

PD-APP-365  
94630

Technical Assistance to Mass Privatization  
(Delivery Order 10)  
Final Report

Contract #EUR-0014-I-00-1057-00

November 15, 1993

KPMG Policy Economics Group  
2001 M Street N.W.  
Washington, DC 20036

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## I. Introduction and Background

Delivery Order #10, *Technical Assistance to Mass Privatization*, was the second in a series of task orders designed to assist the development of the Mass Privatization Program (MPP) in Poland. The overall goal of the effort was to support the development of adequate capital markets infrastructure for the MPP.

The project focused on a variety of tasks that were specifically requested by the Ministry of Privatization to support the capital markets component of the MPP. Each had the additional benefit of either educating Ministry of Privatization officials on different options for capital markets development, or on supporting the general growth of the capital markets in Poland.

KPMG's work under the task order focused on the key deliverables that were high priorities for the Ministry of Privatization, and is organized in this report under the following headings:

- A. Project Management
- B. Worker share implementation plan
- C. Distribution implementation plan review
- D. Fiscal Agent implementation plan and terms of reference
- E. Bearer market trading
- F. Market volume study
- G. Support to MPP steering committee
- H. MPP and securities legal framework

### A. Background

Poland's legislative progress on the Mass Privatization Program (MPP) was stop and go during 1992 and early 1993, with a change in government in December, 1991 and again in July, 1992. During 1993, however, much legislative progress has been made. For example, Parliament adopted a budget with a deficit of five percent of GDP as required by the IMF.

In spite of false alarms to the contrary, the Mass Privatization program remained a priority of the ruling government coalition. After an unexpected vote on March 18th, 1993, the government coalition pushed more strongly than ever for the passage of an MPP law as quickly as possible. The law was finally passed by the Sejm on April 30, and signed into law by the President on May 18. With the legal infrastructure in place, the program was cleared for implementation, and the startup of the National Investment Funds was planned for early 1994. The fall of the Suchocka-led coalition at the end of May, however, was again expected to seriously impede the program's progress.

The Mass Privatization Department in the Ministry of Privatization has four main units -- two concerned with organizing the as many as 600 companies and 25 National Investment Funds, and two concerned with distribution and trading. KPMG's technical assistance to date has been with the latter two groups, and has centered on three categories of securities.

- Share Certificates will be distributed to all citizens who wish to participate. At the end of June 1993, the MPP program provided that these negotiable, bearer certificates would be traded off exchange or "on the street". Each certificate (one per citizen) would be convertible through a brokerage account into as many as 25 shares, one in each of 25 National Investment Funds. A

second certificate would be distributed to the "budgetary sphere" employees, who are receiving compensation from the government from missing payments in previous years.

- National Investment Fund (NIF) shares will be issued only in book entry form, recorded in the National Depository of Securities, to brokers and banks, for the account of investors who have converted share certificates.
- Company shares are shares in the 600 companies anticipated to be in the program. The planned program at the end of 1993 provided that the controlling NIF will receive 33%, and the other 24 NIF's will receive equal portions of 27%. Worker shares, representing 15%, would be given free by each company to its workers.

Institutional Capacity Issues: The 25 NIF's were expected to represent at least 80% of the market capitalization traded on the Warsaw Stock Exchange in 1994. There are significant infrastructure issues relating to processing capacity as well as (in some cases) the availability of talent and capital required at both the exchange level, and in the broker back offices. Trading volume is currently exploding on the Warsaw Stock Exchange, and is likely to grow over time. Institutions involved include:

- the Warsaw Stock Exchange
- National Depository of Securities
- Settlement Bank
- Independent Brokerage Firms
- Bank Brokerage Departments

Some additional institutions must be created for MPP trading and distribution to function effectively. A new KPMG designed financial institution (the Fiscal Agent) will be a single purpose institution with a potential role in the initial distribution of share certificates, in the conversion of share certificates into NIF shares and in the retention of dividends payable to holders of share certificates when their certificates are deposited with a broker or bank for conversion.

## **B. Phase I assistance**

Phase I of assistance to the Mass Privatization Department, *Regulated Investment Companies*, was executed over calendar year 1992. The project to support the development of Regulated Investment Companies (RICs) in Poland had its genesis in a simple idea: poorly developed capital markets are a constraint to large scale privatization and to overall economic growth. The development of modern capital markets in Poland would allow the pooling of savings, provide diversification advantages to savers, and channel savings to the highest valued uses.

For this reason and many others, the Polish government established the Mass Privatization Program (MPP). Mass Privatization simultaneously addresses many of the perceived problems of more traditional privatization programs.

The Mass Privatization Program will also stimulate capital markets, through eventual trading of shares among themselves and with other investors. MPP's success with capital markets hinges on the infrastructure to distribute the shares to the Polish people, and on opportunities to trade shares once they are distributed. The number of potential shareholders is around 27 million. The "nuts and bolts" problems associated with printing, distributing, and trading fund shares were daunting, and success required considerable technical assistance.

Until KPMG's involvement, technical assistance to the Mass Privatization Program had concentrated on issues relating to setting up more than 20 National Investment Funds. This included locating prospective

fund managers, issuing tender documents, defining rules for corporate governance, and enabling legislation. However, many observers agreed that the most politically important aspects of the program relate to the distribution and trading of the shares in the investment funds. The average citizen will not have anything to do with the esoteric process of fund management; he or she will be interested in how to benefit from the program, and what to do with his or her shares.

Specific accomplishments under Phase I included:

Regulated Investment Companies. The primary goal of the project when it was originally designed in August 1991, was to foster the development of mutual funds, or Regulated Investment Companies (RICs) in Poland. KPMG met with the Polish Securities Commission (PSC) in February 1992 to review the progress made towards approving the application of Pioneer Funds U.S.A. to become the first Polish mutual fund. Dr. Jacob Dreyer, Chief Economist of the Investment Company Institute, made a strong case for a quick approval of their application, and stressed their high stature and good reputation in the U.S. mutual funds investment community. This series of meetings sped the process of approval of the fund, which is now operational. Dr. Dreyer also reviewed the regulated investment company section of the new draft securities law, becoming the only outside Western expert to do so (see appendix).

Overall Capital Markets Development. With the project located in the MPP, the team was able to provide advice in many areas that extended beyond the accomplishments outlined above to capital markets development:

- reviewing work to date and making recommendations for future investigation;
- collecting responses to the project team's technical note #1 (also included in the appendix);
- identifying and meeting with potential vendors and distributors who could play an active role in the mass privatization distribution and share trading process;
- assisting the Ministry with distribution and trading issues, as needed.

Mass Privatization Implementation. In a series of Technical Notes, backed by on-site advice and technical assistance, the KPMG team removed many of the initial technical stumbling blocks to the implementation of MPP distribution and trading. The KPMG team thus contributed directly to the future success of the Mass Privatization Program implementation.

Notes included:

1. Questions about the program
2. Market Research Assessment on citizen participation
3. Fiscal Agent functionality
4. Nominee system background
5. Trading patterns in privatized companies in Poland
6. Bearer markets

### **C. Project Staffing**

The following personnel billed to delivery order #10:

**Mr. Alex Berg**, KPMG Peat Marwick (Economist and Project Manager). Mr. Berg, a Manager with KPMG Peat Marwick, is an expert in capital market development and types of mass privatization schemes. Prior to his work on this delivery order, he had closely followed the plans for voucher privatization schemes across Central and Eastern Europe. In addition, he has participated in several other privatization related

engagements in different countries and industries in the region. Mr. Berg participated in all aspects of the project.

**Mr. Jonathan Bulkley**, KPMG Peat Marwick (Capital Markets Specialist and resident advisor). Mr. Bulkley, Director for Capital Markets in Central Europe for KPMG Peat Marwick, is a respected expert in the U.S. securities industry who has recently specialized in privatization-related capital markets projects in Eastern Europe. He previously had a 30-year career on Wall Street as the President of a major brokerage firm. He personally set-up and managed the first fully-automated backroom servicing company in the U.S. securities industry and was involved as a leading director of the Depository Trust Corporation. Mr. Bulkley was resident in Poland from September 1992 to May 1993, and advised the Ministry of Privatization as needed on all aspects of capital markets development.

**Dr. Jacob Dreyer**, Investment Company Institute (Economist). Dr. Dreyer is currently Chief Economist of the Investment Company Institute where he is responsible for policy and compliance for the \$2 trillion U.S. mutual funds industry. He was formerly Deputy Assistant Secretary of the Treasury for Economic Policy, is one of the leading financial economists in the United States, and is fluent in Polish. Dr. Dreyer has been working with project teams in the capital markets area for the last three years in Russia, Ukraine, Poland, the Czech Republic and Hungary.

**Mr. John Maiale**, DST Systems (Capital Markets Specialist). Mr. Maiale is a manager of backroom operations at DST Systems with extensive experience in all aspects of shareholder accounting, distribution and transfer services for the mutual funds industry. As Director of Full Service Operations for DST Systems, Mr. Maiale has management responsibilities for serving eight mutual companies and almost one million individual accounts. Mr. Maiale concentrated on the distribution aspects of the MPP, and in particular was responsible for the KPMG team's design of the Fiscal Agent.

**Ms. Patricia Messina**, KPMG Peat Marwick (Financial Manager). Ms. Messina, a Manager with KPMG Peat Marwick, has over ten years experience in the analysis of financial institutions. She is an expert in brokerage back office operations and procedures, and in the processing and auditing of clearing and settlement. Ms. Messina assisted with the Fiscal Agent study, and led the team carrying out the survey of privatized companies to understand current trading behavior (Technical Note #5).

#### **D. Project Coordination**

The Project Team's in-country client was the Trading Department of the Mass Privatization Program at the Ministry of Privatization. Overall direction was provided by Mr. Swiderski, who determined all travel and related work schedules for the Team and communicated with USAID Warsaw and USAID Washington.

#### **E. Contractual Issues**

The delivery order was originally set to expire on April 30, 1993. Because of the delay in the program caused by the changes in government, and the resulting delays in decision making in the Ministry of Privatization, the task order expired in April 1993 with approximately one-half of the funds remaining. These funds were then applied to a follow-on task order that began on June 1, 1993, entitled *Mass Privatization Phase III* (Delivery Order #34). As a result of the division of the task order and delays in the overall Mass Privatization Program, several deliverables that were originally intended to be included in this task order are included in the follow-on task order.

## II. Scope of Work

The scope of work was based on the revised final scope of work for Delivery Order #10, and were focused on the key deliverables that were high priorities for the Ministry of Privatization.

### A. Project Management

Mr. Alex Berg began as project manager, and was replaced by Jennifer McFarlane at the beginning of April 1993. The project manager had responsibility for all deliverables, reports, and information for USAID.

### B. Worker Share implementation plan

Mass privatization in Poland will result in the distribution of at least ten percent of the shares in each MPP company to the workers in that company. With a potential of 200 companies in the first wave of the program, and an average of about 1000 employees per company, over two hundred thousand Polish citizens could be receiving shares as employees.

To proceed with this distribution, the Ministry of Privatization had to make decisions on the several policy issues:

- How would employee shares be allocated and distributed?
- What would be the rights of employee shareholders? Would shares be registered or bearer shares, and they be materialized or dematerialized?
- If they are registered, how would the registry be maintained? If third parties are hired to maintain the registry, what is the scope of their operations?
- How and where would shares be traded?

Over the course of the task order this effort became the top priority of the MPP trading team. As a result, the project team provided assistance to the Ministry of Privatization to begin the process of developing and implementing several "templates" for MPP company share trading and distribution practices. The work consisted of general consultations and advice to the Ministry, and detailed discussions with market participants.

Work will be continued under the follow-on task order.

### C. Distribution Implementation Plan Review

The KPMG team assisted in the preparation of the terms of reference for a Polish consulting firm (Zeto Rodan) to empirically analyze various options for MPP distribution. Zeto Rodan, with the assistance of KPMG, is currently tasked with the design of the detailed implementation plan. The KPMG designed Fiscal Agent (technical note #3) was the intellectual platform for much of the later thinking about various options for share certificate control and fraud prevention.

At the Ministry's request, KPMG is advising Zeto Rodan on the distribution design alternatives and their implications for the Fiscal Agent control mechanisms and post-distribution trading mechanisms. KPMG will also concentrate on those distribution issues that relate to the subsequent trading of bearer certificates (also see bearer share trading section, below).

#### **D. Fiscal Agent terms of reference**

The KPMG designed fiscal agent (technical note #3) is the only piece of the capital market infrastructure required for the MPP that is not yet in place. A detailed implementation plan and tender will be required to select the Fiscal Agent as part of a competitive process.

KPMG continued to review the needs of the fiscal agent, by evaluating the strengths and weaknesses of various options. KPMG will assist in the creation of a terms of reference for the Fiscal Agent in Phase III of assistance to the Ministry of Privatization.

#### **E. Bearer Market Trading Study and Follow up**

KPMG was requested by the Ministry to carry out a study of the market in bearer certificates that will result after the share certificates are distributed. Additional related trading issues include the listing of the Share Certificate and the NIFs on the Warsaw Stock Exchange, strategies surrounding their initial flotation, and other issues influencing an orderly market in share certificates.

The study touched on the following issues:

- What has been the experience around the world with bearer markets?
- Are bearer markets efficient?
- What are the guarantees that the bearer market that will develop in Poland will not exploit the small investor?
- What steps can the Ministry take to increase the liquidity of the bearer market?
- How should the bearer market be regulated?
- What will be the relationship between the bearer market and the market for NIF shares on the Warsaw Stock Exchange?

#### **F. Volume and Capacity Study and Plan**

As noted in the original scope of work, the capacity of the capital market infrastructure is crucial to the success of the mass privatization program. The infrastructure includes the Warsaw Stock Exchange, the National Depository of Securities, the various brokerage back offices, and the KPMG-designed Fiscal Agent.

KPMG will prepare projections of the volume likely to be generated by the MPP on the Warsaw Stock Exchange. This information will be used by the Ministry of Privatization to anchor a study on a common back office for the Polish brokerage community.

#### **G. Support to MPP steering committee**

KPMG also provided overall support to the guidance of the MPP program. Mr. Jonathan Bulkley of KPMG was requested by the MPP (Dr. Jerzy Thieme) to be a member of the MPP steering committee. The five person committee also consists of Dr. Jerzy Thieme, a senior partner of S.G. Warburg, and the managing partner of Zeto Rodan.

Mr. Bulkley attended MPP management meetings, and made contributions as requested by the Ministry, primarily with respect to trading and capital markets issues.

## **H. MPP and Securities Legal Framework**

KPMG has been requested to assist the Ministry of Privatization in the review of the MPP laws as it evolves, as well as the new draft securities law. The Ministry is concerned that the updated securities accommodates the many different facets of the MPP. The Council of Ministers, at the request of the Minister of Privatization, has postponed all discussion of the recently drafted securities law until the final structure of the MPP has been enacted.

KPMG assisted the Ministry with the evolving capital market legal and regulatory structure. This involved considerable exploration of the future of Polish capital markets and discussions with market participants.

## **III. Deliverables**

The deliverables for the delivery order were based on the revised final scope of work for Delivery Order #10, and as noted above were focused on the key tasks that were high priorities for the Ministry of Privatization. Because the delivery order was divided into two separate delivery orders at the end of June 1993, several final deliverables for projects begun under this task order will be completed in the follow-on task order.

A key component of KPMG's Phase II assistance consisted of the provision of Mr. Jonathan Bulkley as a long-term advisor, who was resident in Warsaw from September 1992 through May 1993. Mr. Bulkley, who joined KPMG after a career in various capacities on Wall Street, became an important part of the Mass Privatization Department, and assisted in a variety of capacities.

KPMG also continued to be assisted by John Maiale of DST Inc., the US's largest provider of processing services to the mutual funds industry.

Specific assistance is detailed below:

### **A. Project Management**

*Background.* Ms. Alex Berg began as project manager, and was replaced by Jennifer McFarlane at the conclusion of the task order. Jonathan Bulkley also carried out several project management tasks. The project managers had responsibility for all deliverables, reports, and information for USAID.

*Timing and resources:* 14 days

Alex Berg (6 days)

Jonathan Bulkley (8 days)

*Other Deliverables:* Reporting and progress updates as required.

### **B. Worker Share implementation plan**

*Timing and Resources:* 23 1/8 days

Alex Berg (7 1/2 days): Review of comments on KPMG worker share recommendations (late January), review of various alternatives, including Penetrator study and others, early March.

Jon Bulkley (15 5/8 days): Discussions with Ministry of KPMG recommendations (early January), review of comments on KPMG worker share recommendations (late January), discussion with brokerage community of various worker share trading options (January and February), review of previous Penetrator study (March), review of document sent to additional brokers (April), project management of worker share template process (March-April).

*Other Deliverables:* None. Template will be delivered under split / follow-on task order (Delivery Order #34).

### **C. Distribution Implementation Plan Review**

*Timing and resources:* 35 5/8 days

Alex Berg (5 5/8 days): Review with Zeto Rodan of distribution plan (January), discussion of preparation of master plan (January), review of first master plan (April). Review of progress to date in internal meetings and with the Ministry of Privatization on May 28, 1993, including discussions on technical and operational issues surrounding scanning and certificate design.

J. Bulkley (10 days): Meetings with Zeto Rodan, reviews of distribution plan from the trading viewpoint, discussion of trading issues with Zeto Rodan, assistance to the Ministry with responses to Parliamentary committees on distribution issues (February-March).

J. Maiale (20 days): Technical Review of evolving implementation plans (November, January, February), discussions of processing issues with Zeto Rodan, commentaries on analyses of PESEL, assistance with Master Plan development.

*Other Deliverables:* None. Final implementation plan and any additional KPMG work awaited a final decision by the Ministry of Privatization, that was not forthcoming during the period of this task order.

### **D. Fiscal Agent terms of reference**

The KPMG designed fiscal agent (technical note #3) is the only piece of the capital market infrastructure required for the MPP that is not yet in place. A detailed implementation plan and tender will be required to select the Fiscal Agent as part of a competitive process.

KPMG reviewed the needs of the fiscal agent as Mass Privatization planning proceeded, and evaluated the strengths and weaknesses of various options for the fiscal agent. In Delivery Order #34, KPMG will assist in the development of the final terms of reference.

*Timing and resources:* 38 days

J. Bulkley (10 days): Meetings and oversight of Zeto Rodan work on Fiscal Agent, discussions with MPP staff and the consulting firm Zeto Rodan, in order to review and comment on

the evolving distribution master plan, and its relationship to the fiscal agent (January-March).

John Maiale (25 days): Series of trips and meetings to present the Fiscal Agent analysis in Technical Note #3 (September-October, 1992), meetings and presentation of Fiscal Agent concept to the National Depository of Securities, meetings with Zeto Rodan and the Ministry to identify key Fiscal Agent issues for the distribution plan, research in the U.S. to determine the appropriate technology for Fiscal Agent (October 1992 - February 1993).

Patricia Messina (3 days): Fiscal Agent translation assistance (January).

*Other Deliverables.* Final terms of reference for Fiscal Agent to be prepared under follow-on task order (Delivery Order #34).

### **E. Bearer Market Trading Study and Follow up**

*Scope of work.* Dr. Kenneth Froot of the Harvard Business School completed a study of bearer markets that compared the likely situation in Poland with similar markets around the world. The next steps include legal and regulatory changes to encourage greater openness and efficiency, as well as a focused public relations campaign. In addition, the importance of the foreign exchange Kantors was highlighted as an important step in creating a dealer market in the bearer certificates.

In May of 1993, the Trading Group of the Ministry of Privatization prepared several recommendations on bearer trading. Mr. Jonathan Bulkley and Dr. Kenneth Froot reviewed and agreed with the recommendations. Dr. Froot also recommended that more emphasis be placed on the involvement of the national media, to publicize prices and promote market transparency.

*Timing and resources:* 56 days

Alex Berg (1 day): Review of draft Ministry recommendations.

J. Bulkley (6 days): Review of conclusions of Technical note #6 with Ministry staff, discussions of next steps, meetings with the National Bank of Poland and Warsaw Stock Exchange to discuss the links of bearer market with exchange traded markets and the importance of dealers (Kantors) to an efficient market.

Dr. Kenneth Froot (49 days): Drafting of technical note #6 on bearer market trading, September-December, fact finding mission to Warsaw in October to discuss markets and exchange trading.

*Other Deliverables:* Technical Note #6 on bearer share trading (see appendix).

### **F. Volume and Capacity Study and Plan**

KPMG prepared projections of the volume likely to be generated by the MPP on the Warsaw Stock Exchange.

*Timing and resources:* 36 3/8 days

Alex Berg (10 days): Project management and initial discussions and meetings with Dr. Dreyer (December - January), review of statistical report (Technical Note #7).

J. Bulkley (2 3/8 days): Discussions with stock exchange and the National Depository of Securities (January), discussions with Securities Commission, assistance in drafting of Phare terms of reference (March) for common back office study, capacity discussions with brokers (January-February), presentation of statistical study (January).

Jacob Dreyer (24 days): Statistical research on capital market volume, drafting of technical note #7 (January).

*Other Deliverables.* Technical note #7 on MPP market volume estimation methodology.

### **G. Support to MPP steering committee**

Mr. Jonathan Bulkley of KPMG was requested by the MPP (Dr. Jerzy Thieme) to be a member of the MPP steering committee. The five person committee also consists of Dr. Jerzy Thieme, a senior partner of S.G. Warburg, and the managing partner of Zeto Rodan.

KPMG attended the MPP management meetings, and made contributions as requested by the Ministry, primarily with respect to trading and capital markets issues.

*Timing and resources:* 7 days

J. Bulkley (7 days): Periodic meetings of the MPP steering committee, composed of Dr. Thieme, a managing director of S.G. Warburg, the President of Zeto Rodan, and Mr. Bulkley, to discuss problems and prospects of MPP, and to set goals and timetables.

*Other Deliverables:* None.

### **H. MPP and Securities Legal Framework**

KPMG was requested to assist the Ministry of Privatization in the review of the MPP laws as it evolved, as well as the draft securities law. The Ministry wanted to ensure that the updated securities law accommodated the many different facets of the MPP. The Council of Ministers, at the request of the Minister of Privatization, postponed all discussion of the recently drafted securities law until the final structure of the MPP has been enacted.

KPMG continued to assist the Ministry with the evolving capital market legal and regulatory structure. This involved considerable exploration of the future of Polish capital markets, and discussions with market participants.

*Timing and resources:* 10 days

J. Bulkley (9 days): Reviews of MPP laws, responses to Parliamentary committees on distribution and trading issues, review of draft securities law from Ministry point of view, discussions with Ministry, discussions with Polish Securities commission.

J. Maiale (1 day): Review of MPP draft law, distribution advice to Ministry

*Other Deliverables:* None.

**APPENDIX 1:  
TASK ORDER AND FINAL INVOICE**

Advisory and Assistance Services YES ( ) NO ( X )

1. Country of Performance: Poland

2. Indefinite Quantity Contract EUR-0014-I-00-1057-00, Delivery Order No. 10  
(Incorporating FAR and AIDAR Clauses)

NEGOTIATED PURSUANT TO THE FOREIGN ASSISTANCE ACT  
OF 1961, AS AMENDED, AND EXECUTIVE ORDER 11223

3. CONTRACTOR (Name and Address):  KPMG Peat Marwick 2001 "M" Street, N.W. Washington, DC 20036  DUNS No. 07-484-7948 TIN No. 13-5565207	> 4a. ISSUING OFFICE: > Agency for International Development > Office of Procurement OP/A/EE > Washington, D.C. 20523-1426 > 4b. ADMINISTRATION OFFICE: > Agency for International Development > Office of Procurement OP/A/EE > Washington, D.C. 20523-1426
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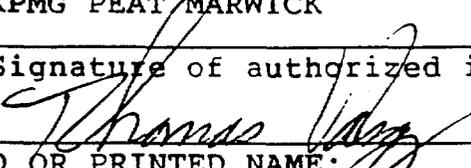
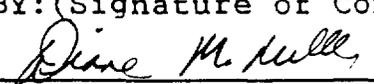
5. PROJECT OFFICE: Mary Beth Allen EUR/RME, Room 6923 N.S. Washington, D.C. 20523-0069	> 6. PAYING OFFICE: SUBMIT INVOICES TO: > Agency for International Development > PFM/FM/CMPD/DCB, Rm. 700, SA-2 > Washington, D.C. 20523-0209
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7. EFFECTIVE DATE: See Block 11b Below	> 8. ESTIMATED COMPLETION DATE: April 30, 1993
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9. ACCOUNTING AND APPROPRIATION DATA:

Amount Obligated: \$495,000	PIO/T No.: 180-0014-3-262-2120
Ceiling Price: \$495,000	Project No.: 180-0014
Appropriation No.: 72-11X1010	Allotment No.: 184-62-180-00-69-21
	Budget Plan Code: QAIX-92-32180-KG-12

10. The United States of America, represented by the Contracting Officer signing this Order, and the Contractor agree that: (a) this Order is issued pursuant to the Contract specified in Block 2 above and (b) the entire Contract between the parties hereto consist of this Order and the Contract specified in Block 2 above.

11a. NAME OF CONTRACTOR: KPMG PEAT MARWICK	> 11b. UNITED STATES OF AMERICA > AGENCY FOR INTERNATIONAL DEVELOPMENT
BY: (Signature of authorized individual) 	> BY: (Signature of Contracting Officer) 
TYPED OR PRINTED NAME: Thomas E. Vasquez	> TYPED OR PRINTED NAME: Diane M. Miller
TITLE: Managing Principal	> TITLE: CONTRACTING OFFICER
DATE: 6/5/92	> DATE: JUN - 5 1992

ARTICLE I - TITLE

Eastern Europe Economic Restructuring and Privatization  
Project No. 180-0014/Technical Assistance to the Mass  
Privatization Program in Poland

ARTICLE II - OBJECTIVE

The objective of this activity is outlined in Attachment 1.

ARTICLE III - STATEMENT OF WORK

A. Background

See Attachment 1.

B. Statement of Work

See Attachment 1.

ARTICLE IV - REPORTS

As stipulated in Section C.3.(c)(2) of the contract and as specified in Attachment 1.

ARTICLE V - RELATIONSHIPS AND RESPONSIBILITIES

Technical Directions during the performance of this delivery order will be provided by Mary Beth Allen, EUR/RME, pursuant to Section F.10 of the contract.

ARTICLE VI - TERM OF PERFORMANCE

- A. The effective date of this delivery order is the date of the Contracting Officer's signature and the estimated completion date is April 30, 1993.
- B. Subject to the ceiling price established in this delivery order and with prior written approval of the Project Manager (see Block No. 5 on the Cover Page), the Contractor is authorized to extend the estimated completion date, provided that such extension does not cause the elapsed time for completion of the work, including the furnishing of all deliverables, to extend beyond 30 calendar days from the original estimated completion date. The contractor shall attach a copy of the Project Manager's approval for any extension of the term of this delivery order to the final voucher submitted for payment.

- C. It is the contractor's responsibility to ensure that the Project Manager-approved adjustments to the original estimated completion date do not result in costs incurred which exceed the ceiling price of this delivery order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the delivery order.
- D. Adjustments which will cause the elapsed time for completion of the work to exceed the original estimated completion date by more than 30 calendar days must be approved in advance by the Contracting Officer.

ARTICLE VII - WORK DAYS ORDERED

A.	<u>Functional Labor Specialist</u>	<u>Work Days Ordered</u>	<u>Fixed Daily Rate</u>	<u>Total</u>
<u>Economists</u>				
	Berg	22	\$975.00	\$ 21,450
	Dreyer	66	\$975.00	\$ 64,350
<u>Capital Market Specialists</u>				
	Maiale	132	\$975.00	\$128,700
	Loy	66	\$975.00	\$ 64,350
	Dick	66	\$975.00	\$ 64,350
	Pfifer	22	\$800.00	\$ 17,600
<u>Financial Manager</u>				
	Lordan	44	\$800.00	\$ 35,200
	Drake	44	\$800.00	\$ 35,200
TOTAL				\$431,200

- B. The individuals identified above are designated as essential/key personnel pursuant to Section F.12. of the contract. Eastern European local hire professionals may not be utilized without specific prior written approval of the Contracting Officer.
- C. Subject to the ceiling price established in this delivery order and the prior written approval of the Project Manager, the contractor is authorized to adjust the number of work days actually employed in the performance of the work by each position specified in this order. The contractor shall attach a copy of the Project Manager's approval to the final voucher submitted for payment.

- D. It is the contractor's responsibility to ensure that the Project Manager-approved adjustments to the work days ordered for each functional labor-specialist do not result in costs incurred which exceed the ceiling price of this delivery order. Under no circumstances shall such adjustments authorize the contractor to be paid any sum in excess of the ceiling price.

ARTICLE VIII - CEILING PRICE

- |     |                         |                  |
|-----|-------------------------|------------------|
| (1) | For Work Days Ordered:  | \$431,200        |
| (2) | For Other Direct Costs: | \$ <u>63,800</u> |
|     | Ceiling Price (1) + (2) | \$495,000        |

The contractor will not be paid any sum in excess of the ceiling price.

ARTICLE IX - USE OF GOVERNMENT FACILITIES AND PERSONNEL

The contractor and its employees or consultants are prohibited from using U.S. Government facilities (such as office space or equipment) or U.S. Government clerical or technical personnel in the performance of the services specified in the delivery order, unless the use of Government facilities or personnel is specifically authorized in the order, or is authorized in advance, in writing, by the Contracting Officer. This specific delivery order does not authorize use of such facilities or personnel.

ARTICLE X - EMERGENCY LOCATOR INFORMATION

The Contractor agrees to provide the following information to the Mission Administrative Officer on or before the arrival in a Cooperating Country of every contract employee or dependent:

1. The individual's full name, home address, and telephone number.
2. The name and number of the contract, and whether the individual is an employee or dependent.
3. The Contractor's name, home office address, and telephone number, including any after-hours emergency number(s), and the name of the Contractor's home office staff member having administrative responsibility for the contract.

4. The name, address, and telephone number(s) of each individual's next of kin.
5. Any special instructions pertaining to emergency situations such as power of attorney designees or alternate contact persons.

ARTICLE XI - DUTY POST

The Duty Posts for this delivery order are Washington, DC and Poland.

ARTICLE XII - LANGUAGE REQUIREMENTS

English is the only required language under this delivery order.

ARTICLE XIII - ACCESS TO CLASSIFIED INFORMATION

The contractor will not have access to classified information.

ARTICLE XIV - LOGISTIC SUPPORT

The contractor is responsible for providing its own logistic support.

ARTICLE XV - WORK WEEK

The Contractor is authorized up to a six-day work week overseas with no premium pay.

## Technical Assistance to the Mass Privatization Program in Poland

Governments in Central and Eastern Europe have applied a wide variety of methods to the problems of privatization and economic restructuring. The Government of Poland has tried several approaches, with some success. Of the 8,000 enterprises in Poland, approximately 10 % have been privatized. However, only about 20 of those privatizations have involved large firms. The vast majority of Polish industry still labors under a bizarre system of "ownership," in which the economic incentives are totally distorted by the lack of any effective control.

Recognizing the importance of speedy privatization, the Polish government established the Mass Privatization Program (MPP). Mass privatization simultaneously addresses many of the perceived problems with more traditional privatization programs:

- **Fairness:** The MPP is creating National Investment Funds ("NIFs") that will be owned by the Polish people, giving citizens a direct stake in the new private sector. The MPP avoids the complaint that inadequate savings in Poland will result in the industrial base ending up in the hands of foreigners.
- **Speed and Efficiency:** Many enterprises can be privatized at once, at a lower cost than with case-by-case privatization techniques. The first wave in Poland will involve some 400 firms.
- **Management skills:** The program provides an opportunity to overcome a key constraint to growth and development: lack of skilled management. The NIFs will be controlled by Western fund managers, who will become strategic investors in each company in which they have a controlling interest. The fund managers will have incentives to make the firms in their portfolio as efficient and well-run as possible.
- **Capital Markets:** The new NIFs will stimulate capital markets, through eventual trading of shares among themselves and with other investors.

MPP's success hinges on the infrastructure to distribute the shares to the Polish people. Some estimates place the number of potential shareholders at around 27 million. The "nuts and bolts" problems associated with printing, distributing, and trading the shares of the funds are daunting, success will require considerable technical assistance. Failure to implement a distribution scheme will result in the NIFs becoming de-facto state holding companies, that are responsible to state bureaucrats rather than attentive shareholders. The

Italian experience indicates that temporary state holding companies quickly become permanent.

Other important factors for the development of NIFs are appropriate legal, tax, and regulatory frameworks which were addressed in the Phase I activity and will continue in Phase II.

Article I: Title

Project: Technical Assistance to Mass Privatization Program

Number: 180-0014

Article II: Objective

This project will build on the work undertaken in *Technical Assistance to Regulated Investment Companies* to directly support mass privatization. The Ministry's goal is to produce a detailed implementation plan for the development of distribution and back room operations of the Mass Privatization mutual funds.

The GOP views the end product of the proposed feasibility study as having a double aspect:

1. Preparation of a realistic and detailed implementation plan for the development of distribution and trading of NIF shares in Poland. This implementation plan will include all elements mentioned in Article III. Costs and time dimensions will be estimated for the various components of the plan.
2. Final report for the GOP and USAID.

Article III: Scope of Work

The main areas of analysis and objectives in the Phase II work will build on the work in the Phase I project, *Technical Assistance to Regulated Investment Companies*. The KPMG project team's current work and discussions with the Ministry indicate the immediate need for help with the practical implementation of the mass privatization program's "back-room" operations including:

- Production, registration and initial distribution of the physical shareholder certificates (with consideration of minimizing the risk of fraud)

- Processing and trading of shareholder certificates and shares;
- Shareholder accounting systems and transfer functions;
- Brokerage operations.

The development of efficient and effective back-office systems is one of the keys to the successful implementation of mass privatization and to general capital market development. There is a need to facilitate and stimulate the large banks (the only significant financial institutions in Poland) to develop a large, functional and efficient retail account system. The development of a universal account system is advisable, as financial assets in Poland are currently scattered among many types of heterogenous accounts among which transfer and communication are practically impossible. The project will explore the potential profitability of retail account providers and the most effective structure for these accounts. In particular, the project will focus on universal accounts, which allow the small investor to hold and transfer many financial assets in a single account.

Special attention will continue to be paid to the ability of current financial institutions (especially banks and brokerage houses) to provide recordkeeping for shareholders and their ability to issue accounting statements, and allow for exchanges between NIFs. If a mismatch between current capabilities and future expected volume of business appears, corrective action will be proposed to the intermediaries and the Ministry of Privatization and/or Finance.

The project will also examine the requirements for telecommunications and computer technology. It is necessary to establish which portions of the existing technological and organizational infrastructure can be adapted for use by the NIFs, at what cost, and over what period of time, and which elements would have to be created or imported, again at what cost and over what period of time.

Description of necessary communication capabilities between marketing institutions and back office systems will be provided. Also, capacities of hardware, software, facilities and personnel to support services will be analyzed.

Necessary institutional, as well as distribution and technology support facilities for NIFs will largely depend on the future development of capital markets in Poland. Additional studies of the future evolution of capital markets in Poland will be carried out as needed. Outstanding issues include the relationship between the institutional and retail markets in Poland. Institutions buy T-Bills, while retail investors buy T-Bonds, foreign currency and stocks. One goal of this part of the study will be to propose an advisable structure to link

these markets.

It is crucial that laws and rules governing the establishment and operation of NIFs be fully consistent with other statutes, either existing or proposed. Consultations will be organized with the Polish SEC and legal advisers to the Ministry of Privatization and Finance, in particular White & Case, in order to make sure that the necessary legal basis for establishing and operating NIFs exists. Important factors for the development of NIFs are appropriate legal, tax, and regulatory frameworks which were addressed in the Phase I activity and will continue in Phase II.

#### Article IV: Reports

Deliverables shall include:

1. Short Weekly Progress Reports to the Ministry of Privatization.
2. The KPMG project manager will provide bi-weekly reports to the A.I.D. project manager, Ms. Mary Beth Allen (fax 202-647-5560) on all activities financed by this work order. The bi-weekly report should not exceed ten (10) pages in length and should treat the following:
  1. Summary of work attempted/completed during the prior period.
  2. Key GOP and private sector officials met.
  3. Issues which require action.
  4. Scope of work modifications to be suggested.
  5. Estimate of work days performed and accrued expenses for the prior period.
  6. Other information as needed.
3. Technical Notes on all elements mentioned in Article II which will discuss relevant options, with their associated costs and time dimensions. Those notes will be delivered during the course of the project, and will help to prepare the implementation plan. They will be discussed with the Ministry of Privatization.
3. Detailed implementation plan (see article II).
4. Final Report (see Article II) to the Ministry of Privatization and USAID.

#### Article V: Relationships and Responsibilities

The project team will report the Dr. Jerzy Thieme, Minister's Plenipotentiary in the Ministry of Privatization in Poland. The team will work with relevant staff and collaborate with external advisors at the Ministry of Privatization and elsewhere when relevant.



# Peat Marwick

Policy Economics Group

KPMG Peat Marwick  
2001 M Street N.W.  
Washington, D.C. 20036

Telephone 202 467-3800

Telecopier 202 728-0548

T.I.N. 13-5565207

May 26, 1993

PFM/FM/CMPD/DCB

Agency for International Development  
Washington, D.C. 20523-1421

BPC: QAIX-93-32180-KG12

Contract No.: EUR-0014-I-00-1057-00

Delivery Order No. 10

Professional Services and expenses in performance of the Eastern Europe Indefinite Quantity Contract, progress billing for the period April 10, 1993 - April 30, 1993.

\$12,807.43

The undersigned hereby certifies that (i) this voucher and any attachments have been prepared from the books and records of the Contractor in accordance with the terms of this contract and delivery order, and to the best of my knowledge and belief, the sum claimed is proper and due; that all fixed daily rates claimed are for actual days (or fractions thereof) which have been satisfactorily provided/performed; that other direct costs claimed are allowable, are the actual other direct costs incurred in performance of this delivery order, and have been paid by the Contractor; that the quantities and amounts involved are consistent with the requirements of the contract and this delivery order, that all required Contracting Officer and/or cognizant A.I.D. Project Officer approvals have been obtained; and (ii) that appropriate refund shall be made to A.I.D. promptly upon request if the Contracting Officer determines that any amount previously paid was not properly payable.

  
Lior Samuelson, Principal

5/26/93  
Date

KPMG Engagement Number: 205-02146-48

Invoice Number: 51227

Please make remittance payable to KPMG Peat Marwick for the Policy Economics Group referencing number 205-02146-48.



Member Firm of  
Klynock Peat Marwick & Co.

**PUBLIC VOUCHER FOR PURCHASES AND SERVICES OTHER THAN PERSONAL**

VOUCHER NO.

61

U.S. DEPARTMENT, BUREAU, OR ESTABLISHMENT AND LOCATION

DATE VOUCHER PREPARED

SCHEDULE NO.

RFM/FM/CMPD/DCB  
Agency for International Development  
Washington, D.C. 20523-1421

May 26, 1993  
CONTRACT NUMBER AND DATE  
EUR-0014-1-00-1057  
REQUISITION NUMBER AND DATE

PAID BY

PAYEE'S NAME AND ADDRESS

KPMG Peat Marwick  
2001 M Street, NW  
Washington, D.C. 20036

Riggs National Bank  
Transit #054000030  
Account# 17-090-663

DATE INVOICE RECEIVED

DISCOUNT TERMS

PAYEE'S ACCOUNT NUMBER

SHIPPED FROM

TO

WEIGHT

GOVERNMENT B/L NUMBER

NUMBER AND DATE OF ORDER	DATE OF DELIVERY OR SERVICE	ARTICLES OR SERVICES <i>(Enter description, item number of contract or Federal supply schedule, and other information deemed necessary)</i>	QUANTITY	UNIT PRICE		AMOUNT ( <sup>1</sup> )
				COST	PER	
4/10/93 thru 4/30/93		Delivery Order No. 10 see attached certification		-		\$12,807.43

(Use continuation sheet(s) if necessary)

(Payee must NOT use the space below)

TOTAL \$12,807.43

PAYMENT: <input type="checkbox"/> PROVISIONAL <input type="checkbox"/> COMPLETE <input type="checkbox"/> PARTIAL <input type="checkbox"/> FINAL <input type="checkbox"/> PROGRESS <input type="checkbox"/> ADVANCE	APPROVED FOR	EXCHANGE RATE	DIFFERENCES
	= \$	= \$1.00	
	BY :		Amount verified correct for
	TITLE	(Signature or initials)	

Pursuant to authority vested in me, I certify that this voucher is correct and proper for payment.

(Date)

(Authorized Certifying Officer) \*

(Title)

ACCOUNTING CLASSIFICATION

PAID BY	CHECK NUMBER	ON ACCOUNT OF U.S. TREASURY	CHECK NUMBER	ON (Name of bank)
	CASH	DATE	PAYEE *	

<sup>1</sup>When stated in foreign currency, insert name of currency.  
<sup>2</sup>If the entity to certify and authority to approve are combined in one person, one signature only is necessary; otherwise the approving officer will sign in the space provided, over his official title.  
<sup>3</sup>When a voucher is received in the name of a company or corporation, the name of the person writing the company or corporate name, as well as the capacity in which he signs, must appear. For example: "John Doe Company, per John Smith, Secretary", or "Treasurer", as the case may be.

PER

TITLE

23

TD: Agency for Int Development  
 PFM/FM/CMFD/DCB  
 Room 70D, SA-2  
 Washington, DC 20523-1426

Date 05/25/93  
 Invoice# 51227  
 Con# EUR-0014-1-00-1057-00  
 Delivery order# 10  
 BPC#QAIX-93-32180-KG12  
 Period 04/10/93 thru 04/30/93

Bill to: KPMG Peat Marwick(Peg)  
 Riggs Natl Bank  
 1717 R Street NW  
 Washington, DC 207890  
 Transit Routing # 054000030  
 Account# 17-090-663

EE Economic Restructuring & Privatization  
 Project NO 180-0014/Tech Asst to the Mass  
 Privatization Program in Poland

Professional Services	Quantity	Daily Rate	Current Days	Current Amount	YTD Days	YTD Amount
<b>Economist</b>						
Berg, Alex	1	975.00	4.63	4,509.38	30.13	29,371.88
Bulkley, J	1	975.00	5.00	4,875.00	68.00	66,300.00
Froot, K	1	975.00	0.00	0.00	49.00	47,775.00
Dreyer, J	1	975.00	0.00	0.00	24.00	23,400.00
<b>Capital Mkt Spec</b>						
Malala, J	1	975.00	0.00	0.00	48.00	44,850.00
<b>Financial Manager</b>						
Messina, P	1	800	0.00	0.00	3.00	2,400.00
<b>TOTAL</b>	<b>6</b>		<b>9.63</b>	<b>9,384.38</b>	<b>220.13</b>	<b>214,096.88</b>
Less 6% hold per Contract				469.22		10,704.84
<b>TOTAL PROFESSIONAL SERVICES DUE</b>				<b>8,915.16</b>		<b>203,392.03</b>
<b>Travel, Transportation, &amp; Allowances</b>						
Int Airfare				0.00		12,758.92
Local Airfare				0.00		670.23
Car Rental				0.00		324.37
Car Trans				0.00		1,401.83
Subtotal				0.00		15,155.35
<b>Other Direct Costs</b>						
Translation				0.00		14,464.66
Soc/Insurance				0.00		0.00
Communication/Fax				3,892.27		10,302.48
Material/Xerox/Misc				0.00		303.00
Subtotal				3,892.27		25,070.14
<b>Total Expenses</b>				<b>3,892.27</b>		<b>40,225.49</b>
<b>Grand Total</b>				<b>12,807.43</b>		<b>254,322.37</b>