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**Privatization and Enterprise
Restructuring Project in
Central and Eastern Europe**

Final Report

Prepared for

United States Agency for International Development

**Project Number 180-0014
Contract No. EUR-0014-I-1057-00**

USAID ENI/EUR

JULY 1997

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1. EXECUTIVE SUMMARY

Introduction

This final report includes two sections: 1. EXECUTIVE SUMMARY; and 2. PROJECT SUMMARIES.

The EXECUTIVE SUMMARY includes brief descriptions of:

- ◆ the economic environmental at the time this project was launched;
- ◆ USAID's intentions when the project was defined;
- ◆ Barents' results over the period of the project;
- ◆ the lessons learned from the results attained;
- ◆ a financial summary; and finally,
- ◆ a summary of each of the projects.

First, a word about the structure of the Privatization and Enterprise Restructuring Project. The project vehicle was an agreement between USAID and KPMG Peat Marwick's Policy Economics Group¹, to provide technical assistance to the emerging economies of Central and Eastern Europe. Delivery Orders (DO) were used for requesting and agreeing on specific tasks, durations and budgets.

The economic description, which follows in the *Background* section, is straight-forward and requires no elaboration. USAID's intentions were well expressed in the Request for Proposal (RFP) and in the contract. Portions of the RFP are quoted in the section, *What USAID wanted to accomplish*.

The *What Barents accomplished* section provides an overview of the types of work executed, in which countries the work was executed, etc. This section includes an analysis of the number of enterprises that were assisted, the number of training sessions that were conducted, the number of advisors that participated, and the total number of person-days that were expended. The *Lessons Learned* section summarizes what was learned during the execution of these assignments from Barents' point of view.

The *Financial summary* section contains a one page summary of the actual results of the contract and each DO. Included are the categories: country where the assignment was completed, DO number, project title, DO ceiling price, the first billing date, the amount expended, the remaining balance of the ceiling price, the average monthly amount expended, the outstanding amounts unpaid, and the estimated and actual DO end dates.

¹ Later Barents Group LLC, the successor-in-interest to the Policy Economics Group

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The PROJECT SUMMARIES provide a brief description of the particulars of each Delivery Order: DO Number, Title, Period of Performance, Funded Amount, Funds Expended, DO Description, Individuals Involved (names and titles), Tasks Executed, Method of Work, and Unfinished Work.

Background

The decade of the 1980s witnessed a remarkable transformation in economic policy around the world. Everywhere market-oriented approaches were on the ascendancy and central planning was in retreat. Nowhere was this shift more obvious than in Central and Eastern Europe. The revolutionary events of 1989 reflected not only profound urges for political rights but also failures of centrally planned economies to deliver adequate standards of living.

With the changes in political leadership in 1990-1991, actions were taken to develop market-oriented economies including major shifts in macro-economic policies, trade liberalization, movements toward currency convertibility, deregulation of state owned enterprises and decentralization of decision-making. Despite this progress, the state remained in control of the vast majority of industrial production in all countries. Thus, privatization -- the transfer of resources and decision-making from the state to private agents -- was a critical remaining step in converting Central and Eastern European economies from centrally planned to market driven.

What USAID wanted to accomplish

On 23 October 1990, the United States Agency for International Development (USAID) issued a request for proposals (RFP) -- "Enterprise Restructuring and Privatization Project for Central and Eastern Europe" -- inviting proposers to describe the caliber and breadth of their capabilities to "...provide/perform an indefinite quantity of technical assistance services and submit/deliver an indefinite quantity of supplies (reports and other deliverables) necessary to assist newly-privatizing and privatized business enterprises in Central and Eastern Europe."²

The RFP further stated:

"The objective of the Enterprise Restructuring and Privatization Project for Central and Eastern Europe is to support privatization...by providing appropriate technical assistance:

² Request for Proposal No. SPO/EE-91-001; Indefinite Quantity Contracts for the Enterprise Restructuring and Privatization Project for Central and Eastern Europe, Section B Overview, page 2.

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- ◆ at the policy level, to government offices responsible for privatization and state-owned enterprises being privatized; and
- ◆ at the operational or firm management level, to privatizing, newly privatized, and privately-owned small and large business firms, including “new starts” and sole proprietorships and partnerships, in the industrial and services sector.

The goal is to create efficiently organized enterprises capable of prospering in competitive foreign and domestic markets. At the policy level, technical assistance will help establish an appropriate legal, fiscal, regulatory, and institutional framework to facilitate the privatization of formerly state-owned/controlled firms and state-undertaken functions. A major objective is to identify and implement policy changes necessary to stimulate private capital formation and new investment. At the privatized firm level, technical assistance will focus on restructuring assets and reorganizing productive operations. The latter may include technical support and promote export market development.”³

During this sensitive and crucial period of transition from centrally planned economics to a diverse set of independent nations with market-based economies, the winning contractors (Barents, Coopers & Lybrand and Deloitte-Touche) were expected to provide the following types of technical assistance:

- ◆ “Privatization...to government agencies responsible for formulation of policies having a direct impact on the privatization process, including the selection and timing of industries to be privatized, assets to be transferred and the regulatory and administrative mechanisms for the transfer of management and ownership;
- ◆ Enterprise Restructuring...and/or on-site management training to private firms, or state-owned firms being considered for privatization, in the areas of management, production, marketing, sales, financial and accounting systems, and operational aspects of firms’ asset restructuring and reorganization of operations;
- ◆ Joint Venture Development...to the management of interested Eastern and Central European firms in forming joint ventures with American counterparts, in order to stimulate greater technological transfer, foreign investment, and increased trade opportunities.”⁴

³ Request for Proposal No. SPO/EE-91-001; Indefinite Quantity Contracts for the Enterprise Restructuring and Privatization Project for Central and Eastern Europe, Section C.1 Objective, page 11.

⁴ Request for Proposal No. SPO/EE-91-001; Indefinite Quantity Contracts for the Enterprise Restructuring and Privatization Project for Central and Eastern Europe, Sections C.2.(a) Privatization, C.2.(b) Enterprise Restructuring, and C.2.(c) Joint Venture Development, pages 11 and 12.

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Two years into the contract, Barents began work in the banking sector. While these assignments followed the guidelines for Privatization and Enterprise Restructuring technical assistance categories, the work was sufficiently different to warrant the designation of a separate category, Bank Supervision, for the purpose of this report. Consequently, the analysis of the Contract's assignments which follow are separated into four categories:

- ◆ Privatization
- ◆ Enterprise Restructuring
- ◆ Joint Venture Development
- ◆ Bank Supervision

What Barents accomplished Under the Enterprise Restructuring and Privatization Project for Central and Eastern Europe contract, Barents was award 49 delivery orders executed over the period July 9, 1991 through January 31, 1996, with a total of \$50,988,325.84 funds expended. In summary⁵:

- ◆ **Privatization Projects:**
There were 23 projects in 7 countries, 295 advisors expended 16, 467 person-days, and \$16, 956,108.90.
- ◆ **Enterprise Restructuring Projects:**
There were 16 projects in 6 countries, 333 advisors expended 26,706 person-days, and \$25, 923,261.98.
- ◆ **Bank Supervision Projects:**
There were 10 projects in 9 countries, 124 staff expended 8,248 person-days and \$8,108, 954.96.
- ◆ **Joint Venture Development Project:**
While there were no Joint Venture Development Programs, a number of opportunities for joint venture development were realized as a result of enterprise restructuring programs.
- ◆ 200+ enterprises were at least taken into the privatization preparation process;
- ◆ 29 projects included work on legal/regulatory infrastructure or privatization frameworks;
- ◆ 6 banks had restructuring work achieved -- Czech Savings Bank, General Credit Bank of Slovakia, Rumanian Bank of Foreign Trade, Bank Prsemyslowo Handlowy of

⁵ Specific accomplishments are found in each of the Project Summaries.

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Poland, Banca Romana de Comert Exterior of Romania, and the Hungarian National Savings and Commercial Bank;

- ◆ more than 50 formal training sessions were prepared and conducted, and
- ◆ 752 staff expended 51,421 person-days.

Three DO's (26, 41 and 46) delivered their results throughout the region; three DO's (28, 48, and 52) were withdrawn by USAID prior to initialization; and the remaining 46 DO's were executed in 14 countries. See the detailed description in Table 1: Distribution of Funds Expended by Country on page 12.

The charts on the following three pages depict pictorially:

- ◆ the distribution, in both U.S. Dollars and percentage, of the funds by project type, see Chart 1;
- ◆ the distribution in percentage of the funds by country, see Chart 2; and
- ◆ the distribution in dollars of the funds by country by project type, see Chart 3.

Chart 1: Distribution of Technical Assistance by Project Type

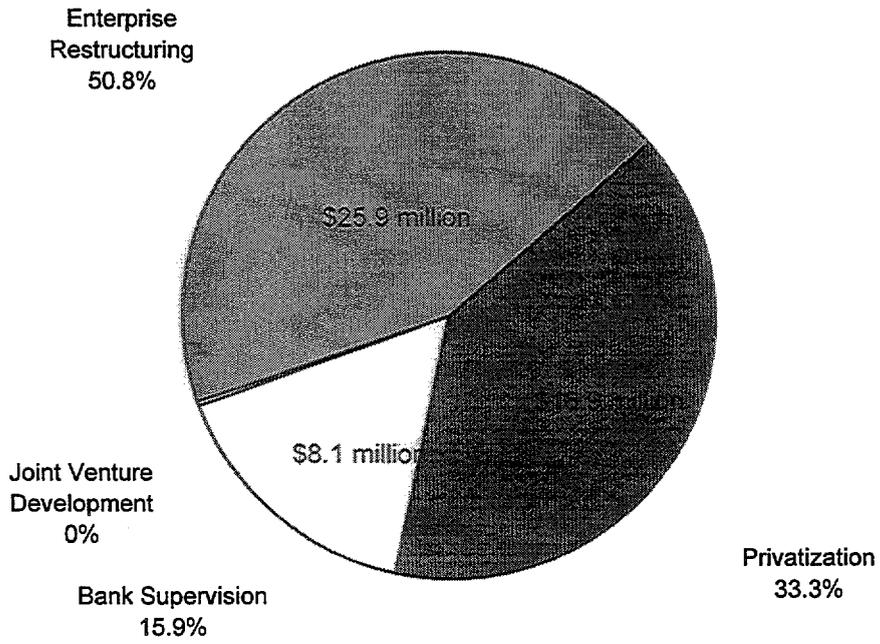
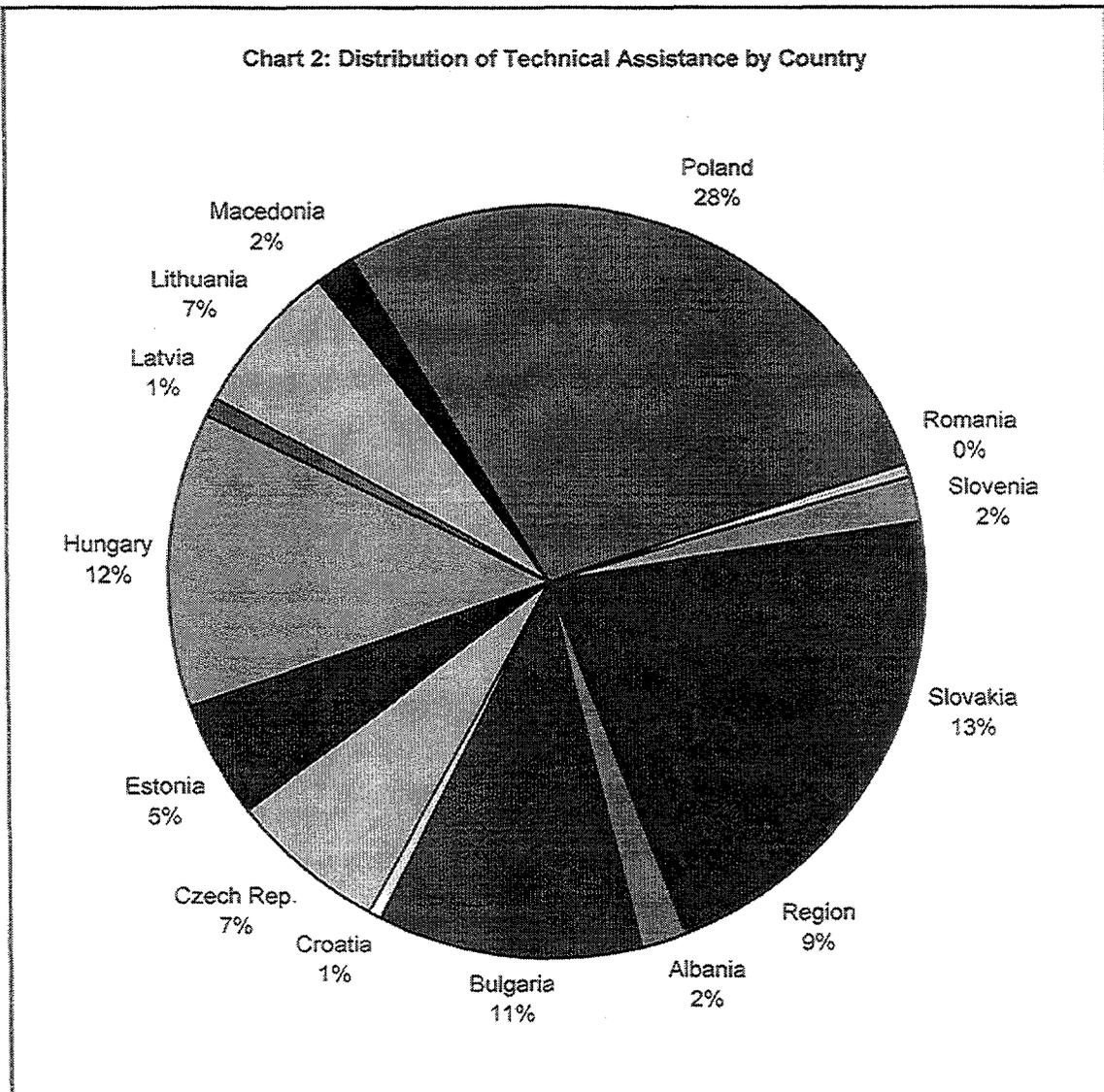
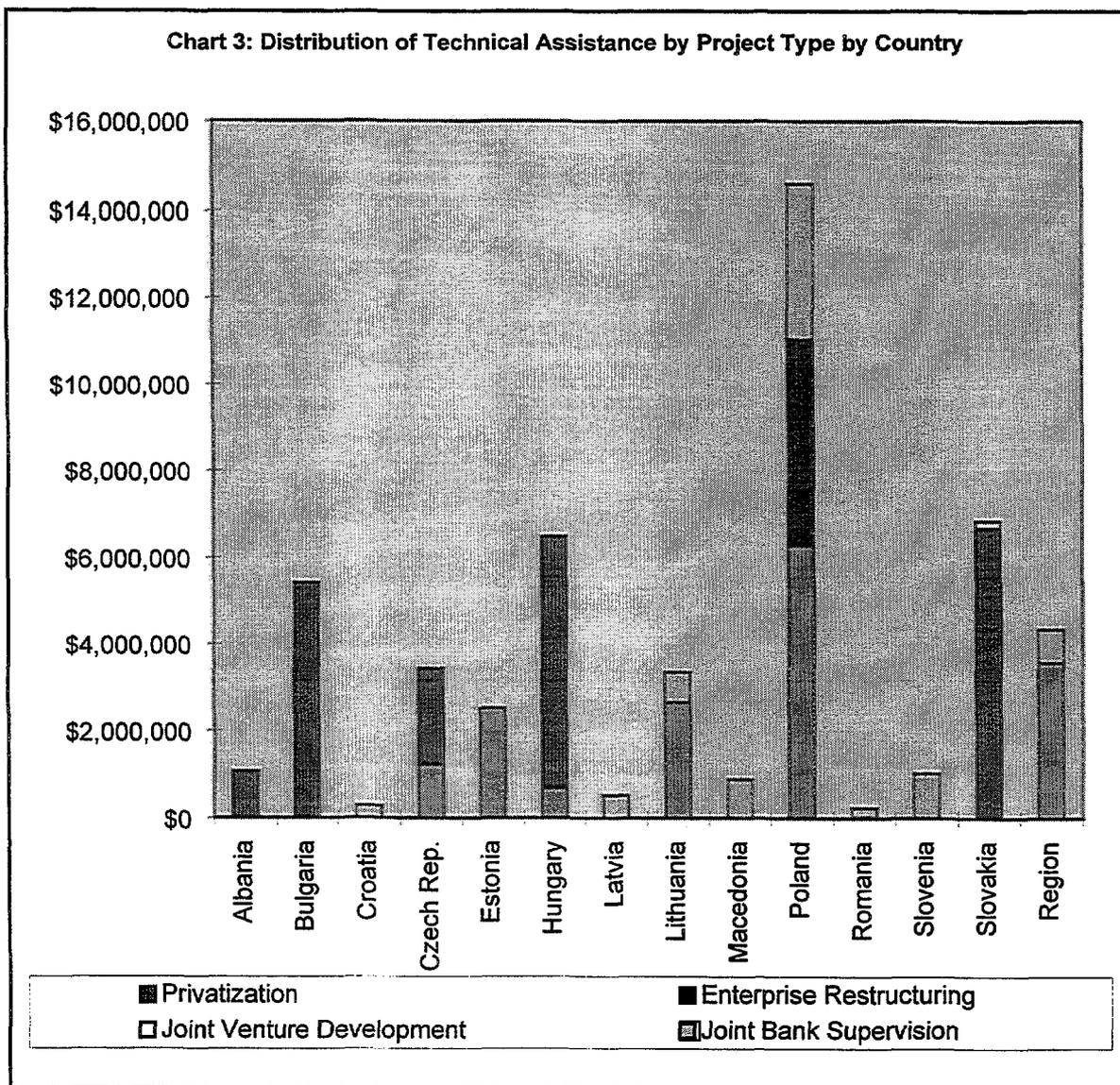


Chart 2: Distribution of Technical Assistance by Country





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Table 1: Distribution of Funds Expended by Country:

Country	DO #	Staff	Person Days	Share	Expended	Share	Project Type
Albania	17	13	903		\$1,061,133.79	2.13%	Enterprise Restructuring
Totals:	1	13	903	2.04%	\$1,061,133.79	2.13%	
Bulgaria	12	14	504		\$509,563.02	1.02%	Enterprise Restructuring
	20	36	2,696		\$2,009,676.99	3.92%	Enterprise Restructuring
	21	27	2,057		\$1,430,701.26	2.87%	Enterprise Restructuring
	47	21	1,934		\$1,470,251.91	2.95%	Enterprise Restructuring
Totals:	4	98	7,190	8.16%	\$5,420,193.18	10.75%	
Croatia	51	6	251		\$285,048.75	0.57%	Bank Supervision
Totals:	1	6	251	2.04%	\$285,048.75	0.57%	
Czech Rep.	1	9	62		\$60,293.41	0.12%	Enterprise Restructuring
	2	2	69		\$66,546.70	0.13%	Privatization
	4	10	1,847		\$1,792,164.99	3.59%	Enterprise Restructuring
	6	12	629		\$610,624.16	1.22%	Privatization
	9	10	200		\$214,838.20	0.43%	Privatization
	24	9	258		\$327,527.26	0.66%	Privatization
	27	6	473		\$356,979.87	0.72%	Enterprise Restructuring
Totals:	7	58	3,538	14.29%	\$3,428,974.59	6.87%	
Estonia	19	19	2,347		\$2,522,539.89	5.05%	Privatization
Totals:	1	19	2,347	2.04%	\$2,522,539.89	5.05%	
Hungary	15	6	244		\$291,503.00	0.58%	Privatization
	25	6	178		\$183,920.38	0.37%	Privatization
	35	76	5,175		\$5,157,682.87	10.23%	Enterprise Restructuring
	40	4	610		\$638,110.17	1.28%	Enterprise Restructuring
	43	9	231		\$211,526.12	0.42%	Privatization
Totals:	5	101	6,437	10.20%	\$6,482,742.54	12.88%	
Latvia	44	7	506		\$512,971.91	1.03%	Bank Supervision
Totals:	1	7	506	2.04%	\$512,971.91	1.03%	
Lithuania	3	9	446		\$432,298.25	0.84%	Privatization
	8	22	704		\$682,629.52	1.37%	Privatization
	13	8	474		\$460,235.00	0.92%	Privatization
	18	13	461		\$459,270.00	0.92%	Privatization
	30	17	608		\$579,479.90	1.16%	Privatization
	36	9	684		\$692,262.70	1.39%	Bank Supervision
	49	3	36		\$40,819.54	0.08%	Privatization
Totals:	7	81	3,412	14.29%	\$3,346,994.91	6.68%	
Macedonia	37	16	888		\$885,357.29	1.77%	Bank Supervision
Totals:	1	16	888	2.04%	\$885,357.29	1.77%	
Poland	5	7	442		\$428,614.56	0.86%	Bank Supervision
	7	7	429		\$416,299.66	0.83%	Privatization
	10	4	228		\$249,698.00	0.50%	Privatization
	11	17	1,275		\$1,289,656.61	2.58%	Privatization
	16	15	1,001		\$1,046,010.63	0.21%	Enterprise Restructuring
	22	27	3,375		\$3,118,050.13	6.23%	Bank Supervision
	29	24	3,669		\$3,720,051.61	7.45%	Enterprise Restructuring
	31	26	2,716		\$2,682,152.19	5.37%	Privatization
	34	9	117		\$102,436.56	0.21%	Privatization
	42	18	1,020		\$1,538,196.49	3.08%	Privatization
Totals:	10	154	14,272	20.41%	\$14,591,166.44	27.33%	
Region	26	36	725		\$777,586.77	1.56%	Bank Supervision
	41	52	3,148		\$2,694,001.77	5.40%	Privatization
	46	17	631		\$882,556.73	1.77%	Privatization
Totals:	3	105	4,505	6.12%	\$4,354,145.27	8.72%	
Romania	14	0	18		\$17,352.97	0.03%	Privatization
	50	4	227		\$217,075.17	0.43%	Bank Supervision
Totals:	2	4	245	4.08%	\$234,428.14	0.47%	
Slovenia	33	6	995		\$1,023,690.19	2.05%	Bank Supervision
Totals:	1	6	995	2.04%	\$1,023,690.19	2.05%	
Slovakia	23	27	2,733		\$2,860,859.90	5.73%	Enterprise Restructuring
	32	15	909		\$1,043,882.75	2.09%	Enterprise Restructuring
	38	6	156		\$168,297.49	0.34%	Bank Supervision
	39	20	1,003		\$1,296,457.81	2.60%	Enterprise Restructuring
	45	16	1,131		\$1,469,441.00	2.94%	Enterprise Restructuring
Totals:	5	84	5,932	10.20%	\$6,838,938.95	13.70%	
Totals:	49	752	51,421	100.00%	\$50,988,325.84	100.00%	

Lessons Learned

◆ **Government/Counterpart buy-in at project design stage.**

While neither USAID nor any contractor is able to predict or control the political environment in which projects are carried out, it is critical that AID gain concurrence of the project scope, objectives, deliverables, duration and tasks from hosts and counterparts before projects are initiated. Numerous instances occurred where once the project team was in place, the counterpart refused to participate or provide needed information or access to other resources. More often than not, the reason was that they did not feel the technical assistance being offered was needed.

◆ **Local counterpart buy-in during implementation.**

In developing supervisory processes for regulatory agencies, it is necessary to get "buy-in" of new concepts and approaches at all levels of the organizations, particularly senior management. Without such "buy-in", bottlenecks occur in the ability to implement new concepts and approaches at those levels of the organization where sufficient understanding and "buy-in" has not occurred.

◆ **Understanding the legal environment.**

There must be a sufficient understanding of legal codes and judicial processes within a country in developing and implementing a legal framework for regulation for advisors to be effective.

◆ **Use of local professionals.**

Experience in Central and Eastern Europe has taught us that engaging high-caliber local professionals at the maximum possible level of effort is often the cornerstone of successful project implementation. In projects with a high degree of participation by respected local professionals, the programs enjoyed a higher degree of acceptance by the authorities, turned into success stories, and resulted in sustainable development and stable institution building.

◆ **Across-project coordination.**

It cannot be emphasized enough how important as well as difficult coordination may be in managing complex projects that involve numerous recipient country institutions. In many cases formal coordination of efforts between institutions is non-existent. Hence, obtaining the support from such institutions through the formation of advisory panels or steering committees has been an effective way of ensuring coordinated action and of promoting quick and efficient project communication. Such a "joint venture" approach to project management has proven to be both efficient and effective. Projects which try to utilize systems which were developed by the expatriate consulting team without regard to the local environment or input from either local professionals or the representatives of the local institutions involved generally fail.

CONTRACT NO. EUR-0014-00-1057-00

Barents Group LLC

Actual

For the Period Ending 6/12/97

COUNTRY	D.O. NO.	TITLE	CEILING PRICE	FIRST BILL DATE	EXPEND.	BALANCE +/-	AVG. MO. EXPEND.	OUTSTAND. BILLING	WORK PERFORM. NOT BILLED + LABOR WITHHOLDING	ESTD. END DATE	ACTUAL END DATE	
CSFR	1	Petrof Instruments	\$79,261.00	09/22/91	\$60,293.41	\$18,967.59	N/A	\$0.00	NONE	31-Oct-91	31-Oct-91	
CSFR	2	Ministry of Economic Policy and Development	\$72,530.00	09/30/91	\$66,546.70	\$5,983.30	N/A	\$0.00	NONE	15-Nov-92	15-Nov-92	
LITHUANIA	3	Lithuania Privatization	\$441,145.00	09/22/91	\$432,298.25	\$8,846.75	N/A	\$0.00	NONE	31-May-92	31-May-92	
CZECH REPUB.	4	Czech State Savings Bank	\$1,815,880.00	01/01/92	\$1,792,164.99	\$23,715.01	N/A	\$0.00	NONE	15-Jun-93	15-Jun-93	
POLAND	5	Banking Supervision	\$446,030.00	02/01/92	\$428,614.56	\$17,415.44	N/A	\$0.00	NONE	30-May-93	30-May-93	
CZECH REPUB.	6	Metallurgy Industry Privatization	\$710,350.00	09/22/91	\$610,624.16	\$99,725.84	N/A	\$0.00	NONE	31-Dec-92	31-Dec-92	
POLAND	7	Regulated Investment Companies	\$420,920.00	01/01/92	\$416,299.66	\$4,620.34	N/A	\$0.00	NONE	14-Oct-92	14-Oct-92	
LITHUANIA	8	Textile Industry Privatization	\$689,500.00	05/10/92	\$682,629.52	\$6,870.48	N/A	\$0.00	NONE	14-Dec-92	14-Dec-92	
CZECH REPUB.	9	Ministry of Economic Policy and Development	\$233,220.00	05/22/92	\$214,838.20	\$18,381.80	N/A	\$0.00	NONE	31-Dec-92	31-Dec-92	
POLAND	10	Mass Privatization Program (Phase 2)	\$495,000.00	09/15/92	\$248,698.00	\$246,302.00	N/A	\$0.00	NONE	30-Apr-93	30-Apr-93	
POLAND	11	Furniture Sector Privatization	\$1,300,035.00	05/01/92	\$1,289,656.61	\$10,378.39	N/A	\$0.00	NONE	28-Mar-93	28-Mar-93	
BULGARIA	12	Pilot Privatization	\$600,000.00	10/01/92	\$509,563.02	\$90,436.98	N/A	\$0.00	NONE	15-Mar-93	15-Mar-93	
LITHUANIA	13	Development of Foreign Investment Promotion	\$482,600.00	10/01/92	\$460,235.00	\$22,365.00	N/A	\$0.00	NONE	30-Jun-93	30-Jun-93	
ROMANIA	14	Establish a Private Investment Bank	\$17,352.97	09/28/92	\$17,352.97	\$0.00	N/A	\$0.00	NONE	30-Jun-94	30-Jun-94	
HUNGARY	15	Redeployment of Financial Assets	\$327,790.00	10/28/92	\$291,503.00	\$36,287.00	N/A	\$0.00	NONE	31-May-94	31-May-94	
POLAND	16	Privatization of Furniture and Panel Board Sector	\$1,263,360.00	01/04/93	\$1,046,010.63	\$217,349.37	N/A	\$0.00	NONE	31-Dec-93	31-Dec-93	
ALBANIA	17	Privatization of State-Owned Chromium Industry	\$1,118,665.00	01/03/93	\$1,061,133.79	\$57,531.21	\$34,772.71	\$0.00	\$0.00	31-Jul-95	31-Jul-95	
LITHUANIA	18	Electronic and Machine Building Industry Privatization	\$479,835.00	03/01/93	\$459,270.00	\$20,565.00	\$42,322.43	\$0.00	NONE	31-Jan-94	31-Jan-94	
ESTONIA	19	Development of Foreign Investment	\$2,530,550.00	03/19/93	\$2,522,539.89	\$8,010.11	\$84,204.65	\$0.00	\$0.00	30-Sep-95	30-Sep-95	
BULGARIA	20	Privatization of Eight State-Owned Enterprises	\$2,009,715.00	03/15/93	\$2,009,676.99	\$38.01	\$55,761.20	(\$1,888.21)	\$0.00	\$0.00	30-Jun-96	30-Jun-96
BULGARIA	21	Privatization for Kurdzhali Region	\$1,464,018.00	05/22/93	\$1,430,701.26	\$33,316.74	\$40,852.23	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
POLAND	22	Banking Supervision	\$4,012,024.00	05/21/93	\$3,118,050.13	\$893,973.87	\$91,260.74	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
SLOVAKIA	23	Technical Assistance to General Credit Bank (VUB)	\$2,967,460.00	05/15/93	\$2,860,859.90	\$106,600.10	\$84,219.51	\$0.00	\$0.00	30-Apr-95	30-Apr-95	
CZECH REPUB.	24	Restructuring the Public Services and Health Care Sectors	\$599,488.00	05/20/93	\$327,527.26	\$271,960.74	N/A	\$0.00	\$0.00	31-Oct-94	31-Oct-94	
HUNGARY	25	Redeployment of Financial Assets (Phase 1B)	\$255,900.00	07/12/93	\$183,920.38	\$71,979.62	\$5,712.99	\$0.00	\$0.00	31-Dec-95	31-Dec-95	
REGION	26	Financial Sector Diagnostics	\$898,426.00	08/26/93	\$777,586.77	\$120,839.23	25,290.28	(\$40.52)	\$0.00	15-Mar-96	15-Mar-96	
CZECH REPUB.	27	Restructuring the Czech Savings Bank	\$369,192.00	09/30/93	\$356,979.87	\$12,212.13	12,061.95	\$0.00	\$0.00	30-Sep-94	30-Sep-94	
POLAND	29	Technical Assistance for the BPH (bank) of Krakow	\$4,352,670.00	09/29/93	\$3,720,051.61	\$632,618.39	125,417.70	\$0.00	\$0.00	31-Oct-95	31-Oct-95	
LITH	30	Preparing Agribusiness Enterprises for Privatization	\$1,177,317.00	09/27/93	\$579,479.90	\$597,837.10	25,991.13	\$0.00	\$0.00	26-Sep-94	26-Sep-94	
POLAND	31	Technical Assistance to the Ministry of Privatization	\$5,008,227.00	09/30/93	\$2,682,152.19	\$2,326,074.81	90,626.94	\$0.00	\$0.00	30-Sep-95	30-Sep-95	
SLOVAKIA	32	ZTS Hrinova Conversion (Phase I)	\$1,045,461.00	09/30/93	\$1,043,882.75	\$1,578.25	0.00	\$0.00	\$0.00	31-Jul-94	31-Jul-94	
SLOVENIA	33	Bank Supervision Development	\$1,266,090.00	11/30/93	\$1,023,690.19	\$242,399.81	37,060.02	\$0.00	\$0.00	31-Mar-95	31-Mar-95	
POLAND	34	Mass Privatization Program (Phase III)	\$202,163.00	06/01/93	\$102,436.56	\$99,726.44	3,054.02	\$0.00	\$0.00	31-May-94	31-May-94	
HUNGARY	35	Redeployment of Financial Assets (Phase 2)	\$5,467,195.00	02/09/94	\$5,157,682.87	\$309,512.13	220,288.11	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
LITH	36	Bank Restructuring and Privatization Program	\$758,221.00	10/06/94	\$692,262.70	\$65,958.30	29,525.54	\$0.00	\$0.00	31-Oct-95	31-Oct-95	
MACEDONIA	37	Financial Sector Assistance Program	\$1,384,053.00	09/28/94	\$885,357.29	\$498,695.71	44,575.69	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
SLOVAKIA	38	Bank Supervision Development Project	\$246,040.00	09/28/94	\$168,297.49	\$77,742.51	13,156.62	\$0.00	\$0.00	14-Jun-95	14-Jun-95	
SLOVAKIA	39	ZTS Hrinova Conversion (Phase II)	\$1,297,440.00	12/8/94	\$1,296,457.81	\$982.19	119,470.55	\$0.00	\$0.00	14-Jun-95	14-Jun-95	
HUNGARY	40	Technical Assistance to Hungarian National Savings Bank	\$689,458.00	4/25/95	\$638,110.17	\$51,345.83	34,043.74	\$50,233.04	\$0.00	26-Feb-96	26-Feb-96	
REGION	41	Bank Training Project	\$2,996,762.00	01/06/95	\$2,694,001.77	\$302,760.23	142,477.55	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
POLAND	42	Common Brokerage Operations	\$3,028,694.00	01/09/95	\$1,538,196.49	\$1,490,497.51	84,282.08	\$49,933.63	\$0.00	30-Jun-96	30-Jun-96	
HUNGARY	43	Technical Assistance to Ministry of Finance Secretariat	\$1,687,199.00	4/27/95	\$211,526.12	\$1,475,672.88	13,317.82	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
LATVIA	44	Strengthening Bank Supervision Project	\$724,420.00	01/11/95	\$512,971.91	\$211,448.09	36,178.57	\$0.00	\$0.00	31-Jan-96	31-Jan-96	
SLOVAKIA	45	PPS Detva Restructuring/Privatization (Phase II)	\$1,469,441.00	01/27/95	\$1,469,441.00	\$0.00	123,783.10	\$0.00	\$0.00	29-Sep-95	29-Sep-95	
REGION	46	Commercial Bank Training Development Project	\$1,515,260.00	1/27/95	\$882,556.73	\$632,703.27	49,517.62	\$0.00	\$0.00	30-Sep-95	30-Sep-95	
BULGARIA	47	Privatization for Kurdzhali Region (Phase II)	\$1,470,255.00	12/15/94	\$1,470,251.91	\$3.09	82,491.44	(\$21.85)	\$0.00	30-Jun-96	30-Jun-96	
LITHUANIA	49	Financial and Enterprise Diagnostics	\$54,810.00	08/07/95	\$40,819.54	\$13,990.46	2,290.26	\$0.00	\$0.00	28-Feb-95	28-Feb-95	
ROMANIA	50	Banca Romana Credit Process Improvement Project	\$619,185.00	3/22/95	\$217,075.17	\$402,109.83	13,695.55	\$0.00	\$0.00	30-Nov-95	30-Nov-95	
CROATIA	51	On-Site Bank Supervision Project	\$493,670.00	6/12/95	\$285,048.75	\$208,621.25	17,984.09	\$0.00	\$0.00	21-Jan-96	21-Jan-96	

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Executive Summary

2. PROJECT SUMMARIES

**IQC DELIVERY ORDER 01
Czech and Slovak Federal Republic--Petroff Instruments**

Period of Performance: September 20, 1991 to October 31, 1991

Funded Amount of Delivery Order: \$79,261.00

Total Funds Expended: \$60,293.41

Location of the Project: Work for this project was mainly done in the Czech and Slovak Federal Republic.

Delivery Order Description:

The objective of this activity was two-fold:

1. to assist the enterprise (Petroff Instruments) in developing a privatization plan acceptable to the management and the relevant agencies of the Czech and Slovak Republic (CSFR), arms-length investors; and,
2. to provide the Czech and Slovak American Enterprise Fund (CSAEF) sufficient information regarding the enterprise to enable CSAEF to make a determination of whether it should or should not participate in the privatization of the enterprise.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Batla, Raymond	Attorney
Cecil, Anthony	Accountant
Derringer, Glenn	Industry Specialist
Dolan, Patrick	Valuation Specialist
Distalek, Frank	Accountant
Ellis, Ronald	Industry Specialist
Farmer, Ran	Project Manager
Li, Martin	Accountant
Raedel, John	Tax Advisor

Significance of Activities under the Delivery Order:

Barents prepared a privatization plan for Petroff Instruments in accordance with the CSFR application procedures providing copies to management and CSAEF for it participation determination.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were

Privatization and Enterprise Restructuring Final Report

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reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

Program deliverables were achieved, however much more work can be done to assist the CSFR in its privatization scheme.

IQC DELIVERY ORDER 02
Czech and Slovak Federal Republic--Assistance to the
Ministry of Economic Policy and Development

Period of Performance: September 30, 1991 to November 15, 1991

Funded Amount of Delivery Order: \$72,530.00

Total Funds Expended: \$66,546.70

Location of the Project: Work for this project was mainly done in Czech and Slovak Federal Republic

Delivery Order Description:

With the exception of a few strategic enterprises which remain under the control of the Federal government, responsibility for the state owned enterprises (SOEs) was transferred to the republics in which they were located. Thus, the sectoral ministries in each republic (i.e., the Ministry of Industry, etc.) exercised control over a large number of enterprises until privatization is accomplished.

The Ministry of Economic Policy and Development was solely responsible for restructuring and privatizing SOEs in the energy, mining, telecommunication and transport sectors. The Ministry needed to improve the management structure and system of some SOEs during the interim period of SOE transfer.

Management contracts were regarded as the most effective method to accomplish the necessary improvements. The objective of the program was to assist the Ministry of Economic Policy and Development of the Czech and Slovak Federal Republic (CSFR) in structuring and formulating these management contracts in a five week period, working closely with the Ministry and the designated enterprises.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Bradac, A.	Financial Planner, Project Manager
Batla, Raymond	Attorney

Significance of Activities under the Delivery Order:

The activities accomplished include:

- ◆ assistance in formulating a methodological structure for the development of management contracts;
- ◆ assistance in preparing and writing specific management contracts;
- ◆ identification of potential foreign management experts for the SOEs; and,

- ◆ guidance and advice with regard to both training programs and courses which will enhance the capability of staff to draft management contracts.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

The deliverables were accomplished, however, significantly more assistance could be made available to the CSFR in the execution of their privatization scheme.

IQC DELIVERY ORDER 03 Lithuania-- Privatization

Period of Performance: September 30, 1991 to May 31, 1992

Funded Amount of Delivery Order: \$444,145.00

Total Funds Expended: \$432,298.25

Location of the Project: Work for this project was mainly done in Lithuania.

Delivery Order Description:

In early 1992, Barents completed an initial assessment of the status of the Lithuanian privatization program, which included an assessment of the legal framework, institutional infrastructure, and progress of the hard currency privatization program. Based on the findings of this initial assessment, Barents, the Lithuanian Ministry of Economics and the Privatization Office, and USAID set priorities for the delivery order funding, beginning with a focus on the actual preparation of enterprises for privatization.

After the assessment of the privatization list, Barents began the preparation of Klaipeda Tobacco and Audejas Upholstery by assessing what efforts were needed for privatization. It was decided with USAID to concentrate all privatization efforts on Audejas Upholstery. In addition, basic training was requested for Ministry officials and enterprise managers. Four additional textile and apparel enterprises were targeted for preparation and were to be included with finalization of work on Audejas on an agreed-to subsequent Delivery Order (Lithuanian Textile Privatization).

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Berg, Andrew	Capital Markets Specialist, Project Manager
Dalton, Robert	Industrial Engineer
Eickler, Paul	Financial Planner
Judy, Richard	Capital Markets Specialist
LeRoux, Philippe	Economist
Minnear, Mary	Financial Planner
Murphy, Brian	Financial Planner
Ward, Frank	Industrial Engineer
Wick, Gene	Financial Planner

Significance of Activities under the Delivery Order:

A firm foundation was established for the future of Lithuanian privatization. As a result of completing an assessment of the country's privatization program, the 113 enterprises on the hard currency list, conducting the first ever privatization preparation of an

enterprise, etc., the first investor documents were created and for the first time the practical business of privatization began.

Methods of Work Used:

In depth analyses, assessment and development of recommendations for improvement of the privatization process and regulatory environment.

Unfinished Work and Possible Project Continuation:

This project set a firm foundation for the future of Lithuanian privatization. The first investor documents were created and for the first time the practical business of privatization begun. This has allowed a common language to be developed between Barents and the Ministry of Economics and key privatization Government personnel.

Four other textile and apparel enterprises were targeted for privatization preparation and will be included in an agreed-to subsequent delivery order.

IQC DELIVERY ORDER 04 Technical Assistance on Privatization and Restructuring for the Czech Savings Bank

Period of Performance: January 13, 1992 to June 15, 1993

Funded Amount of Delivery Order: \$1,815,880.00

Total Funds Expended: \$1,792,164.99

Location of the Project: Work for this project was performed in Prague, Czech Republic. The project team also arranged a visit to the United States for a member of the Board of Directors of the Czech Savings Bank (CSB).

Delivery Order Description:

In 1992 and for the first six months of 1993 the Czech Republic underwent major change. Fundamental issues included a rapid pace of privatization, difficulty in analyzing the financial status of newly privatized firms, legal and political change and the slow development of an active stock market.

The Czech Savings Bank was targeted for technical assistance because of its key role in the country's privatization program and the banking sector of the Czech Republic. The objectives of the technical assistance project performed by Barents were:

1. To provide technical assistance to the CSB in the establishment and management of one or more investment funds that will be used as the mechanism for privatizing state-owned enterprises;
2. To assist in the design and implementation of appropriate credit risk management procedures that will be central to the financing of privatization proposals, and training Bank staff in the application of these procedures;
3. To assist in the development and implementation of procedures for processing foreign payments and other trade financing capabilities; and
4. To review and restructure the financial management and accounting procedures of the Bank to strengthen its ability to support the privatization process.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Haswell, Carlton	Project Oversight, Senior Bank Advisor
Drake, Joseph	Senior Bank Operations advisor
Zamon, Fred	Senior international payments advisor
Harlan, Michael	Senior treasury advisor
Graybill, Steven	Senior credit advisor
Felix, Michael	Financial Analyst
Krupa, Suzanne	Financial Analyst
Ligier, Slawomir	Financial Analyst
Nickerson, Sandra	Financial Analyst
Farmer, Ran	Project management

Significance of Activities under the Delivery Order:

This technical assistance project contributed significantly to the success of the Czech Savings Bank in making the many complex adjustments required to cope with the dramatic changes occurring in the economic, political and business environment of the Czech Republic during 1992. The project helped to begin laying the groundwork for the Bank to continue along the path of an effective transition to operating as a universal bank within a market economy. Some of the major areas in which Barents assisted the Bank under this technical assistance program included:

1. Formation and structuring of two investment companies with focus on organizational planning, staffing and training;
2. Development of systems and operational control requirements for all aspects of securities trading plus assistance in the actual review of specific vendor capabilities;
3. Structuring of a computer based model to aid CSB in its management of its liquidity;
4. Recommendations for, and implementation of, the organization of personnel and physical control of negotiable instruments and customer files in the Documentary Credit Department of CSB. Training of all personnel of the Documentary Credit Department in and implementation of the issuance and negotiation of letter of credit;
5. Creation of liquidity management department, interdepartmental credit and asset/liability management committee, and development of the billing procedures between CSB and its investments subsidiaries.

In addition to the above items, Barents offered assistance in areas beyond the Initial Project Plan such as the development of a brokerage and underwriting capability,

providing initial plans for loan repackaging for aiding profitability and liquidity of CSB's portfolio and providing education regarding Western style audits.

Methods of Work Used:

Barents' methods of work on this delivery order included:

- ◆ Introductory fact finding period which included numerous interviews with all levels of management and staff of CSB, gathering of information relating to procedural details of loans and investments, calling in government officials in all of the Ministries affecting banking and privatization, and translating and studying major documents such as the proposals of the Investment Company Act, Stock Exchange Regulations, Banking Act Regulations and Investment Fund Prospectuses.
- ◆ Daily contact at all levels including bi-weekly progress reports with the senior management of the Bank and reassessment of the project plan with the CSB to ensure that both parties understood the work assignment and the priority of each project.
- ◆ Accompanying CSB Management to meet Government or Central Bank officials to jointly give opinions on proposed regulations.
- ◆ General advice on daily operational and financial management issues.
- ◆ Conducting workshops throughout the project covering a very broad range of topics relating to banking and capital markets. Topics for the workshops were recommended wither by CSB or Barents.

Unfinished Work and Possible Project Continuation:

At the time the project ended there was much work to be done at the Bank in the future. Many work plans, procedures and ideas that were developed needed to be successfully implemented. New answers and solutions to earlier questions and problems created many new issues to be addressed.

The plans of CSB to increase its underwriting activities needs to be managed very closely. The need for credit from CSB will be extremely high from current clients and new companies. Many of these borrowers will be short of capital and will have high credit risk. Lending skills will have to be developed to prudently analyze and lend to these companies. Overall credit policies and procedures will require constant review and updating.

Overall a strong foundation was laid by Barents through the technical assistance. Ongoing support is needed to fully integrate these achievements into the culture and operations of the Bank. Continuing effort will be needed in all areas of financial management and securities activities not only to educate Bank management in what

systems are needed, but also how to use those systems, to endure the viability of the Bank.

Additional assistance was further provided under this contract under Delivery Order 27.

IQC Delivery Order 05 Poland--Bank Privatization and Supervision: Advisors, Training and Systems Development

Period of Performance: January 31, 1992 to May 30, 1993

Funded Amount of Delivery Order: \$446,030.00

Total Funds Expended: \$428,614.56

Location of the Project: Work for this project was mainly done in Poland.

Delivery Order Description:

Original Project

As originally defined, a team was to assist the National Bank of Poland (NBP) General Inspectorate of the Banking Supervision and the Ministry of Finance (MOF) Financial Institutions Department to effectively achieve the aims of:

1. arranging for the transformation of existing state-owned financial institutions into viable private enterprises;
2. prudent supervision of the banking sector including newly created private banks, subsidiaries of foreign banks and banks to be privatized; and
3. developing the expertise required for active bank participation in the process of financial restructuring and privatization of their borrowers.

At the time of project approval, the management of the banking supervision department (GINB) was in the process of turn-over. When new management was installed four months later, their interest was solely in the training component.

Revised Project

Program efforts concentrated on two conditions:

1. Development and implementation of an on-site inspection procedures manual; and
2. Advice and guidance on developing a strategic plan for supervision.

Training in the use of the procedures manual constituted a significant component of the work achieved.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Holtmeyer, Harold	Capital Market Specialist
Nolan, Edward	Capital Market Specialist
Sexton, James	Capital Market Specialist
Vest, Waverly	Capital Market Specialist
Weisz, Delmar	Capital Market Specialist
Clarke, Robert	Attorney
Rudnick, Amy	Attorney

Significance of Activities under the Delivery Order:

The On-Site Inspection Manual was drafted, reviewed with the GINB Committee, revised, translated, circulated to the examination staff for comment, revised again, delivered via formal classroom training¹, and then followed by an in-bank test of the procedures.

The strategic planning component was initiated with the identification of supervisory priorities. Advice was provided to the GINB regarding addressing the priorities. The GINB, to draft (for review by the advisors) the policies and regulations needed to implement their authority under law in the priority areas, was slow to complete their tasks. When regulations were issued, the advisors were not consulted beforehand. A lack of experience and technical expertise within the GINB hindered the effort.

The advisory team was strengthened in an attempt to provide guidance on a continual basis and to improve technical translations, by the addition of a resident advisor with experience in accounting and banking in Poland.

Methods of Work Used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

To compensate for a severe lack of experience and technical expertise, there is a need for far more basic supervisory training, e.g. formatted workpapers, guidelines, checklists, etc.

Similarly, due to the lack of experience in developing and implementing a strategic plan, calls for a more direct involvement in the planning and policy/regulation framework development.

¹ Thirty examiners who formed the nucleus of a cadre to train other examiners participated in the class room training and the in-bank procedures test conducted under the supervision of the advisors.

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In addition to the internal limitations within the GINB, the level and severity of problem banks and unsafe and unsound practices within the system indicates a need to review the issues and practices involved in problem bank resolution.

Finally, the anticipated automation of NBP has been delayed. The off-site system revamp is now in limbo. The need for a comprehensive reporting and analysis/surveillance system is urgent for NBP to have the appropriate information on which to base its supervisory strategies for individual institutions and the system.

IQC DELIVERY ORDER 06
Czech Republic--Technical Assistance for Privatization of
Non-Ferrous Metallurgy Companies for the
Ministry of Industry

Period of Performance: January 13, 1992 to December 31, 1992

Funded Amount of Delivery Order: \$710,350.00

Total Funds Expended: \$610,624.16

Location of the Project: Work for this project was mainly done in Czech Republic.

Delivery Order Description:

The objectives of this program were:

- ◆ On the basis of a review and analysis of the production, operations and facilities, and an analysis of markets for major product lines, to formulate a strategic plan for the future growth, competitiveness and profitability of selected enterprises in their first phase.
- ◆ To conduct a review and restatement of the financial accounts of each enterprise in accordance with western accounting practices in order to provide prospective foreign investors with the type of information necessary to evaluate the financial condition of the enterprises.
- ◆ To assist in identifying potential foreign investors or joint venture partners.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Samuelson, Lior	Economist, Partner In Charge
Farmer, Ran	Economist, Project Manager
Leeds, Roger	Capital Markets Specialist
Baker, C.	Industrial Engineer
Ford, James	Industrial Engineer
Haszeriga, Pablo	Industrial Engineer
Davis, R.	Financial Planner
Kennedy, D.	Financial Planner
Thompson, T.	Financial Planner
Potansinski, Andre	Economist
Dostalek, F.	Financial Manager
Shingler, M.	Financial Manager

Significance of Activities under the Delivery Order:

The work which was successfully performed at/for each of the designated enterprises included:

- ◆ an evaluation relative to international standards of the facilities, technology and processes employed;
- ◆ a market analysis was conducted,
- ◆ their existing business plans were reviewed;
- ◆ strategic plans were completed;
- ◆ financial accounts were restated in a fashion consistent with international practices; and
- ◆ assistance was provided in the identification and evaluation of potential strategic partners.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

**IQC DELIVERY ORDER 07
Poland--Technical Assistance to
Regulated Investment Companies**

Period of Performance: January 14, 1992 to October 14, 1992

Funded Amount of Delivery Order: \$420,920.00

Total Funds Expended: \$416,299.66

Location of the Project: Work for this project was mainly done in Warsaw, Poland

Delivery Order Description:

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.

Work under this delivery order was designed to fill a major hole that had been identified, the absence of a Regulated Investment Companies, or mutual funds. These investment vehicles have revolutionized the financial opportunities available to individuals in the West.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Berg, Alex	Economist, Project Manager
Bulkley, Jonathan	Capital markets specialist
Dreyer, Jacob	Economist
Maiale, John	Capital market specialist
Messina, Patricia	Financial manager
Drake, Joseph	Financial manager
Dick, Robert	Capital market specialist

Significance of Activities under the Delivery Order:

Upon implementation it became clear that one of the principal hindrances to an investment fund industry was the lack of a reasonably liquid, efficient, and large capital market in which funds could be invested. The principal focus of the project became the development of overall capital markets and the development of a long-term growth strategy for those markets. For this reason, the project concentrated on the nuts and bolts of the Mass Privatization Program, which will have a larger impact on Poland's capital markets than any other single program.

Methods of Work Used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

Continued assistance to achieve implementation of the RICs.

**IQC DELIVERY ORDER 08
Lithuania--Textile Privatization**

Period of Performance: April 23, 1992 to December 14, 1992

Funded Amount of Project: \$689,500.00

Total Funds Expended: \$682,629.52

Location of Project: Work for this project was mainly done in Lithuania.

Delivery Order Description:

After creating a list of 113 enterprises approved for sale to foreign investors, the Lithuanian Ministry of Economics targeted several enterprises as "high priority" candidates for privatization. Barents began working with the enterprises and completed the preparation work in November 1992. In each of the enterprises, Barents found solid enterprises with good management, adequate equipment, and products of fair to good quality. Each of the enterprises were making significant profits in the inflationary environment. At the beginning of the process, employees owned approximately 30% of the equity, the Government of Lithuania (the Government) owned the balance.

Significant investment and ownership diversification was needed to guarantee long term survival. The value of each of these enterprises was significantly increased when sold to a strategic buyer. It was agreed that Government shares would be tendered in the recently created legally mandated tender process designed to sell Government shares. Privatization plans were documented to pursue this objective. It was decided that the enterprises were to be tendered in two tiers.

Barents was also charged with:

- ◆ defining the appropriate and required preparation process to guarantee quality privatization, and conduct several training sessions to highlight this process;
- ◆ competing privatization preparation of "high-priority" enterprises; and
- ◆ defining an acceptable tender process for sale of Government shares;

Individuals Involved:

<u>Name</u>	<u>Responsibilities</u>
Leeds, Roger	Economist
Saldutti, Joe	Economist
Mathewson, David	Valuation Specialist
Thompson, Todd	Valuation Specialist, Project Manager

Davis, Robyn	Financial Planner
Elicker, Paul	Financial Planner
Feyns, Inna	Financial Planner
Keller, Linda	Financial Planner
LeRoux, Philippe	Financial Planner
Lukas, Kristina	Financial Planner
Murphy, Brian	Financial Planner
Minnear, Molly	Financial Planner
Barbee, Charles	Industrial Engineer
Dalton, Robert	Industrial Engineer
McGregor, Samuel	Industrial Engineer
Shannon, Kimberly	Industrial Engineer
Stringer, Randy	Industrial Engineer
Ward, Frank	Industrial Engineer
Judge, Daniel	Accountant
Neilson, David	Accountant
Reddrop, Michael	Accountant
Strassberg, Ira	Accountant

Significance of Activities Under Delivery Order:

Barents completed the preparation of five state-owned textile/apparel companies that were identified as “high-priority” candidates by the Lithuanian Government for foreign investment privatization. Two of the four companies were approved by the Central Privatization Commission (CPC) for tender of the Government shares, the other three companies were awaiting approval pending the outcome of employee share purchases. After a December 1992 employee share purchase, employees owned 50-70% of the various enterprise equity, creating joint-stock companies. Although the enterprises were somewhat privatized, the need for foreign investment still existed.

Barents delivered to the Government:

- ◆ a complete investment information memorandum,
- ◆ a presentation of strategic issues,
- ◆ a detailed valuation analysis,
- ◆ a list of potential foreign buyers, and
- ◆ a privatization plan to be used in the Government decision-making process for each of the enterprises.

Barents has also been approved by the Government to represent the Government on a contingency fee basis in the sale of Government shares.

Methods of Work Used:

The enterprises that were marked for privatization through the government share tender process were broken down into two tiers. The first two enterprises in the first tier were formally approved for tender by the CPC. A schedule for the next three enterprises in the second tier was informally approved by the CPC. USAID funding ended at this time, and Barents was retained by the Government to move the sales process forward, run the tender process, and to negotiate with potential buyers.

Challenges for Privatization

The major challenges for privatization of the Lithuanian enterprises targeted related to the nature of the textile industry and the recent Lithuanian Government and Legislative changes.

First, the textile and apparel industry is a fragmented, global business with many players. In general, large multi-national equity investments are driven only by real economic opportunity. Lithuania is in a good position in that its labor costs are low, its product quality generally good and it sits at the door to the former Soviet Union. However, investors are not overly enthusiastic. Barents is confident that a quality investment can be contracted for the enterprise, although it is likely that much of that investment will come in the form of technology and capital investment versus cash for the Lithuanian Government.

The second major issue relates to a recent law ratified by the new Lithuanian Government, also ratified by the old Lithuanian Government, that allows employees to use enterprise profits to purchase additional shares. This was a policy decision made by Government to increase employee ownership throughout the country. Although these purchases effectively privatize much of the enterprise capital, it is not clear that this form of privatization will provide the desired technology and investment required for the future of the enterprises. At the same time, these purchases in effect dilute the existing Government equity position and create some interesting questions for the sale of those shares. It is more difficult to sell a minority position, and a minority position gives the Government less control over the sales process.

Barents will continue to work with the Government and the Enterprises to develop a solution that creates the most effective sale of Government shares. It is likely that this process will involve tendering Government shares in conjunction with employee shares or involve creating a process that allows investors some ability to gain control while allowing employees to obtain liquidity for their shares.

IQC DELIVERY ORDER 09
Czech Republic--Technical Assistance to the
Ministry of Economic Policy and Development

Period of Performance: May 22, 1992 to December 31, 1992

Funded Amount of Delivery Order: \$233,220.00

Total Funds Expended: \$214,838.20

Location of the Project: Work for this project was mainly done in the Czech Republic.

Delivery Order Description:

The Czech Republic was denationalizing state-owned enterprises (SOE) in all sectors. The Ministry of Economic Policy and Development (the Ministry) was leading this effort, and was receiving various bi-lateral and multi-lateral donor assistance to develop strategies for industrial sectors, and to prepare privatization plans for SOEs.

Privatization plans for Wave Two were being prepared at the inception of this DO. Many privatization plans under Wave One by U.S. and other investors were still pending. The head of the Ministry requested an advisor to work with him directly during this critical period. The Minister was a key decision-maker and an important counterpart for the U.S. assistance program in the country. The advisor needed to address a number of the more complex public policy issues relating to the privatization of larger industry.

Four months into the program, the Minister requested a change of the advisor's focus. As part of the general restructuring of the Czech economy from a command to a market-oriented system and the transfer to private ownership of many government-owned enterprises, senior government officials were raising questions concerning the structure, function and resource needs of district and local governments under the new economic arrangements. These issues were of major importance for several reasons. At the broadest conceptual level, along with a decentralized economic system, a truly decentralized governmental system will need to be designed and institutionalized.

Second, and of particular importance in the context of creating a market-oriented economy, many of the traditional functions of sub-national government in other countries, such as the provision of social services to the local community (health, recreation, housing, even education) were undertaken not so much as by direct government entities as by the large enterprises that dominated local communities. As these enterprises shed their quasi-governmental roles in order to become free-standing, competitive business entities, their responsibilities in providing social services had to be assumed by a well-defined and locally organized system of sub-national governments.

The Ministry, which has taken the lead in planning this governmental structure, was starting to come to grips with these questions and requested assistance in the effort. The request of the Ministry has two components:

1. to examine systems of intergovernmental relations in the West, specifically systems in the United States and Canada, as possible models for the Czech Republic; and
2. to review legislation on the distribution of grant funds from the Federal to the sub-national governments to determine whether the general approach proposed and its specific application were reasonable.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Bird, R.	Economist
Carney, J.	Financial Planner
Dittrich, L. V.	Economist
Durstoff, C.	Economist
Farmer, Ran	Economist, Project Manager
Galper, Harvey	Economist, Partner In Charge
Hannam, M.	Economist
Leeds, Roger	Capital Markets Specialist
Penner, Rudy	Economist
Weist, Dana	Economist

Significance of Activities under the Delivery Order:

The activities completed included:

- ◆ A review of the current system and various proposed systems of sub-national finance in then Czech Republic;
- ◆ An overview of the tax, expenditure, and intergovernmental finance systems in the United States and Canada;
- ◆ A detailed analysis of the grants system in the United Stated and Canada;
- ◆ A review of alternative grant programs in the Czech Republic;
- ◆ Assistance to the Ministry in the development of a plan for the appropriate intergovernmental structure.
- ◆ A two day seminar to the Ministry staff presenting the findings.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

IQC DELIVERY ORDER 10 Poland--Technical Assistance to Mass Privatization

Period of Performance: June 5, 1992 to April 30, 1993

Funded Amount of Delivery Order: \$495,000.00

Total Funds Expended: \$249,698.00

Location of the Project: Work for this project was performed in Warsaw, Poland.

Delivery Order Description:

Delivery Order #10, *Technical Assistance to Mass Privatization*, was the second in a series of Delivery Orders to assist the development of the Mass Privatization Program (MPP) in Poland. The overall goal of the effort was to support the development of an adequate capital market 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 the Ministry of Privatization on different options for capital markets development or on supporting the general growth of the capital markets in Poland.

Barents' work under the Delivery Order focused on key deliverables that were high priorities for the Ministry of Privatization and included a work share implementation plan, distribution implementation plan review, fiscal agent implementation plan and terms of reference, bearer market trading, market volume study, support to MPP steering committee, and MPP and securities legal framework.

Mass privatization in Poland was to 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 receive shares as employees. To proceed with the distribution, numerous policy questions needed to be addressed and over the course of the project this effort became the top priority of the MPP advisory team.

The Barents 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 Barents, was tasked with the design of the detailed implementation plan.

Barents was requested by the Ministry to carry out a study of the market in bearer certificates. Additional related trading issues include the listing of the Share Certificates 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 the 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?

Barents also provided overall support to the guidance of the MPP program and made contributions as requested by the Ministry, primarily with respect to trading and capital market issues.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Berg, Alex	Project oversight, Economist
Bulkley, Jonathan	Resident advisor, Capital markets specialist
Dreyer, Jacob	Economist
Froot, Ken	Industrial Engineer

Significance of Activities under the Delivery Order:

The project team provided assistance to the Ministry of Privatization to begin the process of developing and implementing several “templates” for the MPP company share trading and distribution practices. In addition, the Barents designed Fiscal Agent was the intellectual platform for much of the later thinking about various options for share certificate control and fraud prevention. Due to changes in the government throughout the course of the project it was difficult for the Ministry of Privatization to make decisions and implement new courses of action.

Methods of Work Used:

- ◆ General consultations and advise to the Ministry of Privatization and detailed discussions with market participants.
- ◆ Study of the market in bearer certificates that would result after the share certificates were distributed.
- ◆ Continued review of the needs of the fiscal agent, by evaluating the strengths and weaknesses of various options.

Unfinished Work and Possible Project Continuation:

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

IQC DELIVERY ORDER 11 Poland--Furniture Sector Privatization

Period of Performance: June 3, 1992 to March 28, 1993

Funded Amount of Delivery Order: \$1,300,035.00

Total Funds Expended: \$1,289,656.61

Location of the Project: Work for this project was mainly done in Poland.

Delivery Order Description:

The Government of Poland embarked on a program to transform and modernize its economy. To this end, the Government intended to privatize most state-owned companies. The long-term objective was to create an ownership structure that resembles the pattern in Western Europe.

As a means of optimizing the selection of the most appropriate option for privatizing an enterprise (whether it be via public offering, trade sale, liquidation, mass privatization, etc.), the Ministry of Privatization embraced the concept of sectoral privatization. Sectoral privatization is a form of applied industrial policy that seeks to address the privatization needs of the whole sector, rather than the interests of one specific company. By analyzing the industry as a whole, the Ministry expected to enhance industry competitiveness and long term viability, and to speed the implementation of the privatization program.

As part of the sectoral privatization program, the Ministry of Privatization was considering the privatization of the Polish Furniture and Panel Board (FPB) sector. Poland has a long history in the production of wood and furniture products. It was one of the few areas that consistently provided foreign exchange during the communist years. Recognizing that furniture has been and can continue to be a source of strength for the Polish economy, the Ministry wishes to retain an advisor to develop and implement a privatization strategy for the FPB sector, using the sectoral approach.

The FPB sector was almost unique among the key sectors of the Polish economy because of its size and diversity. The state sector contained at least 69 furniture manufacturers and around 20 panel board manufacturers, for a total of at least 89 firms. However, little information was currently available regarding product mixes, management abilities, or trade flows within the sector. However, the state sector was in competition with an apparently vital private furniture sector. There were thousands of small private furniture enterprises in Poland, most very small.

In early 1991 one of the largest furniture companies in the country, SFM (Swarzedzkie Fabryki Mebli), was privatized through an initial public offering.

Privatization and Enterprise Restructuring Final Report

Project Summaries

The objective for the project was to accelerate the privatization of the furniture and paper board sector in Poland. To accomplish the objective, a thorough analysis of the sector was followed by company diagnoses and transaction implementation assistance.

The project assisted the Ministry of Privatization (MOP) to privatize the furniture and paper board sector in Poland. The project had three phases:

One. Sector Analysis

- ◆ **International and Domestic environment**
 - ◇ Competitive industry structure: participants, degree of consolidation, economies of scale, degree of vertical integration, input/cost analysis, distribution and marketing standards
 - ◇ Technology: status of existing processes and equipment relative to world competition
 - ◇ Regulatory Environment: analysis of trade protection, incentives in comparable economies

- ◆ **Market Analysis**
 - ◇ Current market size, segmentation, and expected growth by product and segment
 - ◇ Profiles of potential customers
 - ◇ Export opportunities and import threats

- ◆ **Sector Strategy and Policy**
 - ◇ Define sector, with strategic clusters or groupings within the industry
 - ◇ Develop a set of scenarios for the sector, and forecast the likely outcomes for Polish and foreign firms.

- ◆ **Sector Policy**
 - ◇ Consistent with the findings above and with the Ministry's objectives, formulate an industrial policy for the furniture and panel board sector. Issues addressed should include:
 - the long term viability of the sector
 - the number and scale of firms that will be viable
 - suitable ownership structures
 - foreign ownership and competition
 - regulatory and other macroeconomic policies

Two. Company Diagnoses

- ◆ **Company diagnoses**
 - ◇ product lines
 - ◇ manufacturing capabilities
 - ◇ cost structures

- ◇ distribution systems and dealer networks
 - ◇ sales and marketing
 - ◇ organization strengths and weaknesses
 - ◇ financial conditions
 - ◇ company valuations
- ◆ Company strategies--Using the sector policy and the company diagnosis, determine privatization and restructuring strategies for each company. Categorize companies into groups for:
- ◇ Accelerated privatization
 - ◇ Additional strategic and restructuring assistance
 - ◇ Immediate liquidation

Three. Privatization Implementation

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Corr, C.	Financial Planner
Davis, Robyn	Economist
Gazdag, Attila	Financial Planner
Juva, Arto	Industrial Engineer
Kester, Jim	Economist
Kurtz, Mariann	Financial Planner
Leeds, Roger	Economist
LeRoux, Philippe	Economist
Lonnquist, John	Financial Planner
Mathewson, David	Financial Planner
Murphy, Brian	Economist
Potasinski, Andrezej	Financial Planner
Raymond, Arthur	Industrial Engineer
Reddrop, M	Accountant/Auditor
Schloss, Debra	Financial Planner
Thompson, Todd	Economist
Weist, Dana	Financial Planner

Significance of Activities under the Delivery Order:

A summary of activities performed during this program include:

- ◆ Completion of all deliverable documents for Goscicinska Fabryka Mebli, Czarskie Fabryki Mebli and ZPW Wierusow. KPMG completed Polish- and English-language versions of Information Memoranda, Financial Statements (transformed to International Accounting Standards) and Notes, and Enterprises Valuations for each of these companies. The Information Memoranda and Financial Statements are

prepared by Barents and approved by the Ministry of Privatization and the respective Companies' management, for distribution to prospective investors.

- ◆ Barents conducted worldwide search for strategic investors, contacting over 150 furniture manufacturers and other industry participants.
- ◆ Barents has begun working closely with the Ministry and White & Case, the legal advisor to the wood products sector, to prepare for the upcoming tenders of Goscicinska FM, Czerskie FM and Goleniowskie FM.
- ◆ MOP was unable to get a Legal Advisor under contract (after 2 month selection process) An advisor was selected at the beginning of January with a signed contract at the end of March; Effect: Delayed start of Legal Audits

Methods of Work used:

- ◆ Barents' extensive investor identification process has yielded positive results: strong investor interest has been expressed for all the enterprises currently being prepared for privatization.
- ◆ Barents is seeking the resolve two key issues with the Ministry:
 1. extending the length of the tender period so that investors have more time to review the 'evaluative material;
 2. developing a clear policy and set of procedures to deal with the treatment of environmental liabilities during the sales process.
- ◆ Barents continues to work closely with the workers and management of ZPW Wieruszow to convince them of the benefits of a strategic partnership with western industry participants. Barents will develop an action plan.

Unfinished Work and Possible Project Continuation:

- ◆ Complete the tenders for Goscicinska FM and Czerskie FM. KPMG also expects to close on both transactions by the end of the second quarter, barring any unforeseen circumstances.
- ◆ Commence and close tender period for Goleniowskie FM during the second quarter.
- ◆ In conjunction with the Ministry, KPMG will select the next four privatization candidates and commence assessments on two enterprises.

IQC Delivery Order 12 Bulgaria--Pilot Privatization

Period of Performance: August 26, 1992 to March 15, 1993

Funded Amount of Delivery Order: \$600,000.00

Total Funds Expended: \$509,563.02

Location of the Project: Work for this project was mainly done in Bulgaria.

Delivery Order Description:

The Government of Bulgaria (GOB) embarked on a program to transform and modernize its economy. To achieve this, the government aimed to privatize many state-owned companies over several years. Light Industry was designated a priority sector. The aim of the program was to provide technical assistance to the GOB for the implementation of five privatization transactions in the sector, as part of the GOBs pilot program.

The project objective was to appraise the five designated enterprises and prepare the necessary documentation needed for marketing and privatization of the enterprises, including preparation of a list of potential foreign investors.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Barbee, Charles	Industrial Engineer
Brown, Steve	Industrial Engineer
Bruno, Susan	Financial Planner
Corr, C.	Financial Planner
Davis, Robyn	Economist
Gazdag, Attila	Financial Planner
Leeds, Roger	Economist
LeRoux, Philippe	Economist
Murphy, Brian	Economist
Reddrop, Michael	Accountant/Auditor
Strassberg, I.	Accountant/Auditor
Szwarcewicz, Darius	Financial Planner
Thompson, Todd	Economist
Ward, Frank	Industrial Engineer

Significance of Activities under the Delivery Order:

The work performed on each enterprise by Barents' technical specialists included:

- ◆ the review of the business operations and strategies including documentation of markets, customers, competitive environment, and cost position;
- ◆ the assessment of the fixed assets and process technology in place;
- ◆ the evaluation of the relative competitive position vis-à-vis world standards;
- ◆ the development of statements of financial accounts;
- ◆ an estimation of the value of the enterprise based on the appropriate valuation technique;
- ◆ the alternative structures of foreign investment given each enterprises needs and objectives; and
- ◆ a short-list of potential foreign investors and initial marketing/bidding strategies.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

The GOB could use additional assistance in its privatization efforts for several years to come.

IQC DELIVERY ORDER 13 Lithuania--Technical Assistance for the Development of Foreign Investment Promotion Including Investment Preparation Training

Period of Performance: September 10, 1992 to June 30, 1993

Funded Amount of Delivery Order: \$482,600.00

Total Funds Expended: \$460,235.00

Location of Project: Work for this project was mainly done in Lithuania.

Delivery Order Description:

A specific recommendation made by Barents for this project was a focus on the establishment of institutional structures to support the foreign investment privatization process. This included the appropriate role of a Foreign Investment Promotion Agency and a recognition of the vast information gap that must be bridged in order to attract investment into Lithuania. A Country Memorandum documents the economics, political, and regulatory environment that impacted foreign investment opportunities.

Barents designed an Investment Preparation Training. Through this, six trainees were involved in on-the-job training in preparation, valuation, and sales/marketing. They assisted the Barents team during privatization of several of the Lithuanian companies.

As well, Barents completed the development of seven modules of classroom training. These included:

- ◆ the privatization process;
- ◆ investment opportunity/business definition;
- ◆ data collection and enterprise due diligence;
- ◆ financial analysis;
- ◆ valuation;
- ◆ sales/marketing process; and
- ◆ negotiations.

These modules were presented in four sessions at the Ministry of Economics with the exception of the last two modules, which were developed but not presented due to the Ministry's schedule.

Barents also developed a seminar for the high-Level Lithuanian officials who were not involved in the daily business of privatization, but who made decisions around the issues of privatization.

Individuals Involved:

<u>Name</u>	<u>Responsibilities</u>
Batla, Raymond	Attorney
Bell, Joseph	Attorney
Elicker, Paul	Financial Planner
Froot, Kenneth	Economist
Judy, Henry	Capital Markets Specialist, Program Manager
McDonald, Kevin	Financial Planner
Viljanen, Juhani	Financial Planner
Sheifer, Andrei	Economist

Significance of Activities Under Delivery Order:

Barents trained many officials of the Lithuanian Government. These seminars included both officials whose work was mainly with the newly privatized companies, and whose jobs were both directly and indirectly associated with the policies that the privatization would impact. These classes include Foreign Investment Promotion; privatization reparation; enterprise due diligence; sales/marketing; and investment opportunity. Several of these seminars were given in both English and Lithuanian.

The final session of training were completed with the six on-the-job trainees. The focus of this session was the sales/marketing and negotiation process. The modules five and six were presented at the Ministry of Economics. This training focused on the financial analysis and valuation. Barents developed a two-hour training session focusing on the issues of privatization and specifically the pros and cons of the Lithuanian foreign investment privatization program. This training module was aimed at the highest levels of Ministry officials.

Barents was also responsible for the privatization of several companies, in which several trainees were involved in on-the-job training. Vilnius Oil's privatization plan was completed and approved by the Central Privatization Commission (CPC). For Vilnius, a competitive tender process was prescribed for the majority Government stake. The Elektra Motor preparation was completed including the information memorandum, valuation, and privatization plan. Due to the international motor market, Barents recommended targeting a joint venture as an initial effort to foreign investment and privatization. This company was not on the list of hard currency privatization, and the Ministry of Economics agreed with the recommendation and the CPC approval was not required. Barents was responsible for contacting investors and concluding an agreement.

Methods of Work Used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

While the training went well, few participants are experienced enough to be stand-alone. A technical advisor available to them initially directly supervising, then later as needed is recommended.

IQC DELIVERY ORDER 14
Romania--Establishment of a Private Investment Banking Subsidiary
at the Rumanian Bank of foreign Trade

Period of Performance: September 21, 1992 to June 30, 1994

Funded Amount of Delivery Order: \$17,352.97

Total Funds Expended: \$17,352.97

Location of the Project: Work for this project was mainly done in Romania.

Delivery Order Description:

The objectives of this project were to:

1. Establish an investment banking capability within Romania to support its privatization and economic reform program;
2. Privatize this investment banking subsidiary as soon as possible;
3. Support the development of the investment banking operation by providing technical assistance in a broad range of disciplines, including corporate finance, accounting, project evaluation, underwriting, securities market management, corporate restructuring and other skills; and
4. Assist in the execution of an initial set of selected transactions and company privatizations through the newly privatized investment bank.

These objectives would have been accomplished by working with the Rumanian Bank of foreign Trade, through which an investment banking subsidiary will be established.

The Delivery Order was terminated April 2, 1993.

IQC DELIVERY ORDER 15 Hungary--Redeployment of Financial Assets, Restructuring and Privatization

Period of Performance: October 2, 1992 to May 31, 1994

Funded Amount of Delivery Order: \$327,790.00

Total Funds Expended: \$291,503.00

Location of the Project: Work for this project was mainly done in Hungary.

Delivery Order Description:

The objective of this project was to provide technical assistance to the Government of Hungary in conjunction with its efforts to restructure the financial sector, in particular its efforts to redeploy the financial assets of the banking sector. The technical assistance efforts provided:

- ◆ methodologies for assessing and classifying the financial (risk) assets in the collective debt stock;
- ◆ processes for enhancing the values to be realized from financial assets under different economic scenarios;
- ◆ alternative models for organization of the redeployment effort based upon the experience in other countries;
- ◆ assessments of the effect of different organizational structures on both the values to be realized from financial assets and the health of the financial sector;
- ◆ evaluations of the utility of various preferential credit programs based upon the experience in other countries;
- ◆ examples, using specific Hungarian institutions, of how redeployment might work.

Individuals Involved:

Name

Bartrop, Chris	Capital Markets Specialist
Billings, Donald	Economist
Clarke, Robert	Attorney
Glauber, Robert	Economist
Haworth, William	Capital Market Specialist, Project Manager
Torsney, Gerald	Work-out Specialist

Significance of Activities under the Delivery Order:

Barents established an excellent working relationship with the Ministry of Privatization, the MBFTr, the State Property Agency, the Ministry of Finance, the National Bank, the commercial banks, and other government and non-government agencies in Hungary in an effort to identify a strategy for "working out" the problem assets that have accumulated on the balance sheets of the state-owned commercial banks in Hungary. Thus far the project has focused on providing high level legal, accounting, regulatory, and financial advice to help the Hungarian government address this problem. Until the fundamental programmatic issues are resolved, (and much still needs to be resolved), work can not proceed on the technical analysis of assessing the quality of specific loans. Barents' work on improving the portfolio quality of banks, when it is able to begin, will focus on developing an adequate bank supervision program and in training loan officers.

Notwithstanding a shift in the project relative to the original plan, the project has the following accomplishments to report to date:

- ◆ The Barents team provided substantial and important comments on several draft proposals for dealing with the portfolio problems and asset redeployment.
- ◆ The Barents helped convince the Hungarian Government to put aside the seriously flawed proposals and to draft a new more viable plan.
- ◆ The Barents team prepared a document recommending the principles and general approach that should be followed to deal with the large number of problem loans in the portfolios of state-owned commercial banks in Hungary.
- ◆ Barents, at the request of the Minister of Privatization, solicited comments on its proposal from the relevant Hungarian institutions and modified the proposal, as appropriate.
- ◆ The Barents team has provided a wide array of technical advice to various institutions including:
 - ◇ advice on the fiscal impact of alternative asset redeployment schemes to the Ministry of Finance;
 - ◇ advice on capital requirements to the Central Bank;
 - ◇ advice on credit management to the heads of a number of state-owned commercial banks;
 - ◇ advice on accounting procedure to the Hungarian accounting profession; and
 - ◇ advice on institutional relationships to all concerned institutions.
- ◆ Barents' recommendations were used by the Ministry of Privatization as the basis for drafting a new proposal, which was subsequently passed by Parliament in December 1992.

Methods of Work used:

Barents worked with the state Property Agency, the National Bank, the Ministry of Finance, and other government and non-government agencies in an effort to identify a strategy for working out the problem assets that have accumulated on the balance sheets of the state owned commercial banks. The goal was to provide high level legal, accounting, regulatory, and financial advice to help the Hungarian Government resolve the issue based on their expressed desire to move the banking system to one dominated by market principles.

The project rapidly pushed forward the policy-making process in two ways:

- One. The Barents team was composed of some of the most senior U. S. experts in the field resulting in a team that was widely respected by the Hungarian financial community. The team was also making state-of-the-art use of the recent U. S. experience in problem asset resolution.
- Two. The team worked to build a consensus in the Hungarian banking community on the role of the different institutions in the loan work-out process, and served the important political function of educating policy makers at very high levels on the importance of correct policy decisions in the area of problem asset resolution.

Unfinished Work and Possible Project Continuation:

Due to the urgency of dealing with fundamental issues related to financial asset deployment and the Government's need to develop an approach to dealing with "bad loans", the Barents team has dedicated more high level personnel than originally planned. Since many of these issues are not yet fully resolved, we envisioned the need for continued participation of the senior personnel such as Mr. Clark, Mr. Glauber and Mr. Billings. The Ministry of Privatization and other institutions have explicitly requested their continued involvement. While this presents a deviation from the original allocation of the level of effort, it clearly falls within the scope of the current delivery order.

Some of the detailed quantitative analysis tasks originally planned to be undertaken by accountants and work out specialists can only feasibly be conducted after the broader issues have been resolved. These tasks would also fit naturally into the Phase II activities which would focus on the detailed implementing the asset redeployment and loan work out program.

In a Phase II of this program the Barents team would:

- ◆ continue to work to build a consensus in the Hungarian banking community on the role of the different institutions in the loan workout process;

- ◆ continue to educate high level policy makers on the importance and relevance of correct policy decisions in the area of problem asset resolution;
- ◆ review the EBRD's proposed Loan Workout Fund and provide comments to both EBRD and the Ministry of Privatization;
- ◆ work with the MBFRt to develop a strategic plan for dealing with their new mandate, including:
 - ◇ reviewing and rationalizing the institutional arrangements;
 - ◇ establishing goals, missions and timetables for dealing with the "bad loans";
 - ◇ establishing methods of measuring performance; and
 - ◇ establishing an operational and staffing;
- ◆ conduct a survey of bank supervision, provide a diagnostic of the current situation, and propose a program to address the deficiencies identified in the current operation; and
- ◆ initiate the establishment of a loan workout team to begin the process of dealing with the "bad loans." Several alternative approaches are already under consideration. In conjunction with this work, the Barents team would develop a loan workout training manual to assist in training the core loan workout team;

The Barents' teams design of Phase II of this project would focus on:

- ◆ fully developing and implementing the asset redeployment plan;
- ◆ providing technical assistance in conducting actual loan workouts;
- ◆ strengthening the banking supervision function; and
- ◆ providing technical assistance and training to state-owned commercial banks in providing new lending.

IQC DELIVERY ORDER 16 Poland--Privatization Preparation and Transaction Support for the Furniture and Panel Board Sector

Period of Performance: January 8, 1993 to December 31, 1993

Funded Amount of Delivery Order: \$1,263,360.00

Total Funds Expended: \$1,046,010.63

Location of the Project: Work for this project was mainly done in Poland.

Delivery Order Description:

The objective of this activity was to provide technical support in the privatization of the furniture and panel board sector in Poland. Specifically, the objective is to implement the preliminary recommendations of the USAID sponsored sector analysis (Phase I) through preparing selected enterprises for privatization (Phase II) and providing transaction support through investor identification, enterprise marketing, negotiation, and other transaction-related assistance (Phase III).

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Davis, Robyn	Economist
Grady, Jeffrey	Economist
Juva, Arto	Industrial Engineer
Kester, Jim	Economist
Kurtz, Mariann	Financial Planner
Leeds, Roger	Economist
Lonnquist, John	Financial Planner
McFarlane, Jennifer	Economist
Potasinski, Andrzej	Financial Planner
Quesenberry, Arnold	Industrial Engineer
Raymond, Arthur	Industrial Engineer
Sanchez, Vivian	Financial Planner
Szwarcewicz, Darius	Financial Planner
Thompson, Todd	Economist
Van Gosen, Linda	Financial Planner

Significance of Activities under the Delivery Order:

Barents technical specialists performed the following activities.

Phase 2 Preparation for privatization of four additional enterprises, including:

- ◆ reviewed current operations and business strategy including analyzing markets, customers, competitive environment and cost position;
- ◆ assessed the fixed assets and process technology in place;
- ◆ evaluated the relative competitiveness vis-à-vis world standards;
- ◆ restated the financial accounts;
- ◆ estimated the value of the enterprises based on the appropriate valuation techniques; and
- ◆ developed a “short-list” of potential investors.

Phase 3 Sales/marketing and negotiation provided for each of the eight enterprises prepared under Phases I and II in order to complete the transactions, including:

- ◆ developed and executed clear sales/marketing strategy;
- ◆ lead effort to solicit foreign investors;
- ◆ presented the enterprises to potential investors, including distribution of all investment documentation;
- ◆ assisted in structuring the most favorable transactions;
- ◆ developed and implemented a public relations strategy;
- ◆ supported the government throughout the bidding and negotiations processes; and
- ◆ advised on the design of the final sales contracts.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

Now that the Government has enjoyed some success with the pilots, the privatizations could indeed accelerate. Additional Technical Assistance could be provided in the form of process oversight until the process becomes second nature.

IQC DELIVERY ORDER 17 Albania--Privatization of the State-Owned Chromium Industry, Albchrome

Period of Performance: January 3, 1993 to July 31, 1995

Funded Amount of Delivery Order: \$1,118,665.00

Total Funds Expended: \$1,061,133.79

Location of the project: Work for this project was mainly done in Albania.

Delivery Order Description:

As one of the largest chromium producers in the world, as well as Albania's need for private investment and foreign exchange, the Government of Albania decided to approach the European Bank for Reconstruction and Development (EBRD) to assist them in their efforts to privatize the state owned chromium industry as represented by the Albanian-owned enterprise, Albchrome. This industry represented an important hard currency earning asset for the country, as well as a visible sector to potentially attract foreign investment. Due to its size and importance, the privatization of the chromium industry was likely to shape the legal and fiscal framework of the country.

EBRD, together with USAID, began the process of privatizing Albchrome by commissioning a mining consultant to undertake a technical assessment of the facilities and the future prospects of the industry. The results of this report showed an urgent need for financial, managerial, and technical needs to restore ore production in the mines and boost ferrochrome output to "normal" levels. With this information, USAID awarded Barents with the project to privatize the industry through several methods. These methods were legal advice; accounting and auditing; and investment banking/economic assistance. As legal advisors, Barents was responsible for providing legal advice to the Government of Albania (GOA) in the privatization of Albania's chromium industry, specifically including:

- ◆ Advice to the GOA on the optimum structure for privatization and foreign investment (i.e. joint venture, acquisition, etc.);
- ◆ preparation of offering documentation and other information for potential buyers, organization of the disclosure system to ensure equal access to information while at the same time ensuring confidentiality and preparing legal documentation;
- ◆ advice to the GOA on the interaction of Albanian law in the area of privatization and general commercial, contractual, property and security, and tax issues, as well as environmental and third party liability;

- ◆ advice to the GOA on broad negotiation parameters and objectives; and
- ◆ advice and coordination with the GOA in the drafting and reviewing of the Mining Law, especially as it pertained to the objectives of Albchrome and the GOA's chromium industry.

The Accounting and Auditing responsibilities of Barents was to provide a team of accountants to review and interpret the financial statements of Albchrome, and the valuation of the mines, the screening, benefaction, and heavy media separation plants as well as of the ferrochrome plants. Whenever possible, the accounts were converted to approximate Generally Accepted Accounting Principles (GAAP).

Barents was required to provide a team of technical experts bankers to assist in Investment Banking/Economic issues, specifically:

- ◆ the valuation of the entire industry, including the mines, smelters, and plants;
- ◆ review investor proposals; and
- ◆ negotiation with identified investor(s)/technical partners.

The specific deliverables were:

- ◆ a valuation of part of all of the chromium industry;
- ◆ a proposed legal framework; and
- ◆ a sales memorandum.

These were specified within the framework of the scope of work, and were in the context of the aforementioned responsibilities.

Individuals Involved:

<u>Name</u>	<u>Responsibilities</u>
Philippe Le Roux	Economist/Project Manager
Xavier Jordan	Financial Planner
David Mathewson	Financial Planner
Carolyn Winn	Financial Planner
Michael Reddropp	Accountant/Auditor
K. Blackman	Accountant/Auditor
B. Frank	Accountant/Auditor
C. Walters	Accountant/Auditor
Carl Amon	Attorney

Jim Lennon	Economist
Peter Simian	Economist
R. Goldstein	Economist
Nacy	Attorney

Significance of Activities Under the Delivery Order:

Based on the objectives of the delivery order outlined previously, the objectives were achieved and delivered to the GOA, and copied to USAID. The specific accomplishments of the Delivery Order were:

A. Legal Advice

White & Case, as the GOA's legal advisor, together with Barents, worked with the Ministry of Industry to provide detailed legal advice when necessary and the legal documentation consistent with Albanian law for the privatization of Albchrome. Specifically, advisors provided:

- ◆ advice on the structure for privatization and foreign investment;
- ◆ offering documentation and other information for potential buyers, in the form of an Investment Brochure, prepared in conjunction with the EBRD. A financial review of the assets was prepared as an appendix to the brochure, and a summary of the status of the legal and investment environment was prepared as well;
- ◆ draft of "head of terms joint venture agreement" was also initially prepared as an example to interested investors of the type of agreement the GOA was seeking;
- ◆ preparation of an actual draft joint venture documentation, with all necessary legal documentation;
- ◆ advisory services to the GOA on the interaction of Albanian law, both in the he area of privatization and general commercial, contractual, property, security, and tax issues, and environmental liability issues, in the few instance where these topics were still undefined. Advisors also assisted in the interpretation of existing and newly implemented Albanian commercial and mining laws; and
- ◆ advised the GOA on broad and specific negotiation parameters and objectives, including detailed sessions reviewing joining venture documentation and negotiating positions, point by point, before each session with potential investors.

B. Accounting and Auditing

A team of Barents accountants reviewed and provided a written interpretation of the financial statements of all of Albchrome's operating centers. The result of the accountant's analysis was to provide investors a review of statements provided to them,

and a translation of Albanian statements into a Western format, to the maximum extent possible. Due to the absence of safeguards and control mechanisms within the company, accounting procedures which varied significantly from Western procedures, and missing records, it was very difficult to get an accurate picture of the company. The poor quality of the Albanian accounting records were an issue with many of the investors, affecting their offers and bid prices. The Barents accountants work was an essential piece of information for investors, and especially the detailed explanations of the methods used to arrive at the restatements, and in the applicable areas, the conclusions and interpretations that could be drawn from the numbers.

C. Investment Banking/Economist assistance

The advisors provided a comprehensive valuation model with a range of values based on various scenarios. The Barents advisors discussed and reviewed valuation with both Albchrome and the Ministry officials. In the summer of 1993, a presentation was made to the Ministry, and again in December as an oral presentation with a written presentation and explanation on valuation techniques, the pros and cons of each method, and detailed instructions on the mechanics of a DCF valuation model.

The advisors also reviewed each set of proposals that came in over the project, providing written and oral reviews to the company and the GOA on their various strengths and weaknesses. The advisors assisted the GOA in interpreting the proposals and made very specific recommendations to the company and the GOA on the seriousness of each proposal and the recommended next steps, which were not always listened to or acted on by the client.

The advisors were also instrumental in bringing a number of major investors to the negotiating table. The advisors spent considerable time in Albania gaining consensus with the Ministry and Albchrome on major and minor negotiating positions, and then negotiating these points with the potential investors.

D. Training

While no training was specified under this delivery order, there was significant legal, business, and financial training of company and ministry officials that occurred on the job throughout the project. Barents spent considerable time training select Albchrome and Ministry counterparts in the areas of finance, calculation, and other western business principles, through on the job working sessions and several valuation seminars. In addition, Barents trained Albchrome and Ministry officials at length in the DCF method of valuation.

Methods of Work:

This project has been divided into two periods: Period 1, January 1993 to November 1993, and Period 2, November 1993 to June 1995, when Barents assumed the responsibilities as lead advisor.

During Period One, EBRD acted as the lead advisor, Barents and White & Case provided financial, valuation, accounting, and legal assistance. During this period the Information Brochure was prepared, thought there was interest and some type of offers from seven companies, these were not satisfactory or up to expectation, partially due to lack of information about the company. For this reason, the advisors felt that if the information about the company was substantially improved and presented in a systematic objective way, the offers and the bidding process would be substantially improved.

As the Barents accountants provided a review and restatement of the 1991-1992 financial accounts, White & Case began their legal due diligence and review. It was discovered that the Albanian law was in a period of flux and, although the law seemed to be changing in a manner advantageous for foreign investment, it would cause some delay. During this period, Barents prepared the base valuation model for the industry and updated the assumptions as the company and conditions changed.

During this time the EBRD funded three studies to assist the advisors and GOA in assessing the marketability and technical and financial position of the industry. These reports were:

- ◆ an environmental report by RTZ;
- ◆ a study on Albanian ore reserves by Grundstofftechnik; and
- ◆ a report on the international chrome market by Commodities Research Unit (CRU).

With the gathered information, Barents, Case & White, and the EBRD worked to prepare the Information Brochure, or sales memorandum, and it was reviewed and approved by the GOA and sent out to qualified bidders. Of those bidders, five were invited to present their proposals in London for review and discussion. The GOA and Ministry's unease with the role the EBRD played as advisor and possible investor, mixed with their optimistic valuation of the company at twice what the EBRD advised, slowed this process of discussion with the possible investors.

After the EBRD stepped down as advisor, the GOA requested that Barents assume the responsibility of advisor, and reassess the proposals and the valuation of the company at \$30MM. This damaged some of the momentum that had been gained during the discussions in London and Barents was asked to attempt to repair the damage to investor confidence.

Period Two

At the close of 1993, a new Vice Minister was appointed to liaison with the advisors. Barents and White & Case reviewed the valuation and reached a consensus with the GOA and Albchrome on the value of Albchrome. Albchrome requested and received (without

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advisor guidance) bids from interested advisors in the Fall, and in late December evaluated the bids they received. One potential investor proposal was worth pursuing and the other investors were asked to resubmit a proposal. When they were unable to increase their equity component, only one group was invited to Tirana for discussion.

After discussion an offer was made that fit the parameters of the GOA's acceptable requirements. After reaching this agreement, drafting a Memorandum of Understanding (MOU), the ITS Group failed to live up the offer and lowered the equity by half. The GOA decided to approach other bidders while considering the ITS offer. This also encountered some setbacks. Against the advice of the advisors, the Board of Albchrome granted exclusivity to a company who falsely claimed they had financial and technical backing. At the end of the period of exclusivity, they failed to produce the necessary funding need to proceed.

In the mean time, Barents had continued to gather information and prepared a draft set of 1993 financial statements, raising many questions about the financial position of Albchrome, which was clearly deteriorating. After the period of exclusivity was terminated, the remaining bidders were encouraged to revise and substantiate their offers for presentation. The Albanians were advised to focus seriously on the remaining proposals, since, in order for the project to proceed, the meetings must produce a suitable partner and a draft memorandum of understanding of Joint Venture Agreement (JV), along with a timetable. At the end of the London meetings a MOU was signed with Macalloy and negotiations of a more detailed Joint Venture Agreement were rapidly assumed. A substantial amount of due diligence and legal research and drafting was done during this time period to ensure that the joint venture documentation, and the wishes of both Albchrome and Macalloy, were consistent with Albanian Law.

Unfortunately, the death of Macalloy CEO Norris McFarlane delayed the process as the cash position of Albchrome continued to deteriorate. When Macalloy presented the terms of their Joint Agreement to the GOA, the terms of the proposal were deemed by the Ministry to not conform with the MOU. When the terms that the Ministry disagreed with were not removed during the next set of discussions, the Albanians terminated discussions with Macalloy.

At this stage there was still a small set of bidders interested. Substantial discussions were held with these investors and visits were set up for some. One of the companies backed out after visiting the mines due to the riskiness of an investment in Albania and the level of priority for their company. One bidder remained interested and submitted a draft Joint Venture Agreement to the Albanians. Discussions between this group and the Albanians was set for a date after the termination of the Barents advisory project and funding.

The cessation of advisors is troubling to the interested company. The Albanians still need a great amount of direction, organization, and management for each of the stages of consensus involved in negotiating such an agreement, and the bidding company may well lose interest and patience in Albchrome.

As it stood in late June 1995, some of the Albanian parties involved appeared to be resisting the remaining bidder by claiming there are other investors interested, although the financial and technical merits of these investors is questionable. In addition, the pending Mass Privatization Program, which will potentially include a percentage of Albchrome share, and the fact that there are upcoming national elections, which make any current decision maker fearful, and also contribute to the hesitant environment.

Conclusions, Recommendations, and Unfinished Work:

The poor quality of Albchrome's internal financial accounts and the lack of adequate control mechanisms and organized accounting and reporting systems were evident early on in the project. Barents raised the issue to EBRD, suggesting that funding for training in management of accounts and implementing accounting systems be provided in order to address the problem. This was not seen as a high priority and the matter was not pursued. In retrospect, had Albchrome been able to manage and come to a better understanding of their financial position, they could have better understood the relative condition of their assets to a foreign partner.

Both the EBRD and the USAID advisors found the client to be a management challenge. Several times and at key stages in the process the Albanians acted unilaterally without consultation with the advisors, or simply refused and ignored the advisors' advice. The resulting consequences of these unadvised GOA/Albchrome actions set the process back, costing time and money. There are several instances of this which are addressed in Methods of Work.

The presence of several clients--Albchrome and the Government and Ministry in addition to the EBRD--made the second stage of the process inherently complex. All three groups had different expectations and demands of the proposals and investors and all wished to have the assurance their demands would be met. Since each groups' cooperation was integral to the success of each stage, it became increasingly difficult to manage and satisfy all parties. The EBRD did remain highly supportive, but they were unable to participate in some of the investment structures due to internal guidelines. As well, and more importantly, the evident disagreement of the Ministry and Albchrome on key issues throughout the project left investors with an unsettled picture of what would actually happen with the attitude and performance of Albchrome employees and workers if the Ministry's ideas were put into place in a new joint venture.

Based on the above explanations and the experience of the project, the following recommendations are made:

1. A strong Albanian counterpart should be appointed and accept responsibility for investor coordination between the investor, the EBRD, the Ministry, and Albchrome.
2. If the Glencore proposal is to stand a chance, advisors will be necessary who have been close to the project and have been through the joint venture process in Albania

before. Clearly, there must be someone with experience to assist Glencore, EBRD, and the Albanians in structuring and technically designing and negotiating the project.

It is recommended that AID or other agencies who will provide any future funding for advice make the point to the GOA and Albchrome that the advisors must be accepted and listened to if their strategy is to have a chance of success.

IQC DELIVERY ORDER 18

Lithuania--Electronic and Machine-Building Industry Privatization

Period of Performance: March 11, 1993 to January 31, 1994

Funded Amount of Delivery Order: \$479,835.00

Total Funds Expended: \$459,270.00

Location of the Project: Work for this project was mainly done in Lithuania.

Delivery Order Description:

The major objectives of this work program were:

- ◆ To screen the electronics and machine-building industry to profile the existing enterprises and identify industry privatization alternatives;
- ◆ To continue to accelerate the foreign investment privatization program through the privatization preparation of two enterprises in the electronics and machine-building industry;
- ◆ To build local enterprise analysis and valuation capabilities in important financial institutions in order to broaden and deepen the future activities of the Lithuanian privatization program;
- ◆ To lay the framework for the next phase of privatization implementation and to identify 6-10 further privatization candidates to be prepared in Phase Two of the 1993 work program.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Feyns, Inna	Financial Planner
Kehner, Thomas	Industrial Engineer
Lukas, Kristina	Financial Planner
Mathewson, David	Capital Markets Specialist
Murphy, Brian	Economist
Ondis, Cathy	Accountant/Auditor
Pemkus, Arunas	Financial Planner
Saldutti, Joseph	Financial Planner
Thompson, Todd	Economist
Tragert, Joseph	Financial planner
Wardle, Douglas	Attorney
Winn, Carolyn	Financial Planner
Zolner, William	Industrial Engineer

Summary of Work and Achievements:

Electronics and Machine Building Industry Assessment

- ◆ Barents conducted an assessment of the electronics and machine building sector and presented findings to a broad audience of industry participants. This important sector of the local economy, which includes over 50 major companies and dozens of smaller enterprises, has been targeted by the Lithuanian Government as a high priority sector for restructuring, redevelopment and privatization.
- ◆ The review provided a global, regional and domestic industry assessment, intended to inform the Lithuanian audience about the broader, highly competitive environment in which they operate and against which they must be prepared to compete. The global review was followed by a specific analysis of Lithuanian industry competitiveness. Enterprise scale, over-capacity, product quality, lack of product focus and neglect of the market oriented aspects of the value-chain were some of the issues identified and discussed. Strengths identified included broad production capabilities, advanced worker skills and local/regional market expertise. Given the current situation of the industry, an assessment was made that the Lithuanian electronics and machine building industries would be most successful competing in labor intensive segment, in their local markets and in fragmented industries.
- ◆ In conclusion, several industry reorganization options were identified and discussed. Specific privatization and restructuring programs were considered and it was recommended that a relatively new privatization method, the Best Business Plan tender process is well suited to the needs of many enterprises in this sector. Additionally, it was recommended that many enterprises this sector need foreign investment and expertise in order to survive and become competitive.
- ◆ Barents worked with the Ministry of Industry and Trade to compile a thorough and useful database of electronics and machine building enterprises. Data gathered for the database included enterprise size, product mix, profitability, and other financial information. The database was analyzed to identify trends in this industry and to identify good candidates for privatization.
- ◆ In addition to the industry assessment presentation committed and completed for this delivery order, Barents also completed an assessment of the Lithuanian television industry, at the request of the Ministry of Industry and Trade. This specific industry assessment provided the Lithuanians with an overview of the competitive position and options for the industry.

Enterprise Privatization Preparation and Government Officials Training

Barents completed the preparation and assessment of *Sigma Electronics* and *Zalgaris Machine Tool Enterprises*.

- ◆ Before Lithuanian independence, *Sigma* used to be a major assembler of mainframe computer systems. Today, the enterprise produces a wide variety of products, including wood working machines, telephone switching equipment, personal computers and many others.
- ◆ Given *Sigma's* restructuring and investment needs, we recommended at the end of the preparation and assessment period that the enterprise be taken off the hard currency list and entered as a pilot candidate into the Best Business Plan (BBP) privatization program. The Central Privatization accepted the Enterprise as a BBP candidate in April 1994.

The following documents were completed for *Sigma*:

- ◇ Information Memorandum
- ◇ Foreign Investment Plan
- ◇ Marketing Document
- ◇ Presentation of findings and recommendations for enterprise management and Ministry of Industry and Trade, including list of potential investors.

Because it was determined that the Enterprise should not be privatized via a formal tender, no tender documents were prepared.

- ◆ *Zalgaris* is a machine tool manufacturer located on the outskirts of Vilnius. The enterprise has a straight-forward product line of basic machine tools. At the end of the preparation period, the decision was made to aggressively pursue a relationship with a foreign investor. Because the enterprise was not on the hard currency list and was therefore not bound to participate in the formal tender process, a recommendation was made to pursue a more flexible means of privatization or investment, potentially a joint venture. Barents was retained directly by *Zalgaris* on a success fee basis to negotiate a relationship with a foreign investor.

The following documents were prepared for *Zalgaris*:

- ◇ Information Memorandum
- ◇ Investment Plan
- ◇ Marketing Document
- ◇ Presentation of findings and recommendations for enterprise management and Ministry of Industry and Trade, including list of potential investors.

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- ◇ Pro Forma Head of Terms [Because a formal tender process was not recommended for *Zalgaris*, no tender documents were prepared. The Head of Terms was prepared to serve as a guide to investors.]
- ◆ In conjunction with enterprise preparation activities, Barents continued its hands-on privatization training program for government officials. Training sessions were augmented with site visits to *Sigma* and *Zalgaris*, participation in the enterprise assessment process, and valuation computer modeling.

Participants in the training sessions included:

- ◇ Ms. M. Alikoviene Ministry of Economics
 - ◇ Mr. P. Balbierius Ministry of Industry and Trade
 - ◇ Mr. A. Brokorius Ministry of Agriculture
 - ◇ Mr. V. Ivasko Ministry of Economics
 - ◇ Mr. Z. Pajarskas Ministry of Economics - Consultant
 - ◇ Ms. R. Urbonaitis Ministry of Industry and Trade
- ◆ Legal advisors under this delivery order completed a legal due diligence review of *Zalgaris* and *Sigma* to identify any issues impacting the privatization process. The attorneys also completed a comprehensive legal assessment of privatization and restructuring options in Lithuania, and documented other potential alternative privatization methods.

Methods of Work used:

The various methods Barents used in the conclusion of this program included:

- ◆ Data gathering.
- ◆ Data review and analysis.
- ◆ Drawing conclusions, forming recommendations and alternatives.
- ◆ Defining advantages and disadvantages pertinent to recommendations.
- ◆ Privatization preparation for 2 enterprises: *Sigma* and *Zalgaris*.
- ◆ Enterprise assessment and valuation process training.

Unfinished Work and Possible Project Continuation:

All of the required deliverables under this delivery order have been completed.

The Electronics and Machine Building sector is in need of foreign investment because of the significant restructuring and investment needs that exist. However, securing foreign

investment in this sector is difficult because many of the enterprises have non-competitive technology, have traditionally sold to markets which are in a significant economic recession at this time (former Soviet republics,) and have difficulty accessing their traditional raw materials sources. The Best Business Plan privatization program offers a method by which enterprises which may not be well-suited for a regular privatization tender can seek a foreign partner. BBP program is just beginning to be implemented in Lithuania. A need may exist for candidates to be identified for the BBP program and their privatization to be implemented using this methodology.

IQC DELIVERY ORDER 19 Estonia--Technical Assistance for the Development of Foreign Investment

Period of Performance: March 19, 1993 to September 30, 1995

Funded Amount of Delivery Order: \$2,530,550.00

Total Funds Expended: \$2,522,539.89

Location of the Project: Work for this project was mainly done in Estonia.

Delivery Order Description:

Estonia has one of the most successful privatization records in all of Eastern Europe and the former Soviet Union. About 80% of the Estonian enterprises, excluding infrastructure, are estimated to be in the private sector. A successful privatization process, together with sound macroeconomic policies positioned Estonia soundly in the path of growth in 1994-1995. Real GDP growth in 1994 was 4-5% and was estimated between 6% and 8% for 1995 (IMF). Estonia has attracted a strong and steady inflow of foreign investment. The Bank of Estonia estimated that foreign direct investment almost tripled in 1994 constituting about 9.5% of GDP, with Sweden and Finland as biggest investors.

Large scale privatization started late in Estonia. Following an experimental privatization of 7 large enterprises in 1992, Estonian Government requested assistance from the German Treuhand Osteuropa Beratungsgesellschaft (TOB) for starting a massive large-scale privatization process. The first international tender of 38 enterprises was announced in November 1992, only three months after the arrival of TOB consultants. A team of BARENTS professionals joined German consultants in March, 1993. Thus, foreign consultants have played a crucial role in the Estonian large-scale privatization process since its inception.

The objective of the assistance to the Estonian Privatization Agency and the Estonia Government was to advise on the administration and implementation of international tender that are designed to attract appropriate investors to enterprises designated for privatization. Under this delivery order Barents has provided assistance with local and international public tenders to sell state-owned enterprises to private investors. This assistance included establishing the procedures used in the tender process, planning tender schedules, identification and contact of international bidders, developing investor relations, evaluation of proposals and bids, negotiation with the investors and drafting final contracts.

Estonian large-scale privatization accelerated significantly when the USAID-Barents team joined the TOB consultants team at the Estonian Privatization Agency (EPA) in

March 1993. The pace of large-scale privatization started picking up considerably in the second half of 1993 and almost doubled in the first half of 1994 compared with the same period of the previous year. 1994 was the peak year in the Estonian privatization process. Five of the ten tenders announced were in 1994 and 60% of the total enterprises sold were privatized 1994. By the end of 1995 the bulk of the state-owned industrial enterprises had been transformed to the privatized hands.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Jean-Pierre Parisienne	Accountant
J. Purovesi	Accountant
Scott Carlson	Capital Market Specialist
Boris Cooper	Capital Market Specialist
Victor Felszegi	Capital Market Specialist
Scott Foushee	Capital Market Specialist
Tobias Hundertmark	Capital Market Specialist
Michael Kelly	Capital Market Specialist
Marie McCarthy	Capital Market Specialist
Ryan, Michael	Capital Market Specialist
James Wolf	Capital Market Specialist
Xavier Jordan	Financial planner
Marge Karner	Financial planner
David Mathewson	Financial planner
Susan Nolen	Financial planner
Joseph Oliver	Financial planner
William Albanos	Industrial engineer
M. McCormack	
K. Naughton	

Significance of Activities under the Delivery Order:

Barents professionals assisted the Estonian Privatization Agency. planning and set-up of nine tenders.

Methods of Work Used:

The privatization methods in Estonia have been defined by the 1993 Privatization Law. The Director of the EPA chose the appropriate method of privatization for each enterprise. The methods included:

- ◆ Tender with Preliminary Negotiations used mainly for privatization of large industrial and agricultural enterprises with additional conditions. Each tender usually includes 30 - 50 enterprises.

- ◆ Auctions have been used as a main method of small-scale privatizations. Small-scale privatization process was essentially completed by the end of this delivery order.
- ◆ Privatization of “leftovers.” The list of companies left over from the tender process due to either no or insufficient bids were published three times a week in a major local business paper to allow for additional bids.
- ◆ Public Offering of Shares became an increasingly important part of Estonian privatization process.
- ◆ Management/Employee buyouts were used in Estonia as a privatization method only in the initial stage of the privatization program in 1992-1993.
- ◆ Unfinished Work and Possible Project Continuation:
 - ◆ The EPA planned to finish the privatization by tend by the summer of 1996 and concentrate on infrastructure privatization, privatization of land, the public offering program and post-privatization issues, such as contract control.
 - ◆ Major emphasis is going to be on infrastructure such as transportation, communications as well as energy, banking and health care. Some initial restructuring is envisioned for most of the enterprises in order to make them more attractive to investors. Enterprises will be reorganized and prepared for sale by a EU PHARE consortium, led by Credit Commercial de France. Special emphasis is going to be given to creating an appropriate legal and regulatory framework for these enterprises.

In the future the EPA is also going to be responsible for the privatization of land. This is likely to be the most important areas of work of the agency in the coming years. To date all enterprises privatized by the EPA have been sold without land. Instead, long term leases have been arranged. Presently the implementation mechanisms for the land privatization are under final discussion at the Parliament and the EPA is expected to sell enterprises in the future with land. In addition, the enterprise already privatized by the EPA, will be able to purchase the land attached to the enterprises through the Agency. A separate department has been recently created within the EPA to deal with the land issues.

IQC DELIVERY ORDER 20 **Bulgaria--8 State-Owned Enterprises from the** **Industrial, Trade, Transport and Construction Sectors**

Period of Performance: March 15, 1993 to June 30, 1996

Funded Amount of Delivery Order: \$2,009,715.00

Total Funds Expended: \$2,009,676.99

Location of the Project: Work for this project was mainly done in Bulgaria.

Delivery Order Description:

The Government's approach to the Bulgarian privatization program was to complete quickly a number of transactions in the industrial, trade, transport, and construction sectors where Bulgaria has competitive advantages that would readily attract foreign investment, which in turn, would stimulate imports.

The objective of the work program would be to undertake eight privatization transactions representing the industrial, trade, transportation, and construction sectors, and to transfer know-how in the privatization process through a hands-on apprenticeship program allowing key Bulgarian officials to prepare two enterprises for privatization. The apprenticeship would focus on hands-on experience in the preparation of an actual Bulgarian enterprise by providing on-the-job training supplemented by skill workshops when necessary. The specific objectives of the work program are as follows:

Phase I: Pilot Privatizations

To conduct the first pilot privatizations of enterprises selected by the Bulgarian Ministries in the Industrial, Trade, Transport, and Construction sectors.

Phase II: Investment Preparation Apprenticeship

- ◆ To conduct an apprenticeship program for 6-10 key government personnel who are involved in the planning and implementation of the Bulgarian privatization process in conjunction with the preparation for privatization of a Bulgarian enterprise, including:
 - ◇ skill workshops;
 - ◇ hands-on apprenticeships;
 - ◇ on-the-job training in U. S. office;

- ◆ To complete the preparation of two actual Bulgarian enterprises from the Ministry of Industry, Trade and Transport for privatization as demonstration projects for the above Bulgarian personnel. The project would proceed through data collection, analysis, valuation, and identification of potential investors.

Phase III: Six Enterprise Privatizations

- ◆ To appraise six additional enterprises from the Ministry of Industry, Trade and Transportation, and Construction where Bulgaria has a competitive advantage and potential to rapidly demonstrate success for other enterprises in the sector, and prepare the necessary documentation needed for marketing and privatization of the enterprises, including the preparation of a list of potential foreign investors.

The Agency and the Ministries presented lists of high priority candidates. Barents reviewed the candidates and determined that there were suitable candidate for rapid privatization success and build momentum for the Government's program.

Phase IV: Bulgarian Mass Privatization Program

The objectives focused on bringing together the results of the previous three phases and adding further value to them. The Bulgarian Mass Privatization Program was the last phase of this contract and its objectives included:

- ◆ To accelerate the privatization process and increase the share of the private sector in the national economy through the mechanisms of corporate ownership;
- ◆ To commit the population, en masse, and management, to the process of economic transformation by eliminating the vacuum which had formed in the governance of state enterprises (and which had ultimately resulted in blocking the divestment of national wealth);
- ◆ To heighten structural reform in general, thereby aiding the development of a mature capital market in Bulgaria; and,
- ◆ To ensure the irreversibility of the economic and political reforms in the country by expediting the ownership transformation process.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Baeva, Nely	Local Financial Manager
Bently, Neville	Industrial Engineer
Brown, Steve	Industrial Engineer
Bruno, Susan	Financial Planner
Davis, Robyn	Economist
Dimov, Ilia	Local Financial Manager
Gazdag, Attila	Financial Planner
Higgins, Michael	Capital Markets Specialist
Hops, Jeffrey	Attorney
Lane, Malcolm	Capital Markets Specialist
Lavine, Henry	Attorney

Lazarova, Karamfila	Local Financial Manager
Leeds, Roger	Economist
LeRoux, Philippe	Capital Markets Specialist
Limov, Svetoslav	Local Financial Manager
Linvill, Margaret	Economist
Lukas, Kristina	Financial Planner
Lukov, N.	Local Financial Manager
Maldonado, Eduardo	Capital Markets Specialist
Murphy, Brian	Economist
Murphy, George	Industrial Engineer
Nenov, Jivko	Local Financial Manager
Nikolaeva, Diana	Local Financial Manager
Paschke, Brett	Financial Planner
Petrov, Georgi	Financial Planner
Roules, Dan	Attorney
Sanchez, Vivian	Financial Planner
Slavonia, Mark	Financial Planner
Sopadjieva, Effrememlia	Local Financial Manager
Stefanova, Daniela	Local Financial Manager
Tassev, S.	Local Financial Manager
Thompson, Todd	Economist
Tzanev, Kristina	Accountant/Auditor
VanGosen, Linda	Financial Planner
Velev, Todor	Local Financial Manager
Winn, Carolyn	Financial Planner

Significance of Activities under the Delivery Order:

The work accomplished includes the following:

Phase I: Pilot Privatizations

Barents conducted the first pilot privatizations of enterprises selected by the Bulgarian Ministries in the Industrial, Trade, Transportation, and Construction sectors. Barents began to work with the Government, targeting five of their fifty-six "priority" enterprises.

Barents achievements on this phase came quickly and were significant.

Government Relations

- ◆ Reinforcing the Government's commitment to privatization and testing the privatization legislation passes in 1992;
- ◆ Increasing the Government's capacity to plan and execute a large number of privatization transactions in 1993 by providing a successful methodology and implementation of pilot privatizations;

- ◆ Building a solid relationship as advisor to the Agency of Privatization and the ministries of Industry, Trade, Transport, and Construction to actively implement the first enterprise privatizations in Bulgaria. In this role, the advisors gained the trust of all the key privatization decision-makers in the Bulgarian Government.

Pilot Privatizations

- ◆ Completed the preparation of five state-owned enterprises:
 - ◇ two in the textile and apparel industry;
 - ◇ two in the confectionery industry; and
 - ◇ one in the power tool industry.

- ◆ The relevant assessment and investment documents were prepared and presented to the government:
 - ◇ a presentation of strategic issues facing the enterprises;
 - ◇ a detailed business valuation analysis;
 - ◇ a list of potential investors;
 - ◇ a proposed privatization plan and privatization capital structure; and
 - ◇ a schedule of next steps to achieve privatization.

Training

Delivered intensive, practical, workshops on the privatization process to the staff of the Agency and Ministries, and the management teams of enterprises involved in the process.

Phase II: Investment Preparation Apprenticeship

For this part of the program, Barents accomplishments included:

- ◆ An investment preparation apprenticeship where curriculum and apprenticeship material was prepared for instruction in the following areas required for the privatization process:
 - ◇ data collection process
 - ◇ market/competitor analysis
 - ◇ company analysis
 - ◇ valuation analysis
 - ◇ developing enterprise business strategies
 - ◇ writing an information memorandum
 - ◇ identifying potential investors
 - ◇ making investor presentations negotiating alternatives

- ◆ Two privatization preparations were completed for enterprises chosen for demonstration privatizations. The preparation included:
 - ◇ information memoranda
 - ◇ valuation analysis
 - ◇ strategy presentation

- ◆ a list of potential investors for each privatization possibility.

Phase III: Six Enterprise Privatizations

The accomplishment for this phase included:

- ◆ review the current operations and business strategy including documentation of markets, customers, competitive environment, and cost position;
- ◆ assess the fixed assets and process technology in place;
- ◆ evaluate the chosen company's relative competitive advantage vis-à-vis world standards;
- ◆ develop statements of financial accounts;
- ◆ estimate the value of the enterprise based on the appropriate valuation technique;
- ◆ identify the alternative structures of foreign investment given enterprise's needs and objectives; and
- ◆ develop a short-list of potential foreign investors and initial marketing/bidding strategy.

Phase IV: The Bulgarian Mass Privatization Program

The principle accomplishments include:

- ◆ Compilation of a preliminary list of state-owned enterprises to be offered
- ◆ Critical path development of the program
- ◆ Budget and staffing chart for the CMP
- ◆ Assisted CMP in the organization of a registration network
- ◆ Auction format
- ◆ Voucher design
- ◆ Computer system specification
- ◆ Amendments to existing privatization laws and writing of new laws/ordinances
- ◆ Compiling, tracking, organizing, and disseminating all enterprise data

- ◆ Design of information “passport”² on all enterprises
- ◆ Prepared form of legal analyses screening to be carried out on all enterprises
- ◆ Prepared instruction manual on legal analyses
- ◆ Training CMP staff on legal status of enterprise
- ◆ Daily assistance to CMP on supply side issues
- ◆ Conducted survey to measure public opinion on MPP
- ◆ Assisted the Securities Commission in the preparation of regulation
- ◆ Consistent update of the list of enterprises slated for the MPP
- ◆ Assisting the CMP in developing standards to which the investment funds and the companies on the MPP list will need to adhere

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

Barents was awarded a subsequent program to accomplish:

- ◆ the completion of an information database on selected companies;
- ◆ additional proposed amendments to the Decree on obligatory information;
- ◆ the design of the information form for a catalogue on enterprises;
- ◆ the development of an auction pricing methodology; and
- ◆ continued close assistance to the CMP.

² The information “passport” was a summary of each enterprises’ product and most updated financial condition.

IQC DELIVERY ORDER 21 Privatization and Technical Assistance Program for the Kurdzhali Region of Bulgaria

Period of Performance: April 16, 1993 to January 31, 1996

Funded Amount of Delivery Order: \$1,464,018.00

Total Funds Expended: \$1,430,701.26

Location of the Project: Work for this project was mainly done in the Kurdzhali region of Bulgaria.

Delivery Order Description:

In 1992, when the Government of Bulgaria passed its country's first privatization laws, it had already achieved initial success in the privatization process. The Agency for Privatization (referred to as "the Agency" throughout this document), was made responsible for the privatization of all state-owned enterprises with book value in excess of 70 million leva. Up until the passage of the laws, the Agency had been actively coordinating all of the privatization activities with the relevant Ministries of Construction, Industry, Trade, Transport and Tourism.

In 1993, anxious to continue the momentum of their privatization activities, the Government of Bulgaria, along with the Agency and relevant Ministries, went on to prioritize specific regions, sectors and enterprises towards the development of the private sector.

The Government of Bulgaria, hoping to decrease the Kurdzhali region's unemployment figures, called for the revitalization of this area. The Government requested a project to include privatization and technical assistance. Because this area was of strategic and political importance to Bulgaria, a successful region program was expected to benefit several strategic sectors while contributing to the political stability within the country. Overall, the goal of the small-scale privatization program was to ensure the rapid transfer of small business entities into private hands. Up until to this point, Barents staff were actively involved with the design of similar programs throughout the former CIS and Poland. By 1992, throughout Central and Eastern Europe, the small-scale privatization approach was typically carried out by the regional authorities under the general direction of a country's national privatization agency. However, Barents chose a decentralized approach because it resulted in the rapid privatization of small enterprises.

The objectives of the USAID assistance can be divided into the following four areas:

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- ◆ **Regional Overview:** To review the economic components of the Kurdzhali region and assess those areas suitable for further private sector development and future economic growth. We documented the results of the regional economic overview, including identification of key sectors, cataloging of sector components, and mapping of enterprises, and presented the results of USAID and the Government of Bulgaria.
- ◆ **Sector Mapping:** To identify and evaluate industrial sectors that demonstrate a potential competitive advantage and provide a mapping of those sectors that identify the enterprises most suitable for privatization. We conducted thorough investigations of the investment climate in order to target the most promising enterprises in the region.
- ◆ **Privatization Preparation:** to select and prepare three to five key medium/large enterprises for privatization. We created the design of a small-scale program including the assistance to targeted municipalities technically and financially, providing the municipalities with positive reassurance about their initial privatization work, starting the privatization process and ensuring that it progressed as rapidly as possible and developing public support and demonstrate that economic development could be achieved through privatization.
- ◆ **Small Business Privatization and Liquidity Support:** To design an open, public auction program to sell and privatize small local businesses and identify the financial institutions required to provide credit facilities to those privately-held enterprises in order to ensure their future liquidity. We designed a process by which BARENTS could quickly and efficiently implement, and more importantly replicate, our privatization efforts throughout the municipalities.

In summary, the principal objective of the Kurdzhali project was to implement grass roots privatization quickly which would be transparent, fair and carry a clear demonstration message to other municipalities.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Squire, Sanders, & Dempsey	Attorneys
Benatova, D.	Attorneys
Davis, Robyn	Economist
Lewis, Clifford	Economist
Thompson, Todd	Economist
Winn, Carolyn	Financial Planner and Manager
Kurtz, M	Financial Planner and Manager
Petrov, Georgi	Financial Planner and Manager
Paschke, Brett	Financial Planner and Manager
Slavonia, Mark	Financial Planner and Manager

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Ozberk, E	Industrial Engineers
Tzaneff, Kristina	Accountant
Chakarova, M.	Local Financial Manager
Dimov, I.	Local Financial Manager
Gebov, A.	Local Financial Manager
Grigorova, E.	Local Financial Manager
Karoleff, V.	Local Financial Manager
LeRoux, P.	Capital Markets Specialist
Lukov, N.	Local Financial Manager
Mantarkova, G.	Local Financial Manager
Milev, B.	Local Accountant
Nenov, Z.	Local Financial Manager
Ourouchev, V.	Local Financial Manager
Roules, D.	Attorney
Simunovic, A.	Financial Planner
Sopadjieva, E.	Local Financial Manager
Velev, T.	Local Financial Manager

Significance of Activities under the Delivery Order:

Significant results achieved by the first phase of the Kurdzhali project included:

- ◆ In less than one year since the government commencement of the project, 1,120,000 citizens in 12 cities were introduced to our program (13% of the population) 75 properties were sold, raising US \$7 million in the first quarter of 1994 alone Barents was able to have approved and to privatize successfully, approximately 30 sites per city.
- ◆ The properties were sold at open, public auctions.
- ◆ Barents provided on-the-job training to local valuers and legal advisors so that subsequent phases could be handled locally.
- ◆ Barents designed and implemented a simple lease purchase model for the auctions in poorer regions such as Kurdzhali.
- ◆ Barents developed procedures for all preparatory work and the related documentation such as legal analyses, valuation reports, appraisal reviews and auction documentation.
- ◆ Our total sales were for 128 properties with a total gross area of 22,910 sq.m. for US\$1,881,161.

Methods of Work Used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

To build on the success of this program, and therefore to ensure its continuation the following steps were foreseen, at the time this delivery order was completed, and were used as a starting point and goals to a Phase II of this project:

- ◆ The total number of cities covered would increase from 12 to 22.
- ◆ Larger assets and municipal enterprises would be included for the first time in all of the targeted 22 cities.
- ◆ Sale of an additional 100-120 properties in the first quarter of 1995.
- ◆ Kurdzhali Phase II would raise approximately US\$10 million more for the local municipalities which are participants in the program.
- ◆ Post-privatization surveys of all buyers would be conducted to evaluate the results from the privatization with six months.
- ◆ Information brochures, "how-to" handbook, etc. would be developed and distributed to all municipalities as a way of education citizens and advertising the small-scale privatization program.
- ◆ A mass media campaign would be launched on the benefits of privatization to the Bulgarian public, including a conference/seminar for municipal officials.
- ◆ An action program would be developed and new sites under the Kurdzhali extension would be selected.
- ◆ Draft contracts for Kurdzhali, including new contracts for the original 10 cities for medium and large-scale privatization would be developed.

IQC DELIVERY ORDER 22 Poland--Banking Supervision

Period of Performance: May 12, 1993 to January 31, 1996

Funded Amount of Delivery Order: \$4,012,024.00

Total Funds Expended: \$3,118,050.13

Location of the Project: The majority of the work was performed in Warsaw, Poland at the headquarters office of the national Bank of Poland. During 1995-96, a portion of the work was also performed in other cities in Poland, in particular Lublin.

Delivery Order Description:

Work under this task order evolved in conjunction with the World Bank's EFSAL in 1993. The initial focus involved ongoing policy and legal advice for senior management of the National Bank of Poland (NBP) and the development of an on-site inspection manual for the General Inspectorate of Banking Supervision (GINB), the supervisory arm of NBP.

The scope of the task order was expanded during 1994 and 1995 to include components of work that specifically addressed problem bank resolution, off-site supervisory systems and analytical training, and risk-based supervisory strategies. Together, in the intent of all components of the program were designed to assist GINB in building its institutional capacity to effectively supervise the commercial banking system in Poland.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Sylwestrzak, Malgorzata	Accountant
Clarke, Robert	Senior Policy Advisor
Bailey, Ellen	Capital Market Specialist
Baldino, Gina	Capital Market Specialist
Ballinger, Susan	Capital Market Specialist
Chan, Susan	Capital Market Specialist
Cooke, David	Capital Market Specialist
Dominquez, Susan	Capital Market Specialist
Drake, Edward	Resident Advisor
Fish, Robert	Capital Market Specialist
Heath, Stephanie	Capital Market Specialist
Hightower, James	Capital Market Specialist
Horner, James	Capital Market Specialist/Project Manager
Kaminski, Barbara	Resident Advisor
Klien, Barbara Ann	Capital Market Specialist
Ledochowska, Marie T.	Capital Market Specialist

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Nolan, Ed	Capital Market Specialist/Project Manager
Potter, Beth A.	Resident Advisor
Newell, R. T.	Capital Market Specialist
Richards, John	Capital Market Specialist
Richards, Rebecca	Resident Advisor
Sexton, James	Senior Policy Advisor
Yerzyk, Lori	Capital Market Specialist
Bodych, Malgorzata	Local Economist I
Holnicka, Anna	Local Economist I
Stefaniak, Jaroslaw	Local Economist I
Berg, Alexander	Economist

Significance of Activities under the Delivery Order & Methods of Work:

The work under this delivery order coincided with a period of severe stress in the Polish Banking System. Both the large state-owned banks and the newly licensed, privately owned banks were feeling the pressure of poor quality asset portfolios and liquidity concerns. Further, senior management of the National Bank of Poland was relatively new, with both the Governor and the Director of GINB appointed in 1992.

Given that banking services and a healthy banking system are vital in the functioning of a real economy, the role of government in safeguarding the stability of the system is critical. This delivery order allowed USAID to support the development of the infrastructure and expertise of Poland's fledgling bank supervisory organization. Important policy and legal advice was provided to senior officials of GINB by a former US Comptroller of the Currency, Robert Clarke, and Director of Banking Supervision at the Federal Deposit Insurance Corporation, James Sexton. This proved critical as supervisory policies were just being crafted by GINB and the banking law and law on the central bank (both adopted in 1989) required significant revision to be effective. Over the life of the delivery order, these advisors developed a credible relationship with banking supervision management. This relationship/partnership proved instrumental in helping GINB management guide the development of supervisor practices and improve the understanding/expectations between GINB and the commercial banks.

An important focal point throughout the program of assistance was the development of the on-site inspection manual. Such development was a joint process of USAID advisors and representatives of several organization units within GINB. BY design, this allowed for interaction between the advisors and GINB staff/management and ensured that the manual developed would be credible in the eyes of the Poles, in other words, that it properly reflected the Polish situation and was not just a language translation of Western ideals. Over the course of the project, over 20 chapters were developed and approved by GINB, and in an ongoing fashion, the supervisory principles reflected in these chapters were tested and implemented by GINB's 350 inspectors across Poland. Further, the inspection manual provided the platform for an ongoing series of formal classroom training sessions for the inspectors, leading to advisor assisted inspections within a

number of commercial banks. The connection of these events ensured that developed theory was properly linked with training, both in classrooms and on the job.

Under the Problem Bank component of the program, the resident advisor provided guidance and ideas relative to the supervision of several severely troubled banks. This advice provided the Crisis Unit of GINB with alternative approaches to resolving problem institutions. An important product of this component of assistance was the development of a manual addressing Bank Resolution and Liquidation, including the development of information packages on problem banks to aid in the facilitation of sales or the intervention of GINB or the Bank Guaranty Fund.

The off-site systems aspect of the program, in conjunction with a US Treasury advisor, provided GINB with assistance in redesigning the chart of accounts (general ledger) for banks, the associated financial reporting format from the banks to NBP, and the conceptual development of a mainframe-driven system that translates the data provided by the banks into useful supervisory information reports.

Together, these areas of assistance, policy/legal advice, on-site and off-site supervision, and problem bank resolution are the building blocks of an effective supervisory process. The USAID program helped create the intellectual foundation within GINB to create such a process.

Unfinished Work and Possible Project Continuation:

The work performed under this delivery order contributed significantly to the philosophy and implementation of supervisory principles by GINB. However, a culture of bank supervision is not built within a narrow time span. Continued donor assisted effort should build from the successes achieved under this delivery order. Specifically:

- ◆ Policy and Legal advice should continue to emphasize ways to enhance supervisory authorities of GINB, while at the same time balancing the need for regulatory oversight with the commercial needs of privately-owned commercial banks. This area of assistance should continue to be available as a sounding board for NBP/GINB senior management relative to pressing or controversial issues in the financial sector.
- ◆ On-site supervision techniques have been developed. Skill in their use comes through application. Continued technical assistance should focus on widening the coverage of inspectors exposed to formal classroom training and, importantly, expand into more frequent and complex on-site inspection of commercial banks, implementation or on the job training.
- ◆ Problem bank resolution assistance should continue to emphasize the principles of supervisory response/intervention by providing training to the Crisis Unit. New tools in methods of identifying deteriorating trends in banks should be emphasized.

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- ◆ Continued assistance relative to off-site supervisory systems should focus on the 1996 implementation of the new bank chart of accounts and finalization of the format of the new reporting schedules. Going into 1997, assistance should assist GINB in the actual change over to the reporting requirements of 12/31/96 and the implementation and use of the Uniform Bank Performance Report, an automated database system that creates periodic supervisory information reports.

As noted, USAID decided to extend its commitment of assistance the NBP, and, as of February 1, 1996, task order #7 under contract EPE-005-I-00-5048-00 went into effect.

IQC DELIVERY ORDER 23 **Slovak Republic--Portfolio Management Restructuring and** **Investment Banking Capabilities for the** **General Credit Bank of Slovakia**

Period of Performance: May 19, 1993 to April 30, 1995

Funded Amount of Delivery Order: \$2,967,460.00

Total Funds Expended: \$2,860,859.90

Location of the Project: Work for this project was mainly done at the Bank's headquarters in Bratislava, Slovakia.

Delivery Order Description:

The objectives of the project were described in the Scope of Work section, which was the main reference document used to manage the project. The following four basic functions comprise the Scope of Work.

- ◆ The first function set out under the Scope of Work was Portfolio Management. The VUB's role as the major supplier of financing to Slovak enterprises, in the form of both debt and equity, was unmatched in the country. This made it necessary to strengthen its balance sheet and restructure its portfolio. This was managed in two ways: first, by improving the VUB's balance sheet; secondly, by building tight risk control management tools.
- ◆ The second function was the Establishment of Investment Banking Capabilities. The expansion of the nascent investment banking capabilities of the Bank were crucial. The original Investment Banking Department was small and inexperienced, it need assistance in marketing itself as a part of Slovakia's strongest corporate bank. Investment banking activities that are undertaken on the behalf of the client companies flow from the restructured architecture of the Corporate Banking Division. To make this Division of the Bank an active player in the Slovak corporate finance and privatization market, Barents assisted them in understanding the potential markets, recognizing and targeting customers, and recognizing a strong product range.
- ◆ Also important in the restructuring of VUB was improvement of the Treasury Management Division. VUB's exceptional size and the magnitude of its foreign currency holdings made it an ideal candidate to become the leading institution in trading money market instruments and hard currency. Strong internal risk control and management information tools were developed, implemented, and mastered.

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- ◆ Finally, the Scope of Work called for assistance with the preparation of a long-range strategic framework for the bank. This should have been completed at the beginning of the project to provide direction for the work necessary to move the remainder of the shares of VUB held by the state into private hands. The work undertaken during the first two phases of assistance had strengthened the VUB's internal management system and had improved the overall operations of the Bank to manage its client portfolio. VUB became a more attractive candidate for privatization as a result of USAID assistance and thus should have had more potential interest to foreign investors. This function was not completed due to internal bank politics.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
William Haworth	Project Manager
Wilhelm Amtage	Investment Banking
Terri Carpenter	Investment Banking
Steve Farkas	Strategic Planning
Victor Felszegy	Treasury
Garrett Goodbody	Treasury
Marc Knapp	Treasury
Renate Krol	Problem Loan
Rob Martin	Problem Loan
Pat McNeil	Investment Banking
Baily, R.	
Baldino, Gina	
Ballinger, Susan	
Billings, Donald	
Burkes, Marshall	
Calderaro, Alberto	
Chudy, A.	
Donnerstag, H.	
Farmer, Ran	
Graybill, Steven	
Kauric, D.	
Kroner, A.	
Murray, E.	
O'Neill, Patrick	
Valachovic, Dusan	
Vonckx, Paul	
Zamon, Fred	

Significance of Activities under the Delivery Order:

The project's goal of "creating efficiently organized enterprises capable of prospering in competitive domestic and foreign markets was attained.

Methods of Work Used:

A several methods were used, fact finding, designing recommended remedies, knowledge transfer, implementation via formal and on-the-job training; and direct involvement in day to day activities side by side with counterparts.

Unfinished Work and Possible Project Continuation:

There were no deliverables left incomplete under this Delivery Order. All criteria was met for USAID and the VUB, so there was no need to continue the project under another proposal or Delivery Order. However, the Bank's loan portfolio continues to be problematic.

**IQC DELIVERY ORDER 24
Technical Assistance to the
Ministry of Finance and the Ministry of Health of the
Czech Republic with respect to
Restructuring the
Public (Non-Profit) Services Sector and the Health Care Sector**

Period of Performance: September 20, 1993 to October 31, 1994

Funded Amount of Delivery Order: \$599,488.00

Total Funds Expended: \$327,527.26

Location of the Project: Work for this project was mainly done in Prague, the Czech Republic.

Delivery Order Description:

The Czech government made considerable progress in privatizing its business sector. The initiatives have however not to date touched significantly on the public services sector. This sector is currently serviced by a multitude of state budgetary and state contributory organizations. To the date of initiating this project no organized attempt had been made:

- ◆ to rationalize the services provided by the multitude of public service entities,
- ◆ to measure the cost effectiveness and quality of the services which they provide, and
- ◆ to establish legal vehicle(s) which lends itself easily to private involvement in the public services sphere.

The prime motivation of the Ministry of Finance (MOF) and Ministry of Health (MOH) in rationalizing this sector is to apply market forces to this sector to the greatest extent possible, thereby maximizing the quality of service and financial efficiency of the operation of the sector. Two fundamental objectives drive the process of transformation:

- ◆ a transfer of state property through a process of privatization or transformation to non-profit legal persons, thereby continuing with the process of de-statization; and
- ◆ attracting alternative sources of financing to the public services sector.

This project was undertaken by a team of USAID contractors, each with specialized experience in the technical areas covered by the full scope of the project. The contractors included:

- ◆ Barents,
- ◆ Barents sub-contractor Squire, Sanders & Dempsey (SSD),
- ◆ Health Care Enterprise International, Inc. (HEI),
- ◆ the Citizens Democracy Corps (Voluntary Hospital Association), the CEE law Initiative Project (CEELI), and
- ◆ the Health Care Financing Administration (HCFA).

The objectives of the overall project were:

- ◆ Support the government in obtaining a new law on not-for-profit, public enterprises which will increase the diversity of capital available to the enterprises which serve the public interest.
- ◆ Support the government in identifying legal and financial structures and payment systems that will enhance the viability of the health care system in the Czech Republic.
- ◆ Assist the government in educating the Parliament, the health care sector, and the public on the implications of the transformation.
- ◆ Assist with the transformation of several health care facilities to private, not-for-profit status.

Within the context of the overall project, the objectives of Barents scope of work were:

- ◆ To assist the Czech Ministry of Finance in developing a draft of the Law on Non-Profit Public enterprises.
- ◆ To provide information to the Czech Government with respect to selected features of the legal and financial structures of the health care systems in the U.S. and Europe for use in designing the transformation of the Czech health care system.
- ◆ Prior to passage of the Law on Non-Profit Public enterprises, to support the MOF and the MOH in developing educational sessions covering the new law and its implications for the health care sector in the Czech Republic for:
 - ◇ the government,
 - ◇ the Parliament,
 - ◇ the health care sector, and
 - ◇ the public.

- ◆ To assist the Czech ministries of Finance and Health in drafting health sector specific legislation (other than laws related to health insurance). The legislative areas in which Barents will assist will be determined by USAID, the MOH, and the MOF following passage of the Law on Non-Public enterprises based on their importance in supporting the transformation process and in assuring that the new not-for-profit organizations serve the broader public-societal good.
- ◆ To provide a financial analysis of diversified capital sources, including the effects on the health system, hospitals, and the capital markets, and a commentary on their advantages and disadvantages for the health sector.
- ◆ To provide legal assistance in drafting enabling legislation regarding capital financing, such as tax exempt bonds, loan guarantee and subsidiary programs, etc. necessary to attract private sector capital to the not-for-profit health care sector.
- ◆ To provide financial analysis and recommendations regarding the tax issues related to the new structure of the health care public enterprises.
- ◆ To provide legal assistance and advice to pilot sites in their transformation to a new legal status.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Cortese, Joseph	Attorney
Dittrich, Ludwig	Economist
Farmer, Ran	Economist
Feldman, Irwin	Attorney
Ganik, Milan	Attorney
Matejcek, Jan	Attorney
Mikulecky, Brettislav	Local Economist
Smidova, Marie	Local Economist
Tichy, Lubos	Attorney

Significance of Activities under the Delivery Order:

The Barents deliverables were accomplished and documented in a series of reports which include:

- ◆ Non-Profit Public Service Organizations Comments and Suggestions of Draft Law.
Report of comments on draft law.
- ◆ Non-Profit Public Service Organizations Report on Draft Principles of the Act.
Report that summarizes governmental and institutional comments received on draft law and includes commentary provided by SSD to MOF regarding the comments.

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- ◆ Comments by SSD to the MOF relating to propositions Regarding Provisions of Non-Profit Legal Persons.
Report on specifications including SSD's proposed amendments to the draft law and background material supplied to legislative committees.
- ◆ Draft Work Plan (submitted to the MOF).
Report on legal assistance, other than the above, provided to the MOF in preparation of the Law on Non-Profit Enterprises.
- ◆ Documentation of verbal discussion between H. Reinhard and I. Feldman.
Report on recommendations to HEI on themes and talking points to be included in the communications program with the various target audiences.
- ◆ Report concerning Possible Roles of Ministry of Health in Transformation of Health Sector Institutions.
- ◆ Review of Principles of Non-Profit Organizations Act.
- ◆ Report concerning the Government Licensor/Approval Process for Non-Profit Organizations.
- ◆ Report concerning the Non-Profit Approval Process.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

The principals in the Czech Government did not like the concept of not-for-profit organizations and strongly resisted advisors' recommendations and participation, which lead to USAID canceling any further work on the project.

IQC DELIVERY ORDER 25 Hungary--Redeployment of Financial Assets-Restructuring, and Privatization Phase 1B

Period of Performance: July 12, 1993 to December 31, 1995

Funded Amount of Delivery Order: \$255,900.00

Total Funds Expended: \$183,920.38

Location of the Project: Work for this project was mainly done in Budapest, Hungary.

Delivery Order Description:

The program represents to continuation of the work Barents performed, Delivery Order #15, in support of the Hungarian bank reform process. The work over the next several months will focus on providing on-going, high-level policy advice and specific technical support under the auspices and direction of the Interagency Bank Reform Committee (the Committee) in Hungary. Members of the Committee included senior representatives of the Ministry of Finance (MOF), the National Bank of Hungary (NBH), the privatization agencies under the responsibility of the Minister for privatization (the State Property Agency, or AVU, and the State Asset Holding Company, or AV Rt.), the State Banking Supervision, and other lesser players. This work was closely coordinated with the World Bank as part of their larger program of enterprise and financial sector restructuring.

Barents' role as advisors to the Committee was to highlight critical issues affecting the bank reform process, identify options, work out technical implications and make practical recommendations based on their analysis.

Specifically the technical assistance to the Committee focused on:

1. The design and initial preparation of the bank portfolio remediation and enterprise restructuring program for 1993 (the 93 Plan)
2. Support the continuing efforts to make the 1992 Loan Consolidation Scheme functional (the 92 Plan)

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Billings, Don	Economist
Clarke, Robert	Attorney
Glauber, Robert	Economist
Hinds, Manual	Economist
Martinez, Roberto	Financial Planner

Torsney, Gerard

Financial Planner

Significance of Activities under the Delivery Order:

The main accomplishments of the program included:

- ◆ Advisory Services to the Committee with a focus on helping to shape the Loan Consolidation and Bank Recapitalization Plan (the 93 Plan). The advice included work on making more effective the previously-agreed predecessor "92 Plan" by redesign in the form of the Stabilization Tax Waiver and the Bond Exchange.

The team advised the AV Rt. by consulting with senior staff and their investment bank advisors in strengthening their institutional capacity to carry out bank privatization.

- ◆ The *Sector Vision Paper*, a study on the existing structure of the banking sector and a vision of how the sector might be reconfigured in order to best serve the expected needs of the economy over the foreseeable future was developed and presented to the Committee and USAID.

The study forced the identification of sector-wide issues pertaining to the privatization process. Rather than simply assume that each bank, as currently constituted, should be restructured, recapitalized and then marketed for private sale, the study caused the responsible ministries and agencies to first identify and then examine alternative sector configurations, in the context of the expected future role of the banking industry.

- ◆ A paper titled *Bank Corporate Governance in Hungary* was written and delivered. The paper addressed the following subject areas:
 - ◇ Framework of Law
 - ◇ Objectives and Conduct of Banks
 - ◇ Board of directors: Exercise of Business Judgment
 - ◇ The Supervisory Board: Compliance and Performance Measurement
 - ◇ Conflicts of Interest
 - ◇ Shape of future Boards
 - ◇ Performance Measurement Criteria
 - ◇ Draft Resolution

The MOF requested reinforcement of the messages contained in the paper through a MOF-sponsored conference delivered to over 100 bank directors and other interested parties in Budapest in March or 1994.

- ◆ Advisory Services to the Bank Control Unit (BCU) which was established by the MOF to administer the special "recapitalization agreements" (the Agreements) which

all banks were required to sign as a condition to receiving pre-privatization recapitalization as recognition that this was a unique event and that management had obligations to take certain actions the strengthen the banks from a management and governance perspective.

- ◆ Close co-ordination and cooperation with U.S. Treasury, USAID and the World Bank efforts.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

USAID recognized for some time the need to address weaknesses in the financial sector, including banking supervision. Barents was contracted to perform the work delineated in the "Phase II" DO.

IQC DELIVERY ORDER 26 CEE Region--Financial Sector Diagnostics

Period of Performance: August 23, 1993 to May 15, 1996

Funded Amount of Delivery Order: \$898,426.00

Total Funds Expended: \$812,540.68

Location of the Project: Work for this project was mainly done in the Central and Eastern European Region.

Delivery Order Description:

To provide preliminary diagnostics of defined activities of central banking and commercial banking institutions and of government finance ministries which can serve as the basis for design of more far-reaching projects.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Bailey, Ellen	Capital Markets Specialist
Baldino, Gina	Capital Markets Specialist
Billings, Don	Economist
Borzyskowski, John	Capital Markets Specialist
Burr, Edwin	Capital Markets Specialist
Chan, Susan	Capital Markets Specialist
Clarke, Robert	Capital Markets Specialist
Coleman, Jerome	Capital Markets Specialist
Cooke, David	Capital Markets Specialist
Graybill, Steven	Capital Markets Specialist
Grey, Gilbert	Capital Markets Specialist
Haberkern, John	Capital Markets Specialist
Hall, Michael	Capital Markets Specialist
Halpern, Joel	Capital Markets Specialist
Harding, Douglas	Capital Markets Specialist
Heath, Stephanie	Capital Markets Specialist
Heldridge, Dan	Capital Markets Specialist
Hightower, James	Capital Markets Specialist
Markels, Michael	Capital Markets Specialist
Murray, Edward	Capital Markets Specialist
Nolan, Ed	Capital Markets Specialist
Oldham, Darrell	Capital Markets Specialist
Owens, Wayne	Capital Markets Specialist
Pendeleton, Bill	Capital Markets Specialist
Peterson, Vicki	Capital Markets Specialist

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Procter, David	Capital Markets Specialist
Rajao, Paulo	Capital Markets Specialist
Richards, John	Capital Markets Specialist
Roberts, Daniel	Capital Markets Specialist
Satterfield, Jim	Capital Markets Specialist
Selby, Joe	Capital Markets Specialist
Sexton, James	Economist
Theobald, J.	Financial Planner
Velez, Graciano	Capital Markets Specialist
Wilson, Clayton	Capital Markets Specialist
Yerzyk, Lori	Capital Markets Specialist

Significance of Activities under the Delivery Order:

Due to the large number and short duration of the diagnostics, they are listed by the quarter of the year in which they were performed.

Quarter ending 30 September 1993: none

Quarter ending 31 December 1993:

- ◆ National Bank of Poland, Problem Bank Unit--Identified the resources and mechanisms in place to deal with troubled banks; discussed the needs to deal with the present and prospective inventory of problem institutions; and related organizational, market, legal/regulatory, and environmental factors that could inhibit successful resolution.
- ◆ National Bank of Slovakia, Banking Supervision Department--reviewed present activities, future needs and prepared a work plan for banking supervision activities, a condition of the World Bank's loan.

Quarter ending 31 March 1994:

- ◆ Bank of Lithuania, Banking Supervision Department--reviewed present activities and future needs, and produced a work plan for accomplishing the follow-on technical assistance, see Delivery Order #36.

Quarter ending 30 June 1994:

- ◆ Macedonia, Financial Sector Assistance--conducted "pre-audit" review of two banks to ascertain the quality and quantity of information available and to initiate preparations for the audits, see Delivery Order #37.
- ◆ Poland, Ministry of Finance, Financial Sector Restructuring--analyzed the environmental factors that could impede financial sector development and identified needs for likely U.S. Government assistance.

Quarter ending 30 September 1994:

- ◆ Bulgaria, National Bank of Bulgaria - conducted a diagnostic review of the effectiveness of the existing bank supervision process.

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- ◆ Latvia, National Bank of Latvia - conducted a diagnostic review of the effectiveness of the existing bank supervision process.
- ◆ Developed a diagnostic tool to assist in the assessment of bank supervision, the Bank Supervision Assessment Matrix.

Quarter ending 31 December 1994:

- ◆ Hungary, National Savings and Commercial Bank--analysis of what may prevent the bank for operating under the Loan Portfolio Guarantee scheme: small business lending practices, credit and risk management policies and procedures, and training methods and content.

Quarter ending 31 March 1995:

- ◆ National Bank of Croatia, Banking Supervision Department--reviewed existing practices, organization and staffing needs; identified technical assistance developmental needs; and assessed the legal and regulatory framework.

Quarter ending 30 June 1995:

- ◆ National Bank of Slovenia - conducted a follow-up review to the bank supervision technical assistance program (under Delivery Order #33) to assess status of implementation and provide additional assistance.
- ◆ Warsaw, Poland - conducted two day bank supervision workshop attended by all bank supervision technical advisors, USAID Project Officers Landy and Lange, and USAID Warsaw staff.

Quarter ending 30 September 1995:

- ◆ National Bank of Slovenia - conducted a follow-up review to the bank supervision technical assistance program (performed under Delivery Order #33) to assess status of implementation and provide additional assistance in the development of a strategic plan for the bank supervision department.

Quarter ending 31 December 1995:

- ◆ National Bank of Slovenia - conducted a follow-up review to the bank supervision technical assistance program (performed under Delivery Order #33) to assess status of implementation.

Quarter ending 31 March 1996:

- ◆ Bosnia-Herzegovina - conducted diagnostics of 13 banks to assess the level of technical assistance required to restructure the Bosnian financial sector. This represented the first foreign technical assistance project in Bosnia after the signing of the Dayton Peace Accord and was considered highly successful by USAID. It provided the primary basis for USAID's program of technical assistance to Bosnia-Herzegovina.
- ◆ Macedonia Financial Sector Diagnostic - performed a two-week diagnostic to assess technical assistance needs necessary to restructure the financial sector.

Methods of Work used:

This task order was considered to be a very successful both by USAID project officers and the contractor. The task order provided a vehicle that could be used by a variety of project officers and in any of the CEE countries. It allowed USAID to do preliminary diagnostics to assess the prospective counterpart's willingness and ability to absorb proposed technical assistance as well as the basis for developing the technical assistance program.

The performance of the diagnostic reviews entailed working in several structured modules:

- ◆ Existing/Anticipated Technical Assistance
- ◆ Legal and Regulatory Framework
- ◆ System Structure and Condition
- ◆ Bank Restructuring and Privatization
- ◆ Department Organization and Staffing
- ◆ Reporting System Adequacy
- ◆ Surveillance and Analysis
- ◆ Examination
- ◆ Enforcement and Compliance
- ◆ Training and Development

IQC DELIVERY ORDER 27
Technical Assistance for Privatization in the
Czech Republic Through the Restructuring of
the Czech Savings Bank

Period of Performance: September 30, 1993 to September 30, 1994

Funded Amount of Delivery Order: \$369,192.00

Total Funds Expended: \$356,979.87

Location of the Project: Work for this project was mainly done in Prague, the Czech Republic.

Delivery Order Description:

The primary objective of this project was to support the success of the unprecedented privatization program of the Czech Republic through continuing technical assistance to the leading financial institutions, the Czech Savings Bank (CSB), involved in the program.

Barents provided technical assistance to the CSB:

- ◆ on the design and implementation of long term systems for securities processing and financial markets interface;
- ◆ on the development of requirements, design, and implementation of systems for foreign payment activities;
- ◆ for the long term organization structure and back room operations for the securities trading at CSB;
- ◆ for the long term organization structure and back room operations for the foreign payments function within CSB;
- ◆ for the financial and management restructuring of the Bank to increase operating efficiency and response time to privatization issues and matters.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
English, Karl	Local Accountant
Graybill, Steve	Financial Planner, Project Manager
Haswell, Carleton	Financial Planner
Hrybowych, Melanie	Financial Planner, Resident Advisor

Zamon, Frederick
Zitova, Irena

Financial Planner
Local Accountant

Significance of Activities under the Delivery Order:

The following reports summarize and document the deliverables completed:

- ◆ The long term decisions and plans of the design and development of automation of securities processing.
- ◆ An evaluation of quality processing requirements for securities settlement including
 - ◇ workflows,
 - ◇ processing standards,
 - ◇ staffing requirements and management structures, and
 - ◇ equipment needs.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

Several of the original deliverables were omitted at the direction of CSB with the agreement of USAID. CSB could use assistance in the completion of those areas.

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IQC DELIVERY ORDER 29

Poland--Bank Przemyslowo Handlowy S.A. (BPH) of Krakow

Period of Performance: September 22, 1993 to October 31, 1995

Funded Amount of Delivery Order: \$4,352,670.00

Total Funds Expended: \$3,720,051.61

Location of the Project: Work for this project was mainly done in Krakow, Poland.

Delivery Order Description:

Barents provided advisory services to assist the Bank Przemyslowo-Handlowy (BPH) S.A. of Krakow in:

1. strengthening portfolio management including technical and economic restructuring of client companies based on financial work-out activities currently underway;
2. establishing investment banking capabilities including project analysis, corporate finance, packaging of transactions, deal generation a (e.g., joint ventures), attracting foreign investment, and underwriting; and,
3. privatizing and developing a corporate strategy of the bank (BPH) itself.

The project also introduced financial engineering and other technical skills through the provision of short-term financial and industry experts. Assistance was directly aimed at these critical areas of the BPH's operation, the development of which, are central to BPH's ability to compete in Polish, European and global markets.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Alpern, Alan	Attorney
Ambrose, Edward	Capital Markets Specialist
Carlson, Lucinda	Markets/Export Promotions Specialist
Colin, Justin	Capital Markets Specialist
Douglas, Tom	Capital Markets Specialist
Duffy, John	Financial Planner
Fischer, Walter	Capital Markets Specialist
Grady, Jeffrey	Financial Planner
Graybill, Steve	Capital Markets Specialist
Grudzinski, Meiczyslaw	Local Financial Planner
Hall, Ronald	Capital Markets Specialist
Haworth, William	Capital Markets Specialist
Katolik, Jerzy	Local Financial Planner

Ledochowska, M.	Project Manager
Long, Aneas	Financial Planner
MacGregor, D.	Capital Markets Specialist
Meech, Charles	Capital Markets Specialist
Michon, A.	Capital Markets Specialist
Mirrer, Candy	Financial Planner
Ritchay, Michael	Capital Markets Specialist
Sandvig, John	Capital Markets Specialist
Smith, Robert	Capital Markets Specialist
Sylwestrzak, Malgorazata	Capital Markets Specialist
Woodbridge, Robert	Capital Markets Specialist

Significance of Activities under the Delivery Order:

The advisory team's activities included:

- ◆ *A Strategic and Business Plan* which outlines a strategy to restructuring, managing and managing the bank's investment portfolio, and the necessary worksteps required to achieve the strategy was prepared and reviewed with management.
- ◆ *A two year Training and Development Plan* and budget which was discussed and prepared together with the Bank's Training Department will be phased in over the next two years.
- ◆ *A Portfolio Monitoring and Management* vision was prepared providing a framework for portfolio segments and target returns. The advisors also provided assistance in:
 - ◇ preparing fundamental analysis of companies in BPH's portfolio,
 - ◇ developing policies and procedures for listed/unlisted investments,
 - ◇ designing a two day seminar on Advanced Fundamental Investment Analysis for the Department.
- ◆ *A Transaction Support/Calling Program* resulted in the demonstration and application and practice of skills taught in the classroom as well as positive results for BPH and its clients.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

As the Bank felt that Barents assistance was no longer required, copies of all deliverables in Polish were provided together with summary report with a referenced overview of the contents to the President and his new Board of Director.

**IQC DELIVERY ORDER 30
Lithuania--Preparing Agribusiness Enterprises for Privatization**

Period of Performance: September 27, 1993 to September 26, 1994

Funded Amount of Delivery Order: \$1,177,317.00

Total Funds Expended: \$579,479.90

Location of the Project: Work for this project was mainly done in Lithuania.

Delivery Order Description:

The *initial objectives* of this delivery order were to:

- ◆ Provide continued assistance to Lithuanian agribusiness enterprises for privatization. Other sectors such as the electronics/machine building sector were relegated to a second priority position. Six enterprises were to be selected and prepared for the privatization process.
- ◆ Build local enterprise analysis and valuation capabilities in important financial institutions and key Government personnel in order to broaden and deepen the future activities of Lithuanian privatization program.

Due to changing circumstances in the Lithuanian agribusiness sector, *revised objectives* were developed in September 1994, to meet the needs of the Lithuanian Government and to support the efforts of the World Bank to implement a US \$30 million loan facility in support of the Lithuanian Agriculture Sector. The revised delivery order created a new entity in conjunction with the World Bank entitled "Agricultural Technical Assistance Unit." The goals of USAID's technical assistance were to:

- ◆ Ensure that there would be 8 and 12 enterprise loan projects ready to be submitted for consideration by the world Bank and its on-lending facilities by January 1995.
- ◆ Ensure that the Technical Assistance Unit (TAU) is a functioning operation that has a pipeline of projects for consideration of the lending banks in 1995.
- ◆ Ensure that the independent Lithuanian consulting enterprises are developed in order to offer the services of the TAU to potential borrowers on a commercial basis.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Ayre, Michael	Capital Markets Specialist
Bradley, Berbard	Industry Expert

Feyns, Inna	Financial Planner
Foushee, Scott	Capital Markets Specialist
Karner, Marge	Financial Planner
Mathewson, David	Capital Markets Specialist
Murphy, Brian	Financial Planner
Pemkus, Arunas	Financial Planner
Rigdon, Gregory	Financial Planner
Ryan, Michael	Capital Markets Specialist
Sachs, Duane	Financial Planner
Schloss, Debra	Accountant/Auditor
Sullivan, Gregory	Industry Expert
Temple, Robert	Industry Expert
Thompson, Todd	Economist
Volkman, Petra	Marketing Specialist
Winn, Carolyn	Financial Planner

Significance of Activities under the Delivery Order:

A significant conclusion of the agribusiness sector surveys was that one-off privatizations of individual agribusinesses may be difficult because while distribution capabilities were generally adequate and that there were few substantive differences between the subsectors, the overall agri-processing industry was extremely dependent on the status of the growing sector (farms, herds, etc.), thereby making discreet investment in agri-processing difficult without also investing in growing.

As a result of the lack of investor response for the prepared enterprises, work on them came to a close. this ended the enterprise preparation phase of the project.

As a result of difficulties in negotiating terms for the loan facility between the World Bank and the Lithuanian Government, the implementation of the project was significantly delayed. Consequently, USAID decided to discontinue support for the World Bank program and canceled the project.

Methods of Work used:

Barents began work by collecting basic data on the top 40 major agribusiness enterprises identified by the Ministry of Agriculture as priority candidates for foreign investment. Based on this data and discussions with various officials, a number of the most interesting candidates were selected for initial reviews by technical experts. The initial reviews provided an understanding of the relative attractiveness of the sectors for privatization and foreign investment and to identify individual enterprises for immediate privatization preparation. Coincident with the initial reviews a series of interviews with leading international agribusiness companies were conducted to better understand their general plans for expansion in Eastern Europe and their specific interest in opportunities in Lithuania. Next an assessment of the targeted companies was conducted via on-site

visits. The result was the recommended priority of agribusiness enterprises by subsector and name for investment based on potential.

Two enterprises were selected and then prepared for investment. The preparation work consisted of:

- ◆ General enterprise appraisals,
- ◆ Valuation, restatement of financial accounts to Western standards, preparation of descriptive marketing documentation, and
- ◆ Development of a strategic plan to attract foreign investors.

As part of the preparation of the two enterprises hands-on training in enterprise assessment and document preparation for a group of officials from various Lithuanian government ministries was completed.

Unfinished Work and Possible Project Continuation:

The Lithuanian Government decided to privatize nearly all significant agribusiness enterprises through local auction and share subscriptions involving preferential treatment for domestic farmers. Given the rapid pace of domestic privatization and the lack of foreign investment candidates there is little support to be given, or desired.

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IQC DELIVERY ORDER 31 Poland--Ministry of Privatization Privatization Assistance Team

Period of Performance: September 30, 1993 to September 30, 1995

Funded Amount of Delivery Order: \$5,008,227.00

Total Funds Expended: \$2,682,152.19

Location of the Project: Work for this project was mainly done in Poland.

Delivery Order Description:

The main purpose of the Privatization Assistance Team (PAT) as described in the original Terms of Reference was to work within the Ministry of Privatization (MOP) to assist the MOP in accelerating the privatization and divestiture of targeted companies under its portfolio. At the same time, the Team was responsible for enhancing the MOP's capabilities of managing its portfolio in the interim, and to realize optimal value for its companies.

Specifically, the PAT which initially comprehended seven professionals, was requested to:

- ◆ Leverage existing information in the pursuit for more rapid privatization transactions, dependent upon facilitating communication and dissemination of information between departments;
- ◆ Act as a "catalyst" to accelerating the pace of privatization by providing a team of unparalleled experts in investment banking, corporate finance, and restructuring to work in, and advise key departments in the Ministry of Privatization;
- ◆ Enhance and increase the value of transactions through improved valuation techniques, asset management, financial and operational restructuring, and loan workout.
- ◆ Reinforce and refine the institutional framework for prioritizing, evaluating, and negotiating privatization transactions.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Boron, Krystyna	Attorney
Brewder, Kevin	Industrial Engineer
Bublewicz, Alexander	Capital Markets Specialist

Bulkley, Jonathan	Capital Markets Specialist, Project Manager
Davis, Robyn	Capital Markets Specialist
Dreyer, Jacob	Capital Markets Specialist
Grady, Jeffrey	Capital Markets Specialist
Jakaczynski, Krzysztof	Local Accountant
Kaszubski, Marek	Capital Markets Specialist
Kopacz, Robert	Financial Planner
Kurowski, Roman	Capital Markets Specialist
Ledchowska, Marie	Capital Markets Specialist
Lewszyk, Roman	Capital Markets Specialist
Lipski, Peter	Capital Markets Specialist
MacFarlane, Jennifer	Capital Markets Specialist
Niehoff, Karl	Capital Markets Specialist
Oliver, Joseph	Capital Markets Specialist
Potasinski, Andrzej	Financial Planner
Spencer, Thomas	Capital Markets Specialist
Stanislaw, Szulkalski	Local Accountant
Szafranski, Bogden	Capital Markets Specialist
Szwarczewicz, Dariusz	Financial Planner
Thompson, Todd	Capital Markets Specialist
Van Gosen, Linda	Financial Planner
Waksman, P.	Local Accountant
Wojciechowski, Pawel	Local Accountant

Significance of Activities under the Delivery Order:

The PAT faced several hurdles in implementing the TOR, caused by mainly the following problems:

- ◆ **Bad Timing:** while the Project was developed for a pro-reform government pressing for privatization, the Project was implemented during a time of backlash against socio-economic changes connected with economic reform and privatization. In many instances, the Minister's hands were tied when deciding on privatization issues. Also, apprehension vis-à-vis foreign influence on the Polish economy became stronger.
- ◆ **Focus on trade sale transactions in the Capital Department,** as stipulated in the TOR, did not reflect MOP's new policy. Under the new Privatization Minister, there was a move away from trade sales to stock market activity.
- ◆ **Strong Departmental Independence;** the various departments did not cooperate well, at times competing with one another. Also, only few departments welcomed outside/foreign assistance.

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- ◆ **Changed Target:** The Project Manager was supposed to advise the Secretary of the Cabinet while reporting to the Director General. Under the new Government, the Secretary of the Cabinet's influence declined; later-on this position was replaced by a number of Vice Ministers.
- ◆ **Mop Reorganization:** It was also necessary to deal with frequent staffing changes at the senior level of the Mop and with conflicts of interests among Mop leadership.
- ◆ **Mop plays only a small part in privatization:** MOP's role is predominately passive in many of the privatization programs. Only about 20% of privatization activity is initiated in the Mop, the rest comes from other ministries and Founding Organs.
- ◆ **PAT Turnover:** There were substantial changes in PAT staff, particularly during the first half of the Project.

The PAT developed new creative solutions to circumvent these structural hurdles. Thanks to the understanding of the USAID, granting flexibility to fulfill the goals and original intention of the Project, the PAT was able to adjust to the new reality, mainly refocussing on preparing companies for privatization to speed up the process, rather than concentrating on larger trade transactions.

Work within the various departments was successful to the degree that the directors were willing to cooperate with the Team members and allowed access to information.

Goals accomplished in the various departments:

- ◆ **Department of Capital Privatization:**
 - ◇ Designed model purchasing agreement for shares owned by the Mop;
 - ◇ Prepared legal opinion concerning divestiture of the Mop minority share holdings;
 - ◇ Gave Seminars and Workshops on legal issues and negotiating.
- ◆ **Department of Small and Medium Enterprises:**
 - ◇ Advised on privatization of 47 state owned companies.
 - ◇ Developed DCF valuations models, now routinely used by SME employees.
 - ◇ Developed procedure to analyze and approve privatization cases involving Debt
 - ◇ /Equity swaps for "in-kind contribution" method.
 - ◇ Developed model to calculate NPV of future employee leasing payment.
 - ◇ Utilized Fruit and Vegetable sector study for privatization.
- ◆ **Department of Ownership Supervision:**
 - ◇ Facilitated in the execution of 30 debt to equity swaps for major Polish banks.
 - ◇ Provided opinions on policy issues concerning the transfer of shares to

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- ◇ employees in connection with debt/equity swaps and debt/equity swaps for Mass
- ◇ Privatization Candidates.
- ◇ Assisted in approval procedures for EFSAL Loans for the restructuring of
- ◇ companies.

- ◆ Department of Privatization through Restructuring:
 - ◇ Reviewed and negotiated Management Contracts for approval by senior Mop officials.
 - ◇ Advised on monitoring and control procedures for the companies in the PtR portfolio.
 - ◇ Selected enterprises for the Restructuring Task Force and advised one final candidate.

In addition to this successfully revised approach, to fulfill the goals of the Project in the departments, the PAT developed an interdepartmental approach creating four task forces. This was developed to fulfill the original intentions of the TOR, in a structure that could be implemented under the changing circumstances in the Mop.

The 4 Task Forces developed were as follows:

- ◆ Fruit and Vegetable Sector Privatization
- ◆ Restructuring Task Force
- ◆ Privatization through Public Offerings
- ◆ Training.

Through these task forces the PAT was able to demonstrate to the Mop that privatization could be improved in its quality, and procedures could be streamlined and sped up. On hand of pilot, cases PAT showed the Mop how to pull companies, with potential for privatization, into the pipeline, how to select target candidates for restructuring and for privatization and how to finally execute all analytical privatization work and investor search leading ultimately to privatization transactions.

An important part of the task forces included the education of Mop staff and the preparation of manuals or guidelines so that the pilot cases could be used as models for future use by Mop employees.

The fact that a substantial turnaround in approach and outcome of the PAT Project had been achieved by mid 1994 was confirmed by USAID's approval of both expansion and extension of the Project from November 1994 to November 1995. Therefore, it came as a

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surprise when in November 1994, it was announced that the Project was to be terminated by the end of 1994.

Methods of Work used:

Diagnosis, Analysis, Training, Coaching, etc.

Unfinished Work and Possible Project Continuation:

None. Project was terminated.

IQC DELIVERY ORDER 32 Slovakia--Defense Conversion Project ZTS Hrinova-Phase I

Period of Performance: September 30, 1993 to July 31, 1994

Funded Amount of Delivery Order: \$1,045,461.00

Total Funds Expended: \$1,043,882.75

Location of the Project: Work for this project was mainly done in Slovakia

Delivery Order Description:

Successful conversions of defense industries to civilian production is critical to the development of the Slovak and other Central European economies. Due to the prominence of military producers in several regional economies, moreover, conversion is crucial to the economic health of many districts as well.

Barents, in conjunction with USAID, and various ministries selected an appropriate candidate for conversion preparation.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Bischof, R. A.	Industrial Engineer
Boltz, Walter	Economist
Budington, Catherine	Financial Planner
Dixon, Adam	Market/Export Promotion Specialist
Farmer, Ran	Economist
Hahnel, Heinz	Financial Planner
Hodder, Fred	Economist
Irwin, Steve	Industrial Engineer
Jelinek, Petr	Market/Export Promotion Specialist
Martinez, Roberto	Financial Planner ,Project Manager
Matlin, Stephen	Financial Planner
Monaghan, Brian	Economist
Stephenson, Dorothy	Senior Consultant
Thompson, Todd	Economist
Zilberkweit, Ian	Financial Planner

Significance of Activities under the Delivery Order:

During Phase I of the project, the advisors developed an outstanding relationship with management and conducted a thorough analysis of the company. This work included:

- ◆ a financial analysis,
- ◆ an operational analysis,
- ◆ extensive efforts to increase the marketing and sales department's efforts,
- ◆ training of company management,
- ◆ evaluation and change of pricing and costing policies,
- ◆ a review of the privatization plans for the company, and
- ◆ the development of a business plan.

In addition to working closely with company management, numerous meetings were held with government officials in the Ministries of finance and Privatization, the World Bank, and the European Bank for Reconstruction and Development representatives as well as current and potential customers and strategic business partners.

Methods of Work used:

Interviews were conducted to obtain pertinent data. Records were searched and additional data accumulated. Analysis of data was conducted and conclusions reached. Recommendations, primary options, and advantages and disadvantages of each were reviewed with counterparts and then presented to senior management. Following management sign-off, actions plans were prepared and thoroughly vetted by counterparts.

Unfinished Work and Possible Project Continuation:

It is recommended that work be continued to further the initiatives of Phase I. The activities of Phase II would be fourfold.

1. To continue and to expand upon the initial efforts in the aforementioned areas: financial and operational analyses, marketing and sales efforts, etc.
2. To attract potential western partners to form either joint ventures or long-term sales relationships.
3. To complete privatization, consistent with the role of the partners.
4. To continue to provide best Western business practices education and training to management.

**IQC DELIVERY ORDER 33
Slovenia--Bank Supervision Development Project**

Period of Performance: November 30, 1993 to March 31, 1995

Funded Amount of Delivery Order: \$1,266,090.00

Total Funds Expended: \$1,023,690.19

Location of the Project: Work for this project was mainly done in Slovenia.

Delivery Order Description:

To provide an advisory team to assist the National Bank of Slovenia (NBS) with three inter-related objectives:

- ◆ The development of laws and regulations designed to support an active supervisory and enforcement force.
- ◆ The development of examiners skilled in the on-site examination of banks.
- ◆ The development of off-site monitoring and analysis tools required to provide early warning of potential problems in the banks under supervision and to enhance the scarce examination resources.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Boylan, Roberta	Capital Markets Specialist, Resident Advisor
Coleman, Jerome	Capital Markets Specialist, Resident Advisor
Gregorash, George	Capital Markets Specialist, Resident Advisor
Hightower, James	Capital Markets Specialist, Project Manager
Montelaro, Anthony	Capital Markets Specialist
Nolan, Edward	Capital Markets Specialist

Significance of Activities under the Delivery Order:

While Ms. Boylan in conjunction with staff of the MOF and BOS prepared a draft of the new Banking Law, it has yet to be enacted and in fact appears to be a very low priority. There was no timetable nor resolution as to exactly when the Law will be sent to Parliament for approval.

In the area of on-site examinations, Mr. Coleman gave both formal and informal training sessions, introduced a manual of policies and procedures, introduced a report of examination format, started the examinations of Slovenian banks, and paired inspectors with little experience with more experienced inspectors for OJT. He instituted the

Portfolio Manager style of supervising banks. He also joined the inspectors on-site when they examined banks, gave advice, and participated in final briefings with management.

Off-site surveillance results of advisor Gregorash were mixed due to hindrance of the counterparts, Deputy Governor Kos and Director Blazina. In addition to a myriad of surveillance techniques introduced by Mr. Gregorash, his major contribution was to design and develop the BSD's micro-analysis tool to analyze individual bank balance sheets and income statements, which is in wide use through out the BSD. He also designed and developed a macro- analysis tool for analyzing peer ratios and consolidating all banks for a broad view investigation of the Slovenian banking system.

Methods of Work used:

Guidance was provided, standardized formats and procedures were introduced, and formal and informal training sessions were conducted in the initiation of the institutionalization of a bank supervision culture with the staff of the national bank.

Unfinished Work and Possible Project Continuation:

In the future, when new projects are being considered, it is absolutely critical that:

- ◆ a mutual and clear understanding on the part of the host country exists as to what role the advisor(s) will play in the target area;
- ◆ the importance of cooperation and communication is critical;
- ◆ the advisors are kept fully informed regarding decisions affecting the areas where they are working; and,
- ◆ the powers that be in the host country give their commitment, preferably in writing, so that there can be no misunderstanding regarding the goals of the project and the roles of the advisors.

IQC DELIVERY ORDER 34 Poland--Mass Privatization Phase III

Period of Performance: June 1, 1993 to May 31, 1994

Funded Amount of Delivery Order: \$202,163.00

Total Funds Expended: \$102,436.56

Location of the Project: Work for this project was mainly done in Warsaw, Poland.

Delivery Order Description:

Delivery Order #34, Mass Privatization Phase III, was the third in a series of Delivery 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 was originally designed to continue to assist the Ministry of Privatization to prepare Poland's capital markets for a variety of securities that will be introduced as part of the MPP. Barents' work under the Delivery Order focused on worker share implementation, distribution implementation plan review, fiscal agent implementation plan and terms of reference, bearer market study, and market volume study.

The Mass Privatization Department in the Ministry of Privatization has four main units—two concerned with organizing the as many as 600 companies and organizing the 25 National Investment Fund, and two concerned with distribution and trading. Barents' technical assistance to date has been with the latter two groups, and has centered on three categories of securities: share certificates, National Investment Funds (NIF), and company shares.

The 25 NIFs 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 the availability of talent and capital required at both the exchange level, and in the broker back offices.

The worker share implementation plan remained to be a priority under this phase as it was under Phase II. As a result, the project team continued to provide assistance to the Ministry of Privatization to complete the process of developing and implementing several "templates" for MPP company share trading and distribution practices.

The capacity of the capital market infrastructure is crucial to the success of the mass privatization program. Barents building on the volume study prepared under Delivery Order #10 to create estimates of the projections of the actual volume likely to be

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

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Berg, Alex	Project oversight, Economist
Bulkley, Jonathan	Resident Advisor, Capital Market Specialist
McFarlane, Jennifer	Project Manager, Capital Market Specialist
Conte, Michael	Economist
Amtage, Wilhelm	Capital Market Specialist
Shell, Stanley	Financial Planner
Froot, Kenneth	Economist
Dreyer, Jacob	Economist
Stefaniak, Jaroslaw	Local Economist

Significance of Activities under the Delivery Order:

- ◆ Design of a financial institution which will serve a single purpose institution with a potential roll 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 for conversion.
- ◆ Creation of worker share templates and implementation plan.

Methods of Work Used:

Discussions with local brokers and other brokerage firms to incorporate their comments on templates and on MPP/worker share trading issues.

Unfinished Work and Possible Project Continuation:

In spite of positive developments for mass privatization in Poland in April and May of 1993, the fall of the Sichocka government has serious consequences for the program. In the end the final implementation if the Program was delayed until 1995 or later, with serious consequences for the effectiveness of the Delivery Order. Because of the changes in priorities at the Ministry of Privatization, and limited interest in the goals of this Delivery Order, the Delivery Order expired with approximately 50% of the funds remaining.

**IQC DELIVERY ORDER 35
Hungary, Phase II
Privatization Assistance
Hungarian State Holding & Property Company**

Period of Performance: February 9, 1994 to January 31, 1996

Funded Amount of Delivery Order: \$5,467,195.00

Total Funds Expended: \$5,157,682.87

Location of the Project: Work for this project was mainly done in Hungary.

Delivery Order Description:

Provide technical assistance to the Hungarian State Holding Company (APV Rt.) in its mandate to maximize portfolio value via portfolio management privatization preparation and execution.

Barents assistance was provided by in-country and Washington based consultants in the areas of:

- ◆ Enterprise privatization strategy assistance for specific enterprises selected by AV Rt.
- ◆ Enterprise privatization preparation of selected enterprises.
- ◆ Execution of privatization of selected enterprises.
- ◆ Efforts to maximize the value of the portfolio of enterprises.
- ◆ Other support as required.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Garrett Goodbody	Capital Market Specialist
Marshall Burkes	Capital Market Specialist
William Haworth	Capital Market Specialist
Dominique LeBrun	Capital Market Specialist
Brian Murphy	Capital Market Specialist
Gordon Fischer	Capital Market Specialist
Juhasz, Zsolt	Financial Planner
Aneas Long	Financial Planner
Steve Kopits	Financial Planner
William Parker	Financial Manager

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Project Summaries

Catherine Brown	Financial Manager
Anton Simunovic	Financial Manager
Attila Gazdag	Financial Manager
Robert Glauber	Economist
Donald Billings	Economist
Otto Szabo	Accountant
David Thompson	Accountant
Jon Leigh	Accountant
Abigail Clark	Accountant
Michael Smithing	Accountant
Eva Weiss	Accountant
Adrienne Ruttkai	Accountant
Zsuzsuanna Kovacs	Local Accountant
Sabine Falkenstein	Local Accountant
Mary Vidaver	Management and Labor Relations Expert
Gerry Torsney	Attorney
Sidney Gilman	Industrial Engineer (Shipping)
Balajsza, T.	Local Accountant
Baur, Uli	Industrial Engineer
Bayer, .	Industrial Engineer
Boone, Theodore	Attorney
Brent, Michael	Industrial Engineer
Budington, Catherine	Financial Planner
Bulyovsky, Tomas	Financial Planner
Clarke, Robert	Attorney
Cruz-Depaula, Danilo	Financial Planner
Csikos, Z.	Financial Planner
Daniel, Richard	Financial Planner
Dunn, Melissa	Management & Labor Relations Expert
Eden, Lawrence	Industrial Engineer
Edit, Szalai	Local Accountant
Fellner, Ivan	Local Accountant
Fritsch, Werner	Industrial Engineer
Gordon, Elizabeth	Management & Labor Relations Expert
Gotz, Sandor	Local Accountant
Graf, Richard	Industrial Engineer
Grazman, Mark	Financial Planner
Harhai, .	Industrial Engineer
Heetderks, Thomas	Industrial Engineer
Irizarry, Nelson	Financial Planner
Kenyeres, Lajos	Local Accountant
Kopits, Laszlo	Attorney
Lang, Judith	Local Accountant
Leeds, Roger	Economist
Machold, Roland	Capital Market Specialist

McCoy, Matthew	Attorney
Murphy, Jeffrey	Financial Planner
Nunez, Juan	Financial Planner
Petrik, Ferenc	Attorney
Reagan, Kevin	Capital Market Specialist
Rigdon, Gregory	Financial Planner
Rubens, Kevin	Management & Labor Relations Expert
Sachs, Duane	Financial Planner
Seltz, Eric	Management & Labor Relations Expert
Snyder, Edward	Capital Market Specialist
Szabo, Peter	Local Accountant
Szalai, .	Local Accountant
Szego, Gyorgy	Local Accountant
Szepesi, Janos	Local Accountant.
Szirtes, G.	Financial Planner
Thayer, Keith	Industrial Engineer
Thompson, Todd	Capital Market Specialist
Trageser, .	Industrial Engineer
Ugen, /	Industrial Engineer
VanGosen, Linda	Financial Planner
Zilberkweit, Ian	Financial Planner

Significance of Activities under the Delivery Order:

This project was extremely valuable for Hungary, but also very challenging for all involved. Over \$3 billion in privatisations were completed and the utility sector was privatized further than most Western European countries. This was accomplished despite substantial political dissension, a vocal and frustrated populace, and several re-organizations at the state property agency. The tools and skills transferred to the APV Rt. staff have played a direct role in enabling this success.

Methods of Work Used:

- ◆ Training and experience transfer to Hungarian professionals.
- ◆ Governance and management methodologies.
- ◆ Information systems.
- ◆ Company restructuring and privatization preparation.
- ◆ Direct assistance in specific privatization transactions.

Unfinished Work and Possible Project Continuation:

The APV Rt requested that Barents continue their assistance in developing enterprise-specific work plans, making recommendations regarding enterprise restructuring and in assisting in the execution of APV Rt's privatization.

There were several reasons cited for APV Rt's request for an extension. Of the 44 company mandates, by the end of the original run of the contract, 41 were considered ready for privatization within the year prior to the close of the original Delivery Order. 33 of the companies that Barents was actively assisting and advising would not be ready for privatization by March, 1995. Although the final eight months of the unextended Delivery Order did not see a high number of companies privatized, this was due in part to the long lead time needed for privatizing major companies, and also in part due to the change of government in Hungary, which resulted in a call for a new privatization law that slowed the execution of transactions.

**IQC DELIVERY ORDER 36
Lithuania--National Bank of Lithuania
Bank Restructuring and Privatization Program**

Period of Performance: April 8, 1994 to October 31, 1995

Funded Amount of Delivery Order: \$758,221.00

Total Funds Expended: \$692,162.70

Location of the Project: Work for this project was mainly done in Vilnius, Lithuania.

Delivery Order Description:

The Bank of Lithuania (BOL) and the Government of Lithuania embarked on a program to transform and strengthen the Lithuanian banking system. The goal was to address asset quality problems and institutional development needs of the three state-owned banks and the new private sector banks. A major element of the government's program was the adoption of new central and commercial bank laws which provided the legal framework for the development of a sound banking system, in particular, through the establishment of a strong bank supervision capability.

This project provided a team of advisors to assist the BOL's Bank Supervision Department (BSD) in strengthening its capability to monitor and regulate the Lithuanian banking sector. The advisors assisted the BOL in these seven areas:

1. the development and implementation of one cycle on-site examinations of all licensed banks;
2. the verification and improvement of licensed banks' accounting and reporting systems;
3. the development of a prudentially based examination which includes review of management, capital adequacy, asset quality, soundness of earnings and liquidity;
4. the institutionalization of a formal examination process to include an internal bank rating system and a standardized reporting format;
5. the development of guidelines and standards to formalize the appropriate enforcement actions;
6. the coordination and control of financial and institutional diagnosis; and,
7. the improvement or organization and management of the Bank supervision Department.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Baldino, Gina	Capital Markets Specialist
Buckshnis, Diane	Capital Markets Specialist, Resident Advisor
Burr, Edwin	Capital Markets Specialist
Chan, Susan	Capital Markets Specialist
Edwards, Michael	Capital Markets Specialist, Resident Advisor
Grande, David	Capital Markets Specialist
Hightower, James	Capital Markets Specialist, Project Manager
Nolan, Edward	Capital Markets Specialist
Yerzyk, Lori	Capital Markets Specialist

Significance of Activities under the Delivery Order:

The BOL with the assistance of the USAID advisors during the duration of this program made substantial progress in achieving its goals. Ms. Buckshnis assisted in the institutionalization of the on-site inspection process including formalized procedures and a standardized report format. She participated in numerous on-site inspections and provided training and expertise to both inspectors, BOL officials, and bankers. Mr. Edwards assisted the BOL in successfully developing liquidation policies and procedures, and in developing an organizational structure for managing insolvent institutions. Guidance was also provided in the implementation of enforcement Actions to ensure that appropriate corrective actions to examinations are implemented.

Methods of Work used:

Guidance was provided, standardized formats and procedures were introduced, and formal and informal training sessions were conducted in the initiation of the institutionalization of a bank supervision culture with the staff of the national bank.

Unfinished Work and Possible Project Continuation:

Continued efforts are recommended to ensure the further implementation of a proactive, responsive banking supervision culture. Continued assistance in on-site inspections is recommended to ensure that increasingly complex examination issues such as off-balance sheet activities, accounting and risk management techniques are comprehended. Additionally, future assistance should focus on assisting in the collection and resolution of problem bank assets.

**IQC DELIVERY ORDER 37
Macedonia--Financial Sector Assistance Program**

Period of Performance: May 27, 1994 to January 31, 1996

Funded Amount of Delivery Order: \$1,384,053.00

Total Funds Expended: \$885,357.29

Location of the Project: Work for this project was mainly done in Macedonia.

Delivery Order Description:

The primary objectives of this program was originally twofold technical assistance:

- ◆ to be provided to the Bank Supervision Department, and
- ◆ to two commercial banks through the completion of financial and portfolio reviews.

During January 1995, the scope of work was further modified and expanded to include assistance to the Bank Rehabilitation Department.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Baldino, Gina	Capital Markets Specialist
Boren, Larry	Capital Markets Specialist, Resident Advisor
Didham, A.	Capital Markets Specialist
Heitz, Bruce	Capital Markets Specialist
Hightower, James	Capital Markets Specialist, Project Manager
Kamal, I.	Capital Markets Specialist
Matthews, Leslie	Capital Markets Specialist, Resident Advisor
Nolan, Edward	Capital Markets Specialist
Satterfield, James	Capital Markets Specialist
Selby, Joe	Capital Markets Specialist
Shuman, Brant	Financial Planner
Stone, S.	Financial Planner
Theobald, J.	Capital Markets Specialist
Tucker, Y.	Financial Planner
Uranic, J.	Financial Planner
Yerzyk, Lori	Capital Markets Specialist

Significance of Activities under the Delivery Order:

The on-site residents initiated institutionalization of an examination process.

- ◆ An examination manual was developed and continues to be expanded.
- ◆ Training programs were presented.
- ◆ On-site examinations were conducted.
- ◆ A standardized report format was developed and adopted.
- ◆ A head of the Bank supervision Department was appointed.

In addition, assistance was provided in the areas of "Enhanced Financial and Portfolio Reviews" and Bank Rehabilitation.

Methods of Work used:

Guidance was provided, standardized formats and procedures were introduced, and formal and informal training sessions were conducted in the initiation of the institutionalization of a bank supervision culture with the staff of the national bank.

Unfinished Work and Possible Project Continuation:

Efforts to ensure the institutionalization of a banking supervision culture continued under the Omnibus contract. Additionally, technical assistance to the BRA was reinstated with two advisors taking up twelve month residence.

**IQC DELIVERY ORDER 38
Slovakia--National Bank of Slovakia
Bank Supervision Development Project**

Period of Performance: June 15, 1994 to June 14, 1995

Funded Amount of Delivery Order: \$246,040.00

Total Funds Expended: \$168,297.49

Location of the Project: Work for this project was mainly done in Bratislava, Slovakia.

Delivery Order Description:

The purpose of this on-site examination development program was to help strengthen the bank supervision capabilities of the National Bank of Slovakia (NBS).

The primary goal of this program was to create a self-sufficient examination staff equipped with the knowledge and abilities necessary to perform an on-site bank examinations including:

- ◆ organizing and conducting on-site examinations,
- ◆ rating a bank's condition using the CAMEL rating system,
- ◆ communicating conclusions and recommendations to the bank's senior management and directors, establishing follow-up procedures, and
- ◆ developing supervisory strategies for each bank.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Baldino, Gina	Capital Market Specialist
Ballinger, Susan	Capital Market Specialist
Chan, Susan	Capital Market Specialist
Hightower, James	Capital Market Specialist, Project Manager
Nolan, Edward	Capital Market Specialist
Richards, John	Capital Market Specialist, Resident Advisor

Significance of Activities under the Delivery Order:

The NBS, specifically the Bank Supervision Department (BSD), made substantial progress during the twelve months of Mr. Richards assistance, together with other donor organizations and advisors. Mr. Richards introduced and refined the on-site examination process. He assisted in the development and implementation of an examiner procedures

manual which addresses the basic CAMEL components plus several other topics. Mr. Richards designed a standardized report of examination and schedules to be used in on-site inspections to communicate findings to bank and BSD management. Guidance was also provided in the development of a supervisory strategy and process to ensure examination follow-up.

Methods of Work used:

Mr. Richard's approach throughout the year included the use of the "train the trainer" methodology. He provided guidance, introduced standardized formats and procedures, and conducted formal and informal training sessions in the initiation of the institutionalization of a bank supervision culture with the staff of the national bank.

Unfinished Work and Possible Project Continuation:

The continued development of a formal training program and the need for a designated training officer is viewed as being necessary to ensure future progress. Any future technical assistance should focus on more guidance in examination techniques, introduction of additional procedures, and further assistance in the development of bank supervisory strategies.

IQC DELIVERY ORDER 39 Slovakia--Defense Conversion Project ZTS Hrinova - Phase II

Period of performance: July 14, 1994 to June 14, 1995

Funded Amount of Delivery Order: \$1,297,440.00

Total Funds Expended: \$1,296,457.81

Location of the Project: Work for this project was mainly done in Slovakia.

Delivery Order Description:

The objectives of this program are to assist in the second phase (Phase II) effort in the privatization of ZTS Hrinova. Phase II will continue assistance in the restructuring and preparation for privatization already underway, but at a more intensive and extensive level. Furthermore, assistance in the search for foreign strategic partners will provide a further step in the transformation of enterprise into a commercially viable producer of products for the civilian sector. Our objectives include assisting in the implementation of the strategic business plan agreed upon in Phase I of USAID's assistance. These implementation measures are intended to prepare the enterprise for privatization, complete or at least initiation of the privatization process and to strengthen the enterprise as it transforms itself into a commercially viable private sector enterprise offering increased long-term employment opportunities.

Barents will, working closely with management, assist in the development and growth of the enterprise, assist in the implementation of the strategic business plans for the development and growth of the enterprise which were developed in Phase I assistance.

1. Restructure the enterprise to enable it to become a commercially viable, private sector entity:
 - ◆ Draft a detailed business plan.
 - ◆ Assist in the implementation of the business plan.
 - ◆ Prepare the enterprise to operate viably beyond the life of the USAID assistance.
2. Prepare the enterprise for privatization:
 - ◆ Identify units of the enterprise where privatization would be viable.
 - ◆ Assist in the design of optimal privatization structures.
3. Privatize the enterprise:
 - ◆ Identify and contact potential foreign strategic partners.
 - ◆ Initiate negotiations.

- ◆ Execute.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Anderson, Patricia	Capital Market Specialist
Boltz, Walter	Economist
Budington, Catherine	Financial Planner
Dixon, Adam	Marketing/Export Promotion Specialist
Given, John	Industrial Engineer
Hahnel, Heinz	Industrial Engineer
Havasova, Eva	Local Accountant
Jelinek, Petr	Financial Planner
Kinces, Paulo	Local Accountant
Martinez, Roberto	Economist, Project Manager
Matlin, Stephen	Financial Planner
Monaghan, Brian	Economist
Morton, Julie	Economist
Patrovicova, Sona	Local Accountant
Thompson, Todd	Economist
Tragert, Joseph	Capital Market Specialist
Vanco, Lubos	Local Accountant
Walters, C.	Economist
Zadell, Mark	Marketing/Export Promotion Specialist
Zilberkweit, Ian	Financial Planner

Significance of Activities under the Delivery Order:

Slovak political and economic realities provided an important context in which the objectives were pursued:

- ◆ In October 1994, Vladimir Meciar was elected Prime Minister. His platform on foreign investment was unclear and often contradictory.
- ◆ Western Europe viewed the results of the election with apprehension.
- ◆ In November 1994, ZTS Hrinova became a joint stock company, where 100% of its shares are held by the National Property Fund. This new ownership structure was accompanied by a new management structure: the Company now managed by an Executive Board reporting to a Supervisory Board.
- ◆ The percentage of ZTS Hrinova to be privatized through the voucher program vacillated over the preceding nine months: ranges from 30% to 97% have been cited.

- ◆ The privatization of ZTS Hrinova continued to be up in the air. It was postponed repeatedly, and its form has changed numerous times.

The nature of Barents' work had to adapt to this political and economic backdrop:

- ◆ The business plan had to enable ZTS Hrinova's posterity under any form of privatization.
- ◆ A top-down restructuring process was difficult and slow, due to the implementation of a new governance structure (Executive and Supervisory Boards), with its expected friction.
- ◆ Middle management was responsive and saw the need to implement change.
- ◆ Since foreign investment was not likely, the business plan had to be expanded from a strategic restructuring plan to also encompass financial restructuring.
- ◆ Potential partners could only be lured to consider the central Slovakia plan location after extensive marketing-level contact with ZTS-Hrinova.

Methods of Work used:

Barents actions included:

- ◆ Drafted a business plan to enable organizational and financial restructuring.
 - ◇ An organizational structure was developed which considered that ZTS Hrinova operated in four distinct businesses and needed to redirect its efforts toward customers.
 - ◇ A financial restructuring plan was developed which supported ZTS Hrinova's efforts to become a viable commercial entity. It was determined that an additional loan of 70 MM SK, with multiple disbursements and strict covenants, would meet the needs of ZTS Hrinova and be within its debt-servicing abilities. A proposal was drafted and contact with VUB as initiated.
- ◆ Began implementation of the business plan. In conjunction with top management, middle management, and the supervisory board, implemented the following:
 - ◇ Established a marketing department with pricing authority.
 - ◇ Realized the formation of the quotation department within the business division, closely tied to the marketing department.
 - ◇ Developed and implemented pricing software.
 - ◇ Implemented the organizational structure of the marketing department as the first step in streamlining the processing of customer orders.

- ◇ Initiated a regular dialogue among the marketing department, the technical department, and production, aimed at further streamlining the processing of customer orders.
- ◇ Established the small order shop, enabling more rapid entree into western markets by increasing the number of small orders and production of sample pieces. Small orders were no longer displaced.

- ◆ A structure was designed which would accommodate the Company for any form and timing of privatization. A type of holding company was created by dividing the Company into four semi-dependent profit centers along technological lines. All of these profit centers function independently. Some of the units were more viable and suitable for privatization (e.g., gears); some less (e.g., tractors).

- ◆ Potential strategic foreign investors were profiled and contacted. Several funds were potentially interested in an equity stake and/or investing in equipment upgrades. A consensus was reached with the Slovak Ministries and National Property Fund on an optimal structure of strategic alliances. Offering Memorandum and Asset Offering documents were written and distributed. Although there was not immediate privatization, several companies continue to be interested.

Unfinished Work and Possible Project Continuation:

Critical portions of the business plan are being implemented, without which no investor will consider a strategic alliance:

- ◆ The marketing department is thriving.
- ◆ An appropriate pricing mechanism is operating.
- ◆ A system of customer relationship managers will be installed.
- ◆ An incentive system will be implemented.
- ◆ Workforce reductions of an immediate 200 are scheduled.

Through sales increases alone, the Company reached a cash flow positive position for the first time in three years:

- ◆ This indicates that an improved financial picture can be achieved before a cash infusion.
- ◆ However, substantial taxes and other debt payments are being ignored, and inventory is being sold at a deep discount.

The head way made under USAID/Barents guidance is set to continue:

- ◆ All marketing contacts have been transitioned to permanent staff.
- ◆ Management has agreed to hire German and English speakers for the marketing department. This search is underway.
- ◆ A detailed business plan, including a proposal for financial restructuring is on the shelf, ready for any investor use.

ZTS Hrinova's privatization is bound to happen--eventually--but its timing and conditions are political issues, not economic ones.

**IQC DELIVERY ORDER 40
Hungary--Technical Assistance to the
Hungarian National Savings and Commercial Bank**

Period of performance: September 26, 1994 to February 26, 1996

Funded Amount of Delivery Order: \$689,456.00

Total Funds Expended: \$638,110.97

Location of the Project: Work for this project was mainly done in Budapest, Hungary.

Delivery Order Description:

The objectives of this project were to:

- ◆ Develop the National Savings and Commercial Bank of Hungary's (OTP) ability to act as an effective credit intermediary to small business in Hungary;
- ◆ Develop OTP's credit and risk management capacity in small business banking; and,
- ◆ Develop training programs for OTP's small business lending officers and managers in marketing credit and risk analysis, primarily based on cash flow lending.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Rajao, Paulo	Capital Markets Specialist, Project Manager
Parrish, Ted	Capital Markets Specialist, Resident Advisor
Kopits, Steven	Financial Planner, Resident Advisor
Elan International	Local Financial Planner

Significance of Activities under the Delivery Order:

The activities of the program resulted in:

- ◆ A formal risk management process capable of analyzing portfolio and transaction risk;
- ◆ A formal credit approval process which is utilized consistently through-out the Bank, not only for small business, but for all the commercial banking credit functions;
- ◆ The installation of systematic credit management through:
 - ◇ the obtaining of adequate loan information,
 - ◇ disciplined and accurate cash flow projection,
 - ◇ collateral valuation, and

- ◇ the provision of all the appropriate information needed by senior management to manage the credit exposure of the Bank.

Methods of Work used:

The methods utilized during the course of this program include:

- ◆ Diagnosis,
- ◆ Fine tuning existing and adapting new methods and practices to install in the Bank's environment,
- ◆ Drafting, translating and installing a credit manual, and
- ◆ The development of a training needs assessment that allowed the development, testing and roll out of three different training programs for senior managers, credit and small business lending officers as well as the small business owners.

Unfinished Work and Possible Project Continuation:

The implementation of the risk management and credit analysis process, as well as the roll out of the training activities bank wide were considered necessary by both the recipient bank as well as by the USAID Project Officer in Washington and the USAID Hungary Representative. Such activity was financed by USAID under a separate DO, under the Omnibus contract.

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IQC DELIVERY ORDER 41 Central and Eastern Europe--Bank Training Project

Period of Performance: August 26, 1994 to January 31, 1996

Funded Amount of Delivery Order: \$2,996,762.00

Total Funds Expended: \$2,694,001.77

Location of the project:

A resident advisor was assigned to the bank training institute in Warsaw, Poland. Part-time advisors provided assistance to the bank training institutes in Bratislava, Slovakia; Prague, the Czech Republic; and, the Romania Banking Institute.

Delivery Order Description:

USAID provided bank training services for the Bank Training Institutes of the Czech Republic, Slovakia and Poland. Bank training services included resident advisors for all of the institutes. In addition, short-term consulting for the Romanian Banking Institute focused on implementation of the business plan. Par-time instructors taught specified courses, and USAID provided the training materials and equipment needed for the USAID sponsored courses.

The institutes provided professional training to employees of commercial banks and other financial sector institutions. In addition, the institutes trained bank training specialists, meeting a primary goal of USAID. USAID's intent was that each institute be able to teach the core curriculum of courses following cessation of the project.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Austin, Kirstin	Financial Planner
Barrickman, John	Financial Planner
Bauman, Janice	Financial Planner
Bellwon, Michael	Financial Planner
Bennett, Rex	Financial Planner
Beuch, Katarzyna	Local Economist
Blackwell, David	Financial Planner
Blickenstaff, V. Dale	Financial Planner
Blum, Dennis	Financial Planner
Byrne, Fred	Financial Planner
Chandler, Gwynneth	Financial Planner
Davidson, Rod	Financial Planner
Devine, Sue	Financial Planner
Dickerson, Charles	Financial Planner
Drakey, George	Financial Planner

Fitzpatrick, Elizabeth	Financial Planner
Foley, Jill	Management and Labor Relations Specialist
Grier, Tony	Financial Planner
Grier, Waymond	Financial Planner
Hall, Michael	Capital Market Specialist
Harding, Douglas	Capital Market Specialist
Hilliard, Jimmy	Financial Planner
Jones, Steven	Financial Planner
Klarecki, Thomas	Local Economist
Kock, Timothy	Financial Planner
KPMG Accountants	Financial Planner
Krei, Edward	Financial Planner
Kwaitkowski, Jacek	Local Economist
Loy, Tom	Financial Planner
Maples, Gary	Financial Planner
Melekian, Christine	Accountant/Auditor
Mullineuax, Don	Financial Planner
Murray, Edward	Capital Market Specialist
Nowaki, Norbert	Local Economist
O'Brien, Brian	Financial Planner
Olejnik, Ewa	Local Economist
Osinski, Diana	Financial Planner
Pobudkiewicz, Andrzej	Local Economist
Roderick, Jerome	Financial Planner
Schilleroff, Ronald	Financial Planner
Schutte, Melissa	Accountant/Auditor
Simonson, Donald	Financial Planner
Sinkey, Joseph	Financial Planner
Sussman, Lyle	Financial Planner
Swenson, Lynda	Capital Market Specialist
Swift, Ernest	Financial Planner
Titus, Amy	Financial Planner
Titus, Austin	Financial Planner
Trowbridge, Janey	Financial Planner
Walzak, Eugeniusz	Local Economist
Watson, Gayle	Financial Planner
Winiewska, Iowna	Local Economist

Significance of Activities under the Delivery Order:

The reduction of the need for external assistance of the training institutes in the areas of curriculum development, marketing and the actual delivery of courses.

Prototype material for ten courses were developed and delivered during the course of the assignment.

- ◆ Credit 1
- ◆ Credit 2
- ◆ Credit 3
- ◆ Asset Liability Management 1
- ◆ Asset Liability Management 2
- ◆ Basic Principals of Human Resource Management
- ◆ Branch Management
- ◆ Capital Markets 1
- ◆ Capital Markets 2
- ◆ Training Design: Instructional Systems Design
- ◆ Training Delivery: Presentation Skills
- ◆ Case Study Design and Delivery

Methods of Work used:

Train the trainers, coaching.

Unfinished Work and Possible project Continuation:

While the institute in Warsaw is going to receive additional support to develop its in-house training capacity, the Bratislava Institute should receive additional support to continue their train the trainers program.

**IQC DELIVERY ORDER 42
Poland--Common Brokerage Operations**

Period of Performance: September 16, 1994 to July 31, 1996

Funded Amount of Delivery Order: \$3,028, 694.00

Total Funds Expended: \$1,538,196.49

Location of the Project: Work for this project was mainly done in Warsaw, Poland, with occasional diagnostic visits to other major cities in Poland.

Delivery Order Description:

The purpose of the CBO delivery order evolved over the course of the project. Initially, the goal was to create a "common back office" by providing back office software and telecommunications linkages to the brokerage community of Poland. However, a diagnostic done in November, 1994, demonstrated that many brokerage houses felt that their back office needs were met sufficiently by existing technology and that telecommunications linkages should receive greater emphasis.

Subsequent to this diagnostic, Barents began to focus more on the telecommunications aspects of the project. Telecommunications specialists analyzed the needs of the brokerage community and investigated possible technical solutions for these needs. As a result of this analysis, the work plan for the delivery order was redrafted in June and July 1995 to emphasize the creation of a dedicated private telecommunications network for the Polish capital markets and an educational conference for the brokerage community. This revised work plan was reviewed and accepted by USAID.

In fall 1995, work began on the creation of a procurement plan for the telecommunications network. In developing this plan, Barents consulted with the major participants in the Polish capital markets. One particularly interested party was the Strategic Group of the Polish Brokerage House Association, which was also the counterparty for a USAID-funded project to create an over-the-counter securities market for Poland (the OTC project, which Barents is also implementing under the Omnibus II contract). With USAID's concurrence, Barents directed some of the efforts on the CBO project to developing telecommunications aspects of the planned OTC market, including software development and procurement of computer hardware.

In January 1996, the procurement plan for the telecommunications network and computer hardware for brokerage houses was approved by IRM and the project contracting officer. The delivery order was also extended until July 31, 1996, to allow for procurement of equipment and implementation of the telecommunications network.

In Spring 1996, CeTO S.A., a Polish company founded by 43 brokerage houses, came into existence and became the counterparty for the project. Procurement proceeded for the computer equipment specified in the procurement plan. Once purchased, delivered, and installed, this equipment was used for telecommunications and data processing for the over-the-counter securities market. However, CeTO asked Barents to update its analysis of the benefits of the telecommunications network in light of new developments in the telecommunications sector and capital markets. Barents did so and discussed its findings with CeTO, AID/Warsaw, and other relevant capital market participants. Part of our findings were that the technology for the CBO network was no longer necessarily the best one available in Poland, although it was still adequate for the needs of the network as planned; and that the Warsaw Stock Exchange had begun planning a capital markets network of its own.

In July 1996, AID/Warsaw had not completed consideration of whether procurement of the telecommunications network should proceed, in part because of the new findings listed above. Therefore, with USAID's concurrence, Barents signed a contract and purchase order with the selected provider of network equipment yet reserved the right to cancel the contract if so directed by USAID.

Various training programs were also undertaken under the auspices of this project. In February 1996, an educational conference was held to discuss market-making and demonstrate trading system software to brokers. In June 1996, two seminars were held for brokers to discuss technical and policy aspects of the over-the-counter market and its uses.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Bulkley, Jonathan	Project oversight
Clark, Conrad	Technical management and software development
Cowles, Richard	Analysis of telecommunications in Poland
Erin, Dan	Software development
Harwood, Allison	Diagnostic study/project management
Haworth, William	Project oversight
Krupa, Suzanne	Procurement management
Ligier, Slawomir	Diagnostic study
Nickerson, Sandra	Software documentation
Niehoff, K. Richard B.	Project management
Nolen, Susan	Financial analysis/project coordination/procurement
Oliver, Joseph	Work plan development
Peterson, Vicki	Training and broker education
Rasmussen, Bent	Capital Market Specialist
Samson, Mark	Telecommunications analysis
Skulski, Piotr	Telecommunications analysis and implementation

Urbanowicz, John
Williams, T.

Software development
Capital Markets Specialist

Significance of Activities under the Delivery Order:

This delivery order provided significant support to the Polish capital markets by providing telecommunications and computer equipment to the brokerage community and to the over-the-counter market operating company. If AID asks us to proceed with the contract to purchase the telecommunications network equipment, the network will serve as the basis for a network to connect the over-the-counter market, the National Depository for Securities, and participating brokerage houses. Further, the analyses provided under this delivery have helped all capital market participants better understand the telecommunications needs of a mature capital market. Finally, training and education have helped brokers learn more about the over-the-counter market and trading techniques.

Methods of Work Used:

Barents' methods of work on this delivery order included:

- ◆ Consultations with individual participants in the Polish capital markets, including staff of brokerage houses, the National Depository for Securities, and the Warsaw Stock Exchange
- ◆ Presentations to, and consultations with, the Strategic Group of the Brokerage House Association
- ◆ Presentations to, and consultations with, Centralna Tabela Ofert S.A. (CeTO S.A.)
- ◆ Research among potential vendors of telecommunications network hardware and services
- ◆ Financial and technical analysis of telecommunications network hardware and services
- ◆ Development of computer software
- ◆ Procurement of computer and telecommunications hardware
- ◆ Training sessions for participants in the Polish capital markets, including representatives of Polish brokerage houses

Unfinished Work and Possible Project Continuation:

As of the conclusion of the delivery order on July 31, 1996, AID/Warsaw had not yet directed Barents to cancel or go ahead with the planned network purchase. Upon consultation with AID/Warsaw, Barents extended the length of the "out clause" in the contract with Global One to November 15, 1996.

In July and August, Barents provided AID/Warsaw with several sets of recommendations on factors to consider in deciding whether or not to proceed with the network purchase. Among these factors was whether AID would be able to provide additional funding to make the network's operation financially viable for the first year of its existence. As of this writing, this question is still unresolved.

**IQC DELIVERY ORDER 43
Hungary--Assistance to the
Ministry of Finance Secretariat for Bank Privatization**

Period of Performance: September 28, 1994 through January 31, 1996

Funded Amount of Delivery Order: \$1,687,199.00

Total Funds Expended: \$211,526.12

Location of the Project: The tasks carried out during this project were primarily on-site in Budapest.

Delivery Order Description:

The objective of the technical assistance was to facilitate the transformation of the large, state owned banks under the Ministry of Finance's (MOF) authority into financially sound and commercially oriented institutions in order to privatize them.

Specifically, assistance was provided to the secretariat to monitor, adjust and enforce the bank's compliance with several interrelated documents designed to effect financial rehabilitation and operational strengthening. This assistance was to focus on improving risk management functions at these banks, including development of adequate management information reports. In addition, policy related assistance was to be provided, if requested by the MOF, to correct deficiencies or inconsistencies in banking laws and regulations noted by advisors.

Individuals Involved:

<u>Name</u>	<u>Main Responsibilities</u>
Jack Jessen	Senior Advisor - Capital Markets
Holtmeyer, Harold	Senior Advisor - Capital Markets
Adams, Jerry	Senior Advisor - Capital Markets
Kaman, Kind	Local Hire - Accountant
Pribusz, Laszlo	Local Hire - Accountant
Toth, Monika	Local Hire - Accountant
Hightower, James	Project Manager
Horner, James	Deputy Project Manager
Yerzyk, Lori	Project Administrator

Significance of Activities performed under the Delivery Order:

The commencement of on-site technical assistance was delayed several months due to USAIDs uncertainties regarding the roles of the Secretariat for Bank Privatization. The project was structured in two phases with continuation into phase being predicated upon the Secretariat establishing an administrative structure to facilitate the technical assistance and the banks' willingness and ability to accept the assistance.

Phase I was a diagnostic assessing:

- ◆ the adequacy of administrative actions taken by the Ministry of Finance to provide a framework for rehabilitation and privatization of the banks;
- ◆ the adequacy of risk management processes within the banks -- focusing on organization structure and management information reporting; and
- ◆ the adequacy of the structure and staffing levels of the Secretariat to perform its role.

Phase II was to be the transformation in to structurally sound banks and their privatization. However, due to the inability of the counterparts to meet the conditions set for Phase I, Phase II did not occur.

Methods of Work Used:

The following methodology was used:

- ◆ Various documents developed to assist in rehabilitation (consolidation agreements, corrective action plans, extended audits and task lists) for the two largest state banks were reviewed. Due to one of the two banks resistance to provide information, the remainder of the effort was focused on solely one.
- ◆ Management reports were reviewed.
- ◆ Risk management procedures and the organizational structure were reviewed.
- ◆ Limited testing of transaction was performed to determine the reliability of information data in management reports, particularly relative to credit classification.
- ◆ Various meeting were held with the bank's management.
- ◆ Meetings were held with the Secretariat staff.

**IQC DELIVERY ORDER 44
Latvia--Bank of Latvia
Strengthening Bank Supervision Project**

Period of performance: September 8, 1994 to January 31, 1996

Funded Amount of Delivery Order: \$724,420.00

Total Funds Expended: \$512,971.91

Location of the project: Work for this project was mainly done in Latvia.

Delivery Order Description:

The objectives of the bank supervision strengthening project were to assist the Bank of Latvia (BOL) in the development of the bank regulatory system, and to ensure that supervisory capabilities corresponded with the growth of the banking system. During the early 1990's, the banking system expanded rapidly into new products and sophisticated activities with potentially high risks.

The goals of the project were to:

- ◆ assist in the strengthening and refining of examination skills,
- ◆ improve bank regulations, and
- ◆ provide policy guidance in support of the BOL's enforcement actions.

Specific benchmarks were provided and achieved:

- ◆ the completion of on-site examination according to a timetable,
- ◆ evidence of training, and
- ◆ memoranda relating to and/or drafts of policy guidelines and procedures regarding enforcement and regulatory reform.

The program, complementary of the efforts of other donor organizations, was designed to provide Bank Supervision and Problem Bank Resolution technical assistance.

The **Bank Supervision** assistance provided during the term of the project included:

- ◆ On-site examinations of all licensed banks during 1995.

- ◆ Improvement of all licensed banks' accounting and reporting:
 - ◇ all licensed banks adopted the EU recommended chart of accounts.
 - ◇ financial statement audits were ordered for year end 1995 and were instituted as a requirement via the 1995 Law on Banking.

- ◆ Development and implementation of a prudentially based examination:
 - ◇ examinations of the CAMEL components are done for each institution.
 - ◇ the use of risk management in examinations was introduced.
 - ◇ on-the-job training was provided to the examiners.

- ◆ Internal BOL guidelines and standards to formalize the appropriate regulatory response to specific bank problems were developed and implemented.

- ◆ Bank regulations were improved:
 - ◇ the Law on Banks was approved and enacted.
 - ◇ a system for periodic review of laws and regulations was implemented.

- ◆ Organization and management of the Bank Supervision Department was improved.

The **Problem Bank Resolution** assistance provided during the term of the project included:

- ◆ The development and implementation of a depositor compensation system.
- ◆ The modification and implementation of an information package.
- ◆ Recommendations for dual control over negotiable instruments.
- ◆ The development of methodologies for collateralized lending to problem banks.
- ◆ Standardization of data processing.
- ◆ The introduction of a standardized mergers and acquisitions consolidated balance sheet.
- ◆ Memoranda on offshore centers and money laundering were presented to the BSD management at their request.

Individuals Involved:

Name

Pakalnietis, John
Woolford, Kathryn
Hightower, James

Main responsibilities

Capital Markets Specialist, Resident Advisor
Capital Markets Specialist, Resident Advisor
Capital Markets Specialist, Project Manager

Chan, Susan	Capital Markets Specialist
Yerzyk, Lori	Capital Markets Specialist
Burr, Edwin	Capital Markets Specialist
Drake, Edward	Capital Markets Specialist

Significance of Activities under the Delivery Order:

Since the inception of this project, significant strides have been taken by the Bank Supervision Department (BSD) of the Bank of Latvia. Several efforts to enhance the overall supervisory capabilities were initiated, including a twofold increase in staff. The progress achieved enabled the BSD to execute basic examination processes.

Methods of Work used:

The Bank Supervision Department, with the assistance of the advisors, strengthened its capability of monitoring and regulating the banking sector. Advisor Pakalnetis' priorities were developing and improving on-site bank supervision capabilities through training and participation in examinations. Additionally, guidance to improve bank accounting and reporting systems, developing prudentially based examinations, formalizing regulatory responses to bank problems, improving laws and regulations, and developing an examination manual was provided.

Advisor Woolford provided assistance in the area of problem bank resolution. Her arrival coincided with the banking crisis in mid-1995. As a result, her assistance was immediately requested in dealing with the failure of the country's largest bank. She was able to develop a methodology for the orderly pay-out of depositors. She provided expert technical assistance in several areas including money laundering, mergers and acquisitions, and financial accounting.

Unfinished Work and Possible Project Continuation:

Technical assistance is continuing to be provided to the Bank of Latvia under the Omnibus Contract. Emphasis is placed on further institutionalizing an appropriate banking supervision culture. Specifically, training, both on-the-job and formal class room, and enhancements/revisions to the examination manual are a focus. Short term technical experts in the areas of money laundering and possibly accounting are also being utilized to supplement resident advisor Woolford.

**IQC DELIVERY ORDER 45
Slovakia--Phase II in the
Industrial Restructuring/Privatization of PPS Detva,
a Firm in the Defense Production Sector**

Period of Performance: September 30, 1994 to September 29, 1995

Funded Amount of Delivery Order: \$1,469,441.00

Total Funds Expended: \$1,469,441.00

Location of the Project: Work for this project was mainly done in Slovakia.

Delivery Order Description:

In Phase II, Barents worked closely with management assisting in the implementation of the strategic business plans for the development and growth of the enterprise which were developed in Phase I.

Phase II assistance was designed, in addition to implementing the business plan, to:

- ◆ prepare the enterprise, its management and personnel to operate a commercially viable, private sector enterprise beyond the life of the assistance;
- ◆ provide the appropriate training to key personnel;
- ◆ identify and introduce potential investors to the enterprise; and
- ◆ market appropriate organizational and financial structures for those parts of the enterprise which have commercial prospects and lend themselves to strengthening through such actions.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Boltz, Walter	Economist
Creative Management	Industrial Engineer
Dixon, Adam	Marketing/Export Promotion Specialist
Ecker, Johann	Economist
Garcia-Herz, Jose	Capital Market Specialist
Hahnel, Heinz	Industrial Engineer
Hartl, Hannes	Economist
Jelinek, Petr	Marketing/Export Promotion Specialist
Kernstock, Robert	Industrial Engineer
LeBrun, Dominique	Capital Market Specialist

Martinez, Roberto	Economist
McEvoy, Robert	Financial Planner
Monaghan, Brian	Economist
Morton, Julie	Economist
Nikidem, Wolfgang	Industrial Engineer
Thompson, Todd	Economist

Significance of Activities under the Delivery Order:

The Barents team faced serious difficulties to provide assistance to PPS Detva. Interaction with management was initially very limited and a serious lack of information limited our scope of analysis and did not allow us to execute a normal consulting job, in conjunction with management and workers. The first challenge was to win the trust of middle management and top management through the organization of the training seminars and business trips. This was achieved gradually and only at the end, which allowed only a limited direct transfer of knowledge and assistance in the execution of techniques taught in the training seminars. Nevertheless, the response to our initiatives was encouraging and it made PPS Detva officials realize that there was a long way to become competitive in the global marketplace. It also made them realize how valuable foreign assistance can be to achieve this goal.

The Barents team completed Phase II of the PPS Detva project having accomplished several of the set objectives after an uphill struggle against several factors that limited our scope of work and decreased the possibilities of higher tangible results. Management's unwillingness to provide us with important information for our analysis and the resistance to cooperate with them in any financial or privatization related areas restricted our involvement in the project.

In spite of that, the Barents was able, through heterodox practices, to win the trust of middle management first and began to convince upper management about the value being brought into the company by foreign outside consultants. Crucial in this effort was middle management. Since the issues addressed at the training sessions were very practical, they recognized the value of the assistance and saw how the lessons could be immediately applied to their work. They were also able to learn about practical issues about western companies in the same industry and to begin comparing practices. This opened their eyes considerably and they would transmit the lessons learned to their coworkers and management. In this way the Barents team began attracting the attention at other levels of the company.

The second effort, which began to be recognized by upper management at the end of the project was the marketing effort, that brought tangible business leads to PPS Detva. This marketing help was partly executed with internal assistance and cooperation, although limited, with the marketing department. The most significant contribution, though, comes from direct marketing contacts established by members of the Barents team

through direct contacts, industrial fairs and business trips. The concrete business leads coming out of that effort were estimated conservatively at DM 18 million.

The business trips did not only serve as a marketing tool, but also as a learning experience for top and middle management. They could appreciate that factors such as production techniques, factory layouts, human resources policies were as or more important as having the latest machines and technology. Other big surprise for the PPS employees that visited foreign plants was the openness of the employees and executives, who shared a significant amount of information with them contradicting their secretive attitude.

On the strategy issue, the Barents team has outlined the strategic direction that PPS Detva should follow to be sustainable in the short and medium term. It basically assumes that PPS Detva has to concentrate on selling manufacturing capacity to western companies, limiting their sale of finished products to established markets in Eastern Europe. To execute that the Barents team proposes a division in business units along these lines: a) finished products and b) production outsourcing or sale of manufacturing capacity.

On the privatization front, the Barents team believes that unless the ownership issues are solved quickly, it would be very difficult to attract a good strategic foreign investor to PPS Detva. This strategic investor is badly needed to turn around mentalities and practices and contribute with financial resources.

Methods of Work used:

Training and Direct Assistance

Due to the access difficulties faced by the Barents team at PPS Detva, the training modules and seminars became one of the cornerstones of our advisory work, and allowed the project team to get closer to direct sources of information. Throughout the different seminars, the participants offered their insights about the company. The interaction with participants, thus allowed the BARENTS team to broaden the areas of assistance and go beyond a normal training program, assisting the client directly, as they began to apply the lessons learned. Consequently, the BARENTS team thinks that throughout the training modules and workshops, the BARENTS managed to do effective advisory work, utilizing western management and analysis tools in the context of the Slovak business environment and combining it with the "real time" information that was gathered at these sessions. This was obviously not a traditional consulting approach, but it was the only effective way of transmitting our knowledge and winning the trust of managers and middle managers.

General Objectives:

- ◆ Train staff to independently identify solutions to developing problems

- ◆ Introduction of more efficient management methods and techniques

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- ◆ Transmit general and specific knowledge about Western European companies and the trend in management techniques in the industry
- ◆ Present latest market development data, as well as help with the interpretation of marketing data
- ◆ Develop general communication knowledge, necessary for further business development efforts
- ◆ Reach the middle management of the company and discuss with them their problems, opinions and issues, allowing us to reach the people on the factory floor and providing them with tools for their everyday job
- ◆ Develop new approaches and solutions to real life PPS Detva problems with direct input from managers and employees
- ◆ Compare PPS Detva's reality and style to construction equipment companies in Western Europe.

Marketing and Sales

The main goal in this specific area of assistance was to increase PPS Detva sales potential, while showing PPS Detva officials where the main market opportunities for their company was. The horizon for sales increases were short and medium term. Barents consultants, using their direct contacts and establishing contacts with potential clients at the industrial fairs and the business trips, managed to generate a significant amount of business leads for PPS Detva. Unfortunately, Barents was able to have any influence on the execution phase, and thus, it is PPS Detva's direct responsibility to take advantage of the work done by the consultants.

In order to increase PPS Detva's sales in the medium term, the Barents team executed two programs:

- ◆ develop and present a training program(explained in other section) and
- ◆ develop a survey and establish a sales program, used to contact potential clients in Western Europe and the U.S.A.

From the second program, several engagements resulted and PPS was able to scrutinize the market and take advantage of the feedback to reorient their business strategy and marketing approach.

Unfinished Work and Possible Project Continuation:

Implementation and execution of the enterprises strategic direct was the priority for continuation of technical assistance.

IQC DELIVERY ORDER 46

Central and Eastern Europe - Commercial Bank Training Development Project

Period of performance: September 29, 1994 to February 29, 1996

Funded Amount of Delivery Order: \$1,515,260.00

Total Funds Expended: \$882,556.73

Location of the Project: Work for this project was mainly done in Poland and Lithuania.

Delivery Order Description:

The principal objective was to provide technical assistance to commercial banks and bank training institutes in Central and Eastern Europe to focus on developing and strengthening bank training programs. The key goal of the assistance was to help selected banks develop and implement self-sustaining bank training programs designed to build the skills needed to make the transition to true financial intermediaries.

The project was completed in four phases: Selection, Workplan Development, Workplan Implementation and Project Evaluation.

During **Phase I: Selection**, the activities completed included:

- ◆ Eligibility requirements for the participating institutions were developed.
- ◆ A list of prospective institutions was developed.
- ◆ Prospects were interviewed and screened.
- ◆ One bank, Kredyt Bank in Poland, was selected.
- ◆ Fact finding and negotiating meetings with principals from Kredyt Bank, USAID and Barents conducted.
- ◆ Agreement for assistance reached.

The activities accomplished during **Phase II: Workplan Development** included:

- ◆ A training needs assessment was conducted.
- ◆ Human Resource (HR) policies and practices reviewed.
- ◆ Management's perception of the HR role and function defined.

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- ◆ A report detailing HR's current activities, diagnostic findings and advisor's recommendations was drafted and reviewed with the principals.
- ◆ The recommendations were prioritized:
 - ◇ Selection and Placement
 - ◇ Performance Management
 - ◇ Training and Development
 - ◇ Compensation
- ◆ A Workplan focusing on Selection and Placement, Performance Management, and a few Training and Development activities was developed.³

The activities accomplished during **Phase III: Workplan Implementation** included:

- ◆ Human Resource Department Organization Chart review and finalization.
- ◆ Each functions' activities and tasks defined and detailed.
- ◆ Formal policies and procedures established, drafted and translated.
 - ◇ Hiring
 - ◇ Introductory Period
 - ◇ Transfer
 - ◇ Promotion
 - ◇ Job Evaluation
 - ◇ Salary Administration
 - ◇ Educational Assistance
 - ◇ Orientation and Training
 - ◇ Performance Appraisal
- ◆ Associated forms created and translated.
- ◆ Two training session for HR staff conducted.

Phase IV: Project Evaluation

In compliance with the Bank's request and Organization Chart, Job Descriptions, and a Performance Appraisal system were established and implemented. The Bank's HR staff are now able to perform the following activities as a result of this project:

³ It was acknowledged by all principals that two to three years would be required to implement all of the reported recommendations. Due to the duration of the project, it was not possible to fully implement one entire function from conception to banked implementation. Imbedded in the Workplan were several key tasks and action steps for the Human Resources Department to take in order to insure smooth implementation, attain widespread acceptance, and achieve full utilization of the formal Human Resource System.

- ◆ Prepare job descriptions,
- ◆ Establish job skill/knowledge requirements for bank positions,
- ◆ Solicit internal candidates,
- ◆ Understand the principals of behaviors based interviewing including developing questions that elicit skills, knowledge and experience,
- ◆ Appreciate the value and use of personality tests,
- ◆ Understand the principles and the steps involved in making sound and well documented selection decisions, and
- ◆ Apply a rudimentary Performance Improvement Process.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Osinski, Diana	Financial Planner, Resident Advisor
Hall, Michael	Capital Market Specialist, Resident Advisor
Chandler, Gweynneth	Financial Planner
Drakey, George	Financial Planner
Harding, Douglas	Capital Market Specialist
Judy, Jeffrey	Financial Planner
Koppel, Christine	Financial Planner
Markels, Michael	Capital Markets Specialist
Morris, Caitlin	Accountant/Auditor
Mullineaux, Don	Financial Planner
Organazation, Davidson	Financial Planner
Roderick, Jerome	Financial Planner
Salgado, Ruwan	Financial Planner
Seaver, Lauren	Financial Planner
Somonson, Donald	Financial Planner
Wegenhoft, Randa	Accountant/Auditor
White, Mark	Financial Planner

Significance of Activities under the Delivery Order:

Kredyt Bank's Human Resource Department is further along the continuum of moving from a small bank with informal systems to a big bank with formal systems. The infrastructure including the essential policies, procedures, and forms are in place to support a formal Human Resource System. The banking institutes in Bratislava, Prague and Warsaw have a week long banking specific human resource management and training course.

Methods of Work used:

Diagnostic of the existing environment, analysis of findings, tailoring proven concepts and functions to fit the beneficiary's situation, formal class room and on-the-job training and coaching.

Unfinished Work and Possible Project Continuation:

It was recommended in the Diagnostic Report that the entire Human Resource Department's functions be revamped. During the project only a portion was addressed. As a result there is a distinct possibility that limited change will occur. USAID may wish to consider a follow-on program to address the remainder of the recommendations for improving Kredyt Bank's Human Resource System.

IQC DELIVERY ORDER 47 Bulgaria--Municipal Privatization Assistance (Kurdzhali II)

Period of Performance: September 30, 1994 to June 30, 1996

Funded Amount of Delivery Order: \$1,470,255.00

Total Funds Expended: \$1,470,251.91

Location of the Project: Bulgaria

Delivery Order Description:

Since the passage of the Privatization Law in May 1992, the Government of Bulgaria has been slow to privatize state-owned enterprises through the case-by-case method. Over the period spanning 1992-1992, the Agency for Privatization has privatized only five companies, although a number of small businesses and assets were sold by corresponding ministries. Due to the reluctance on the part of the Bulgarian Government to privatize, Barents focused USAID-funded technical assistance at the municipal level, with the objective of stimulating privatization overall.

In 1993 USAID, through its contractor Barents, commenced the second phase of the Kurdzhali Regional project. The main focus of the project was to help municipalities sell smaller municipal properties through competitive auctions, initially in the Kurdzhali region and eventually in other municipalities throughout Bulgaria. This program, which held its first auctions successfully in April, 1994 was welcomed, since that time, by municipal officials throughout Bulgaria. Numerous requests for assistance, from municipalities, under Delivery Order #21 were addressed under Delivery Order #47. The small-scale privatization program became especially attractive to the municipalities when the Privatization Law was amended in June, 1994 allowing the municipalities themselves to control most of the money generated by the auctions, instead of handing over 50% to the central government, as was the case before the amendment. Seriously incentivized, municipalities began to seek Barents' services once they heard of the program. This self-interest, coupled with the legislative authority to privatize and the effectiveness of the technical assistance rendered, ensured the success of the program. As a follow-on to Delivery Order #21, the Municipal Privatization Assistance Project, Delivery Order #47 was to cover four key components. There were:

- ◆ Expansion of the number of cities covered (i.e., up to and over 12 cities, at least). In particular, the project was to focus on those cities with population above 50,000 and which were member of the Association of Democratic municipalities.

- ◆ Privatization of larger assets and entities owned by municipalities - the focus was to expand the program to cover medium-sized enterprises owned by the municipality as well as retail shops and other, relatively smaller properties.
- ◆ Training for local consultants, officials and decision makers. Barents focused on strengthening local institutional expertise, promoting self-sufficiency and widen the impact of USAID's technical assistance. Barents produced "how-to" manuals for municipalities which gave a practical description of the process and examples of the key documents. These manuals were then widely distributed to municipal officials as an introduction and subsequent guide to the process.
- ◆ Public communication and education to build and sustain support. Kurdzhali Phase II included a public communications campaign to use a broad range of media, including TV, radio, call-in shows, print advertising, media relations and telephone hotlines, as well as educational leaflets, posters, banners and other techniques.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
LeRoux, Phillipe	Project Manager, Economist
Leeds, Roger	Economist
Thompson, Todd	Economist
Lonnquist, John	Financial Planner/Manager
Petrov, Georgi	Financial Planner/Manager
Tzaneff, Kristina	Accountant
Gebov, Alexander	Local Hire Financial Planner
Nenov, Jivko	Local Hire Financial Planner
Nenov, Zhivko	Local Hire Financial Planner
Dimov, Ilia	Local Hire Financial Planner
Velev, Todor	Local Hire Financial Planner
Sopadjieva, Efremlia	Local Hire Financial Planner
Stamatova, Galina	Local Hire Financial Planner
Tassev, S.	Local Hire Financial Planner
Lukov, N.	Local Hire Financial Planner
Chakarova, Maria	Local Hire Financial Planner
Lenkov, Zdravko	Local Hire Financial Planner
Limov, Svetoslav	Local Hire Financial Planner
Ouroumov, Rouman	Local Hire Financial Planner
Starodubtseva, Galina	Local Hire Financial Planner
Vladimir, Velev	Local Hire Financial Planner

Significance of Activities under the Delivery Order:

Kurdzhali Phase II was based on the success of Phase I and the demand of additional municipalities to be included into the Small-Scale Privatization Project. In the end, a

total of 22 cities signed up. In line with Barents' objectives, this second phase included not only small properties but also larger scale retail and service outlets, wholesale, construction and other municipally owned companies and larger entities.

Barents was responsible for:

- ◆ hands-on training of appraisers;
- ◆ the reviews of the appraisals of properties designated for direct sale to current occupants (tenants) or employees;
- ◆ the development of uniform installment sale contracts;
- ◆ the actual preparation of the companies up for privatization;
- ◆ the developing of uniform share purchase agreements;
- ◆ post-privatization surveys; and
- ◆ a mass media campaign.

Methods of Work Used:

As Barents branched out to cover more cities and more of the population, we continued with our "on-the-job" training. As a result of the extensive training we added the development of more formal "how-to" manuals. These manual came to be in high demand and covered not only our training objective but also our public communication and education objectives as well.

Barents was responsible for the selling of these properties through a variety of methods including:

- ◆ auctions;
- ◆ direct sales to current occupants; and
- ◆ employee buy-out schemes for the municipally owned companies.

A process was developed by Barents to ensure our success in all municipalities:

- ◆ Select the sites to be privatized
- ◆ Obtain approval of the sites selected by the Municipal Council

- ◆ Conduct legal analyses
- ◆ Conduct valuations of the sites
- ◆ Review of the reports
- ◆ Prepare auction documentation
- ◆ Obtain approval of the proposed auction documentation by the Municipal Councils
- ◆ Publish a notice in the State Gazette about the auctions
- ◆ Launch a marketing and advertising campaign
- ◆ Hold the auctions and sell the properties.

Unfinished Work and Possible Project Continuation:

Because this delivery order was a continuation of the program under which it began (Delivery Order #21), Barents had the advantage of being able to foresee many of the problems which might occur. However, because Barents was also continuously positioning itself to be flexible before constant changing legislation, we were also able to refine our methodologies and expand the program to cover nearly all of Bulgaria's major cities.

This expansion was a significant accomplishment since it was truly a propelling force in bringing about reform at the local level. This reform was accomplished by advertising privatization itself and changing people's attitudes towards privatization overall. Barents' conferences and surveys provided us with benchmarks throughout the life of the project while our public relations campaign served a two-fold purpose, namely to revisit what was successful and what wasn't as well as to give back to the people what they had given to this project—the example of success that has been brought about by small-scale privatization in Bulgaria.

**IQC DELIVERY ORDER 49
Lithuania--Financial and Enterprise Diagnostics**

Period of Performance: January 24, 1995 to February 28, 2995

Funded Amount of Delivery Order: \$54,180.00

Total Funds Expended: \$40, 819.54

Location of the Project: Work for this project was mainly done in Lithuania.

Delivery Order Description:

To provide the analytical framework and recommendations for future USAID privatization and/or post-privatization assistance to either the enterprise and/or the financial sectors in Lithuania, to promote the flow of financial resources to creditworthy private enterprises. The assessment will take into account progress made over the past three years in implementing economic reform, and area requiring further improvement. The current and planned work of other donor organizations working in Lithuania will be examined to avoid duplication.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Chan, Susan	Project Manager
Cleveland, Thomas	Capital Market Specialist
Elicker, Paul	Capital Market Specialist

Significance of Activities under the Delivery Order:

The outcome of the assessment provided the analytical framework and recommendations for further USAID privatization and/or post-privatization assistance to either of the financial and/or the enterprise sectors.

Methods of Work Used:

Diagnostic of the environment, analysis of the findings and preparing and publishing a written report.

Unfinished Work and Possible Project Continuation:

The next step, initiating the work as outlined in the written report.

IQC DELIVERY ORDER 50 Romania--Banca Romana de Comert Exterior Credit Process Improvement

Period of Performance: January 31, 1995 to November 30, 1995.

Funded Amount of Delivery Order: \$619,184.00

Total Funds Expended: \$217,075.17

Location of the Project: Work for this project was mainly done in Romania.

Delivery Order Description:

Immediately following the definition of the project and conceptual agreement by USAID and Bancorex, the president was replaced. The new president was less receptive to the originally intended scope of the project. The differences were resolved and the project commenced in March of 1995 with these activities:

1. Assistance with Loan Workout
 - ◆ Defining the Problem Loan Department's mission, strategies, staffing and authorities.
 - ◆ Developing workout policies and processes.
 - ◆ Defining the Bank's legal rights and remedies.
 - ◆ Direct participation in loan workouts.
 - ◆ Provide training to bank staff.
2. Assist with Credit Policy and Credit Approval
 - ◆ Developing and implementing credit policies.
 - ◆ Enhancing the credit approval process.
3. As a result of a change in the Bank president's priorities the project activities were modified in July 1995 to reflect the following:
 - ◆ Problem Loan Department.

- ◆ Review and recommend Problem Loan Department organization structure, policies and procedures.
- ◆ Assist with the resolution of problem credits.
- ◆ Training.
- ◆ Continue training the Bank's staff.
- ◆ Credit Management.
- ◆ Review the Credit Manual and provide recommendations on credit policies, procedures and credit management.
- ◆ New Products.
- ◆ Perform a feasibility assessment of asset based (formula) lending, commercial and residential mortgage lending, car loans, project finance.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Murray, Edward	Capital Market Specialist
Martin, Robert	Capital Market Specialist
Haworth, William	Capital Market Specialist
Weeks, Robert	Capital Market Specialist

Significance of Activities under the Delivery Order:

A problem loan workout manual was developed published and accepted by the bank. A credit training program was developed and provided to approximately 100 staff. Detailed lesson plans were provided in order so that the training could be continued. A detailed review of the Bank's credit Manual was performed. Recommendations were documented and provided to management. Some of them were adopted. The Bank did not provide the staff member, as was agreed, to assist in the new product feasibility assessment. As a result this goal was not achieved.

Methods of Work Used:

Diagnosis, analysis, training, teaching, status reviews.

Unfinished Work and Possible Project Continuation:

- ◆ The Bank could use more outside help in the following areas:
- ◆ Not all the appropriate bank staff participate in the original credit training programs.

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- ◆ Continued close supervision and assistance with the problem loans.
- ◆ Continued fine tuning and supervision of the credit analysis and granting processes.

**IQC DELIVERY ORDER 51
Croatia--Financial Sector Assistance Program
On-Site Bank Supervision**

Period of Performance: July 31, 1995 to January 21, 1996

Funded Amount of Delivery Order: \$493,670.00

Total Funds Expended: \$285,048.75

Location of the Project: Work for this project was mainly done in Croatia.

Delivery Order Description:

This program formed part of the government's comprehensive plan for reorganization and rehabilitation of the banking sector with three objectives:

- One. Development of examiners skilled in on-site bank examinations.
- Two. Diagnostic work on development of an off-site monitoring function.
- Three. Diagnostic work on the development of a bank rehabilitation agency.

As the IQC contract expired January 31, 1996, only Objective One was accomplished. Continuation of the program, the completion of Objectives Two and Three, is being funded through the second quarter of 1997 via the Omnibus II contract.

Individuals Involved:

<u>Name</u>	<u>Main responsibilities</u>
Hightower, James	Capital Market Specialist
Yerzyk, Lori	Capital Market Specialist
Raworth, Claude	Capital Market Specialist
Satterfield, James	Capital Market Specialist
Selby, Joe	Capital Market Specialist
Matthews, Leslie	Capital Market Specialist

Significance of Activities under the Delivery Order:

"The Bank Examination Manual of the National Bank of Croatia:" nine chapters with associated procedures together with another five chapters without procedures were developed, translated and published. A standardized reports of examination report was developed and successfully tested. A system of communication of examination results, eliciting corrective action with subsequent follow-up was initiated. Class room and on-the-job training resulted in significant improvement in the methods and quality of work of the examiners.

Methods of Work Used:

Diagnostics, material development by the advisors, material development by the counterparts, training, seminars, regular status updates with senior management and technology transfer were methods utilized throughout the project.

Unfinished Work and Possible Project Continuation:

Continued technical assistance should include the following:

- ◆ On-Site Supervision Assistance.
- ◆ Off-Site Supervision Assistance.
- ◆ Bankers' Training.
- ◆ Bank Rehabilitation Assistance.