector;
- ▶ completion of small units privatization and denationalization.

All unfinished construction units are included in the Program.

Article 3: Enterprises And Unfinished Construction Units Which Privatization Is Not Envisaged for 1996-97

Set out below are the enterprises which are not targeted to be privatized under 1996 Program:

- ▶ civil defense and mobilization enterprises
- ▶ shooting-ranges and military enterprises
- ▶ coin, order, stamp and seal producing enterprises
- ▶ substantial research institutes

- ▶ enterprises monitoring such spheres like geology, cartography, geodesy, hydrosynoptics and environmental and natural resources protection
- ▶ specialized storehouses and refrigerators for state reserves and mobilization stocks

- ▶ manufacturing and enriching enterprises of rare elements, precious, semi-precious stones and metals
- ▶ enterprises dealing with protection services of sanitary-epidemic, veterinarian, plant and forestry nature
- ▶ enterprises breeding thoroughbred stocks, dealing with plant and stock breeding also crossbreeding, state inspections of seed sorting and testing , various labs and stations
- ▶ standardization and measurement service enterprises
- ▶ railroads, highways of essential nature and Yerevan Underground
- ▶ radio & broadcasting and state TV enterprises
- ▶ radioactive and decaying materials (equipment) production and research institutions
- ▶ labor corrective penitentiaries
- ▶ state-owned enterprises and units located outside Armenia

Article 4: Enterprises and Unfinished Construction Units to Be Privatized under the Current Program

The list of enterprises and unfinished construction sites that are subject to sectoral privatization and denationalization is the integral part of the Program. The list includes also small units and forms of privatization (through free subscription of shares, international competitions). Those small units that are excluded from the Program are deemed to be part of the Program and shall be privatized through bids submitted to the Agency authorized by the GOA.

Those small units included in the Program which appropriate form of privatization is not indicated will be privatized according to the provisions of the RoA Law on Privatization and Denationalization of SOE and Unfinished construction sites as well as like open joint stock company.

Article 5: Privatization Certificates (Vouchers)

The volume of the issued certificates comprises 48% of the book value of the property that is envisaged in 1996 privatization. Privatization vouchers are equally distributed among the citizens of the RoA having the right to obtain them without paying for their nominal value. Each citizen is to receive a voucher excluding some cases stipulated by the laws of the RoA.

The payment rate to cover the expenses associated with distribution, publication and circulation will be equal to 50 drams. Privatization certificates distributed for the given year are effective during the whole term of the privatization process. Certificates investment and distribution are controlled by the Government of RoA. The expiration of certificates distribution is tailored up to December 31, 1996 and its duration cannot be less than 2 months. The nominal value of a voucher is set 20.000 drams.

Article 6: Ways of Payments over Time for Separate Groups of Privatized Enterprises and Unfinished Construction Units

The starting indices for payments over time are taken as of December 31, 1995 and with the purpose to reflect the inflation rate of dram such payments shall undergo indexation pursuant to the regulations defined by the RoA Government.

Article 6.1: Payments over Time for Privatization of the Small Units

Upon the decision to privatize small units included in this program to be sold to the economic association or limited company set by its labor collective, the latter has to transfer to the special privatization account the appropriate part of the cost prescribed in Scale 1, or, if willingly, the full cost of the unit taking into account advance payment. If it fails to transfer timely the labor collective will loose the proprietor right and the advance payment will not be returned.

Scale of payments over time is also available for purchasing leased property, privatization of unfinished construction sites and enterprises by way of closed stock companies.

Rate of Payments Over Time for "Small" Units

Amount of Payment (drams)	First Payment	Term of Payment (year)	Number of Payments
Less than 600.000	100%	-	-
600.001-700.00	600.000+40% of the part exceeding 600.000 drams	1	2
1.400.001-2.400.000	920.000+30% of the part exceeding 1.400.000	2	3
2.400.001 and more	1.220.000+20% of the part exceeding 2.400.000 drams	3	4

In case of payments over time after each payment the rest of the cost of the unit will be paid with equal portions once a year. Buyer can pay the rest of amount at once at any time. Privatized property value indices and average interest rate of bank deposits will be taken into account at the next installment according to the procedures defines by the GOA.

The way of payment and additional terms will be defined by a decree of the GOA.

Article 7: Foreign Investment Usage and Foreign Participation in the Privatization and Denationalization

Foreign investors are entitled to participate in the process of privatization and denationalization on equal terms with RoA citizens. Foreign investors payments resulted from privatization are to be addressed to state budget.

Article 8: Conditions of Participation in the Privatization and Denationalization of Enterprises with State Share (In Case of Privatization and Denationalization of Other Enterprises) by Non-profit, Non-governmental Organizations, Benevolent and Other Public Funds and Trade Banks and Financial&credit Institutions

Non-profit organizations, NGOs, benevolent and other public funds as well as trade banks and financial and credit funds (excluding investment funds and associations) can participate exclusively in the privatization and denationalization of liquidated enterprises property with the state share (in case of privatization and denationalization of other enterprises).

Article 9: Preliminary Measures Required for Privatization and Denationalization According to Sectors of Economy and Different Enterprises

With the purpose to prepare the relevant enterprises and unfinished construction sites for the process of privatization and denationalization, the State Interministerial Commission of Privatization and Denationalization (SICPD) defines an organizational-technical complex plan of measures, which is to be implemented by the relevant commissions, ministries, regional-administrative departments (RAD) and local authorities of state management, moreover:

- ▶ the results of primary inventory of the fixed and circulating capital of the privatized and denationalized enterprises are inspected
- ▶ the ministries and regional-administrative departments inform about the financial condition of the enterprises under their subordination enveloped in the process of privatization and denationalization, as well as make suggestions about the regulation or liquidation of the enterprises in accordance with the SICPD by-laws
- ▶ specialized auditing companies can be invited to reveal the reasons of unprofitable business of the enterprises, which are subject to liquidation
- ▶ if needed temporary groups of experts are formed and recommendations are worked out to accomplish structural changes in some branches of the economy and to reorganize the enterprises (divide, merge, separate it from the structure of operating enterprise, also provide employment structural reforms
- ▶ the state enterprises and unfinished sites to be privatized and denationalized are

reassessed and their sales prices are determined, moreover, the SICPD starts the reassessment of inventory and space cost estimation of small units in the defined order according to the approved schedule

- ▶ re-assessment and space cost estimation of the small units are calculated by estimated correction coefficients
- ▶ ways and terms of payments over time of procurement costs of the privatizing enterprises, unfinished sites and "small" objects are defined

Article 10: Power Restrictions of the Ministries, Regional-Administrative Departments and Other Local Authorities of State Management Against the Enterprises Which Privatization and Denationalization Process Is Under Way

Once the project is confirmed the ministries, departments and local authorities of state management will not be entitled to make any organizational-structural, staff and property changes of the relevant enterprises and sites unless they are stipulated in the legislature and preparatory actions plan for privatization of an enterprise approved by the SICPD. Other limitations in the program can be defined through amendments and additions.

Article 11: Privatization Tasks of State Enterprises and Unfinished Construction Sites for 1996-97

Tasks associated with the privatization of state-owned enterprises and enterprises with state participation and unfinished construction sites for 1996-97 are given in Table 1.

Table 1

Industry	Enterprises and Unfinished Construction Sites		State and Mixed Enterprises and Unfinished Construction Sites Subject to Privatization			
	Total Number	Asset's Book Value (State's share in mln.Dr.)	Number		Book Value of Fixed Assets State Share	
			Number of Enterprises	% vs Total	(mln.Dr.)	% vs Total
1. Industry	347	128542.1	195	56.20	38213.6	29.73
1.1 Energy	28	54837.9	13	46.43	13290.46	24.24
1.2 Chemicals & Biotechnlogy	21	2685.12	10	47.62	1422.42	52.97
1.3 Machine Tool & Automobile	14	3088.9	8	57.14	998.10	32.32
1.4 Electrotechnics & Machine Build	19	11666.68	16	84.21	9705.34	83.19
1.5 Radio electronics	77	9991.8	30	38.96	1955.33	19.57
1.6 Mining and Metallurgy	35	26500.85	6	17.14	2818.35	10.63
1.7 Other branches	23	6033.82	9	39.13	44.82	0.74
1.8 Light industry	52	4637.83	52	100.00	4637.83	100.00
1.9 Food	78	9100.86	51	65.38	3341.11	36.71

Industry	Enterprises and Unfinished Construction Sites		State and Mixed Enterprises and Unfinished Construction Sites Subject to Privatization			
	Total Number	Asset's Book Value (State's share in mln.Dr.)	Number		Book Value of Fixed Assets State Share	
			Number of Enterprises	% vs Total	(mln.Dr.)	% vs Total
2. Transport & Communication	183	25425.00	22	12.02	785.95	3.09
2.1 Automobile Transport	81	5353.44	1	1.23	8.96	0.17
2.2 Construction and Operation of Roads	45	745.68	19	42.22	216.84	29.08
2.3 Railroad of RoA	45	10230.00	1	2.22	6.17	0.06
2.4 Civil Aviation	11	5539.80	1	9.09	553.98	10.00
2.5 Yerevan Metro	1	3556.08	-	-	-	-
3. Construction Industry and Companies	112	10204.56	82	73.21	6889.12	67.51
3.1 Construction Enterprises	65	5925.96	60	92.31	5919.36	99.89
3.2 Construction Materials Industry	37	4012.92	20	54.05	962.92	24.00
3.3 Design Institutes	10	265.68	2	20.00	6.84	2.57
4. Communication	16	5324.40	3	18.75	3097.08	5.82
5. Agriculture	432	6878.64	70	16.20	341.54	4.97
6. Logistics	7	5264.16	3	42.86	340.68	6.47
7. Communal Services*	763	92.76	760	99.61	91.56	98.71

PRIVATIZATION PROGRAM FOR 1996/1997 ▶ 9

Industry	Enterprises and Unfinished Construction Sites		State and Mixed Enterprises and Unfinished Construction Sites Subject to Privatization			
	Total Number	Asset's Book Value (State's share in mln.Dr.)	Number		Book Value of Fixed Assets State Share	
			Number of Enterprises	% vs Total	(mln.Dr.)	% vs Total
8. Household Utilities	194	1092.96	191	98.45	772.74	70.70
9. Social Sector Including	485	18583.06	238	49.07	5344.04	28.76
9.1 Health	282	10530.15	116	41.13	4348.16	41.29
9.2 Press	120	638.59	116	96.67	617.11	96.64
9.3 Tourism	4	26.04	2	50.00	4.68	17.97
9.4 Culture	79	7388.28	4	5.06	374.09	5.06
10. Motorcars Technical Maintenance	5	0.01	5	100.0	0.01	100.0
11. Resources	46	114.96	16	34.78	80.69	70.19
12. Yerevan Municipal Enterprises	122	6624.00	66	54.10	1619.00	24.44
14. Unfinished Houses Construction	395	1395.19**	395	100.00	1395.19	100.00
TOTAL	4927	258675.79	3809	77.31	59690.57	23.08

*without area cost

**construction-mounting works costs

Article 12: Main Directions of Privatization and Denationalization of State-Owned Enterprises for 1997-1999

Main directions for 1997-1999 privatization and denationalization of state-owned enterprises and enterprises with mixed ownership are given in Table 2.

Table 2

Sector of Industry	State And Mixed Enterprises	
	Total Number of Enterprises	Book Value of Fixed Assets State Share (mln.Dr.)
1. Industry	152	90328.67
1.1 Energy Sector	15	41547.53
1.2 Chemicals & Biotechnology	11	1262.70
1.3 Machine Tool and Automobile	6	2089.99
1.4 Electrotechnics & Machine Building	3	1961.34
1.5 Radio Electronics	47	8035.85
1.6 Mining Metallurgy	29	23682.51
1.7 Enterprises of Other Branches	14	5989.00
1.8 Food	27	5759.75
2. Transport and Communication	161	24639.05
2.1 Automobile Transport	80	5344.48
2.2 Road Construction & Maintenance	26	528.84
2.3 Railroad of RoA	44	10223.83
2.4 Civil Aviation	10	4985.82
2.5 Yerevan Metro	1	3556.08

Sector of Industry	State And Mixed Enterprises	
	Total Number of Enterprises	Book Value of Fixed Assets State Share (mln.Dr.)
3. Construction & Construction Materials	30	3315.44
3.1 Construction Companies	5	6.60
3.2 Construction Materials Production	17	3050.00
3.3 Design Institutes	8	258.84
4. Communication	13	50149.32
5. Agriculture	362	6537.10
6. Logistics	5	4923.48
7. State Trade and Public Catering*	57	492.48
8. Public Utilities*	3	1.20
9. Household Services	73	320.22
10. Social Sector	247	13239.0
10.1 Health	166	6182.00
10.2 Press	4	21.48
10.3 Tourism	2	21.36
10.4 Culture	75	7014.19
11. Natural Resources	30	34.27
12. Yerevan Municipal Companies	56	5005.00
Total	1189	198985.25

*without space value

Article 13: Administrative, Legal, Technical and Financial Measures Required for Program Implementation

The organizational framework for the Program implementation requires a set of measures to be done in the following way:

- ▶ laws and regulations on privatization and denationalization will be transparent;
- ▶ training programs of methodological and practical nature are to be carried out for the staff engaged in privatization and denationalization process;
- ▶ establishment of Auction centers and State Inventory and Denationalization Board departments to facilitate the shares registry and small unit sales;
- ▶ attraction of foreign advisory and expertise teams.

Legal measures required for the Program implementation include:

- ▶ improvements in regulatory framework of property assessment
- ▶ shareholder rights
- ▶ share subscription including close allocation of shares,
- ▶ auctions and improvement of the rules and methods of competitions
- ▶ draft designs and propositions for the amendments and changes to be made in the applicable laws.

Technical assistance shall include:

Technical assistance shall be done in way of foreign expertise and consultancy involvement into the process of privatization and denationalization.

Financial measures are including:

- ▶ provide the financing for agencies performing privatization and denationalization at the account of state budget of RoA
- ▶ define voucher service costs at rate of 193.0 mln Drams
- ▶ define enterprise restructuring and recovery costs at rate of 500.0 mln Drams;
- ▶ provide US\$ 500.000 to cover preparatory and organizational costs of privatization channeled through IBL of World Bank.

Article 14: Term of Validity

The Program will come into force in July 1, 1996 and last till July 1, 1997.

Article 15: Analysis of the 1995 Program Implementation Pertaining to Privatization and Denationalization of SOEs and Unfinished Construction Sites

The 1995 Program tasks and schedule are given in Table 3.

The 1995 Program on Privatization and Denationalization of SOEs and Unfinished Construction Sites. Tasks and Schedule as of March 9, 1996

APPENDIX E.1

EVALUATION OF THE PILOT PRIVATIZATION OF SMALL HYDROPOWER PROJECTS (FIRST ROUND)*

* This document discusses the results of the first round of the privatization program. Appendix E.2 contains financial and operational data for the facilities that were privatized in the second round and information on the current tender status of all of the small hydroelectric plants considered for the pilot privatization.

**EVALUATION OF THE
PILOT PRIVATIZATION OF SMALL
HYDROPOWER PROJECTS (FIRST ROUND)**

Prepared for:

US Agency for International Development
Ministry of Energy of the Republic of Armenia
Ministry of Privatization and Foreign Investment of the Republic of Armenia

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1.0 INTRODUCTION

This report has been prepared with the support of the U.S. Agency for International Development as part of the promotion of private power task under contract CCN-0002-Q-03-3152-00 to Hagler Bailly Consulting, Inc. (Hagler Bailly). The report was completed based on findings made during a trip to Armenia during the period of 30 April to 13 May, 1997. During the visit, the information gathered as a basis for this report included:

- ▶ interviews with Republic of Armenia (RoA) officials;
- ▶ published information from the tenders for privatization;
- ▶ background information on the projects;
- ▶ data from other Hagler Bailly reports; and,
- ▶ interviews with two of the successful bidders.

The goal of the evaluation was to provide an overview of the first round of the small hydroelectric facility privatization, an analysis of the shortcomings and recommendations for improvements. The purpose of this report is to document the discussions held in a summary workshop and provide the Armenian government Ministries with the perspective of an independent party making suggestions for improvement of the process for the final small hydroelectric tenders. The recommendations also have validity for future privatization activity in the electric power sector.

2.0 OVERVIEW OF THE SMALL HYDROELECTRIC PROJECT PRIVATIZATION PROCESS

Pilot Program Summary

The Small Hydroelectric Project (SHP) privatization process is being carried out under the Armenian Law on Privatization and Denationalization of State Owned Enterprises and Unfinished Construction Sites. The SHP privatization was established by Government Resolution Number 321, dated September 30, 1996 which established a Tender Commission for privatizing the projects and outlined the schedule, process and initial price calculated for each of the projects. A total of 25 projects, which totaled 85 MW of installed capacity were initially targeted for privatization. Some of these projects were removed from the process for national security and other reasons.

On October 16, 1996, Resolution Number 14 of the Interdepartmental State Commission of Privatization approved the information to be published on the projects. On December 20, 1996, the Tender Commission set up by Resolution 321 made a decision to establish a timetable for the first eight projects to be privatized. These were part of the first pilot group. The second group and remaining projects were also defined.

The tender conditions and information on the projects was approved by the proper authorities and the information was published on November 7, 1996 in the newspaper, "Republic of Armenia." Each of the eight projects had its own tender and conditions, although the business conditions and requirements were uniform among the projects. The major differences were in the technical parameters of the projects, requirements of the rehabilitation process and the "starting price" for each project.

The project bid submission deadlines and tender performance dates were set for three different dates, originally in January 1997, but rescheduled for late March and early April. Fourteen separate bidders submitted bids on seven of the projects. One project had no bidders. For six of the projects, the minimum bid was met or exceeded. For one project, there was only one bid which was well below the minimum bid. All bidders were Armenian and there was no bid submitted nor obvious participation by foreign bidders. As most of the projects were sold and there was competition for five of the eight projects, the pilot privatization could be considered to be successful.

Projects for Privatization

The list of the 25 projects initially identified for privatization is in Exhibit 1. Several of the projects have been eliminated from the program. The Yerevan 2 project was excluded from bidding since the project lands and works are owned by the Earthquake Engineering Research Institute. The Institute has invested some time and money into rehabilitating the project. Also, the Zeroges Project is located in a sensitive military zone and will not be privatized.

The projects are in variable stages of operable condition. The projects in the best condition have all units operable, but are in need of maintenance and some repair to the electrical and mechanical components. The projects in the worst condition have had the equipment removed and the civil works are in advanced disrepair. However, all of the projects are apparently in a state where resumption of generation is possible without complete reconstruction. Generally, the water supply to the project is in place so that there is no major cost of impoundment or water conveyance. No inspection of facilities was made under this study.

The first group of pilot privatization projects included six which were in some stage of operation and two which were not in operation (Martuni and Yghegnadzor). Despite the need for new equipment, there were two bids on Martuni. Yghegnadzor, which has no equipment in place, received no bids.

Exhibit 1
Characteristics of Projects and Privatization Grouping Information

Name of Hydropower Plant		Design Size kW	Privatization Schedule	
1	Vogchi HPP-2	operating	4,200	2
2	Vogchi HPP 3	operating	7,500	2
3	Sisian HPP	operating	810	2
4	Dzora HPP	operating	NP	
5	Yeghegnadzor HPP	not operating		Rebid
6	Yerevan HPP-3	operating		
7	Yerevan HPP 2	not operating		excluded
8	Areni HPP	operating	680	1
9	Giumri HPP	operating	5,280	1
10	Talinn HPP	not operating		3
11	Goris HPP	operating		excluded
12	Azatek HPP	operating	1.06	1
13	Kamo HPP	not operating		3
14	Idjevan HPP	operating	610	1
15	Megri HPP	operating	840	1
16	Zovashen HPP	operating		2
17	Martuni HPP	not operating	448	1
18	Vardenis HPP	not operating		
19	Aigezor HPP	not operating		3
20	Agarak HPP	operating		2-Lease
21	Airum HPP	operating	3,020	1
22	Tsahkavan HPP	not operating		3
23	Armaveer HPP	operating		2-Lease
24	Haikavan HPP	not operating		3
25	Jermuk HPP	operating		2-Lease

Schedule notes:

- 1- First pilot group
- 2- Second group
- 2- Lease; Second group already leased to a party who has first rights.
- 3- Final group

A summary of the projects and successful bids, compared to the starting or minimum bids can be found in Exhibit 2. There is no clear pattern that can be deduced from examining the results, except for the relatively low costs per kilowatt when considered in relation to international replacement costs. However, considering that the expected value for the power is speculative and expected to be low and the cost of rehabilitation for even the best plants will be a large multiple of the purchase price, the plants' prices are not surprising.

In the United States in the early 1980's, there were many retired hydroelectric plants which were sitting idle with abandoned or obsolete equipment. During the period of interest in the US in redeveloping alternative energy, developers took over some of these plants and placed them back into service. A number of these plants were acquired at little or no cost to the developer, as a significant investment had to be made to upgrade the plant. The power values for the plants restarted in the US generally ranged from \$0.04 to \$0.06 per kWh.

Positive and Negative Results of the Pilot Project Privatization

As there were no specific goals stated prior to the SHP privatization, a true measure of the success of the program is speculative. In general, it would seem that the program was a qualified success. This judgment is based on a subjective measure of the positive and negative aspects of the results.

There were clearly several good results:

- ▶ Seven of the eight plants were sold;
- ▶ There was a reasonable level of competition that included 14 bids from 13 different bidders;
- ▶ The process worked as it was intended;
- ▶ Selection of the winners was obvious and there should be minimal controversy;
- ▶ Site owners have paid and are satisfied with the results so far; and,
- ▶ Valuation by the Privatization Committee was exceeded in six of the seven sales.

There were also some negative elements:

- ▶ There was no foreign participation in the tender;
- ▶ All of the sales were by voucher - no cash was received by the RoA¹;
- ▶ Prices were low in comparison with replacement standards;
- ▶ There are many uncertainties for the new owners; and,
- ▶ Completion of rehabilitation requirements may be difficult to enforce.

¹ The vouchers, however, represent an outstanding obligation, similar to debt, to the citizens of Armenia. As these are redeemed, they represent a release of the Government from this obligation. Therefore, there is some inherent value in debt release received for the projects.

Exhibit 2
Pilot Privatization Projects Summary Data

Project	Operating	Design Capacity kW	Design Average Generation GWh	Past 10 Years Average Generation GWh	Plant Age	Plant Valuation Dr. (1000)	Number of Bids	Purchase Price Dr. (1000)	Purchase Price USD	Purchase Price \$/kw	Purchase price Cent/kwh average 10 yr.
Ayroum	yes	3,020	18.7	9.1	40	129,237	1	66,000	137,500	46	15
Areni	yes	680	3.2	1.2	46	9,327	3	15,120	31,500	46	26
Azatek	yes	1,060	1.6	0.8	45	25,893	1	25,893	53,944	51	67
Yeghegnadzor	no	410	1.5	n/a	66	13,121	0	none	none	none	none
Giumri	yes	5,280	22.3	6.2	69	85,577	3	106,200	221,250	42	36
Idjevan	yes	610	2.5	2.2	66	8,981	2	8,981	18,710	31	9
Martuni	no	448	1.5	1.2	49	8,796	2	10,800	22,500	50	19
Megri	yes	840	4.0	1.1	61	19,803	2	24,500	51,042	61	46
Totals		12,348	55.3	10.7		300,735		257,494	536,446	43	50

Source: Tender information and information from bids received.

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On balance, the positive elements listed appear to significantly outweigh the negatives.

Future Plans for SHP Privatization

After the sale of the first group of projects, there remain 16 plants which will undergo privatization. The next group which has been identified to be sold includes:

- ▶ Vogchi HPP-2
- ▶ Vogchi HPP-3
- ▶ Sisian HPP
- ▶ Zovashen HPP
- ▶ Agarak HPP
- ▶ Armaveer HPP
- ▶ Jermuk HPP

The last three projects listed are under a lease to non-Armenenergy operators. These operators will apparently have the first rights to the projects and may not be included in the actual tender. After this group of seven, there are five more projects which would be in the final group. None of these projects are operating. In addition to these projects, the Yeghegnadzor project which was included in the first tender is still available. Finally, there are three small projects, Yerevan-3, Dzora, and Vardenis which have not been designated in any of the groups as of the time of this report.

It is the stated intention of the Privatization Committee to complete the privatization of this entire group of projects in 1997.

3.0 PROCEDURE AND CONDITIONS OF THE TENDER

This section is a discussion of the procedure and conditions of the pilot tender, including the information which was provided to the potential bidders. A brief critique of the conditions is also provided.

The procedure for the actual tender of the projects was relatively simple, outside the decision making processes of the Armenian government. Essentially, the projects were identified for the first group, information was collected, a starting price was placed on the projects and approval was provided by the appropriate authority for the privatization to proceed.

Initially, the project information and conditions of tender were published on November 7, 1996. There was limited response to the publication. The dates for submittal and opening of

bids was set for January, 1997. These dates were later changed to March and April, 1997 due, in part, to recommendations received from foreign assistance agencies. The projects and tender information were publicized in the "Republic of Armenia," a state-owned newspaper, which is regarded as the most widely circulated in the country. This newspaper regularly publishes all information related to the tender of projects and enterprises for privatization. Additionally, press releases were sent to international energy investor related publications (e.g., Independent Power Report, Privatization International).

A translation of the Reference Terms for the Areny HPP as published are provided in the attachment. The information includes:

- ▶ Authorization for the tender
- ▶ Location and technical information on the project
- ▶ Financial condition
- ▶ Terms of tender
- ▶ Terms of payment
- ▶ Terms of participation

In general, the reference terms published were those necessary for public notification in any process of this nature. However, this information was short of what would typically be available in a sale or privatization of a project asset. The additional information suggested in the following review could be provided in an information package which would be given to any interested bidder. The package would be separate from the reference tender publication. Further, the additional information for bidders should not pose any major effort on the part of the privatization staff as most of the items can be readily provided based on presently existing information in Armenia.

The information provided in the reference tender publication is all that was provided to any party interested in bidding. There was no invitation for a formal site visit, although there was also no restriction on one's own site visitation. The authorization for the tender included citation of the various statues and resolutions which govern the privatization process.

The project information included a brief technical description of the plant's original design characteristics, facilities, condition of the facilities, past ten year's average production, lands and description of the rehabilitation work needed.

Information which was not included in the General/Technical description which generally would be included in a sale/privatization package are listed below. More details on this are provided in Section 4.

- ▶ A map of the project, with general and local location, showing transportation routes.
- ▶ Summary drawings of the projects - These should be available from the Hydroelectric Institute, Armenergo or the site itself. A plan of primary structures, with one or two section drawings of major facilities (dam/powerhouse/canal) is sufficient.
- ▶ Identification of the equipment manufacturers (if equipment is in place).
- ▶ Hydrology details - The information supplied should answer these questions: From where is the water supplied? Is this part of an irrigation system? If so, what are the operating rules affecting the plant? If the plant is located on a stream, is there a gauge? If so, the flows for the past ten years should be provided to allow the potential investor to compare to the annual output. This information allows the bidder to discover current potential and look at whether low output is due to the plant or water conditions.
- ▶ Production history - The last ten year average is not very meaningful by itself. Yearly or monthly output for the past ten years should be furnished.
- ▶ A description of the point of interconnection with the electrical system and ownership of the substation/intertie.
- ▶ Land map of the project property.
- ▶ A description of the most recent rehabilitation/repairs done on the project, if these have taken place in the last ten years.

The financial condition described in the tender documents provided only makes a statement that the project balance sheets were not kept separately. Recovering the details would be a major effort and is not likely to be possible. The prospective bidder is most interested in the costs of operating the project. If any of these costs are available, they are of value. If they are not available this should also be stated. Costs which are of interest to a bidder include operating budget, including labor, tools and incidental costs, costs of minor and major repairs and consumable items such as oil. Due to the prior nature of ownership of these plants, the bidders will not typically be expecting this level of detail.

The Terms of Tender and Requirements of Participants section spells out a number of business conditions for the bidders. A discussion of these conditions indicates the vague nature of some of the key points. These points cause uncertainty for the bidders, which results

in less interest and lower bids for the projects. While uncertainty in some conditions will not mean no interest on the part of any single bidder, as the uncertainty in the tender increases, the likelihood of a bidder not responding to the tender increases quickly. The points below demonstrate some of the areas of uncertainty:

- ▶ The starting sales price, or valuation is provided. However, the exact significance of this price is not explained. If it is an absolute minimum bid price, such that lower prices will be rejected, it should be clearly stated as such. However, it has been represented that one half of this valuation is the actual minimum price of bids which will be accepted. One of the projects was sold to the labor group that operates the particular plant at just over one-half of the valuation. It is understood that this group did not receive any favorable status due to their position. They won the bid, as they were the only bidders and the price was acceptable. If one half of the valuation is the minimum bid acceptable, this must be stated clearly in the tender documents.
- ▶ A license is to be given to the tender winner. However, the parameters of the license and the rights and responsibilities bestowed by this license are not defined. This also should be made clear, perhaps in a short appendix. The license description does not have to be in the published tender, but should at least be part of a greater information package.
- ▶ Since the rehabilitation work to be done at a minimum is defined, any approvals necessary from the government or any ministry for work in addition to the minimum should be identified.
- ▶ Items 6 and 7 of the requirements cite the need for a water use contract with the Ministry of Agriculture and Food. This is needed so that project operations do not interfere with irrigation and existing water uses. However, the constraints which exist on a particular plant, such as water only during certain seasons, should be defined.
- ▶ It is understood that the cost of water use for the SHPs is not now defined and the Ministry of Agriculture and Food has requested a large reimbursement. This possible liability should be defined, or the cost to be borne by the project (after resolution) stated clearly. The government must define all liabilities to expect the bidder to give a firm bid. If liabilities are not clear, bidders will automatically lower the bid price.
- ▶ It is not clear from the conditions whether the bidder has the right or the requirement to sell power for the next ten years to the State. It is understood that it is intended by the documents that this is only a right. Since this issue can be misunderstood, it should be more completely defined. The right to sell

to a third party should also be clearly defined, including the availability of transmission. This relates to the definition of an interconnection point to the system grid, which must be provided in the technical project information.

- ▶ Any environmental conditions which are specific to the project must be identified. This includes the amount of water flow which cannot be used for the project due to sanitary or other environmental considerations.
- ▶ Term 15 states that a penalty will be paid in the instance of non-compliance with the tender terms. The penalty would be in accordance with the contract. Since no draft contract is included in the information, the penalty should be defined.

The place, time and amount of payments to be made is clear. However, there are several items which are not clear, particularly to a foreign investor.

It states in the tender that the participant has the right to make payments in cash or bank draft. It is also implied that the purchase can be made using vouchers or cash. However, what is less clear is whether a non-Armenian bidder can make the project payment and bid bond (5% of valuation) in vouchers. Whether a foreign party can or cannot use vouchers should be clearly defined in the documents so that both the foreign and domestic bidders will understand the bidding and payment rules. While a foreign party may consider it a disadvantage if they cannot use vouchers for privatization, it will probably not stop them from bidding.

It is also referenced that a contract will be concluded with the successful bidder. A draft of this contract should be provided in a package of other information to the interested parties. If parties have a problem with certain contract conditions, they can provide exceptions in their bid package. If not, they can sign and return the contract in the bid package. The contract will only be signed with the winning bidder by the government.

The terms state what must be submitted. In general this is very clear. There are several items which are not entirely clear, however. For instance, there is no described method of submitting questions or clarifications to the Privatization Committee. In many of these bid situations, there is a date by which questions must be submitted in writing and a list of the questions and answers is provided to all parties that have gotten the project information package. Also, it is not entirely clear that the bid values submitted will be separated into the actual price to be paid for the project and the later investment. This should again be clearly stated.

4.0 RECOMMENDATIONS TO IMPROVE THE PROCESS

From the review of the entire pilot privatization process, a series of suggestions can be made to improve the process for the additional projects to be privatized, and for future, larger project privatizations to be scheduled in the future.

Recommendation 1: Clarify Privatization Goals

This is the most basic and fundamental of the recommendations. The definition of what is actually hoped to be achieved by disbursing state assets should dictate the actual process used to disburse the asset.

Some potential goals for a privatization process by any governmental body include:

- ▶ Raise cash from the asset sale;
- ▶ Achieve better management of facilities/resources;
- ▶ Rehabilitate the facilities;
- ▶ Provide an inexpensive source of power;
- ▶ Maximize participation by domestic enterprises;
- ▶ Attract international investment;
- ▶ Construct new power plants; and,
- ▶ Meet World Bank/IMF commitments.

The definition of any appropriate goals for privatization within Armenia can only rightly be done by its elected and appointed policy and decision makers. Thus, the selection of the priority goals for the remainder of the SHP project and other electrical sector sales must be done by the appropriate authority. This review does not suggest which goals should be priority. However, it is our intention to demonstrate how the priority setting will affect the structure of the program. This point is illustrated best by comparing the sale of electrical generating assets by two different countries.

In Argentina, the electrical sector was dominated by a few government-owned utilities. The country went through a process of dividing the large company into smaller sectors. The generating plants were divided into single plants for sale or, in the case of smaller projects, groups of assets for sale. Very small projects were generally given to the state or cooperative level jurisdictions as payments for debts.

The generation system was set up as a completely free trading commodity system, with sales into the grid done on an hourly basis, based on hourly bid prices. Therefore, the goal for the sale of the assets in Argentina was simply to generate cash and retire some of the very large debt that the country owed to banks and other external institutions.

Basically, the privatization process did not care whether the buyer rehabilitated it, generated electricity or took it out of service to use the facility and site for other purposes. The goal was to raise capital. There were, however, some portions of the stock payments and stock in the companies reserved for pension funds for the labor union workers. Although the goal was not to force rehabilitation or good management, it was expected that any investor who would make the highest bid on the asset would manage that asset in the best possible way. Thus, the retained stock would have value for the future.

Bolivia approached its privatization in a separate manner. The country had a need for rehabilitation of some projects and also needed a commitment to new plant construction. The country also had a much smaller system and national economy than Argentina.

Bolivia privatized its plants on the basis of a bidder's commitment to invest for rehabilitation and new capacity rather than maximizing cash proceeds for the projects. The national utility generating system was divided into three generation companies, each of which were privatized as a company. The government did not sell the entire generating company but retained a large minority portion of the plant for the State and pension funds. However, a controlling interest was sold to the highest ranked bidder.

In order to participate in the bidding, a group or company had to be pre-qualified. This included the submittal of financial and experience data. The interested parties in the bid were also clearly identified by this process.

The focus of the Bolivian privatization was to attract investment into the plants, rather than capital up front. The winning companies were selected based on their commitment of capital into the generating companies. The government gained value by owning shares of a company with a significant infusion of capital and improved and new sources of generating capacity.

The difference between these examples illustrates how the goals of privatization influence the type of privatization program pursued.

For the remainder of the Armenian SHP sales, the goals will define any changes to the process. If the primary goals are decided to be to maximize the payment to the government and rehabilitation of the projects, the Privatization Committee should offer a standard contract with an attractive minimum power tariff. The tariff can be structured in two parts; a lower tariff until the proscribed rehabilitation of the plant is completed and a higher tariff after completion.

If the SHP goals are to attract foreign investors, the process should be far more heavily advertised. More details on terms and potential power customers should be provided along with a standard contract with guarantees and incentives.

Recommendation 2: Promote the Privatization

One clear shortcoming of the pilot privatization process was that the promotion of the tender offer was very limited. Although there was a reasonable turnout of local bidders, there was no participation by foreign interests. This was not completely from a lack of interest. At least one American company heard of the privatization, sent a fax to a published number and attempted to call. They did not get any information in return. Additionally, the project team was informed that a British company was interested in the privatization but learned about it too late to react.

The Privatization Committee needs to promote the process better to get more bidders and thus better fulfill the goals of the sale. This means that there must be more publicity, a responsible contact point for all interested bidders, and the Committee must provide a package of information on the projects to interested parties. None of these activities needs to be difficult or expensive. The efforts should be recouped in a higher purchase price for the projects. Even if no acceptable foreign bids are received in the next privatization, the promotion will provide a good framework of experience for further activities on the larger thermal and hydropower projects.

The publicity for the privatization needs to be started well before the actual tender is published. For the remainder of the SHP sales, this should happen as soon as possible. A press release should be published immediately. The press release can be brief, stating the necessary items to interest possible bidders which should include:

- ▶ The fact that Armenia has recently completed the privatization of seven projects.
- ▶ There will be 10 to 13 more projects to be sold in 1997 comprising about 20 MW.
- ▶ The projects are in need of various degrees of rehabilitation.
- ▶ The sale will be open to all qualifying bidders.
- ▶ The approximate announcement date for the next round of tenders is late May/early June.
- ▶ A contact for further information with a title, address, phone and fax numbers and electronic mail (e-mail) address.

Any group responding to the press release should be placed on a list for follow-up information to be sent as it becomes available. When the reference tender is published, a copy should be furnished to the parties that responded to the press release.

A list should be compiled to receive this first press release and further releases that will be made, such as when the reference tender is published. The list should include all the local news interests as well as a list of international parties. For the SHP program, this list would include trade associations and publications of the international hydropower industry. Within the US, there is a National Hydropower Association which would publish the press release to its members. Additionally, a US publisher of "World Wide Hydro Review" is looking for this type of news. There are counterparts to these US companies in Europe, including the publisher of "Hydropower and Dam Construction."

In addition to these companies, international Armenian associations should receive the press release. This action will provide the notice to business interests outside of the hydropower industry. These groups may be interested in owning power sources for their own use or may be simply seeking an investment in a kindred community. The incremental cost of having these groups notified is very small.

The most important element is to respond to those who express interest. This can be done by e-mail or fax. Almost all companies now have an e-mail address where information can be sent inexpensively.

When the actual tender offer is published and the dates for bidding are set, a second press release should be issued to the same list of individuals, in addition to the list of those that asked for the information. This press release should state which projects will be privatized, when bids are due and where the tender and additional information is available.

Contacting parties should receive a package of information, including the reference tender as published, plus the additional information suggested in this report. If possible, the information could be made available on a Worldwide Web Site on the Internet. This is an inexpensive method of providing information to foreign interests and should be available to the Privatization Committee. Alternatively, foreign parties should be asked to provide a shipping account number (e.g., Federal Express, DHL) to receive a hard copy. Since the information is relatively small, the costs of duplication to the Committee should not be significant. However, the receiver should be asked to pay for the shipping. Otherwise, many non-serious parties will request the information simply out of curiosity.

Publicity is a very important and often overlooked element of the privatization process. Note that there are many sources of potential buyers for SHPs, not just the traditional hydropower community. None of these should be overlooked.

Recommendation 3: Provide Clear Commercial Conditions

Reduce Unknown Conditions

The technical conditions which were provided in the Reference Tender in the pilot SHP privatization were adequate but left a large number of items open to estimation or speculation. It is the nature of business to attempt to define unknowns and manage them better than other companies. However, a business becomes too speculative when there are too many unknowns. By limiting the unknowns, the number of interested parties should increase and the bid prices will increase as well.

There are a number of unknowns in bidding for the SHP privatization including:

- ▶ Power market and price
- ▶ The cost for water use
- ▶ Transmission price
- ▶ Hydrology
- ▶ Cost of rehabilitation
- ▶ Cost of operations.

These unknown conditions are in addition to the typical risks of doing business, including production and payment risk and other hazards. Some of these listed risks must be borne by bidder. The bidder will have some management and control over these risks and is in the best position to take them. Others should be defined by the government so that the bidder does not have to adjust their value placed on the project to account for the uncertainties.

Several of the items are clearly risk items for the bidder to take. The cost of rehabilitation and the cost of operations are in these categories. It is necessary for the bidder to estimate what their costs of fixing the plant will be and determine whether they will be able to make the enterprise profitable.

The hydrology for the projects, particularly for SHP's is a risk for the bidder. However, the Committee should provide the bidder with the best available information so that the bidder can examine the source of water, the variability in supply and the expectation as to the quantity available for the plant in normal, good and poor conditions.

Two elements which are completely outside the bidder's control and should be defined as soon as possible by the authorities are the transmission costs for wheeling to third party customers and the cost for using water to be paid to the Ministry of Agriculture and Food. Due to the high degree of irrigation in Armenia, it is necessary to have a contract with the Ministry of Agriculture and Food for the use of the water. As the hydropower project is not

consuming the water, this permit should mostly serve to protect the owner's rights and also make sure that their operation does not conflict with other users with senior rights to the water. A payment for such a permit is reasonable, but it should be very minor, as the water is not consumed and places no significant burden of enforcement on the Ministry. This is currently an open issue, such that bidders have no idea what this permit will cost. This issue should be addressed as soon as possible so that this unknown is removed. To do otherwise will cause bid prices to be reduced to account for this uncertainty.

The cost and ability to transmit power from a generator to a third party customer should also be established. A policy on direct sales to consumers and transmission prices should be adopted so that a prospective bidder that might want to wheel the power to another purchaser, or its own industry, will know whether such an action is possible and what the transmission cost associated with such a transaction will be. If it is not defined, a "worst case" will likely be estimated by the bidder, resulting directly in a lower bid price for the project.

A major unknown for any potential bidder is the price which they will receive for the power generated. It is clear that Armenergo will buy the power; however, it is not clear whether this is a right or an obligation over the ten year period. This must be clarified. The actual price to be paid by Armenergo is not clear at all. No rate has been established but there are some indications that an average cost of system production (about \$0.025 per kWh) will be paid. Lack of clarity on this point will be reflected in the bid price.

From interview information, consideration is being given to requiring a bid price for power sold from the projects as well as a bid price for buying the project. While this adds another element of competition to the bidding, it will also make the selection of a bidder much more complex. There will need to be some formula which combines the energy purchase price and the bid price. Weighing these will not be easy. This step is not recommended.

To make the process more open and secure, it is suggested that an offering tariff price be made for the power from the rehabilitated plants. The tariff could consist of two parts - a single tariff for any pre-rehabilitation power from the plant and a post-rehabilitation rate. The later rate should be higher and reflect the costs of new sources of power. Experience and studies of rehabilitation and the cost of new power should be used to set this rate. It is also recommended that the rate be made the same for all future SHP's privatized. While the cost of rehabilitating the plants is quite variable, the differences in plant values should be reflected in variable bid prices for the projects. In other words, bidders should be prepared to pay more for projects in better condition, if the price for power is the same. Having a standard rate is more transparent than attempting to get agreement and approval for many different small plants.

Clearly Define the Rules

Particularly from a potential foreign investor point of view, but also for domestic investors, the clarity of the rules could be improved. The additional clarifications can be described in the detailed package of information recommended to be provided to interested bidders. This additional information does not need to be published.

In particular, the ability for a foreign investor to use vouchers for the privatization should be clarified. This should be done specifically for the SHP privatization. Conflicting information on this point was received from different knowledgeable individuals. A foreign investor may consider that they are at a disadvantage if domestic groups can use vouchers purchased at a discount while the foreign group cannot. Although this may not preclude participation by foreign groups, it will send a negative signal to the international investment community.

Any preference conditions for certain groups should be clearly disclosed. If there are legal requirements for preference given to SHP operating collectives, this should be stated. Disclosed preferences are not a barrier to bidding; however, if they are not disclosed, the reputation as to the validity of the process will be in question and future privatization will receive less participation.

The method for selecting the winning bidder should also be clearly defined. Typically, in a privatization, the highest bidder who meets the tender requirements is the winner. If the unknowns which are discussed earlier in this report are removed, the highest bidder will be the winner. This removes controversy from the process. The key point is that however the winner is to be selected, the method must be disclosed to all of the potential bidders.

The actual requirements for the bidders were very well presented in the pilot program. Some consideration to expanding the explanations should be given in the next round for potential foreign interests that may not understand Armenian institutions as well as domestic individuals. For example, a better description of the registration requirements and process for foreign bidders should be included so that this will not need to be researched by each bidder.

Any possible restriction on the future sale of the project should be included. It appears from the Reference Tender that there is no such restriction. The only reason to add in such a restriction would be to minimize the use of so-called "middlemen" or speculators. This could be done by placing a one to two year restriction on resale. It is foreseeable that a foreign investor, if they could not directly use vouchers, could use a domestic company in Armenia to win the bid using vouchers and then purchase the plant at a discount over the cash price that would have had to have been paid by the foreign company during the privatization tender.

Clearly define what is being purchased

One element where the tender documents could be more clear is to comprehensively describe what assets are actually being tendered. What property rights go with the purchase? Does the bidder have all rights to the land or only for SHP operation? If the bidder does not operate the plant in some future time, what rights do they retain? Since land ownership in Armenia is different from other countries, some clear explanation will be helpful for the bidder.

This explanation should include:

- ▶ The lands the winner will receive (this was included in the prior tender);
- ▶ That the winner receives all buildings and equipment, in existing condition, with salvage rights;
- ▶ Any commitment to the current operating staff that law or policy requires;
- ▶ The period and condition of ownership; and,
- ▶ Specific rights to the lands the project occupies.

It is also stated in the tender documents that a license will be granted to the bid winner. A draft of this license should be included in the bidder's information package, or at least a summary of the conditions which the license will contain. This is very important to provide prior to bidding.

As already briefly discussed, the power sales possibilities should also be addressed in the information package. If the bidder is free to arrange a retail sale to a third party, it should be clearly stated along with the current retail tariffs paid. It will be the bidder's responsibility to assess the likelihood of finding such a buyer. Further, any transmission costs which will have to be paid for providing power to a third party should be identified.

It is recommended that a standard wholesale tariff be offered by Armenergo to the SHP's which are privatized. This will provide a standard base for all bidders to consider. Having the bidder also specify its price for power from the rehabilitated projects is cumbersome to evaluate and will not be a clear way to determine the bid winner. If a standard tariff is set, the addition of currency indexation would be a very attractive addition for a foreign investor. This also provides inflation protection of some sort for the domestic bidder.

Finally, it is recommended that the Committee include a provision that foreign investors provide a local contact that will receive official notices and be the point of contact for

potential ownership. This removes any communication problems from the responsibility of the Committee.

Recommendation 4: Provide Complete Technical/Bid Information

The information which was provided in the reference tender was acceptable, but did not provide enough data for evaluation by most project purchase standards. Most companies are going to want far more information in certain areas than was available in the pilot SHP privatization.

As noted under the recommendation for more promotion of the privatization, after the tender is published, a more detailed information package should be provided to interested parties, either by pick up at a designated office, Internet, or by bidder pre-paid shipping. The package of information is not expected to be larger than a typical sized report, but is very important for presenting a valid impression of the process.

It is highly recommended that the following technical details be included in this package. Some of this information was briefly discussed in Section 3.0.

- ▶ Project drawings: A plan and section of critical project features such as the powerhouse, dam and water conveyance facilities will tell the bidder a great deal. These can be copies of any existing drawings and need not be of high quality. Some specification is far better than none.
- ▶ Hydrology: The source of flow should be clearly identified. If it is an irrigation canal or pipe, the conditions when flow is released should be defined. If the project is on a river, available hydrology for the river should be provided. It is understood that a great deal of hydrological information exists for the country. Information specific to the project is very necessary for a bidder, as the water is their fuel supply. The last ten years of data should be supplied if possible, to correspond to the last ten years of production information.
- ▶ Historical production: In the reference tender, only the last ten years' average was provided. This is not sufficient as it does not indicate any trend or the possibility that the plant produced no power for the last several years. Annual production figures should be provided. Historical production on a monthly basis, if available, is preferable.
- ▶ Equipment characteristics: The manufacturers of the major equipment (e.g., the turbine and generator) should be indicated.
- ▶ Irrigation impacts: A clear explanation of how any irrigation or other domestic water supply need will impact the project should be described.

- ▶ Environmental considerations: Any environmental conditions for compliance should be clearly identified. This includes any flows which must remain in the stream, any restrictions on diversion or other conditions which would affect plant production.

A copy of the tender application should be included as part of the package. Instructions for filling out the form should be provided and a method for posing questions to the Committee should be described.

As there will be some contracts necessary for the successful bidder to complete, it is beneficial to include drafts of these contracts in the bidder's information package. Providing the contracts will help to clearly identify the rights and responsibilities of all parties including the expectations of the Committee and other governmental authorities.

Draft contracts which should be included in the package include the Property Registration and Denationalization Contract which was cited in Section 4.3 of the Reference Tender for the pilot projects.

A draft power contract from Armenergo should also be included in the package so that the buyer can read and understand the contract. Inclusion of this information helps to remove as many unknown conditions as possible for the potential bidders.

Finally, the payment conditions which were provided in the reference tender for the pilot projects were thorough and complete. These should again be made available to the bidders.

Example of a SHP Sale Bid Package

As an example of information which can be provided as part of the bid package, the following demonstrates the approach used in one US sell-off. During mid-1996, a bank repossessed four hydropower projects located in Northern California. The owner had borrowed money to construct the projects. Due to a seven year dry period and excessive costs during construction, the projects could not pay back the bank loans.

In order to recoup some of their capital, the bank held a sale similar to the privatization done for the SHP's in Armenia. The bank notified American parties who may be interested in purchasing the projects. Packages of detailed information were provided to the interested parties and site visits were scheduled with the plant operators at the option of the bidder.

While this sale was a private transaction, the sale was done by the bank on a bid basis, similar to a privatization. A date was set for the bid to be submitted and the highest bidder entered

final negotiations to complete the sale. The projects were sold as a group which comprised a total of about 10 MW.

The outline of the bid information package for the projects was as follows:

Volume 1: Terms and Supporting Information

- ▶ Summary information: A description of the terms of sale and historical performance were provided.
- ▶ Project participants: This section described the project owners, operators and other important parties to the transaction.
- ▶ Facilities: This section described in detail the project facilities, including equipment and civil works and provided general drawings for each of the four facilities. A section which listed any project defects or problems was also included.
- ▶ Power sales history: The monthly power sales and revenues for each of the projects was provided.
- ▶ Twenty-five year hydrology and rainfall for each of the projects was included. Where hydrological information was not available, the rainfall could be used to determine whether any particular year was wet or dry.
- ▶ Agreements: A description of each of the project power sales contracts was provided.
- ▶ Federal license and contracts: A summary of the contracts and license were included. Project specific agreements for lands, transmission, and other details for each project were also provided.
- ▶ Historical financial statements: The projects were approximately seven years old. The financial statement for each project for this time period was provided.

Volume 2: Supporting Agreements

Copies of the agreements which were summarized in volume 1 were included for the review of bidders. Not all agreements for each project were included but they were made available if the bidder requested them.

Volume 3: Pro Forma Financial Statements

The bank had developed a series of financial projections for each project which the owner could use to determine the project value. These are not often found in this type of offering but were helpful for the bidder to understand some future conditions for the projects.

There were some issues at the project which were unknown conditions for the bidders and had to be assessed by each. For some of the projects, fixed prices were not included in the power contracts. The power rates floated with the wholesale market exchange rates for California, which sometimes fell as low as US \$0.02 per kWh. Thus, the bidder had to estimate a future price which they felt would be paid for power, a significant unknown condition. There were also some technical conditions which caused problems for the bidders. One project sold its power through a substation of another project owned by another company. The other project was old and tripped off-line regularly. When the old project went off-line, so did the plant which was being sold thus causing a periodic loss in revenue. Another of the projects received its water from the tailrace of an upstream project. The upstream project was owned by another party. If the upstream project was off-line for repairs or for another reason, the project being sold was also off-line. Therefore, the condition of the upstream project was a problem over which the downstream owner had little or no control. Finally, one of the projects had a pipeline that traversed a geologic slide area. Providing regular repair to alleviate this problem was expensive and there was a risk of a large land slide damaging the plant.

Despite these problems and risks, the bank received six bids for the projects. The bank considered four of the bids serious and two frivolous. The highest bid was about 50% greater than the other serious bids. A sale was successfully completed in about four months after the bid. The bidders were allowed about 60 days from the time information was available to prepare and submit a bid.

5.0 IMPLICATIONS FOR THE PRIVATIZATION OF LARGER PROJECTS

Finally, the lessons learned during the privatization of the SHPs will be valuable as Armenia proceeds in the privatization of its larger hydropower and thermal projects. Most of these recommendations will apply to the larger projects, particularly for the larger hydropower projects.

Several points are offered for future consideration outside of those found in Section 4.0.

1. The goals for the privatization of the larger projects must be carefully considered before the process is designed. Depending on whether the most important goal is rehabilitation, cash realized by the Republic or availability as a long-term low cost power source, the rules and parameters supplied to the bidders will be different.

2. The larger projects must have complete data. This will be more important than the smaller projects. Bidders will want to see specific information on project performance and will want to be able to estimate the efficiency of the plant and possibly individual units at the plant. Any studies that have been done on the projects for rehabilitation should be provided to the bidders. Any unknown information or conditions will definitely lower the bid prices received.
3. Make the power sales option clear. For the larger projects, quite likely the only logical sale will be to the larger grid of Armenergo. A target tariff which is defined for the project will provide a solid basis for the bidders to evaluate and prepare the bids and will provide an even basis for the Committee to select a bidder.
4. Armenia should consider holding a minority share in the larger project. After rehabilitation, there may be a capital market for the sale of the remainder of the plant. Some of the plant company stock could also be put into a pension fund or any other similar funds held by the government.
5. Define any rehabilitation expectations clearly. If rehabilitation of the individual plants is a primary goal, the rehabilitation should be described in some detail so that the appropriate work is done by the winning bidder.
6. Consider carefully how any of the cascades are privatized. Currently, the Sevan-Hrazdan cascade is undergoing studies for environmental recovery of the lake. This introduces a large uncertainty about the amount of power the plant can generate. If this cascade is privatized prior to complete resolution of these issues, it is likely that full value of the cascade will not be realized by the government. Further, it may make sense to bundle all of the Vorotan Cascade together or to divide it into two or more groups. Generally, there should be some efficiency by the same group operating all of the plants, however the situation should be studied first before making a final decision.
7. Consider making the privatization process two-stage. The first stage should be a pre-qualification of bidders. The interested party should submit its team, qualifications, and financial information. The best five or six teams can then be invited to bid. The second stage is to accept the actual bids.

The use of the two-stage process allows the Committee to identify interested parties and determine how many bids they can expect. If they do not receive quality submittals in the first stage, changes can be made to revise the process and improve the privatization parameters (e.g., wholesale rate offered, criteria for evaluation of the bids).

Finally, it is suggested that the Ministries and Armenian government consider examining in detail the Bolivian privatization activity as an example relevant to Armenia for how to approach privatization in the energy sector. In 1995-1996, Bolivia, a country with approximately the same population as Armenia and less infrastructure, privatized its utility. Rehabilitation of the generating equipment was of primary interest to provide more capacity to the country in a short period of time. A premium was placed on a bidder's capital contribution to the generating company being privatized. The government did not receive large sums of capital in the short term but retained a minority position in the generating companies, which will have greater value as the rehabilitation progresses. Further, this process had widespread public support due to the minority share ownership provided to the state pension fund. Given the market size and need for rehabilitation of the energy sector, the Bolivian experience appears relevant for Armenia to help achieve a proper and successful privatization process.

ATTACHMENT

ARENY HPP PRIVATIZATION TENDER

A P P R O V E D

By the Resolution N. 43.14 dated October 16, 1996
of Interdepartmental State Commission
of Privatisation and Denationalisation
of State Enterprises and Non-Completed
Constructions Facilities

Commission Chairman

R E F E R E N C E

of Areny HPP to be Privatised by Tender

1. GENERAL INFORMATION

- 1.1. Name of the Enterprise - Areny HPP.
- 1.2. Address - Vayodz Dzor Region, v. Areny
- 1.3. Legal statues of the Enterprise - Separated Subdivision of Southern Electric Networks Regional Department of Armenergo; State Enterprise (EN SSRD).
- 1.4. The Enterprise shall be privatised under the resolution N. 321 of the Government of RA, dated September 30, 1996.
The Enterprise has not undergone non-compensated partly privatisation.
- 1.5. Director of Southern Electric Networks Regional Department - J. Papazian.
Chief Accountant - A. Sargsyan
- 1.6. The Enterprise does not have any shares in the authorised capitals of other Enterprises within and out of the territory of RA.
- 1.7. Scope of activities of the Enterprise:
Electricity generation

Brief Technical Characteristics of Areny HPP

Areny HPP is located on the right bank of the river Arpa, v. Areny, Vayodz Dzor Region

Technical Data

1.	Installed capacity	0.686 MW
2.	Designed average annual el. generation	3.2 mln. kWh
3.	Designed output	8.5 m ³ /sec.
4.	Designed head	11.8 m
5.	Number of units	4
6.	HPP territory	0.5 ha
7.	HPP was put into operation	1951

The hydrotechnical facilities of the HPP are characterised as follows:

- 1) Head structures, including:
 - spillway dam with 36m length and 3.35m height, faced with stone

- deaf part of the dam is a ground barrier with dimensions 60 x 5m
- spillway construction which has 2 depth valves with 3m width

2) Water intake, dimensions of the disk valve are width 3m and height 2m

At present only damp part of the dam is in the good condition, the remaining part were ruined several years ago during spring flowed.

3) Diversion channel with 860 m length, with trapezoidal section with dimensions: 2.0m bottom and 6.2m upper side width, height - 2.1m.

The channel is faced with stone.

4) Double-stage sludge filter is located approximately in the middle of diversion channel, the dimensions: length 40m, width 1.4m. The sludge filter is faced with stone.

5) Pressure basin with 25m length, bottom width 2.5x3.0m. There is a 25m length side spillway on the right side of the pressure basin.

6) Penstock in 4 lines, with 26m length and 0.8m diameter.

7) Spillway with 164 m length, the section is trapezoidal and covered with stone. There is a water well at the end of the spillway with 7x3x2.5m dimensions. The continuation of the spillway is irrigation channel.

8) The powerhouse is from stone, with 20.8x9x5m.

9) The discharge channel with 9m length rectangular section at the beginning and 71m trapezoidal section. The total length is 80m.

The HPP 10 years annual average generation was 1.2 mln. kWh.

At present there is a head structures rehabilitation project which is not implemented due to lack of finances. All other hydrotechnical structures and equipment need to be repaired.

Areny HPP receives water from the river Arpa, via its own water scoop. The HPP shall provide water for irrigation of 15 ha yards from the delivery channel.

- 1.8. The territory of the Enterprise - 1785 sq. m, the territory of the power houses and constructions is 3215 sq. m.
- 1.9. No technical means of transportation are available.
- 1.10. There are no any non-completed construction facilities and non-installed equipment.
- 1.11. Information on overdue credits of the enterprise - there are not.
- 1.12. Production generated - electric energy.

Specific weight of sales (%)	1987	1995
- in market of the Republic	100	100
- 1.13. According to the information of July 1, 1996, the staff consists of 5 persons.

2. INFORMATION ON FINANCIAL SITUATION OF THE ENTERPRISE

- 2.1. The financial results of the last three fiscal years and the last quarter:
Until the third quarter of 1996 the balance data of the HPP were included in the balance of Separated Subdivision of Southern Electric Networks Regional Department.

3. TERMS OF TENDER AND REQUIREMENTS TO PARTICIPANTS

1. The sales starting price - 9327 thous. drams.
2. A license shall be given to the tender winner by the corresponding State Licensing Authority according to the procedure stipulated by the RA Legislation within a month for registration in the State Register.
3. The tender participant for the purpose of HPP operation efficiency increase has the right to submit proposals on directions, term and cost of the works for rearmament of the HPP.

4. The HPP owner shall undertake to realise the principle changes of the plant, such as extension of the regulating basin, additional utilisation of territory, new directions of diversion channels, etc. in accordance with the regulation of RA.
5. The HPP owner shall operate the plant only on purpose, i.e. for electric energy generation in compliance with the existing technical terms and instructions.
6. The Ministry of Agriculture and Food shall, according to the procedures stipulated by the Legislation of RA within 30 days after the privatisation, conclude a contract about provision of the required volume of water corresponding to the designed electric energy generation for at least 10 years.
7. The problems concerning water evaluation as a resource and water calculation within the list of expenses of the generation of the production shall be settled in accordance with the Legislation of RA.
8. The HPP owner, after the winning the tender, within one year period shall make investments for implementation of urgent works in the following directions:
 - a) rehabilitation of the diversion channels, b) rehabilitation of head structures, c) reconstruction of the penstock, d) repair of discharge channel.
9. The Ministry of Energy shall, according to the procedures stipulated by the Legislation of RA within 30 days after the privatisation, conclude a contract about provision of the purchase and/or transmission of the designed electric energy for at least 10 years. Generated electric energy tariffs shall be defined according to the procedures stipulated by the Legislation of RA.
10. The quantity and the tariff(s) of the electric energy to be supplied to other consumer(s) shall be defined by a bilateral contract, if not otherwise stipulated by the Legislation of RA.
11. The owner of the HPP, operating in the interconnected system, shall undertake to follow the instructions of the energy system dispatch service within the framework of the contracts concluded.
12. The HPP owner shall ensure the environmental norms.
13. In case of resale, the new owner shall become the lawful successor of the previous owner.
14. The right of the tender terms control realisation shall be assigned to the body authorised by the Government of RA.
15. In case of failure of tender terms implementation within the specified term, the HPP owner shall be deprived of ownership right in accordance with procedure stipulated by the Legislation of RA and imposed to pay relevant penalty in accordance with the privatisation contract terms.

4. TERMS AND PROCEDURE OF PAYMENTS

- 4.1. The tender participant shall transfer the payments for participation and registration on the special accounts as follows: "The Operations Dept. of Haykhnaybank" for payment by drams - acc. No. 1600014871, by certificate acc. - No. 7148981.
- 4.2. The participant have the right to effect the payments both in cash and in written order.
- 4.3. The contract about privatisation shall be concluded with the owner by the "National Property Registration and Denationalisation Department of RA", within a month from the date of forwarding the protocol to the tender winner.
- 4.4. In case if the tender winner shall not conclude the above mentioned contract within a month, the payment for the participation shall not be returned and the results of the tender shall be deemed invalid.
- 4.5. The tender participant shall transfer the proposed amount against sales starting price of the Enterprise to the account set forth in the contract within a month after the date of receiving the copy of tender commission protocol about winning the tender. In case if the winner shall not pay the amount within the mentioned term he will be deprived of the right of ownership and the payment for participation shall not be returned.
- 4.6. During the general settlements with the person who has obtained the right of ownership the participation payment shall be considered.
- 4.7. After the termination of the tender (except the tender winner) the participation payment paid by the participants shall be returned not later than within 5 days after transferring to the special account.
- 4.8. The contract shall be considered to be registered after the conclusion of the contract and payment of the relevant amount and beginning from that minute the winner shall obtain the right of ownership.

5. TERMS OF PARTICIPATION IN TENDER

- 5.1. The privatisation and denationalisation bodies/subjects that have timely submitted the tender participation application, effect the participation and registration payment under the defined procedure as well as submitted the documents stipulated by the item 5.2 of this Reference have the right to take part in the tender.
- 5.2. To participate in the tender the purchaser shall submit the documents as follows:
- tender application (the documents can be obtained at the place where the tender shall be held);
 - written proposals of the participants shall be submitted in the form of investment project mentioning the sources of finances to be invested in closed envelope (the proposed amount must be in written form);
 - copies of payment documents of effected payments for participation and registration
 - copies of the participant's registration documents and the license given to the applicant in case of participation of enterprises, investment funds and companies;
 - reference of the Memorandum of Minutes of the personnel about participation in the tender, in case of submission of an application by HPP personnel;
 - the application can be submitted in Armenian, Russian or English languages.
- 5.3. The date of application registration is considered to be the date of reception
- 5.4. The applicant receives a written note about application acceptance immediately after the application registration by the tender commission. In case of postal sending the applications are accepted only by registered letter and the corresponding post office employee receives the note.
The enterprise (person) mentioned in the application shall obtain the status of tender participant from the moment of application registration.
- 5.5. The tender participant has the right to take back his application before the tender date, notifying about it the tender commission in written form. In that case the effected participation payment shall be returned not later than within five days.
- 5.6. The amount of the tender participant registration payment is 2160 drams (three times of the least salary).
- 5.7. The amount of the tender participation payment is 466350 drams (5% of the sales starting price of the state share (inventory) of the Enterprise).
- 5.8. The deadline for application submission is January 13, 1997, 17.⁰⁰.
- 5.9. The place of application submission is Government House 2, Ministry of Energy of RA, III floor, suite 305.
- 5.10. Date, hour and place of the tender:
January 17, 1996, 14.⁰⁰; Government House 2, Ministry of Energy of RA, III floor, Conference hall.
- 5.11. The procedures for preliminary familiarisation with the Enterprise: the tender participants can present the note about the application acceptance to the Enterprise administration after which participants can have view of the Enterprise at site.
- 5.12. Telephone numbers for additional information
52-87-04, 65-30-31, 58-76-23, 52-11-39, 58-78-28,

The discussion of the tender participants' proposals and the granting of the winner shall be realised by the tender commission, according to the "The General Procedure of Privatisation of State Enterprises and Non-Completed Constructions by Tender" confirmed by the Resolution No. 391 of the Government of RA dated June 25, 1996.

APPENDIX E.2

**RESULTS OF THE SECOND ROUND OF THE SMALL HYDROPOWER
PRIVATIZATION**

**Exhibit 1 (Revised to include Second Round)
Characteristics of Projects and Privatization Status**

Name of Hydropower Plant			Design Size kW	Privatization Status
1	Vogchi HPP-2	operating	4,200	Sold
2	Vogchi HPP 3	operating	7,500	Sold
3	Sisian HPP	operating	810	Sold
4	Dzora HPP	operating	NP	To be retained by Armenergo
5	Yeghegnadzor HPP	not operating		No Bid
6	Yerevan HPP-3	operating		With Larger Plants ¹
7	Yerevan HPP 2	not operating		With Larger Plants
8	Areni HPP	operating	680	Sold
9	Giumri HPP	operating	5,280	Sold
10	Talinn HPP	not operating		Final Group
11	Goris HPP	operating		No Bid
12	Azatek HPP	operating	1.06	Sold
13	Kamo HPP	not operating		Final Group
14	Idjevan HPP	operating	610	Sold
15	Megri HPP	operating	840	Sold
16	Zovashen HPP	operating		No Bid
17	Martuni HPP	not operating	448	Sold
18	Vardenis HPP	not operating		Final Group
19	Aidgezor HPP	not operating		Final Group
20	Agarak HPP	operating		Bought by Lessee
21	Airum HPP	operating	3,020	Sold
22	Tsahkavan HPP	not operating		Final Group
23	Armaveer HPP	operating		Bought by Lessee
24	Haikavan HPP	not operating		Final Group
25	Jermuk HPP	operating		Bought by Lessee

¹ Yerevan 2 and 3 will be privatized with the large hydro cascades

**Exhibit 2 (Revised to include Second Round)
Pilot Privatization Projects Summary Data**

Project	Operating	Design Capacity kW	Design Avg. Generation GWh	Past 10 Years Avg. Generation GWh	Plant Age	Plant Valuation Dr. (1000)	Number of Bids	Purchase Price Dr. (1000)	Purchase Price USD	Purchase Price \$/kw	Purchase price Cent/kwh, 10 yr. average
Ayroum	yes	3,020	18.7	9.1	40	129,237	1	66,000	137,500	46	15
Areni	yes	680	3.2	1.2	46	9,327	3	15,120	31,500	46	26
Azatek	yes	1,060	1.6	0.8	45	25,893	1	25,893	53,944	51	67
Yeghegnadzor	no	410	1.5	n/a	66	13,121	0	none	none	none	none
Giumri	yes	5,280	22.3	6.2	69	85,577	3	106,200	221,250	42	36
Idjevan	yes	610	2.5	2.2	66	8,981	2	8,981	18,710	31	9
Martuni	no	448	1.5	1.2	49	8,796	2	10,800	22,500	50	19
Megri	yes	840	4.0	1.1	61	19,803	2	24,500	51,042	61	46
Sisian	yes	840	2.0	n/a	61	21,445	5	84,000	168,000	200	
Zovashen	yes	1,520	approx. 1.5	n/a	45	66,624	0	none	none	none	none
Goris	no	n/a	n/a	n/a	n/a	n/a	0	none	none	none	none
Vokhchi 2	yes	4,900	n/a	11	84	171,850	1	90,000	180,000	37	1.6
Vokhchi 3	yes	7,500	n/a	15	43	n/a	1	160,000	320,000	43	2.9

Source: Tender information and information from bids received.

APPENDIX F
MINISTRY OF ENERGY'S PRIVATIZATION PROPOSAL

To: Mr. R. Kocharian, the Prime Minister of the Republic of Armenia

Dear Sir:

Please find herein the considerations of the Ministry of Energy regarding the Privatization Program within the framework of the Structural Reforms of the energy sector.

The information regarding the energy sector construction, installation, design and science, supply, industry, procurement enterprises, which were privatized or are in the final phase of privatization from 1995 till June 1997, is provided in Appendix 1. Pursuant to the acting program the privatization of the above mentioned enterprises will be completed by the end of 1997.

The list of the small HPPs, which are to be privatized during 1997, is provided in Appendix 2. The first 8 small HPPs were privatized by tender in March/April 1997. The privatization of the next 7 small HPPs has been approved by the RoA Government Decree No. 321 as of 30.09.96. The appropriate draft for the privatization of the rest 10 small HPPs has been prepared in accordance with the RoA Government Decree.

The list of all enterprises subject to the privatization in 1996-1997 and 1997-1998 (including the enterprises listed in Appendix 1 which privatization method is to be changed according to the suggestion of the Ministry of Energy) is provided in Appendix 3. The structural reforms shall be carried out in these enterprises and they shall be eventually corporatised in accordance with the acting legislation till the end of 1997. With respect to the privatization of the given enterprises the Ministry of Energy suggested that the personnel of the enterprises and organizations of the system be also allowed to participate in 20% non-refundable privatization; the Ministry of Energy is applying to the RoA Government to solicit in the National Assembly to pass the respective law regarding the 20% non-refundable privatization for these enterprises (the appropriate draft is attached).

The privatization process for each enterprise will be further carried out by the appropriate method (since these enterprises will be leasing the state share so they will have the privileges to buy the state share stipulated by the law):

- The privatization of the electric network companies will be carried out gradually by reducing the state share till 34%. With respect to the further reduction of the state share an additional decision associated with the free sales of the shares at the secondary market will be passed, if necessary.
- The privatization of Hayenergo State Enterprise shall be carried out on a long-term basis by reducing the state share up to 51% by way of the shares' free sales at the secondary stock market.

- The Armenian Nuclear Power Plant has already been converted into a CJSC (Close Joint Stock Company) and shall preserve this status.
- The privatization of the power plants will be carried out with more differentiation based on the type (HPP, TPP) and feasibility study of each power plant.
- In compliance with the 1997-1998 Program of Privatization and Denationalization of State Enterprises and Unfinished Construction Sites, Haygasard State Concern shall be included in the privatization program as one separate unit on the basis of free shares subscription. Haygasard SC will be corporatized as a separate unit till December 31, 1997. During a two-year period and pursuant to Energy Law "Haygasard" Share-holding Company will split up to transmission-storage share-holding company and distribution share-holding company. These companies will further be privatized by using the long term method by way of reducing the state share to 51%, and free sales of the shares at the secondary market.

The energy sector privatization strategy is directed to the fulfillment of the privatization of enterprises with low depreciation factor by the long term method and the attraction of the local investors to the greatest extent. The privatization of the enterprises with high depreciation of fixed assets must be carried out in possibly short time.

Minister of Energy

G.Martirosyan

LIST

OF THE ENTERPRISES OF THE MINISTRY OF ENERGY THAT HAVE BEEN PRIVATIZED AND EVALUATED IN COMPLIANCE WITH THE 1994-1997 PRIVATIZATION PROGRAM AND DECISIONS

N	Name of the enterprise	In compliance with the 1995-1996 Privatization Program	In compliance with the 1996-1997 Privatization Program	Notes
1	2	3	4	5
1.	"Uran" Public Service CJSC ¹ of "Haygasard" State Concern	Corporatized, by way of 20% partial non-refundable privatization	Package is forwarded to the privatization department with notice under # 05-ՊՁ-Մ-04-329 on Febr. 6, 1997 and is evaluated	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-368 on Febr. 14, 1997
2.	"Arpa-Sevan" CJSC	Corporatized, by way of 20% partial non-refundable privatization	Package is forwarded to the privatization department on June 26, 1997 with notice under # 05-ՊՁ-Մ-04-1853	-
3.	"Kazmgas" Leased Enterprise	-	Privatized according to RA Government Decision #336 on Oct. 18, 1996	Privatization agreement concluded on Novem. 21, 1996 # 104-Վ 2
4.	"Dazum" agricultural auxiliary affiliate of "Haigasard" SC	-	Package is forwarded to the privatization department with notice under # 05-ՊՁ-Մ-04-1435 on Dec. 26, 1996 and is evaluated	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-164 on Jan. 24, 1997

¹ CJSC - Closed Joint Stock Company

1	2	3	4	5
5.	"Haienergoscismaproject" Institute	-	Scheduled for January 1997; package is submitted for evaluation to the privatization department with notice # 05-119U-04-1395 dated May 16, 1997	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice # 04-1392 dated June 16, 1997. The personnel suggested by the notice #01-06 dated Jan.1,1997 to privatize like CJSC not like OJSC ² .
6.	"Haigasdesign" Institute	-	Scheduled for January 1997; package is submitted for evaluation to the privatization department with notice # 05-119U-04-685 dated March 10, 1997	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice # 04-737 dated April 8, 1997. In the notice #03-35 dated Feb.11, 1997 the personnel suggested to privatize like CJSC, not like OJSC
7.	"Haihidraprofconstruction" SE	-	Scheduled for February 1997; package is submitted for evaluation to the privatization department with notice # 05-119U-04-960 dated March 31, 1997	In the notice #6/2 dated Jan. 28, 1997 the personnel suggested to privatize like CJSC, not like OJSC.

² OJSC - Open Joint Stock Company

8.	"Haienergonetworkproject" Institute	-	Scheduled for February 1997, package is submitted for evaluation to the privatization department with notice # 05-111U-04-1048 dated April 15, 1997	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice # 04-923 dated March 25, 1997. In the notice # 011U-111 dated Dec 27, 1996 the personnel suggested to privatize like CJSC, not like OJSC
9.	"Tunnel" DE of "Haihydroenergoproject"	-	Scheduled for March 1997.	Pursuant to the program has not been evaluated so far; two options of privatization are being suggested: 1. To privatize "Tunnel" DE jointly with "Haihydroproject" Institute like one unit; 2. To return the area owned by "Tunnel" DE and leased by "Credit-Yerevan" Bank and privatize that area as one separate unit.

10	"Haienergoconstruction" SE	-	Scheduled for April 1997; package is submitted for evaluation to the privatization department with notice # 05-11Q.U-04-1852 dated June 26, 1997	
11.	"Haiatomenergomounting" CJSC	Corporatized, by way of 20% partial non-refundable privatization	Suggestion to privatize till December 31, 1997	
12	"Haienergochemical protection" CJSC	Corporatized, by way of 20% partial non-refundable privatization	Suggestion to privatize till December 31, 1997	
13.	"Haiatomthermalenergo mounting" CJSC	Corporatized, by way of 20% partial non-refundable privatization	Suggestion to privatize till December 31, 1997	
14.	"Haihydroelectric mounting" CJSC	Corporatized, by way of 20% partial non-refundable privatization	Suggestion to privatize till December 31, 1997	
15.	Greenhouse in Parpi village	Pursuant to Decision #94 dated March 29, 1996 the package was forwarded to the privatization department with notice under # 05-11Q.U-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1382 dated July 10, 1996
16.	Gas Industry Operation Depot of Martuni town	Has been included in the list according to Decision 94 dated March 29, 1996, but has not been privatized	-	On May 17, 1997 addressed with notice #03-11Q.U-1110 to the RoA Government with request to take out from the list of privatization

17.	Yerevan City Gas Industry Management Production Base	Pursuant to Decision #94 dated March 29, 1996 the evaluation package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1382 on July 10, 1996
18.	Yerevan Tea-house	Pursuant to Decision #94 dated March 29, 1996 the evaluation package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1404 on June 11, 1996
19.	Armaveer Gas Industry Operation Base	Pursuant to Decision #94 dated March 29, 1996 the evaluation package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1404 on June 11, 1996
20.	Health Center in village Zovuni	Pursuant to Decision #94 dated March 29, 1996 the evaluation package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1398 on July 10, 1996

21	Gas Industry Operation Base in Town Vedi	Pursuant to Decision #94 dated March 29, 1996 the evaluation package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1398 dated July 10, 1996
22.	Preventive Treatment Center	Pursuant to Decision #94 dated March 29, 1996 the evaluation package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-1398 on July 10, 1996
23.	Club of Idjevan town	Pursuant to Decision #94 dated March 29, 1996 the package was forwarded to the privatization department with notice under # 05-ՊԳՄ-1175 on May 27, 1996	-	Evaluation results of the privatization package submitted to the Ministry of Energy with the notice under # 04-2046 on July 10, 1997
24.	"Solid Fuel" SE	-	Scheduled for February 1997; package is submitted for evaluation to the privatization department on April 18, 1997, # 05-ՊԳՄ-04-1085	-

LIST
RELATING TO THE PRIVATIZATION OF THE SMALL HPPS THROUGH TENDER

ID	Name	Information	Suggestion
1	2	3	4
1.	Martuni HPP	Prospectus published on 11.07.96; Privatized on 04.04.97	
2	Areni HPP	Prospectus published on 11.07.96; Privatized on 03.21.97	
3	Giumri HPP	Prospectus published on 11.07.96; Privatized on 04.04.97	
4.	Azatek HPP	Prospectus published on 11.07.96; Privatized on 03.21.97	
5.	Idjevan HPP	Prospectus published on 11.07.96; Privatized on 03.28.97	
6.	Megri HPP	Prospectus published on 11.07.96; Privatized on 04.04.97	
7.	Airum HPP	Prospectus published on 11.07.96; Privatized on 03.28.97	
8.	Yeghegnadzor HPP	Prospectus published on 11.07.96; Was not privatized due to lack of bids	Shall be privatized in accordance with the acting procedure in due time specified by the Ministry of Privatization
9.	Vogchi HPP		Suggestion to publish prospectus on July 1997; to perform tender in September 1997
10	Vogchi HPP		Suggestion to publish prospectus on July 1997; to perform tender in September 1997
11.	Sisian HPP	Prospectus was published on July 1, 1997; tender shall take place on August 6, 1997	
12.	Zovashen HPP	Prospectus was published on July 1, 1997; tender shall take place on August 6, 1997	
13.	Agarak HPP	Leased	Suggestion to publish prospectus on July 1997; to perform tender in September 1997
14.	Armaveer HPP	Leased	Suggestion to publish prospectus on July 1997; to perform tender in September 1997

1	2	3	4
15.	Jermuk HPP	Leased	Suggestion to publish prospectus on July 1997; to perform tender in September 1997
16.	Yerevan HPP-2	Was written out in 1973, the area and the building had been given to "Armseismoproject" Institute pursuant to the instruction #III-8993 dated June 30, 1983 of the Ministry of Energy and Electrification of the USSR ; it lacks necessary quantity of water	Suggested to privatize with "Armseismoproject" Institute as one unit
17.	Yerevan HPP-3	Shall be privatized with Sevan/ Razdan Cascade according to the letter #05-QU-1099 of the Ministry of Energy dated May 17, 1997 forwarded to the RoA Intermin. Commission of the State Ent. And Unfin. Constr. Sites Priv. And Denation.	Suggested to privatize with Sevan/ Razdan Cascade as one unit
18.	Zora HPP	According to the letter #05-QU-1099 of the Ministry of Energy dated May 17, 1997 forwarded to the RoA Intermin. Commission of the State Ent. And Unfin. Constr. Sites Priv. And Denation. the privatization is adjourned as the substation of HPP has notability for establishment of the inter system relations	Suggested to privatize with Armenergo SE as one unit
19	Talin HPP	Is not operating	Suggestion to publish prospectus in August 1997; to perform tender in October 1997
20.	Goris HPP	Belongs to the Ministry of Communication	Suggestion to publish prospectus in August 1997, to perform tender in October 1997
21.	Kamo HPP	Was written out in 1971	Suggestion to publish prospectus in August 1997; to perform tender in October 1997
22.	Vardenis HPP	Lacks necessary quantity of water, was written out in 1971	Suggested to privatize like building construction
23.	Aigedzor HPP*	Was written out in 1965	Suggestion to publish prospectus in August 1997; to perform tender in October 1997
24.	Tsakhavan HPP*	Was written out in 1964	Suggestion to publish prospectus in August 1997; to perform tender in October 1997

25.	Haikavan HPP*	Was written out in 1971	Suggestion to publish prospectus in August 1997; to perform tender in October 1997
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* as far as the mentioned HPPs are not included in the balance sheet of "Armenergo" SE it is necessary to clarify who these plants will be delivered by to the owners in case of their privatization.

LIST

of the enterprises and organizations of the Ministry of Energy of the Republic of Armenia
The Ministry of Energy requests the Government to raise a question to the National Assembly to provide for the following enterprises of the energy sector the option of the 20% partial non-refundable privatization.

Name of Enterprise	Included in 1996-1997 Program	Suggested for 1997-1998	Remarks
1. "Haigasard" SC	+		Several enterprises, which are provided below in list 1 ¹ , will be excluded from "Haigasard" SC and privatized. "Haigasard" SC as one unit, which is to be privatized by open subscription, is included in 1996-1997 Program of Privatization and Denationalization of State Enterprises and Unfinished Construction Sites. "Haigasard" SC shall be corporatized as one unit till December 31, 1997. Pursuant to Energy Law "Haigasard" JSC will be divided into transmission-storage JSC and distribution JSC which further privatization will be done in long term manner (holding 51% state share).
1 ¹ <ul style="list-style-type: none"> • Masis "Hayanist" auxiliary company • Material resources procurement and assembling DE • Workers Procurement DE • Branch of "Gasmetering" Enterprise • "Armaveergasvehicle" SE • Vanadzor Gas Equipment DE • Commercial Production DE • Adjustment and delivery DE 		<ul style="list-style-type: none"> + + + + + + 	<ul style="list-style-type: none"> • These enterprises are being excluded from "Haigasard" SC during 1997; are being corporatized till December 1997 and 100% privatized. • Suggested to be liquidated • Excluded from "Haigasard" SC
2. "Haienergo" SE	+		The enterprise, which is provided below in point 2 ¹ of the given list, will be excluded from "Haienergo" SE and privatized. "Haienergo" SE shall be corporatized as one unit till December 31, 1997 and its further privatization will be done in long term manner by holding 51% of the state share.
2 ¹ <ul style="list-style-type: none"> • House holding company DE 		+	During 1997 will be excluded from "Haienergo" SE. Till December 1997 will be corporatized and 100% privatized.

3. "Vanadzor TPP" SE		+	There are various uncertainties related to the thermal power consumption hence the future status of "Vanadzor TPP" SE must be determined jointly by the Energy Commission and the RA Government
4. "Razdan TPP" SE	+		Planned to privatize Unit Y of Razdan TPP according to EBRD developed scenario. The rest of the plant will be privatized by reducing the state share during a short period, if possible. Will be 100% privatized.
5. "Yerevan TPP" SE		+	Will be privatized by reducing the state share during a short period, if possible Will be 100% privatized.
6. "Thermal plants" SE		+	The fixed assets are divided into 3 parts: <ul style="list-style-type: none"> • those fixed assets which are in Yerevan shall be given to Yerevan TPP and privatized as one unit; • those fixed assets which are in Razdan shall be given to Razdan TPP and privatized as one unit; • the boiler-house which is in Guimri shall be privatized as one separate unit or transferred to Shirak mayor office.
7. "Sevan-Razdan HPPs Cascade" SE		+	Will be privatized by reducing the state share. An additional judgment regarding the type of privatization and the ultimate quantity of the state share will be submitted.
8. "Vorotan HPPs Cascade" SE		+	Will be privatized by reducing the state share. An additional judgment regarding the type of privatization and the ultimate quantity of the state share will be submitted.
9. "Ararat Regional Network" SE		+	The privatization will be done gradually by reducing the state share up to 34%
10. "Vajots Dzori Regional Network" SE		+	The privatization will be done gradually by reducing the state share up to 34%
11 "Lori Regional Network" SE		+	The privatization will be done gradually by reducing the state share up to 34%.
12. "Tavush Regional Network" SE		+	The privatization will be done gradually by reducing the state share up to 34%.
13. "Kotaiik Regional Network" SE		+	The privatization will be done gradually by reducing the state share up to 34%.
14. "Aragadzotsn Regional Network" SE		+	The privatization will be done gradually by reducing the state share up to 34%