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**Deloitte Touche  
Tohmatsu**



*with Crimson Capital*

***Enterprise Restructuring and  
Privatization Project for  
Slovakia***

***Final Report***

*Delivery Order No. 35*

*Contract No. EUR-0014-I-00-1056-00*

*Eastern Europe Enterprise Restructuring and  
Privatization Project*



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

*March 1996*

**Deloitte Touche  
Tohmatsu  
International**

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March 29, 1996

Mr. Lawrence Camp  
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1800 N. Kent Street  
Rosslyn, VA 22209

Re: Contract No. EUR-0014-I-00-1056-00, Delivery Order No. 35, Enterprise  
Restructuring and Privatization Project for Slovakia -- Final Report

Dear Lawrence,

In accordance with Article III of the referenced delivery order, please find enclosed the Final Report for this project.

These deliverables were prepared by the Deloitte Touche Tohmatsu and Crimson Capital Team working in Slovakia. If you have any questions concerning these deliverables, please call me at 202-879-5626.

Kind regards,

Deborah Billig  
Senior Consultant

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This is the final project report on the accomplishments of the Transaction Team in advising the Slovak Republic in the government's privatization efforts under Delivery Order 35. This report will consist of an analysis of Conclusions and Lessons Learned from the project, a brief history of the project from its inception under Delivery Order 15 through its conclusion and transformation to the USAID Corporate Finance Team Project set to begin in January 1996, and a summary of activities under each of the five functional areas of effort under Delivery Order 35:

- (1) **Function A:** Assistance with Transactions in Process.
- (2) **Function B:** Privatization Procedures Review, Policy Development and Procedure Documentation.
- (3) **Function C:** Development of Bid Process and Identification of Potential Investors.
- (4) **Function D:** Manage Bid Process.
- (5) **Function E:** Skills Transfer.

Please note that USAID chose to suspend its association with the EU Phare-led public relations campaign which had been intended to support the second wave of voucher privatization in the Slovak Republic. Per Lawrence Camp's instruction dated January 12, 1995, USAID authorized a waiver of the Transaction Team's activities under Function F of Delivery Order 35 (Monitor Public Relations/Public Education Campaigns) until such time as written notification to resume these activities was received from USAID. No such authorization was received prior to the conclusion of activities under Delivery Order 35.

## 1. Conclusions/Lessons Learned

The Transaction Team project was provided in response to the Spring 1994 request of the Moravcik government, but spent most of its operating life under the Meciar government which took office in December 1994 in the wake of the September 1994 parliamentary elections. While the team's stated function (assisting the Ministry of Privatization in processing direct sale privatization transactions) was strictly technical and remained constant throughout its operational life, its position at the Ministry always retained high political exposure for both the sponsoring and the host governments. More than most technical assistance projects, this political exposure defined the work assigned to the Team and its ability to carry out that work. When the Team was in a position to carry out its Technical Assistance assignments (i.e. when both USAID and the MOP were in agreement that the Team should actively process direct sale transactions, and when the MOP assigned the transactions and assisted in their completion), it did so with minimal controversy or difficulty. To the extent that the Transaction Team's ultimate impact on the Slovak economy and privatization policy was not as significant as originally envisioned at the project's inception, the reasons can exclusively be found in the political environment within which the Team operated.

### Successes/Achievements

1. *Transaction Assistance* - During the period covered by Delivery Order 35, the Transaction Team submitted ten formal recommendations to the MOP, as well as one informal recommendation on the structure of a sale. In one other case, no qualified bid was received by the Team, and in a second a company was removed by the MOP after considerable work by the Team.

Of the twelve companies in which the Team rendered an opinion, the Fund of National Property ("FNP") sold the firm in question to the Team's recommended bidder in 3 cases, sold the firm to another bidder in 3 cases, and has not rendered an opinion in 6 cases. Of the 3 companies sold to bidders recommended by the Team, all were sold to foreign bidders, bringing new capital into Slovakia.

2. *Engagement* - In periods of US policy disagreement with the current Slovak Government, USAID chose to keep the Transaction Team in place at the MOP as a means of remaining engaged with the host government, rather than withdrawing its assistance to send a message of disapproval. The Transaction Team fulfilled this objective. It provided constant pressure for objectivity and transparency in the privatization and direct sale process. The current Slovak Government's approach to Privatization is one of its defining economic and political policies, as well as one of the

main issues of disagreement between it and western governments, international financial institutions (i.e. IMF, World Bank, EBRD) and international investors.

Given the functional lack of involvement (and eventual departure) of EC Phare and British Know-How Fund advisors from the FNP, the Transaction Team was the only western group functioning within the privatization policy-making and implementation arms of the Slovak Government during most of 1995. During the February 1995 negotiation of the Memorandum of Understanding between USAID and the MOP in particular, this engagement forced the Slovak government to acknowledge the level of international interest in and scrutiny of its privatization policy. During its period at the MOP, the Team also served as a source of information on developments in Slovak privatization policy for USAID and the US government in general.

3. *Policies and Procedures* - The Transaction Team developed a standard Direct Sale Methodology which was used in processing all transactions assigned to the Team; this methodology was also submitted in Slovak to the MOP. The Team also developed a number of other standardized documents, notably a set of terms and conditions for bidders to be included in share purchase contracts between the FNP and successful bidders. FNP management considered this to be an effective amendment to the standard contract and planned to use it in future transactions. Finally, the Team provided a manual of standard western valuation procedures at the MOP's request.
  
4. *Skill Transfer/Training* - The Transaction Team worked closely with MOP project officers assigned to each individual company as well as with senior and middle level MOP management. While the quality of the project officers varied, several were diligent, well educated and eager to learn western valuation and investment banking methods. When the Team worked with enthusiastic project officers, an attempt was made to involve them as much as possible in the bid solicitation and analysis process, including joint visits to companies and meetings with bidders. In the case of MOP management, the quality of individuals again varied, especially at the most senior (and most politicized) levels. Once again, the Team was able to identify some dedicated professionals at these levels and work with them closely; when possible the Team arranged for further formal training for these individuals, notably at the USAID sponsored cashflow and valuation seminars conducted by Deloitte & Touche in Bratislava. Finally, the Team submitted a valuation manual to the MOP.

## Problems

1. *Less Than Desired Impact* - When the Moravcik government requested the Transaction Team in the spring of 1994, it anticipated using the Team to process the direct sale of dozens of state-owned enterprises over the course of the second wave of Slovak privatization, as well as to provide training and policy assistance at the MOP. Despite internal coalition disputes over privatization policy, that government utilized the team to a considerable degree prior to the September elections, assigning five enterprises to the Team and voting on two Team recommendations. After a five month delay while a new government was formed and determined its privatization policy, the Transaction Team was given several new companies but no role in setting privatization policy. Less than half of the Team's recommendations were ultimately approved, partly because the approval body (the FNP presidium) was divorced from the host ministry (MOP) and partly for reasons of coalition politics/patronage as Slovak privatization took on an overtly political tone. Nonetheless, the Team set an example of the proper way to evaluate and implement transactions, and many Slovak counterparts gained a greater understanding and appreciation of the various aspects of investment banking and corporate finance. Senior staff at both the Ministry and the FNP took on several of the approaches and methods developed and presented by the Team, and this is no small achievement. Although the US Government would have preferred to see more transactions with foreign investors, it is still an important accomplishment to have gotten the Slovaks to utilize better contracts and better transaction procedures in their domestic transactions.

## Lessons Learned

1. *Commitment of Client* - The difficulties faced by the Team were generally due to the ambivalence of the Meciar government regarding foreign assistance in privatization, and especially in its marked preference for carrying out domestic direct sales in privatizations. USAID took steps, culminating in the memorandum of understanding in February 1995, to ensure the commitment of the client. Despite these steps, and despite the generally courteous interaction between the Team and the MOP, it is likely that the Slovak government was not whole-heartedly behind the program, as evidenced by its failure to integrate the Team's activities with the FNP. In a similar situation, it would be good to take further steps to ensure the client's commitment, or the mission and/or benchmarks should be modified. In this case, it was agreed that the Team would stay engaged.

2. *Ability of Client to Deliver* - The Transaction Team's immediate client was the MOP which was responsible for processing direct sale transactions. After the first session of Parliament in November 1994, however, the FNP was responsible for deciding the buyer in these transactions. Despite this change, and despite the Team's inability (after repeated attempts) to make inroads at the FNP, the project benchmarks measured the number of transactions finally approved, which the MOP could not control. As in many large organizations, different divisions within the Slovak government were frequently at odds, notably the MOP and FNP (the FNP won). The necessity for obtaining a percentage of approvals of the Team's recommendations was conveyed several times to MOP senior management, both by the Team and by USAID. While sympathetic, these managers were unable to deliver a benchmark that fell under the domain of another department in government. In a similar situation, it would be good to work at a much higher political level (e.g. the Prime Minister) to integrate a Team into all necessary departments. Alternatively, benchmarks should reflect the abilities of the specific client to deliver (e.g. number of recommendations made).

## 2. Project Summary

Shortly after the Moravcik coalition government's accession to power in early spring 1994, the Minister of Privatization, Milan Janicina, requested that USAID provide a Transaction Team to work with the MOP processing direct sales of state-owned enterprises. USAID responded positively, and the Transaction Team, contracted to Deloitte & Touche with Crimson Capital as subcontractor, began work in June under the auspices of the ad hoc Delivery Order 15 while a permanent proposal and task order were prepared. The Transaction Team was immediately assigned the privatization of Povaske Cementarne Ladce ("Ladce"), one of the largest Slovak cement companies with intense interest from foreign bidders. The MOP requested a quick turnaround on Ladce, and the Team carried out the analysis of Ladce, a tender to 9 bidders, and the recommendation of a preferred bidder was delivered on July 11, only one month after the company was assigned to the Team. In early July, the MOP assigned the Transaction Team an additional four companies and work began on those transactions. As of August 19th, the Transaction Team operated under D.O. 35.

On September 30th and October 1st, parliamentary elections were held in Slovakia which left HZDS the largest party in the new parliament and made it clear that the Moravcik government would assume a caretaker role until the new Parliament was seated in November and a new government was formed. By this time, two recommendations (including Ladce) had been submitted to the MOP by the Transaction Team. Both recommendations were voted on by the cabinet during October; the recommendation for the sale of Zelatinaren Liptovsky Mikulas to a French company was approved, while the

sale of Ladce to a Czech firm was rejected. During October and November (during which time the new Parliament was seated but negotiations to form a new government were still underway) the Transaction Team continued preparatory work on the three remaining companies assigned to it (but refrained from marketing activities per MOP instruction), began due diligence analysis of two new companies tentatively assigned by the outgoing MOP State Secretary, and assembled a detailed Direct Sale Privatization Methodology to use as a template for future transactions. On the new parliament's first day in office (November 3rd) it voted to change privatization procedures, with responsibility for approving direct sales transferred from the government (the cabinet) to the presidium of the FNP, which the parliament proceeded to fill with its own appointees. This change in procedure began a significant change in Slovak privatization policy which affected the Team's future activities.

A new government was finally formed on December 12th by a coalition of HZDS, the Slovak National Party (SNS), and the Workers' Party (ZRS) with Vladimir Meciar as Prime Minister. Peter Bisak of ZRS was named Minister of Privatization, while Pavol Kendra of HZDS, who had spent the month since November 3rd as a member of the FNP presidium, became MOP State Secretary. The MOP effectively ceased functioning for the next three months as senior staff was replaced, new managers took their posts, and an exhaustive internal review was conducted of the privatization plan (direct sale vs. public tender, % of shares reserved for voucher privatization) of each of over 500 state-owned enterprises earmarked for inclusion in the second wave of Slovak privatization.

In a meeting with State Secretary Kendra on January 16th, the Transaction Team introduced itself and its services formally to the new MOP management and received an expression of interest in continued use of the Team, once the MOP resumed operations. At Lawrence Camp's instruction, the Transaction Team arranged a meeting between Mr. Camp and senior representatives of USAID Bratislava, and the management of the MOP on January 24th. At that meeting, Mr. Camp pressed for concrete assurances of the MOP's planned use of the Team and asked that they be included in a Memorandum of Understanding to be presented to USAID no later than February 15th. During the following three weeks, the Transaction Team negotiated the terms and conditions of the Memorandum with the management of the MOP, and a document acceptable to USAID and the MOP was signed on February 10th; this memorandum governed the Team's activities at the MOP for the next eight months. The Memorandum of Understanding is included in this report as **Attachment A**.

While the detailed list of companies in the second wave (including privatization method) was not released by the MOP until the end of April, the Transaction Team was assigned eleven companies at a meeting with senior MOP management on February 27th. Of these eleven companies, five had previously been assigned to the Transaction Team under the former government (three in July 1994, two in November 1994) and six were new companies to the Team. In early March 1995, the assignment of one company was suspended by the MOP (and later fully withdrawn) and another was assigned in its place. The Team conducted initial due diligence analysis of the project documentation for each

company provided by the MOP during March, and finally arranged company visits and physical inspections in April and May when the MOP list had been published.

During the next four months, the Transaction Team was fully active identifying potential bidders, marketing the assigned companies, meeting with bidders and analyzing bids. The Team submitted its first recommendation in 1995 on June 28th, over two weeks in advance of the July 15th deadline as stated in the Memorandum of Understanding. Beginning in late June, the Team began submitting roughly two recommendations per month to the MOP, including one recommendation in June, four in July, two in August, one in September, and one in November. Of the eleven companies assigned to the Team in 1995 (after the March replacement), full recommendations were submitted for nine and a strategy recommendation was submitted for a tenth. In the case of the final company, a full bid process was conducted but no firm bids were received by deadline.

In July, the Meciar government canceled the voucher component of the second wave, and announced that all second wave companies would be privatized via direct sale or public tender, while voucher holders would receive bonds secured by the sale proceeds. Shortly thereafter, Parliament passed an amended Privatization Law which completed the transfer of all direct sale activities from the MOP to the FNP, which was begun in November, 1994. In response to these two events, USAID began to actively plan the eventual redeployment of the Transaction Team from the MOP and its transformation to an investment banking group working directly with private Slovak companies. This direction had been encouraged at a meeting on June 30th between Ambassador Russell, Mr. Camp, USAID Bratislava representative Patricia Lerner, USAID Bratislava division chief Roy Grohs, and Transaction Team project management. At that meeting, it was also agreed that detailed benchmarks would be submitted to the MOP by USAID defining required levels of new deals and approval rates for Transaction Team recommendations. These benchmarks were duly presented to the new MOP State Secretary, Stanislav Husar, at a meeting the following week. While the State Secretary agreed in principle to meet these benchmarks, the MOP did not permanently assign new deals to the Transaction Team during the remainder of its tenure at the Ministry, possibly due to the change in the Privatization Law. Compliance with the original benchmarks established in the Memorandum of Understanding, as well as with the benchmarks established with the Ambassador in June, are included in this report as **Attachment B**.

During the the summer and fall, the Transaction Team completed its obligations to the MOP by submitting recommendations of preferred bidders for its remaining companies. With one exception, these recommendations had been completed by September. At the end of the month, Ambassador Russell sent a letter to Minister of Privatization Bisak informing him that the Team would be removed from the MOP. On October 4, the MOP informed the Team that two new transactions would be assigned, but when the Team attempted to follow-up, it was informed that the projects could not realistically be pursued due to the change in the Privatization Law. Due to that change, MOP senior management acknowledged that all processing of direct sale transactions would be

transferred from the MOP to the FNP, and suggested that the Team should contact that agency for future privatization deals.

In October, the Team's management actively worked with Lawrence Camp and Roy Grohs to redefine the Team's mission in the private sector, while Team personnel met with Slovak and foreign institutions in Bratislava and a small sampling of private Slovak companies throughout the country to determine the level of demand for investment banking services, as well as the level of support from potential deal sources. The response was universally positive; there is an almost complete absence of intermediary financial services in Slovakia, while Slovak companies need significant capital to grow.

In November the redefined mission was finalized, and on November 4th the Transaction Team left the Ministry of Privatization to prepare for the eventual transition to its new role as the USAID Corporate Finance Team. Sharing office space with the Slovak Enterprise Restructuring Center ("SERC"), the Corporate Finance Team spent November and December at a low staffing level to complete its final deliverables to the MOP and to prepare to begin activities in January with private sector companies. The Team began to organize a marketing effort in order to be prepared for the start of the new mission in January, but was asked to hold off until the new year. It was intended that the Team will work closely with the SERC to identify private Slovak firms in need of restructuring or new capital, and in the case of the latter, will undertake to obtain debt and equity financing, joint venture partners, and strategic investors.

### **3. Function A: Assistance with Transactions in Progress**

The Transaction Team was assigned one company by the MOP in June 1994, Cementarne Ladce. A recommendation for Ladce was submitted to the MOP on July 11th, which was voted on by the government in October and rejected. The Team was assigned four companies by the MOP in July, 1994. One recommendation (Zelatinaren Liptovsky Mikulas) was submitted on September 4th; it was voted on by the government in October and approved. The approval was suspended by act of Parliament on November 3rd, but was again approved after review and the transaction was closed in spring, 1995. Work on the other three companies assigned in July continued at a subdued level due to the September elections. The MOP assigned two additional companies to the Transaction Team during November, 1994. Initial work was conducted on these two companies pending the change in government.

On February 27th the Transaction Team was instructed to continue work on the five companies then assigned to it, as well as to begin work on six new companies. Work on these companies was initially restricted to internal project review, but expanded to a full effort in April. One company (Baliarne Obchodu Poprad) was suspended by the MOP in March and later removed from the Team; Izomat Nova Bana was assigned to the Team at the same time. The Team submitted a limited strategy recommendation for Izomat in

May, and a full recommendation of a preferred bidder for UMOV Trencin on June 28th. Subsequently, the Transaction Team submitted recommendations for TOS Galanta (July 7), Tlakove Nadoby Zilina (July 21), Kovo Belusa (July 25), Meopta Bratislava (July 28), Sklarne Poltar (August 10), TOS Galanta (complete revision - August 21), Syenit Puchov (August 23), Povazske Chemicke Zavody (September 7), and Vyroba Kovovehu Nabytku Handlova (November 17). Details on each of these companies and recommendations are included in this report in **Attachment C**.

#### **4. Function B: Privatization Procedures Review, Policy Development and Procedure Documentation**

During the fall, winter and spring of 1994-5, the Transaction Team developed and refined a Direct Sale Privatization Methodology which served as a successful template for all of the Team's transaction work and which, suitably modified, will serve as the basis for the work of the Corporate Finance Team in 1996. This Methodology was translated into Slovak and made available at various times to the MOP for use in its own projects.

With regard to the Transaction Team's active participation in setting privatization policy at the MOP, the change in government, and the divergence of views held by the Meciar government and international institutions regarding privatization, made the MOP management installed in December 1994 unwilling to seek or allow extensive participation by the Team.

#### **5. Function C: Development of Bid Process and Identification of Potential Investors**

During the fall of 1994, the Transaction Team began development of a Direct Sale Privatization Methodology. This methodology, which was refined during the winter and spring and submitted to USAID as a deliverable on May 23rd, was the template used by the Team in each of its transactions. The Transaction Team developed a number of sources to identify potential investors, which will continue to be utilized by the Corporate Finance Team. These sources include contacts at embassies in Bratislava, trade publications, databases (print, CD-ROM and online), and numerous international industry, professional and finance community contacts.

#### **6. Function D: Manage Bid Process**

These efforts are addressed in both Function A and the Attachments.

## **7. Function E: Skills Transfer**

As stated above, the Transaction Team worked closely with a number of Project Officers as well as senior managers at the MOP. While the quality of these individuals varied, several were dedicated, intelligent people who were eager to learn western finance techniques. In these cases, Team members gave hands-on training and worked as closely with the individuals as circumstances permitted. The Team also arranged for participation of several senior MOP managers in valuation and cashflow seminars offered by Deloitte & Touche in a USAID-sponsored program. At various times during the spring and summer of 1995, the Transaction Team discussed the possibility of offering training seminars for MOP personnel at the Ministry, and of taking on MOP personnel as part of the Team for training purposes. While the response of the MOP's management to these suggestions was positive, there was a lack of willingness to follow through despite repeated prodding by the Team. In an October letter, MOP State Secretary Husar requested that the Team assemble a manual explaining western valuation methods. The Team put together this manual, and submitted a package to the MOP in December 1995.

## **8. Project Management by Deloitte & Touche and Crimson Capital**

From the Transaction Team's inception through early May 1995, the Project Manager and Chief of Party for the Team was Bob Wood, Office Managing Partner of Deloitte & Touche in Bratislava; Mr. Wood spent several days per month with the Team fulfilling project management functions. He was assisted in this task by Michael Gold, Managing Director of Crimson Capital. In May 1995, Alberto A. Calderaro joined the Transaction Team as Project Manager and Chief of Party, and filled this role through the conclusion of the Team's activities under Delivery Order 35 in December.

All of the Transaction Team's project management group (Mr. Wood, Mr. Gold, and after May, Mr. Calderaro) met regularly with Patricia Lerner, the USAID Representative in Bratislava, Roy Grohs, the Chief of the Economic Restructuring Division at USAID Bratislava, and Marian Krsko, the USAID Bratislava Officer in charge of privatization support activities. The Team's project management group also met (and spoke) regularly with Lawrence Camp, USAID Washington project officer, and when required with visiting USAID and State Department personnel. A Team Representative was usually present at the USAID Bratislava monthly SEED Act contractors' meeting. While the Transaction Team's functional personnel interfaced regularly with MOP project officers and mid-level management, the Team's management group was generally present at meetings with the State Secretary or Minister of Privatization.

## 9. Transaction Team Personnel

Due to the urgent nature of the Moravcik government's request for the Transaction Team at its inception, as well as the need to complete the Ladce transaction as quickly as possible, the Team was initially staffed on an interim basis with senior investment bankers from Crimson Capital's Prague office while permanent staff was recruited. At the beginning of October 1994, two Crimson investment bankers, David Eastman and Peter Wright, were introduced to the Team. Mr. Wright left the Team at the end of June 1995, while Mr. Eastman remained with the Team through its conclusion. With the exception of Michael Gold's project management activity and legal work from Tom Baker, there were no other Crimson employees staffed on the project.

Deloitte & Touche initially provided Alain Dube, a senior manager from Prague along with David Pring, a senior manager from Deloitte's Bratislava practice; as the Team was permanently staffed, these individuals returned to their previous activities. As of July 1, 1994, Jerry Wiant joined the Transaction Team as a manager and remained through the end of June, 1995. Until Alberto Calderaro joined the Team as Project Manager in May, 1995, Mr. Wiant served as the senior full time Deloitte representative on the Team, and managed the Deloitte staff at the Ministry. As stated above, Alberto Calderaro joined the Team from May through its conclusion, as did Steven Fast, a senior manager in Deloitte's Bratislava practice. In addition, Deloitte provided a number of junior Slovak staff members; this number varied depending on the Team's level of activity. Finally, Deloitte arranged for a group of translators to be available to the Transaction Team on a full time basis. During the Team's busiest period (May through September, 1995) four translators were used; at other times two or three were on staff.

The basic operating unit of the Transaction Team at the MOP was the deal team; for most of its operating life, the Team consisted of two deal teams, each assigned separate transactions. Each deal team consisted of one Crimson investment banker, one Deloitte expatriate senior accountant/financial analyst, and one Deloitte local senior/consultant. Additional junior Deloitte staff members were assigned to the deal teams on an as-needed basis.

The total size of the Transaction Team varied in response to its level of activity. During the period between the September, 1994 parliamentary elections and the resumption of transaction work in March/April, the Team consisted of five professionals and two support staff. During its busiest period, staffing rose as high as nine professionals and four support staff. As the Team's activities decreased after submitting recommendations with no new deals forthcoming, staffing again decreased to an average of four professionals and three support staff. For the last three months of the engagement, staffing was maintained at minimal levels per USAID instruction to facilitate the Team's transition from the MOP to its new role as the Corporate Finance Team. A detailed report on personnel utilization under Delivery Order 35 is included in this report as **Attachment D**.

**Attachment A: Memorandum of Understanding**

**AGREEMENT OF CO-OPERATION**

Between:

**Ministry of Administration and Privatization of National Property of the Slovak Republic, located in Bratislava, Slovakia at Drienova 24, represented by State Secretary JUDr. Pavol Kendra**

and

**United States Agency for International Development, located in Washington, D.C., United States of America, represented by Project Officer Mr. Lawrence Camp**

**Bratislava, Slovak Republic and Washington, D.C., USA**

**INTRODUCTION** - The United States Agency for International Development ("USAID") has provided a Transaction Team ("Team") of investment banking and accounting specialists to the Ministry of Administration and Privatization of National Property of the Slovak Republic ("the Ministry") since June, 1994.

1. **OBJECT of AGREEMENT** - This Agreement contains the scope and scale of co-operation between the Ministry and USAID. It sets guidelines for the continued activities of the Team at the Ministry, defines the type and scale of the Team's activities and describes the results expected of the Team by both the Ministry and USAID.
2. **PURPOSE** - The Team's primary purpose is to provide technical assistance and advice to the Ministry in order to expedite direct sale privatization transactions in a fair, open, transparent, and timely fashion. In addition, the Team may provide professional training and other technical assistance to the Ministry as requested by the Ministry and agreed to by USAID.
3. **SCOPE of WORK** - It is anticipated that the Team's assistance to the Ministry will primarily consist of processing direct sale transactions of state-owned companies. Work will generally be performed in the following manner:
  - (a) The Ministry will assign the Team companies to be privatized.
  - (b) The Team will seek potential buyers for these companies, both foreign and Slovak, solicit bids from these buyers, and negotiate these bids.
  - (c) The Team will evaluate these bids based on criteria provided by the Ministry for each company. The Team may also suggest additional criteria, and will make a recommendation to the Ministry of the bidder(s) which best meet the agreed criteria.
  - (d) The Team will work closely with Ministry personnel and with Ministry oversight at each stage of the process, and the Ministry will be responsible for choosing whether or not to act on each recommendation, and how to do so.
  - (e) The Ministry will have the opportunity to assist with and approve of the preparation of any documents which are to be routinely sent to all potential bidders.
  - (f) The Ministry will carefully consider the recommendations of the Team, and so far as is possible, will make decisions in accordance with those recommendations and will strongly support them at the Fund of National Property of the Slovak Republic.

(g) Based on the consent of either the Minister or the State Secretary, the Team will be allowed to provide information to the media through the Press Department of the Ministry.

(h) If the Ministry requests the Team's assistance for securing approval of the Ministry's proposals by third parties, the Team will provide such assistance.

4. **VOLUME/TIMING -**

(a) The Ministry will utilize the Team as fully as possible given the staffing of the Team. Based on current staffing levels, it is expected that the Team will be assigned an average of 2-3 companies per month for the privatization process, and that at least 50% of the projects assigned to the Team will result in approval by the Ministry.

(b) The Team will be presented documents on companies proposed for privatization in the second wave on an ongoing basis. The companies assigned to the Team by the Ministry will be those in which the Team's activities will be particularly useful in the privatization process.

(c) The cooperation of the Team and the Ministry begins on the date of signing of this Agreement. Specific tasks will be assigned after the signing, but, it is expected that the Team will receive its first new transaction assignments from the Ministry on February 15, 1995, and that the Team will submit its first bidder recommendation on a newly assigned transaction before July 15, 1995.

5. **COST** - The Team will consist of Slovak and foreign technical specialists paid for by USAID. The Ministry will provide sufficient furnished office space for the Team to carry out its activities.

6. **REPORTING** - While the Team is expected to work on a regular basis with various Ministry personnel, the Ministry will designate a senior administrator who will assign transactions and tasks to the Team and to whom the Team will report. It is anticipated that the Team will meet on a weekly basis with this Ministry administrator for reporting purposes.

7. **USAID CONTACT** - Whenever the Ministry's designated senior administrator has questions or concerns of a policy nature about the Team's work or personnel, the administrator should contact either Patricia C. Lerner or Roy Grohs at USAID/Bratislava.

8. **CONFIDENTIALITY** - The Team will be bound by the same confidentiality rules, regulations and laws as other employees of the Ministry, as defined in the Instructions of the Ministry of Administration and Privatization of National

Property of the Slovak Republic about the Protection of State. Economic and Office Secrets.

Although summarized reports on the activities of the Team will be presented to USAID, the Team will strictly maintain the confidentiality of all relevant data on projects and bids.

9. **CONCLUSION -**

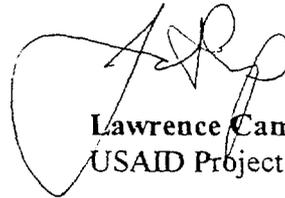
- h
- (a) The terms of this Agreement are effective for an indefinite period of time.
  - (b) This Agreement can only be modified or expanded with the agreement of both parties.
  - (c) This Agreement becomes valid and effective as of the date of its signing by both parties.

In Bratislava , on this date, February 10, 1995

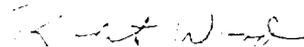
In Washington, on this date \_\_\_\_\_



**JUDr. Pavol Kendra**  
State Secretary of the  
Ministry of Administration  
and Privatization of National Property  
of the Slovak Republic



**Lawrence Camp**  
USAID Project Officer



**Robert Wood**  
Deloitte & Touche/Crimson Capital

**Attachment B: Benchmark Compliance**

**USAID Benchmarks**

- Target:* 20 enterprises moved through the direct bidding process by the Transaction Team by 12/95.
- Progress:* Between the beginning of activity under D.O. 35 and the conclusion of activities under the delivery order in December, 1995, written recommendations for a total of 12 companies were submitted to the MOP.
- Target:* Successfully accomplish negotiations with foreign investors in at least 5 companies.
- Progress:* Negotiations with foreign investors leading to firm purchase offers have been successfully accomplished in the case of six companies assigned to the Transaction Team.

**Benchmarks agreed to with Ambassador, June 1995**

- Target:* 21 recommendations submitted by the Transaction Team as of 12/95.
- Progress:* Between the beginning of activity under D.O. 35 and the conclusion of activities under the delivery order in December, 1995, written recommendations for a total of 12 companies were submitted to the MOP.
- Note:** Both the USAID target and the Ambassador's target were generated prior to the change in privatization law, when both USAID and the MOP believed that the MOP would be able to provide the Transaction Team with agreed-upon levels of deal flow. After responsibility for processing direct sale transactions was transferred from the MOP to the FNP by the Slovak Parliament, it became apparent to the Transaction Team and USAID (and was confirmed by the MOP State Secretary) that the MOP would not be able to provide new transactions to the Transaction Team, thus invalidating the previously set year-end targets for the Team. It should be noted that of the 13 state-owned enterprises which the MOP was able to provide the Transaction Team during this period, the Team submitted concluding recommendations to the MOP for 12 and attempted at length to achieve an agreement to provide investment banking services to the 13th (an effort which was supported by the MOP and the company's management but eventually terminated by the Ministry of Economy). During the period in which D.O. 35 was in effect, the Team consistently lobbied for more deal flow from the

MOP; the effectiveness of this lobbying was limited by the five month period (10/94-2/95) during which new MOP activities were restricted by the aftermath of the September 1994 Slovak elections and the slow transition to a new government.

Attachment C: Transaction Team Company Details

Company Name	Zelatinaren, s.p. Liptovsky Mikulas	UMOV Trencin, s.p.	TOS, s.p. Galanta	Tlakove Nadoby, a.s. Zilina
<b>Description</b> Activities	Manufacturer of gelatine products.	Manufacturer of ironing presses and tables.	Manufacturer of mechanical, semi-automatic and automatic lathes.	Manufacturer of pressure and non-pressure vessels and heating devices.
Number of Employees	200	80	325	290
1994 Revenues	68,110,000	31,950,000	63,246,000	157,075,000
1994 Net Income	(29,966,000)	1,465,000	(48,482,000)	9,277,000
12-31-94 Net Book Value	341,340,000	50,076,000	135,052,000	185,119,000
<b>Privatization Project</b>				
Date Originally Assigned	July 15, 1994	November 15, 1994	July 15, 1994	February 27, 1995
Type of Sale - %	67% of Shares	100% of Assets	67% of Shares	51% of Shares
<b>Milestones</b>				
Initial Company Visit	August, 1994	November 24, 1994	May 9, 1995	May 17, 1995
Information Memorandum	N/A	May 8, 1995	May 22, 1995	June 19, 1995
Companies Contacted	3	4	41	30
Bids Received	1	3	3	3
<b>Recommendation</b>				
Date of Recommendation	September 4, 1994	June 28, 1995	August 21, 1995	July 21, 1995
Bidder Recommended	Weishardt Holding SA	T-Konfex, spol. s r. o.	Traub AG	Tlakove Nadoby, spol. s r. o.
Home Country of Bidder	France	Dutch-Slovak J.V.	Germany	Slovakia
FNP Decision Announced	March 15, 1995	November 28, 1995	December 22, 1995	October 11, 1995
Bidder Selected by FNP	Weishardt Holding SA	Komet, s r. o.	Traub AG	KTS Intergruop
FNP Concurrence	Yes	No	Yes	No
<b>Notes/Comments</b>	The offer of Weishardt included 145 million Sk of additional capital investments in the company which were above the amount used by the FNP for valuing the bid.		A preliminary recommendation was made on July 7, selecting Toska, a.s. Galanta because Traub was unable to complete it's bid before the original deadline.	

Attachment C: Transaction Team Company Details

Company Name	Kovo, s.p. Belusa	Meopta, s.p. Bratislava	Syenit, s.p. Puchov	Sklarne Poltar, a.s.
<b>Description</b> Activities	Manufacturer of machines and equipment for laundries and dry-cleaning.	Manufacturer of optical equipment for homes and offices.	Manufacturer of asbestos-cement products and terazzo tiles.	Manufacturer of leaded crystal and glass products.
Number of Employees	280	440	125	1,400
1994 Revenues	40,642,000	103,361,000	49,504,000	407,828,000
1994 Net Income	(28,829,000)	2,090,000	(9,720,000)	5,694,000
12-31-94 Net Book Value	115,346,000	312,233,000	138,556,000	302,487,000
<b>Privatization Project</b> Date Originally Assigned Type of Sale - %	February 27, 1995 51% of Shares	February 27, 1995 51% of Shares	February 27, 1995 51% of Shares	February 27, 1995 51% of Shares
<b>Milestones</b> Initial Company Visit Information Memorandum Companies Contacted Bids Received	May 23, 1995 May 30, 1995 16 2	May 8, 1995 June 19, 1995 15 1	May 5, 1995 May 22, 1995 10 2	May 11, 1995 May 22, 1995 26 5
<b>Recommendation</b> Date of Recommendation Bidder Recommended  Home Country of Bidder FNP Decision Announced Bidder Selected by FNP FNP Concurrence	July 25, 1995 Matador Puchov, a.s.  Slovakia	July 28, 1995 Mebra, a.s. Bratislava  Slovakia	August 23, 1995 MGM Povazska Bystrica s r.o. Slovakia	August 10, 1995 Xandra Crystal, spol. s r.o. Slovakia October 11, 1995 Slovglass Poltar No
<b>Notes/Comments</b>	No decision has been announced by the FNP.	No decision has been announced by the FNP.	No decision has been announced by the FNP.	A week after the Transaction Team submitted its recommendation, it was informed that the sale had been changed to 97% of the shares and that the MOP would be conducting a second round of bidding itself.

Attachment C: Transaction Team Company Details

Company Name	Povazske Chemicke Zavody, s.p. Zilina	Vyroba Kovoveho Nabytku, a.s.	Izomat, s.p. Nova Bana	Povazske Cementarne, s.p. Ladce
<b>Description</b> Activities	Chemical company specializing in the manufacture of plastics.	Manufacturer of metal furniture for homes and offices.	Manufacturer of insulating materials.	Cement manufacturer.
Number of Employees	1,500	90	600	
1994 Revenues	1,267,271,000	31,818,000	482,356,000	579,569,000
1994 Net Income	(4,146,000)	(13,998,000)	20,990,000	36,213,000
12-31-94 Net Book Value	1,063,073,000	92,144,000	556,562,000	388,651,000
<b>Privatization Project</b> Date Originally Assigned Type of Sale - %	February 27, 1995 51% of Shares	February 27, 1995 51% of Shares	April 10, 1995 50% of Shares	67% of Shares
<b>Milestones</b> Initial Company Visit Information Memorandum Companies Contacted Bids Received	November 30, 1994 June 26, 1995 31 3	April 25, 1995 September 11, 1995 23 3	May 9, 1995 N/A 1 1	May 16, 1995 June 22, 1994 13 9
<b>Recommendation</b> Date of Recommendation Bidder Recommended Home Country of Bidder FNP Decision Announced Bidder Selected by FNP FNP Concurrence	September 7, 1995 Akryplast, a.s. Slovakia	November 17, 1995 N/A	May 10, 1995 Rockwool International Denmark N/A Rockwool International Yes	July 11, 1994 Muska Zement Germany
<b>Notes/Comments</b>	No decision has been announced by the FNP.	No decision has been announced by the FNP.	The Team successfully advised the SMOP on the structure of the sale of Izomat to a pre- selected bidder, Rockwool.	By a vote of 5 - 4, the interim Slovak Government rejected the Team's recommendation of Muska in October, 1994.

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Attachment C: Transaction Team Company Details

<b>Company Name</b>	<b>Elektrosvit, a.s. Nove zamky</b>
<b>Description</b> Activities	Manufacturer of lighting fixtures and electric motors.
Number of Employees	1,800
1994 Revenues	900,655,000
1994 Net Income	944,000
12-31-94 Net Book Value	650,639,000
<b>Privatization Project</b>	
Date Originally Assigned	February 27, 1995?
Type of Sale - %	51% of Shares
<b>Milestones</b>	
Initial Company Visit	July 26, 1994?
Information Memorandum	May 30, 1995
Companies Contacted	14
Bids Received	0
<b>Recommendation</b>	
Date of Recommendation	
Bidder Recommended	
Home Country of Bidder	
FNP Decision Announced	
Bidder Selected by FNP	
FNP Concurrence	
<b>Notes/Comments</b>	No bids were received by the deadline of July 11, 1995.

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Attachment D : Transaction Team Personnel Utilization, DO #35

Month	1994					1995												Total Days
	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	
<b>Project Manager</b>	0	0	0	0	0	0	0	0	0	8	24	16	22	23.5	12	19	10	134.5
Alberto Calderaro										8	24	16	22	23.5	12	19	10	134.5
<b>Financial Planner</b>	26.25	21.75	52.25	59.5	40	54	42	50.5	49.5	56	54	27	29	26.75	34.4	30.4	26	679.25
Bob Wood	1	6	6	8	5	6	6	6	5.5	6	6	3	5	5.25	6	5	5	90.75
David Eastman	19	5	24	20	17	23	21	24.5	25	23	23	22	24	18	22	23	21	354.5
Michael Gold	2.25	2.75		1		1					5	2						14
Peter Wright		6	20	20	18	24	15	20	19	27	20							189
Chris Ashby														3.5	6.38	2.38		12.25
Michelle Ott				10.5														10.5
Michael White	4	2																6
Alain Dube			1.625															1.625
Bill Kuntz			0.625															0.625
<b>Accountant/Auditor</b>	11	18	21	24	15	26	24	27	22	43.5	50.5	39.75	32	27.5	29	26.5	20	456.75
Steven Fast										15.5	21.5	20	23	8.5	7	4	5	104.5
Alex McCormick											9	19.75	9	19	22	22.5	15	116.25
Hugo Green										1								1
Jerry Wiant	11	18	21	24	15	26	24	27	22	27	20							235
<b>Attorney</b>	4	1	0	0	0	0	0	0	0	0	0	2	0	0	0	0	0	7
Tom Baker	4	1										2						7
<b>Supervisor/Sr. Consult.</b>	0	0	11.88	17	5.63	20	18.4	15	14	24	16	8.125	0	0	0	0	0	150
Zuzanna Horvathova			11.88	17	5.63	20	14.4	10	12	24	14	8.125						137
Lubomir Haluska							4	5	2		2							13
<b>Senior/Consultant</b>	8	27.38	8.438	25	7.38	20	20	23	16.75	47	49.88	35.19	25	24	4.06	0	0	341.07
Kate Mocakova					1.13					12	19.38	13	12	5	3	0	0	65.505
Kate Csakanyiova	1	9.125	4.125	8								4.375						26.625
Jana Gruntova										12	10	11.81						33.81
Marian Hlasny	7	18.25	4.313	17	6.25	20	20	23	16.75	23	20.5							176.063
Zuzanna Horvathova												6.005	13	19	1.06			39.067
<b>Assistant/Associate</b>	0	0	0	0	0	0	0	0	0	0	22	2	0	0	14.9	25	21.5	85.438
Miriam Kucerova											22							22
Eva Untermajerova												2						2
Jana Gruntova																		0
Kate Mocakova																16	13	29
Andrea Bohmanova														14.9	9	8.5		32.438

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