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**BOSNIA-HERZEGOVINA**

# FOLLOW-UP INFORMATION REQUEST ON POTENTIAL PILOT CASES

USAID FOSTERING AN INVESTMENT AND LENDER-FRIENDLY  
ENVIRONMENT (FILE)

Contract #PCE-I-00-98-00015-00, Task Order #821 of the GBTI IQC

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Submitted by:  
Chemonics International, Inc.  
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National Center for State Courts

**MEMORANDUM**  
(FILE Project – Bankruptcy Component)

TO: Pat Wujcik, COP

CC: Joe Lowther  
Jim Regan  
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FROM: Krassin Dimitrov

DATE: January 28, 2004

SUBJECT: Follow-Up Information Request on Potential Pilot Cases  
RE:

- **“SAVA”, Bijeliina**
- **“MILKOS”, Sarajevo**
- **“Mljekarska Industrija”, Banja Luka**
- **“Jelsingrad FMU”, Kotor Varos**
- **“UNIS Tadić”, Konjic**
- **“PROLEKS”, Kotor Varos**

The information provided by USAID/IBTCI Privatization of Strategic Enterprises has been reviewed and screened against our “Selection Criteria of Pilot Cases”. Before we can make our final evaluation and proposal on each of the companies, the following additional information is needed:

**I. GENERAL INFORMATION UPDATE FOR ALL COMPANIES**

1. Up-to-date legal and organizational information (latest Court Registration, land registration, intellectual property registrations/rights, if any, list of contracts still in force)
2. Updated financial information. Balance Sheets and Financial Statements as of end of 2003. If existing in place: Cash-Flow statements for 2003;
3. Updated information on number of workers employed and breakdown of items: Salaries and Benefits; Taxation and contribution as of end of 2003;
4. Information containing total years and months of work experience for each company employee with paid contributions, and years and months of unpaid contributions for each company employee broken down by amounts due to pension, health and unemployment funds.
5. Updated list of and amounts of Doubtful and Disputable Receivables as of end of 2003;

6. Updated detailed list of unpaid liabilities to the state and to major suppliers (i.e., materials, services, public utilities) as of end of 2003;
7. Updated list of and amounts due to Creditors (Banks, State) as of end of 2003 and scheduling/rescheduling of next payments (if the case);
8. Updated information on recapitulation of liabilities (Long-term Loans; Short-term loans; Long-term liabilities to state; Short-term liabilities to state; Debt to suppliers; Debt to workers; Other liabilities) as of end of 2003;
9. List of all civil cases where the company is as defendant or plaintiff, date of initiation of civil procedure and amount of claim, as of end of 2003;
10. List of existing liens over company's assets and amount secured, as of end of 2003;
11. List of pending enforcement procedures with property subject to enforcement and amounts due, as of end of 2003;
12. Report on whether company's property is registered in the appropriate registers (land books and cadastre).

## **II. SPECIFIC INFORMATION UPDATE**

### **A. "SAVA", Bijeljina**

1. Current operational status of the company. (Last known: operating at 18% of capacity).
2. Is there a reply to the letters dated December 26, 2003 addressed to the Directorate for Privatization of RS on behalf debt-equity swap of 5,603,270KM debt for taxes and social contributions? (Any comment on the position/intention of the government on this debt-equity conversion will be highly appreciated).
3. Explanation on how and why the operating costs are exceeding the operating income for the last 3 years, forming a loss that is eating the capital each year starting with an operating loss of 2,239,836 KM in 2000 increasing to 13,124,140KM at the end of 2002.
4. Current status of the three interested investors in Sava Bijeljina (Agro-Bn from Bijeljina, AIPK from Zagreb, and Jaletex AG from Switzerland) and of any newly submitted expressions of interest.
5. Do you know an interested party (creditor or management) that is eager and would initiate the bankruptcy proceeding, considering that the company is insolvent?

### **B. "MILKOS- Mljekara", Sarajevo**

1. Current operational status of the company? (Last known: ceased production at the end of 2002).
2. What are the consequences of the decision of the Cantonal Assembly dated September 29, 2003 on assumption of the Milkos liabilities (4,212,994KM) due to

- social funds, tax authorities and to other state-owned companies? It is not clear which period of time covers this decision (end of 2002?)?
3. Is there any final decision/explanation from the management of Milkos or the government on the issues found by Lejla Dizdar which have been reported in her Independent Audit report dated April 29, 2003?
    - What is the true value of the fixed assets? Should their value be reduced by 538,165KM?
    - Are receivables overstated by 1,290,475KM?
    - What are the answers/actions taken as a respond to the other 11 issues discovered by the Independent Auditor for serious inconsistencies in the financial documents of the company?
  4. Do you have more information on the Ecotek Oil's (Russian Investor) assumption of debt of Milkos?
  5. What is the status of the interest of Sarajevo Brewery and Ljubljana Milk company towards acquiring Milkos?
  6. What is the reason that caused the company to work at a loss for 4 years in a sequence (1999-2002)?
  7. Does the company have new management appointed? Updated company registration documents?
  8. What are the current plans of the Cantonal Government regarding the sale of Milkos?
  9. If the company has indeed been inoperative since the end of 2002:
    - Does the company have a recent inventory of its fixed assets?
    - Have there been discussions with the trade unions about returning to work?
    - Is there an analysis of whether the company will get back its distribution system and customers?
    - Has the company leased any of its assets during the time it has been shut down, including equipment and trademarks?

### **C. "Mljekarska Industrija", Banja Luka**

1. At what production level does the company currently operate? (A Memorandum, dated July 2003 mentioned that installed milk processing capacity is 90,000 liters/daily and at that time the company processed 13,000 liters per day. This needs to be brought up to date.)
2. We need an up-to-date list of products prices (if possible, with a cost accounting analysis of these products now being produced), and a schedule showing the customers now buying the products.
3. We need more information about mortgages (e.g., what is pledged to secure loan at Nova Banjalucka bank – either all immovable or movable property? "All immovable property (buildings and equipment) is mortgaged as collateral for loan by Nova Banjalucka Bank" – see page 39.)

4. Company's bank debts (recent outstanding balances and mortgages). Latest Review of Short and Long-Term Loans needed (KM 900,925 as of May 31, 2003). What about Litigation with Agroprom Banka (now Nova banka Bijeljina)?
5. How has the "building case" been solved (see page 58 of Informative Memorandum)? Namely, "according to Article 6 of this Law (Law on Privatization of State Capital in Companies – OG RS #24/98), companies with the majority of state capital are not allowed to either sell or in other way alienate its fixed assets from the date of coming into affect of this Law until the day of registration of changes in the ownership structure with the registry court. In this particular case of construction, the company transferred a part of its real property to the PP "Astor". (1,384m2 for apartment-business building). In the Memorandum, two possible solutions were offered: first, abrogation of the contract and penalties for responsible person(s); and second, reduction of the state capital for privatization.
6. Do Tangible Assets of KM 14,271,875 (as of 12/31/2002) include land sold to "Astor" or not?
7. What is result of legal actions against the company (KM 1,555,901 as of 04/14/2003) or about the company's claims (KM 180,000 as of April 14, 2003) – page 40.
8. Schedule of equipment and short-term assets (including inventory and receivables) from which we might be able to do a liquidation analysis.
9. In Balance Sheet as of 12/31/2002 there were KM 81,900 of shares in other legal entities (which legal entities?).
10. In Income Statement as of 12/31/2002 what is considered as Other Income of KM 568,507?
11. Any more interested investors? There were two tenders in 2000 and 2001 and both failed. The RS Directorate for Privatization responded that neither proposal was within current law or regulations. There were two interested companies- meat processing company and a farmers' cooperative. Are competitors showing any interest in purchasing some part of equipment, facilities?
12. Who are existing major suppliers of raw milk (individual dairy farmers or state owned milk farm)? Does company have more developed strategy for improvement of raw milk supply and market expansion?

#### **D. "Jelsingrad FMU", Kotor Varos**

1. Up-to-date information on the status of equipment, inventory and movable property (the Company ceased operations before year-end 2001, and reportedly was plagued by theft and vandalism by its work force. Did all the equipment and inventory disappear? Was office equipment taken, too, so a Trustee would not even be able to find or prepare financial data).
2. When was electricity cut off? Can it be restored (without an exorbitant charge)? Will the Trustee have electricity at the plant?
3. A valuation schedule of equipment, inventory and other assets on hand, sufficient to support a liquidation analysis. (Due to the above the book value of the equipment, KM 722,153 as of 06/30/2003, is suspect).

4. A valuation estimate re land and building (book value as of 06/30/2003 KM 4,711,917 for 86,634 m2 of land in Kotor Varos).
5. What was the company's Other Income in 2002 (KM 78,355)?
6. Any up-to-date information relevant to potential "investors" or buyers for saleable assets (including information about the failed tenders of September 2001 and February 2002).

#### **E. "UNIS Tativ", Konjic**

1. Is the Company still operational, and at what level? (A Memorandum, dated February 2003 mentioned that the Company is active, but only at 25% of pre-war capacity as of June 2001. This needs to be brought up to date.)
2. If it is still operational we need an up-to-date list of products being sold and the prices being received for them (if possible, with a cost accounting analysis of these products now being produced), and a schedule showing the customers now buying the products.
3. Schedule of equipment and short-term assets (including inventory and receivables) from which we might be able to do a liquidation analysis.
4. Market information to support liquidation analysis. (Are there potential buyers for inventory of "inch" bolts for the US market, finished products for the automobile industry (ordered by Crvena Zastava, Serbia), raw materials or "work in progress" inventory)?
5. Any up-to-date information relevant to potential investors (Is the German company "GRAEWE" (which showed investor interest at a public tender in June 2001) still interested? What about Prevent of Sarajevo (another previous bidder)?
6. What is the status of the debt owed Elektroprivreda BiH (KM 175,260 as of 12/31/1990!) (Is this debt effected by a failure to provide requested documents)?
7. Can we get copies or, at least, explanations of commercial contracts with METTEX (Czech Republic – 5 year term through 2004), GRAEWE, CIMMEX, EJMIINT, and ROTOMETAL?
8. Update on Cantonal government's attitude towards Company's debts and potential bankruptcy (Was there a response from the Government of HNC Canton re assumption of liabilities (as of 06/30/2003 KM 1,603,727 plus wages of KM 1,461,820)? Would the Cantonal Agency for Privatization view a bankruptcy filing favorably (in September 2003 its Director wrote that if the Government does not assume the liabilities, the Company has "no solution except to go under the bankruptcy procedure ... decided by ... the USAID project, and that would be one of the worst measures with incalculable consequences)?
9. What are the potential new customers (Are there some from Austria, France, Holland and Norway, as mentioned on page 10 of the Information Memorandum? Are there domestic prospects such as thermo-electric or hydroelectric plants? Have there been any recent contacts with Fusol or Nevesinje related to non-standard fasteners)?

10. Has the Company had any success making direct contact with end users (in June 2001 the company had direct contact only with wholesalers from abroad and retailers from domestic market)?
11. Is the export market still viable? (In the first six months of 2001 the company exported 75% of its production. What happened in 2002 and 2003?)
12. Are any competitors interested in purchasing equipment, inventory or Buildings (see page 17 of Memorandum)? The possibilities include Mrkonjic Grad or “Wurth” of Sarajevo and other competitors from Czech Republic, France, Great Britain, Germany and Finland (see page 18 of Memorandum)?
13. What is the explanation for the Company’s occasional problems with electricity?

## **F. “PROLEKS”, Kotor Varos**

1. Current operational status of the company. (Last known: ceased production at the end of 2001).
2. What is the current attitude of the Privatization Directorate and the District Authorities towards the privatization of the company?
3. What is the current book value of the capital of the company? What is the current state of fixed assets, equipment and inventory? (In the preceding four years the company’s cumulative losses consumed almost the entire book value of its fixed assets. Thereafter, the company started selling off inventory).
4. Is the Italian investor who was interested in “Proleks” in the past still interested in acquiring pieces of the company?
5. What is the current status of the interest the creditors of “Proleks”? Why haven’t they taken action to collect their receivables? From the books, it is clear that company liabilities exceed company assets by 10 Million KM.
6. What is the current attitude of management and workers towards liquidation of the company by selling the fixed assets and covering the debt towards them for past due salaries and social contributions?
7. If the company has indeed been inoperative since the end of 2001:
  - Does the company have a recent inventory of its fixed assets?
  - Have there been discussions with the trade unions about returning to work?
  - Is there an analysis of whether the company will get back its distribution system and customers?
  - Has the company leased any of its assets during the time it has been shut down, including equipment and trademarks?

### **III. Additional information that would be needed for final clarification and tuning after first set potential pilot companies are selected**

1. Names and phone numbers of contact persons (including persons working at the company in management and as workers, creditors, suppliers, competitors, potential investors (if any) and any other knowledgeable people).
2. Names and phone numbers of all contact people regarding the Company's debt (Bank, Major Suppliers, Trade Union leaders).
3. Contact info (if available) of all company's competitors and clients.