

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY

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ANNUAL REPORT

Report for the Contract period ending 25 September, 1992

Submitted By: Deloitte & Touche

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I SUMMARY

Background:

The United States Agency for International Development (USAID) has supported the Government of Hungary's (GOH) Privatization Program since its inception (Refer to the 1st. annual report of the project and APPENDIX VIII). This assistance has been principally channeled through a Deloitte and Touche (D&T) team which has focused its efforts on supporting the development of the government's privatization agency, the State Property Agency (SPA). During the phase of the work subject to this report the long term assistance was expanded to include a Long Term Trade and Investment Promotion Advisor (LTA) in the Ministry of International Economic Relations (MIER) Hungarian Investment and Trade Promotion Agency (HITPA) and the provision of a full time training program mentor/resource within the SPA who was also used to support the efforts of the LTA HITPA. In addition Transaction Support was initiated in the Agricultural Sector of the reorganized SPA.

Coordinated and Responsive:

In an effort that has been coordinated with the support of a broad range of other donors and lenders, bilateral and multilateral, (APPENDIX XXV & XV) USAID has delivered a targeted technical assistance program which has been a major contributor to the development of privatization in Hungary. USAID's SPA support is viewed as rapid, responsive, effective, useful, and non-threatening.

There are two principle reasons for this.

1. Client knowledge: USAID, the USAID Long Term Advisor, and the D&T team have developed credibility which enables them to get the required access to define needs, design the answers, and get the answers accepted and operational. This intimate knowledge -which extends throughout the SPA organization- has enabled the Project to successfully anticipate needs and have the answers in place in a timely manner. The limited ability of the other donor/lenders to get effective absorption of their support highlights the importance of this factor.

2. Contract Flexibility: A flexible contract with a flexible scope of work designed by a very knowledgeable USAID team, a consultant team with a broadly based and experienced privatization skill mix, and all technical assistance being client (SPA) defined with active D&T team and local USAID participation has made it work. (APPENDIX I, XXXV, also First Annual Report APPENDIX X & XX).

USAID has maintained its responsiveness credibility during the year by refocussing its contract efforts as required where the needs were greatest. There has been however some frustration with the delayed full implementation of the Transaction Support Team concept.

Scope of Work:

The present Scope of Work (APPENDIX I) of the D&T team has constituted a flexible guideline within which the project can carefully help target assistance quickly and appropriately within, and in support of, the rapidly evolving SPA and Hungarian Privatization Program. The project's design structure of a knowledgeable advisor targeting specific technical assistance activities on precisely defined and tailored mutually agreed SPA needs (APPENDIX & XXXV) has continued to be the key to the project's success.

Due to the cost involved and the pre-emptive positioning of other donor/lenders (EC-PHARE, World Bank and Know How Fund among others) and more importantly the SPA's limited absorption capacity, the USAID Project's activity has stayed out of direct individual transaction support activity. However with changing circumstances advisory support at the transaction level has been initiated and is intended to be expanded. (APPENDIX XLVI & XXXVI)

In this the second full project year the project continued to focus on institutional development and multiplier efforts at the organizational level, principally within the SPA and initiated efforts to directly support increasing transaction throughput.

The major difference in the second year being that the institution building efforts initiated in the first year reached their natural conclusions in most cases and were executed at a more sophisticated and refined level within a more mature SPA. These efforts, in their turn, have had a significant influence on the success of privatization in Hungary. The complementary effort in Investment Promotion launched in the MIER during the year helped establish the benefit to Hungary of basic support role aimed at US investors within the GOH apparatus (APPENDIX XXXII, XXXVII).

Achievements:

Continuing to adhere to its objectives (APPENDIX X) during its second contract year the USAID SPA Project's main task was to maintain its effectiveness and responsive support with limited resources. This took place in an environment where the SPA became a Ministerial level activity under a revised set of laws, doubled its staff, changed its site, made several major personnel and management method changes, dramatically increased the range of its activities and helped set up the State Asset Holding Company (AV Rt.). (APPENDIX XI, XII, XL, XLII, XXIV)

The support delivered by the USAID funded team has been varied but principally focussed on 10 major project activities and coordination tasks (APPENDIX VIII). The achievements for the contract year are summarized by category in the following pages (also refer APPENDIX IX, XXXIV). The starting point in October 1991 as presented to USAID Washington in a briefing of that date is available in APPENDIX XXXIII.

Main Areas of Activity

During its Second full contract year which was completed 25 September, 1992, the technical assistance delivered to the SPA was in the following main areas:

- Continuing provision of a Long Term Advisor/Project Management officer and office within the SPA.
- Provision of a Long Term Advisor/Investment Promotion with the MIER
- Provision of a Long Term Staff Person focused on training and staff development within the SPA and to support Investment Promotion task.
- The initiation of transaction support in the agricultural sector
- Training assistance
- Investment Promotion assistance
- Financial management assistance
- Equipment assistance
- Privatization Information Systems assistance
- Public Information Program assistance
- Assistance to the Self Privatization Program
- Assistance to the Compensation Note Program
- Privatization Program Planning and Design Assistance

Specific Activities:

By type of activity the contract provided the following support:

1. Strategic Planning:

- Prepared the SPA's institutional Development Plan
 - *Wrote, translated, saw to revisions, helped get approvals (APPENDIX XVI)
- Initiated, helped design and addressed the 1992 off-site SPA strategic planning meeting chaired by the Minister for Privatization. (APPENDIX XIV)
- Helped the SPA/GOH negotiate and then comply with the World Bank's privatization progress conditionality language in their Privatization and Restructuring SAL. (APPENDIX XVI, XXVII, XXX)

2. Financial Management:

- Prepared the SPA's 1st annual budget
 - *Wrote, translated, saw to revisions, helped get approvals (APPENDIX XIII, XVI)
- Designed and implemented a quarterly reporting system to support management, budgeting, and the future planning process. ((APPENDIX XXVII)
- Prepared the SPA's parliamentary budget justification for its fiscal 92 budget. (APPENDIX XIII)
- Defined the SPA's needs in the area of financial management
 - *Defined problem, wrote TOR for CFO, trained and supported CFO (APPENDIX XXIII)
 - *Designed and implemented the financial control modules for the EC and WB funding. (APPENDIX XXV)
 - *Redesigned the SPA's financial control and reporting system. (APPENDIX XXVII)

*Did the organization chart and job descriptions of the Finance Directorate which became the SPA Personnel Department's model (APPENDIX XXVI).

Note: For financial management area also refer to the 1st annual report for background information.

3. Equipment:

- Defined the SPA's equipment and software needs
- Provided the core SPA work stations and software
- Met the initial copier requirements of the SPA
(Also refer 1st. annual report and APPENDIX XIX)

4. Local Area Network:

- Defined the SPA's LAN needs and configuration
- Provided the LAN servers and software.
- Installed the LAN twice (once at old location once at new)
- Trained three SPA officers on LAN system management
- Provided in-house support for daily LAN management
(Refer 1st. annual report and APPENDIX XIX)

5. Privatization Information System:

- Designed and installed a relational data base Privatization Information System for the SPA.
- Designed and produced a training program and manual and users manuals for the PIS. SPA wide training program began 1 September, 1992
- Provided in-house system support and training to the SPA system staff on the program.
- Up-loaded the national enterprise data-base into the program
- Using the data base produced the first by-enterprise/by sector marketing piece for the SPA.
(Refer 1st. annual report and APPENDIX XIX, XXX, XXXI, XXIX)

6. Investment Promotion:

- Defined the SPA's Linkage to investment promotion
- Advised the establishment of the first formal linkage between the SPA and the Investment Promotion Agency.
- Designed and Produced Hungary's first "Invest Hungary" brochure
- Hired and integrated a Long Term Advisor - Investment Promotion who is now providing follow-up particularly for US investors.
- Project designed data base enabled the production of the first comprehensive by-enterprise list of SPA enterprises available for sale.
- Helped coordinate the first formal Investment Promotion Agency visit to the US (Houston and LA) to take place in Oct. 1992.
(Refer 1st. annual report and APPENDIX XXIX, XXXI, XXXII, XXXVII)

7. Public Relations:

- Redesigned the SPA's PR plan
- Provided weekly support on the publication of the SPA's newsletter.
(Refer 1st. annual report and APPENDIX XXVIII)

8. Training:

- Continued day to day mentoring activities at various levels and as part of all project activities.
- Trained the CFO by providing him a formal mentor as part of the financial management project.
- Trained two SPA Lawyers at the International Law Institute in Washington on how to deal with foreign investors.
- Trained two SPA systems people at the USDA on LAN management
- Trained one Privatization Minister advisor on the US legal system and legal system development at the University of Texas.
- Trained six SPA personnel in negotiation skills at the Banker's Training Institute in Budapest
- Trained the new personnel officer of the SPA in the training function and its requirements.
- Created the model job definition format and organization chart breakdown for the SPA by doing it for the Finance area of the SPA.
- Supported directly the SPA's training function to enable them to utilize its EC training funding.
- Trained SPA accounting staff in the operations of the new budgeting and control systems.
- Provided continuing training of the SPA systems staff on the LAN and PIS management.
- Continue to train the SPA on how to utilize training funds to support a well thought through training program
(Refer 1st. annual report and APPENDIX XX, XXI)

9. Compensation Note/Warrant Scheme:

- Provided the basic manual on the overall program defining the organizational steps required by the GOH and specifically the SPA.
The advice has been taken and was implemented.
- Providing the basic operating manual for brokers and investors for the instrument.
- Providing the basic model to evaluate SPA enterprise holdings for inclusion in the Warrant program.
(Refer 1st. annual report appendix XX and APPENDIX XVIII)

10. Self Privatization Program:

- Provided the basic organizational analysis defining the program's projected needs with the purpose of assisting them in getting funding support.
(Refer 1st. annual report appendix XX and APPENDIX XVII)

11. Coordination:

- Work very closely with:
 - *The World Bank missions to the SPA
 - *The EC PHARE Project Management Unit at the SPA
 - *The Canadian Government PR advisor to the SPA
 - *The USAID Budapest Representative Office
 - *The US Embassy
- (Refer 1st. annual report and APPENDIX XXXIII, XV, XVI)

-Coordinated with:

- *The three Know How Fund advisors to the SPA
 - *The two new Treuhandanstalt advisors to the SPA
 - *The US Executive director at the EBRD and staff
 - *Visit by the Slovak investment coordination mission
 - *The U.S. Treasury effort in Hungary
- (Refer 1st. annual report and APPENDIX XXII)

-Supported:

- *The Szekesfehervar model cities program
 - *Visits by the Japanese Eximbank analysts to Hungary
 - *MBA enterprise corp, briefed incoming and existing personnel.
 - *Numerous briefings to visiting US businessmen, congressional delegations, Govt. agency staff, etc.
- (Refer 1st. annual report and APPENDIX XXXIII, XXXVII, XXXVIII)

Policy and Success driven:

Continued support of one of Central Europe's most successful privatization efforts is consistent with the economic policy of the United States, the country strategy direction of the U.S. Embassy Country Team. The USG support is a vital component of Hungary's privatization effort's success.

Hungary's market reform efforts are well institutionalized and clearly stated. Hungary is controlling their inflation rate and increasing their hard currency reserves. The number of new enterprises being established daily is amazing, the bankruptcy law is winnowing inefficient enterprises ruthlessly (some say to much so), and the privatization of government owned enterprises is proceeding well. In short Hungary Privatization Objective namely to Privatize the production of Hungary's GNP and the management of the nations assets is proceeding well. While Hungary's market requires special "due diligence" care it has become the leading recipient of foreign investment in Central Europe with the US being Hungary's largest single investor in value terms - (APPENDIX II, III, IV, V, VI, VII, XXXIX, XLIII, XLIV, XLV)

II BACKGROUND

USAID there at the beginning:

As detailed in last year's report, USAID has been involved since the inception of the SPA concept and the privatization strategy of Hungary. At the SPA USG assistance has played a vital supplementary donor role filling essential gaps in the increasing levels of funding support provided by the GOH, the EC Programme PHARE, the World Bank, The Know How Fund, the Treuhandanstalt, the Canadians and others.

Continuity on the USAID team has been central to its success. The consistent involvement in the program of the Director of the Office of the AID Representative (OAR) Budapest, many of the Hungary country team at the Embassy, strong support at USAID Washington, and in the office for Eastern European Assistance and continuity in the D&T contract team have smoothed the projects evolution in the rapidly changing Hungarian Privatization environment.

PHASE I - Concept, PHASE II - Organization, PHASE III - Execution:

The USAID team has been with the Hungarian privatization program since its 1989 and early 1990 conception PHASE I, through its 1990-1991 Organizational set up PHASE II, and has been an integral part of its the accelerating execution of its privatization functions in its current PHASE III activities.

During the 1990-1991 PHASE II the D&T team, and its project office head Mr. Twyman, the American Manufacturers Export Group (AMEG), Multinational Strategies (MNS), and KRC, worked directly with the executive directors of the SPA to help them structure an organization to help define and achieve the objectives of the Hungarian Privatization Program.

During this the 1991-1992 PHASE III the D&T team completed several organizational tasks that would permit the acceleration of privatization throughput; completed the information system (APPENDIX XXX & XXXI), initiated systematic planning and management by objective (APPENDIX XIV & XVI), helped get both the Self Privatization Program (APPENDIX XVII) and the Compensation Note Program (APPENDIX XVIII) initiated, extensively supported professional training for the privatization desk officers (APPENDIX XX) and concluded its Public Relations bridging support in anticipation of the PHARE funded effort (APPENDIX XXVIII).

Organizational Background

The SPA has continued to execute its privatization role while at the same time organizing, staffing, maturing, training, and having its role defined and redefined by the Parliament and the GOH (APPENDIX III, XI, XII). It has never had respite from transaction pressure while learning and developing its function. As a result, it, like the Privatization Program in Hungary, is pragmatic, transaction driven and fluid. It learns day to day and changes rapidly. The SPA is designed to perform its task over a 5-8 year period and then be dissolved. Its current time horizon for accomplishing the bulk of its Privatization activities is late 1994.

The SPA continues to be an independent agency with its own board of directors and an operating budget approved by the government. It now reports to Government through the Minister Without Portfolio in charge of privatization. Its present Board structure has changed from its initial composition and is now viewed as more responsive to Government direction though still independent. (APPENDIX XXXIX, XL, XLI)

Originally conceived to supervise privatizations and regulate the "spontaneous" privatization process, the SPA subsequently had been assigned to, or has assumed responsibilities for, the following (APPENDIX XL):

- * directing large privatizations (many major enterprises became the responsibility of the newly formed AV Rt. in late 1992)
- * organizing the retail privatization program (the sale of about 6,000 small shops)
- * administering a part of the Compensation Note Program under the Compensation law
- * administering a program to put state assets under management prior to their privatization
- * tracking and dealing with Compensation Note related issues in privatization sales
- * directing the design, launch, and control of a "self privatization" program aimed at the entire middle-market. (This is a fast-track rapid response program designed to privatize privatization with minimal SPA involvement).
- * dealing with the issue of bankrupt middle market government concerns.
- * developing new privatization stimulating programs and instruments
- * generating significant statistical and other reports for the GOH and the donor community.

The SPA's manpower was increased to 301 in January 1992 and raised to 400 in late 1992 with about 45 personnel carved out for Ministerial support and the largest manpower commitment (100) being to the privatization transaction teams. (By comparison the East German program directly employed over 3,000, and the Czech retail privatization program alone over 1,500).

The SPA is designed to rely on external TA to do its job. The intent is to avoid creating a new, overstaffed, administrative bureaucracy and to stimulate the development of Hungarian consulting, accounting, and legal skills. The SPA historically has been significantly dependent on donor and lending agencies to fund its activities.

An essential characteristic of the Hungarian privatization process is the strong and continuing commitment by the government - of all political persuasions - to carry the process forward (APPENDIX XXXIX, XLI, & XLIV). This political will is supported by a strong public consensus that a private sector dominated market economy is required in Hungary and transitional strains are to be expected and endured. It must be underlined that since the inception of the Hungarian privatization program, the GOH and the SPA have been very independent, self-confident and self-sustaining in the decisive policy areas. They are not driven by advisers, but use them when it is convenient and helpful.

Donor support of the SPA: Background

US aid to the Hungarian Privatization effort and the SPA is relatively small (about US \$4 million 1989-1992 which includes expenditures made before the formal launch of this Core Project) and has been carefully targeted to supplement and support the efforts of other donors/lenders. By comparison, the grant resources being committed by the EC PHARE program total ECU 26 million -administered by a 5 man Project Management Unit-, and the World Bank (WB) has committed loan funds of US \$10.5 million. (APPENDIX XXV)

In addition, the British Know How Fund has provided 3 advisors and the Canadian and French governments have each provided one advisor. The Treuhandanstalt makes available two advisors, and the Austrians 1. The Andrew Mellon Foundation provided some early training support and the Hungarian American Enterprise Fund (HAEF) has also assisted in training and other areas.

In the case of the SPA, US assistance has had impact well beyond its size by being there first, responding quickly to the agency's needs, and requiring a minimum of administrative support in return. It has been consistently administered and delivered by a team with continuity so that the wheel doesn't have to be reinvented every time a need is identified. (The benefit of continuity cannot be over-emphasized as it avoids the need for SPA managers to bring external consultant/advisors up-to speed again and again). In addition, US aid has been successfully levered by careful targeting.

The key components of the successful US assistance have been:

- * the presence of a well qualified long term adviser that has fully integrated himself into the SPA.
- * a carefully selected, teamed, technical assistance package to support the LTA's efforts.

Program Design Background

The design of the program of support to the SPA was very well defined. Based on the privatization experience of USAID and D&T, it was determined that the SPA assistance program should be professional, flexible, fast responding, and self-sustaining. This meant that an experienced team with a combination of skills should be pre-positioned to help the LTA work with the SPA to identify and carry out essential support tasks.

The combination of a flexible TA program, an experienced LTA and strong administrative support from the D&T Washington D.C. office was key to the success of the program.

On the practical level, the LTA had the basics of his office and personal support costs provided for. He is taken care of institutionally by D&T. The LTA has had access to funding and skills (through the D&T network and the contract teaming partners) to solve problems as they arise. The process for approving and mobilizing support for each task was quick, effective and professionally managed with very close teamwork at the USAID project officer level.

The entire support program for the SPA was built around the needs of the client - the SPA and the GOH. (1st. Annual report APPENDIX X, XX and this report APPENDIX XXXV) It is designed to help the client solve its problems, not create additional administrative or policy burdens to bear. The speed with which the Privatization Program in Hungary has evolved and the growth needs of the SPA cannot sustain the normal project cycle of support delivery. This was evidenced at every turn in the day to day dealings of the GOH and the SPA with other donor and lending agencies during this crucial start-up phase.

III OBJECTIVES

The principal objective of the USG aid assistance to the Hungarian privatization effort, embodied in this contract to provide Technical Assistance to the State Property Agency of Hungary, is to help Hungary develop a self-sustaining privatization program that is largely market driven. The desired goals are to channel support to help Hungary avoid the problems of using institution-driven thinking instead of transaction-driven thinking, focus on creating the minimum necessary apparatus to support transaction throughput and build free market supporting models and private institutions.

The further objective is to help sustain the strong political will supporting the Privatization process in Hungary by helping to solve the "easy" problems confronting the process. Such areas as equipping, training, technology transfer of working models and TA to help resolve Hungarian problems are easy fixes and within the area of aid delivery competence.

Managing the political aspects of the Privatization process, judging its appropriate pace, dealing with the social safety net issue and designating the program's leadership pattern are the exclusive realm of Hungary's leadership.

In all cases, the initiatives in the privatization program are generated by Hungarians. The initiatives must be perceived as helping to solve Hungarian problems which must and can be dealt with. By focusing resources selectively, considerable guidance can be provided.

During the first contract year, the objective was to guide the modest US aid funds made available in a targeted manner so as to break roadblocks and give support to the SPA's management. During the second contract year the same tradition was continued with the focus being on core management systems -planning, budgetting, information control and dissemination- with continued support in training and the initiation of support to accelerate transaction throughput.

The support delivery is always carefully crafted to support the SPA - not to push it out of the way-. It is important that the support be perceived as solving problems, not creating them. The support is always guided so as to try to achieve certain desired organizational effects on the SPA and the Privatization Process in Hungary.

The principle governing US and other major donor/lender assistance is that it would be a great loss for all concerned if the Hungarian privatization program should falter or fail because it does not receive the supporting knowledge and funding required to move it forward. It would be equally inappropriate to flow funds or advisors that would not support the reasonable and immediate progress of the privatization program.

There should never, at any time in the program, be a question as to who is in charge. The Hungarians are in charge. There should not be a problem of advisors "doing" without developing Hungarian skills. There should not be any doubt that the success of the privatization process in Hungary will be a Hungarian success.

IV ACHIEVEMENT OF SCOPE OF WORK

Background: The D&T team was guided in its work with the Hungarian privatization program and the SPA by a set of specific objectives. These objectives comprise the Scope of Work of the contract. They were achieved through individual actions taken by the LTA or through the provision of technical assistance to support requests by the SPA and the GOH (First Annual Report, APPENDIX X & XX). To quote from Scope of Work: "The project's success to date during this critical stage in the privatization process in Hungary has been due to its ability to respond rapidly to a quickly transforming environment." The critical differentiation in the USAID program at the SPA has been this ability to adjust to the SPA's changing needs and deliver absorbable assistance to meet current needs (APPENDIX XXV).

To understand the successful operation of this project, it must be understood how the interaction between the SPA and the LTA takes place. The LTA is fully integrated into the SPA. The LTA knows the organizational culture of the SPA, its key operating officers and the staff. He is part of the reporting and policy making layer of the organization and tracks all the major operational areas. He works carefully with directors and staff to define how he or other USAID funded technical assistance can support the SPA's activities without conflicting with the activities of other donor/lenders or local funding. This high level of integration is critical in order to achieve absorption of the tasks accomplished under the Scope of Work .

It was recommended in last year's annual report and the recommendation essentially accepted that:

"The main direction of the present USAID effort in support of Hungary's privatization process and the SPA should be continued. This direction is to continue niche support in institution building and "multiplier" efforts within the SPA and in related activities that accelerate the privatization process. USAID should not become involved in transactions on other than a pilot basis as the funding requirements are substantial and massive funding for major transactions has been made available by other donors/lenders.

The basic areas of continued effort during the next annual cycle should include at their core:

1. Continuation of the Long Term Advisor/Project Manager
2. Equip the Self-Privatization effort. Copiers (2 large) for the SPA plus specialized soft-ware and equipment add-ons to what is presently in house at the SPA.
3. Complete Implementation of the Privatization Information System
4. Continue support of the training program and help make available USA based training.
5. Continue Public Relations support
6. Continue and increase Financial Management Support - Technical, Accounting, Financial and Management Control, plus mentoring Assistance - to the Finance Director.

7. Develop the Self Privatization effort: equipment, systems, organization and information program support.
8. Provide Compensation Note Program advisory assistance and support to include the development of a registry system and asset holding (unit trust like) vehicles.
9. Assist Hungary's investment promotion effort to include the provision of a Long Term Advisor with the related technical assistance support.
10. Provide assistance to institutionalize the lessons learned in the first months of the SPA's activities: Operations manuals, job descriptions, personnel policies.
11. Long Term advisor support in an area (or areas) where absorption is possible and appropriate (ie: Investor Driven program, self-privatization program).

Almost all of the above recommended efforts are continuations or expansions of present activities."

During the course of this year most of these recommendations were acted on in one form or another.

Note: Individual pieces of technical assistance executed during the 1991-1992 contract, for instance the Institutional Development and Work Plan (APPENDIX XVI), the Warrant Program (Compensation Note) Phase I (APPENDIX XVIII), the Self Privatization Program Phase I (APPENDIX XVII), the Management Reporting System (APPENDIX XXVII), The Training Manual (Deliverable in the last program year), the Public Relations Program (APPENDIX XXVIII), the Privatization Information System work (APPENDIX XXX & XXXI), the equipment procurement (APPENDIX XIX), each had their own deliverables to the SPA client in English, Hungarian or both. Those items are incorporated in this report by reference, but are not detailed here nor incorporated in full as appendixes given their length. Each is a separate deliverable and has, when appropriate, been submitted separately to USAID.

SCOPE OF WORK

There were five tasks outlined in the Scope of Work of the Project Amendment for the 1 October, 1991 - 30 September, 1992 contract year. These tasks were initially identified in June and approved in the Amendment/Extension dated 28 September, 1991. The tasks were:

1. Long-Term Privatization Advisor
2. Long-Term Market-Initiated Privatization Advisor
3. Technical Assistance
 - a. Implementing the Management Information System (MIS)
 - b. Financial Management
 - c. Linkage for Investment Promotion
 - d. Emergency Response Team
4. Procurement of Equipment
5. Training

By the last quarter of 1991 events had overcome one main task of the amendment, task 2. the provision of a Long-Term Market-Initiated Privatization advisor, and its linked technical assistance category, category d. an Emergency Response Team to support his activities.

The other tasks envisaged in the Amendment went ahead essentially as planned.

Resource Reallocation

Resources under the Core Contract tasks overtaken by events were reallocated with the express purpose of trying to adhere to the original intent of their initial allocation in so far as the changed circumstances, timing, and priorities at the SPA permitted.

2. Long-Term Market-Initiated Privatization Advisor

The original concept was to place a resource in the SPA where he could best help accelerate a portion of the privatization process at the SPA.

However the SPA reorganized itself in the last quarter of 1991 (APPENDIX XI & XII) so that it no longer had a product organization (Market-Initiated, Investor Initiated etc.) but was instead organized along sectorial lines (Agriculture, Light Industry, etc.) and thus the previously identified specific optimal slot for an advisor disappeared.

In addition the SPA Director previously in charge of the Market-Initiated area left the SPA during the reorganization. In a very much related evolution the Deputy Managing Director charged with privatization activities was replaced with a Canadian/Hungarian with legal and merchant banking credentials. He was not prepared to welcome more advisors until he prioritized the advisory needs as he saw them.

Also the Treuhand at long last brought in two long promised advisors to support in the transaction area and one in the control area.

The long term advisor level of effort envisaged in this sub project was reallocated in line with the SPA's new requirements and the absorption capacity into two efforts:

1. After the reorganization, new personnel, new advisors, had all been absorbed, a sector advisor to the Director of the largest SPA transaction unit in the new structure, Agriculture, was requested by the new DMD Privatization. This advisor supplanted the originally intended Market Initiated or Investor Initiated product unit advisor. An appropriately agriculture industry qualified person with experience in the Czech Privatization effort was introduced into that position. This advisory position was the precursor and pilot for the Transaction Support Project which continued to be driven by the original concept of this task namely putting an advisor (s) at key SPA privatization path gateways with the job description to get more transactions through. (APPENDIX XXXV, XLVI))

2. The lack of a training and personnel function to support the line managers in the transaction side of the SPA was diverting their activities from the privatization function. Given this problem effecting the line units a portion of this long term fund slot was used to expand the existing personnel, trainer, and project support person to a full time basis. This commitment, which has turned out to be most successful (reported separately), allowed the SPA to initiate its personnel department function with an integral training department which in turn made available EC PHARE training funds and the initiation of systematic training and personnel management. (APPENDIX XX, XXI)

This training/support resource was split with the newly established LTA IP to support his activities such as investment conference organization, US based training at or of the MIER and HITPA and direct support at the MIER in developing a training program to satisfy the requirements of the PHARE's training program. As the LTA IP never received any TA to support his activities during the contract year this support person's activities, plus training of HITPA and MIER personnel, office materials, conference organization, and other support were absorbed throughout this core contract. (APPENDIX XXXVII)

3) technical assistance d) the provision of an Emergency Response Team

The Emergency Response Team concept was designed to support the Long Term Advisor placed in the transaction pipeline. He was to manage this facility to solve problems he identified as blocking privatization progress. Suitable problems were seen as technical problems blocking the process of privatization occurring through the market initiated tracks (spontaneous and investor-led). This advisory position disappeared as noted above.

In addition during the last quarter of 1992 the newly reconstituted PHARE PMU at the SPA began to mobilize its considerable assets and put in place retainer contracts for skills; legal, sectorial, to assist the transaction officers. This support which far exceeds any funding available from USAID, is accessible to the transaction officers and their advisors (albeit not very easily) to assist in undertaking transactions and served to a considerable degree to alleviate the need identified in the original Emergency Response Team concept.

In light of the above the levels of effort available for the original design of the team was committed to help resolve other previously identified urgent problems blocking the progress of privatization in specific:

1. The design and initiation phase of the Self Privatization Program.
2. The design and initiation phase of the Warrant (Compensation note) program.
3. A continuation of the existing low level of support to the SPA's Public Information program.
4. Support of the investor information modules of the Privatization Information system.

These needs had previously been identified within the SPA as suitable for USAID program support but it was envisaged they could be funded through the IQC mechanism. When it became clear that the IQC vehicle was not an effective way to get timely support delivered to the SPA, given their urgency they were reintroduced to the Core Contract.

Tasks

1. Long-Term Privatization Advisor

The monthly reports of the LTA (APPENDIX XXXVIII) detail the activities of the LTA for the year.

The Long Term Advisor's (LTA) activities do not lend themselves to description by task in line with list of tasks in the Scope of Work. Instead each activity he undertakes, directs, or participates in weaves some part of several of them together.

Three linked efforts are illustrative of this. Assisting in the preparation of the SPA's annual budgetary justification submitted to Parliament, the preparation of the SPA's Institutional Development and Work plan for 1992 and subsequently the design of a management reporting system for the SPA. (APPENDIX XIII, XVI, XXVII)

These three efforts contributed significantly to: the SPA being resited, its manpower being increased by 50%, its equipment needs being met by a combined USAID/PHARE effort as they were clearly defined, organized training programs being launched, the Government's funding to the SPA being increased. In addition the thought process (APPENDIX XLVII) and data needs of the planning process drove the management of the SPA in the direction of a requirement for more information access and greater transparency in their operations.

The manpower increase and related personnel needs -combined with the high turnover environment at the SPA- triggered the establishment of a personnel function with an imbedded training component (APPENDIX XXVI, XX, XXI).

The clear definition of objectives (APPENDIX XIV) forced the SPA further in the direction of driving its privatization activities by enterprise, with event time lines for each and prioritization among enterprises, ie moving into a proactive mode from a reactive one.

All of the above led to a re-emphasis of the importance of the information system within the SPA and its importance as a management and transaction tool not to mention its information and transparency component (XXX, XXXI).

Each individual task undertaken by the LTA (APPENDIX XXIV, XLVII) or managed by him accomplished some portion of his underpinning statement of work.

The contract management activities of the LTA focused on restarting the project from its essential close down at the end of the 1st. contract year, restructuring the project in line with the changed needs and organization of the SPA, focusing and managing resources to meet the short term needs of the SPA quickly (planning, budgeting, Compensation Note Program, and Self Privatization Program), getting the equipment procurement moving, supporting the much increased training and personnel management need at the SPA, mobilizing, managing and supporting the LTA IP.

During the project year a significant part of the Tasks the LTA was to accomplish as established at the initiation of the project in 1990 was well started or complete. The LTA's tasks in the next contract year lies clearly in task completion and initiating efforts to accelerate the privatization process.

2. Long-Term Market-Initiated Privatization Advisor

As noted above in Resource Reallocation, given the dramatic reorganization of the SPA and the Hungarian privatization process in the last quarter of 1991 this task's level of effort was reallocated in accord with the needs of the SPA in similar areas.

There were two resource allocations from this slot made during the year. One allocation was an advisor to the Agricultural Sector of the SPA, a close analog to the initial concept. The second allocation was to increase the time allocation to a support person for the training function who shared support responsibility for the new initiative of the investment promotion support advisor at the MIER.

The Agriculture advisor slot is a continuing activity and as it was initiated well in to the 1991-1992 contract year it will be subject to review in the 1992-1993 annual report. (APPENDIX XLVI)

The conversion of the training support person from a part time consultant to a full time basis from 15 February, 1992 to 30 September 1992 led to the achievement of several specific deliverables (APPENDIX XX, XXI) but more importantly to the effective startup of the Personnel Office function in the SPA with a strong built in training program.

This support person was hired coincidental with the startup of the LTA IP at the MIER's HITPA with the additional task to support his startup, provide assistance in conference related activities, and provide training support at the MIER and HITPA. As the LTA IP did not receive the planned for technical assistance budget, this core contract carried all the activities related to his work -training, conference support, extraordinary travel-.

This training support person provided some support as well at the newly started AV Rt.. This was logical as the AV Rt. Personnel/Training office was started by former SPA personnel and the training manual and personnel procedures designed and put in place by this USAID funded training resource became the AV Rt.'s core.

3. Technical Assistance

a. Implementing the Management Information System (MIS)

Software:

During the contract year the basic software work for the MIS was completed and fully turned over to the SPA, the operating and training manuals were completed and turned over to the SPA, the first tangible products for external consumption were produced, and training of users of the system accelerated. (APPENDIX XXX, XXXI) The SPA subsequently employed the firm that did the MIS software to expand its capabilities as was anticipated in its basic design.

Hardware:

The equipping of the SPA and the related Local Area Network (LAN) was completed during the year with the second major delivery of USAID equipment and the delivery of the PHARE funded equipment. By year end the LAN network had over 200 PC's on line on six floors of the new SPA HQ. The SPA staff trained by USAID accomplished the installation with the core equipment and software provided by USAID (even to include wire, connectors, repeaters etc.). The USAID technician who did the initial LAN design for the SPA did the final debugging of the system during its installation phase in the new HQ and assisted with the final equipment and software modifications.

The SPA presently is operating the largest IBM PC LAN in Hungary.

The continuing training courses on wordprocessing and spreadsheet software and the operations of the LAN and MIS have proved popular.

An anticipated result of establishing a highly modern office environment is that SPA secretarial staff are finding a very welcoming job market outside the SPA among new firms investing in Hungary, particularly foreign joint ventures.

b. Financial Management

During the course of the contract year the technical assistance in the Financial Management area:

1. Provided the SPA's parliamentary budget Justification for its 1992 budget. (APPENDIX XIII)
2. Provided the SPA's first bottom up budget, a requirement for the senior managers of the SPA and for the World Bank's conditionality language on one of their Strategic Adjustment Loan packages (SAL). (APPENDIX XVI)
3. Provided the first targeting by objective for the SPA with a time line for the major SPA activities (APPENDIX XIV)
4. Prepared the SPA's budget for its 1992 PHARE funding. (APPENDIX XV)
5. Justified for the SPA Board the need for Financial Management at the SPA. (APPENDIX XXIII)

6. Designed and helped implement the SPA's Management Reporting System (primarily financial) bringing it in line with the new Hungarian accounting and government agency management guidelines. (APPENDIX XXVII)
7. Designed the Financial Management area of the SPA and did the related job descriptions. The design of these job descriptions was subsequently used as the model by the SPA's personnel department for the agency throughout the organization. (APPENDIX XXVI).
8. Created a reporting system to track the usage of donor and lending agency funds within the SPA. This was done primarily to meet GOH audit requirements but also the needs particularly of the World Bank and the PHARE program. (APPENDIX XXV)
9. Accomplished accounting system modifications in the spreadsheet model designed by the project to permit the required detailed tracking of PHARE funding within the SPA. This system has continued in use as the PHARE provided system has not yet been debugged enough to work and the delays in getting programming work corrected in Brussels is considerable.

The one area financial management area originally scheduled for assistance where minimal assistance was provided was in the area of procurement because:

1. The specialized USG procurement procedures required for the last major USAID delivery was not seen as a continuing need at the SPA so SPA personnel were not trained in the specifics but rather in the overall and uniform requirement to adhere to specialized procedures in government procurements be they USAID, EC PHARE, World Bank or whatever..
2. The major formal procurement area in the SPA namely for the World Bank funds and the PHARE moneys were taken care of by those respective organizations. The reporting needs of the donors for their funds use was taken care of by the this project but the procurement documentation was track by the respective funders' specialists.
3. The USAID contractors chose specifically not to involve themselves in Hungarian procurement procedures and their application at the SPA.

c. Linkages for Investment Promotion

The linkage between the selling activity of the SPA and the marketing effort being undertaken in the MIER's HITPA was expanded during the year by the addition of a Long Term Advisor (LTA) at the HITPA. It was felt that flowing the advisor through the SPA contract would have synergistic benefit. In fact it turned out that way.

The LTA HITPA's monthly activity report and contract are attached in APPENDIX XXXVII. As his contract is on a February - February independent cycle, the detail of his activities are reported in a separate report the end of his contract year's activities.

The LTA HITPA's contract did not receive the anticipated Technical Assistance (TA) that was originally scheduled. In its absence the training support managed by the SPA Core Contract training resource was one of his few resources. In addition one of a kind support for specific events such as the October 1992 trade and investment promotions trips to Los Angeles and Houston was made available funded by the core contract.

At the time of the writing of this report it appears that the close linkage SPA/HITPA that was anticipated has not emerged on the Hungarian side and the two agencies work very independently. As the HITPA assumes a strong sponsorship role for investors and the SPA represents the Government as seller there is a natural conflict built into and SPA/HITPA relationship. It has therefor emerged that for assistance to US investors involved in privatization as distinct from "greenfield" investment, direct communications support is also required within the SPA. The SPA at this point is not an effective communicator.

At the basic investor assistance level the LTA HITPA has been able to offer very real hand-holding assistance based on his market knowledge in Hungary but much of what he does has become more and more an extension of the type of activity being supported by the energized and expanding US commercial officer presence and a partial duplication.

Thus the LTA HITPA did significantly move forward the terms of reference of the Scope of Work particularly by the support offered the HITPA in dealing with foreign investors and in learning how to deal with them. Formal training has, in several cases, supplemented the actual trade promotional activities -trade promotion trips, seminars, etc.- that the LTA HITPA initiated and participated in.

The leadership on the equipment side of the HITPA and the relationship between the equipment and systems needs of the HITPA and those present and useful at the SPA has become an EC PHARE PMU activity at the HITPA. Full support was given and is being given to that effort to enable the PHARE advisors to structure an appropriate system at the HITPA building on what is already available as regards data bases at the SPA rather than having to recreate everything from scratch.

d. Emergency Response Team

As noted above in the Reallocation of Resources section of this report the anticipated specific use of the emergency response facility, to support the needs of the advisor in the self and investor led divisions of the SPA, disappeared. The SPA reorganized itself along sectorial lines, the director who had requested the assistance left the SPA, and the Deputy Managing Director Privatization did not want to trigger this type assistance until he completed the reorganization of his group.

The funds were recommitted principally to new SPA programs which were also intended to accelerate the privatization program and which supported the market driven aspects of privatization in Hungary. These two programs were the Self Privatization Program and the Compensation Note programs.

Both of these programs had in common at the beginning of the contract year that they were new and needed organizational assistance quickly and that they promised to broaden interest in privatization and thus speed the process forward. It was clear that the funds would be well spent in this area.

Self Privatization Program PHASE I: This is a program which gets the SPA out of the way in the case of small and medium sized firms and let's transactions move forward on market terms. This piece of work was designed to serve two purposes: (APPENDIX XVII)

1. Help the SPA think through the organization of the Self-Privatization Program.
2. Help the SPA define the organization and equipment needs of the Self-Privatization Program in such a way that they would attract additional GOH budgetary and Donor/lender funding to the program.

The work and its related consultancy time did the initial organization charts for the Self-Privatization effort, defined the ordering of its initial tasks, and helped define precisely the program's system and equipment needs.

The deliverable was used, in its Hungarian form, to attract additional GOH funding to the program and in its English form to justify additional donor funding.

Compensation Note Program PHASE I: This program was designed to deal with the problem of just reparation for property seizures occurring at various times in the past. Also the program was designed to stimulate Hungarians to participate in asset ownership. Not without intent the program also helped clear what might be contentious long standing claims on various assets thereby permitting clean sales. Compensation Notes became the first new money market instrument in Hungary. (APPENDIX XVIII)

This piece of work was designed to help the SPA and the Compensation Note Program's various player define their basic organizational form and likely problems. In fact the deliverable defined the interagency cooperation needed to make the program work, set up the committees to make it happen, designed and printed the initial manuals of the program, and created the framework within which the program could grow. The work also took a very realistic look at the likely time line expectations for the program which had been unrealistically short.

Two other areas of smaller funding commitments of the Emergency Response funds pools were:

1. The expansion of the Privatization Information System project to allow the production of investment handbook of the SPA (APPENDIX XXXI)
2. The continuation of the Public Relations Program support bridging activity, specifically the monthly newsletter, until the longer term PHARE funded assistance could be put in place. (APPENDIX XXVIII)

4. Procurement of Equipment

In the course of its equipment support program USAID has provided the core equipment of the SPA; computers, printers, copier, software. By design USAID's assistance, because it is has been more readily mobilized has been used as the vanguard and the PHARE funded equipment support has filled in on the SPA's needs.

During the year the project ordered, delivered and installed 52 computers (bringing USAID's total to 80), related printers, Local Area Network (LAN) hardware and software, copiers and related equipment. (APPENDIX XIX).

With its PHARE provided equipment on line, the SPA is operating the largest IBM PC NOVELL LAN in Hungary. This USAID funded project designed the LAN, installed it (twice), and trained its operating staff. In addition USAID funded technicians have made most of the software decisions for the network and designed the specialized programs that are operated on it.

5. Training

The training activities of the project were able to be expanded during the year from the originally intended modest effort. (APPENDIX XX & XXI)

The contracted tasked training, attendance by a Hungarian Team at the International Development Training Institute's Privatization course took place as planned. The team training had some of the hoped for teaming effect among the SPA, National Bank of Hungary, and Ministry of Trade and Industry, participants that was hoped for.

The impact of the USAID funded resource at the SPA on the development of its personnel and training function cannot be overstated. This resource provided the basic guidance to this newly formed function at the SPA in its formative stage and was chiefly responsible for it being structured in a professional manner. This was key in allowing in to access PHARE funding for training and absorb a UK "Know How Fund" funded advisor.

In addition this resource gave the SPA the professional competence to be able to attract and get delivered training support from several sources in addition to the EC PHARE programme. This resource helped to organize and program internal training seminars such as the lunch time "Brown Bag" lecture series given by professional resources available in Hungary and the training cycles scheduled for English language, the use of computers, and the SPA's software among others.

The training resources link into and support of the MIER through the LTA HITPA's efforts also made a considerable contribution. The hiving off of the AV Rt. from the SPA late in the year made the training resource a player at the AV Rt. as the no. 2 personnel officer at the SPA went to the SPA and used the SPA's personnel and training model to get started relying on the training resource to make the transition.

V RECOMMENDATIONS FOR FUTURE USAID SUPPORT

The activities of the next contract year should see the conclusion of the basic tasks set this contract at its inception in 1990 and the redirection of USAID's privatization assistance at the SPA. Support to enhance transaction through-put in an essentially mature SPA organizational environment will emerge as the next important area of effort. Thus direct support of the SPA's privatization efforts sectorial and the self-privatization program, key control issues to include reporting methods, continued U.S. sourced training, and the support of U.S. investor and trade interests are appropriate. Ministerial level support to include the Bank Privatization assistance and appropriate assistance to the startup AV Rt. are additional high priority areas. (APPENDIX XXXV, XXXIX, XL, XLI, XLII)

Specific Recommendations:

1. Continue the office of the Long Term Advisor/Project Manager.
2. Continue the successful training and project support resource at the SPA with its overlap function to the LTA HITPA.
3. Expand the support for transaction multiplier efforts such as the Self Privatization program in the critical areas of control, measurement, and expansion.
4. Work with the SPA to develop, prototype, and deliver a USAID assistance package that will accelerate privatization at the SPA.
5. Complete the support of the Financial Management area continuing the effort to tie together the SPA's internal control and external reporting functions.
6. Continue the US based or sourced training efforts for the SPA and the related MIER HITPA effort.
7. Complete the equipment support effort of the USAID effort in line with the requirements of the SPA.

During the course of the next contract year it is hoped that the combined efforts of this contract both at the SPA and the HITPA will provide the insights to permit the restructuring of USAID's privatization support activities in Hungary to help accelerate Hungary's privatization program.

VI APPENDIX DIRECTORY

I	<u>STATEMENT OF WORK</u>
II	Measuring the Pace of Privatization, 31 Dec., 1992
III	Privatization Report, 1992
IV	SPA 1992 Privatization revenues
V	Hungary, Inflation rate
VI	Market Reform in Hungary
VII	Bankruptcy Laws in Hungary, results and recommendations
VIII	USAID SPA Financing Summary through fiscal 1992 and for fiscal 1993
IX	Summary Annual Report: 28 Spt. 1991 - 15 Aug. 1992
X	1990-1992 OBJECTIVES
XI	SPA Organization Chart December 3, 1991
XII	SPA Organization Chart January, 1993
XIII	SPA 1992 Parliamentary Budget justification
XIV	SPA 1992 Objectives
XV	Proposal of the SPA for the 1992 PHARE Budget
XVI	SPA 1992 Institutional Development and Work Plan
XVII	Self Privatization Program PHASE I
XVIII	Compensation Note Program PHASE I
XIX	USAID Equipment deliveries - impact article
XX	Training, Program accomplishments
XXI	Training 1992-1993 summary needs
XXII	Slovak Republic Investment and Privatization Briefing
XXIII	FINANCIAL AND ECONOMIC AFFAIRS DIRECTORATE, 1992 needs
XXIV	Management Committee meetings advisory work
XXV	State Property Agency Foreign Funds report 30 Spt. 1992
XXVI	SPA Job Description model

XXVII SPA Management Reporting System Design

XXVIII Public Relations Program, Summary of 1992 activities

XXIX Information Office, publication list

XXX Privatization Information System, Modification to Scope

XXXI Privatization Information System, Sample output, Marketing book

XXXII Invest Hungary Brochure

XXXIII USAID Washington Briefing, October, 1991

XXXIV SPA Project Funding Status, 16 September, 1992

XXXV Minister Szabo letter to Ambassador Thomas, 16 July, 1992

XXXVI Reciprocity Agreement, concept piece

XXXVII Long Term Advisor Investment Promotion, Terms of Reference and Monthly Reports

XXXVIII Long Term Advisor SPA Monthly Reports

XXXIX Minister Szabo Speech "The Key Factor in Building a Market Economy is the Acceleration of Privatization"

XL PRIVATIZATION RULES 1992 (Laws LIII, LIV, LV of 1992)

XLI Minister Szabo Presentation for the Government, "Concept of Breakthrough and Governmental Programme regarding the Hungarian Privatization"

XLII AV Rt. Initial Organization Chart

XLIII Businesses established in Hungary in 1992

XLIV Palotas on Market Reform in Hungary

XLV Due Diligence in Hungary

XLVI Transaction Support, Agriculture

XLVII Planning Memorandum for Institutional Development and Work Plan

INCORPORATED BY REFERENCE: "First Year Reports & Deliverables, October 1991, Technical Assistance to the State Property Agency of Hungary, Contract No. ANE-0002-C-00-0047-00" Deloitte & Touche, submitted previously separately.

AMENDMENT OF SOLICITATION/MODIFICATION OF CONTRACT				1. CONTRACT ID CODE	PAGE OF PAGES 1
2. AMENDMENT/MODIFICATION NO. 03		3. EFFECTIVE DATE SEP 25 1991	4. REQUISITION/PURCHASE REQ. NO. 180-0014-3-1183482	5. PROJECT NO. (If applicable) 180-0014	
6. ISSUED BY CODE		7. ADMINISTERED BY (If other than Item 6) CODE			
Agency for International Development Eastern Europe Branch, Overseas Division Office of Procurement (MS/OP/OS/EE) Room 1566, SA-14 Washington, D.C. 20523-1426		Agency for International Development Bureau for Europe & Near East ENE/PDP/EUR, Room 3320A N.S. 320 21st Street, N.W. Washington, D.C. 20523-0069			
8. NAME AND ADDRESS OF CONTRACTOR (No., street, county, State and ZIP Code)			9A. AMENDMENT OF SOLICITATION NO.		
Deloitte & Touche 1001 Pennsylvania Avenue, N.W. Suite 350 Washington, D.C. 20004-2505 DUNS No.: 13-5133500 F.I.D. No.: 00-166-4820					
9B. DATED (SEE ITEM 11)					
10A. MODIFICATION OF CONTRACT/ORDER NO.			X ANE-0002-C-00-0047-00		
10B. DATED (SEE ITEM 13)			9-25-90		
11. THIS ITEM ONLY APPLIES TO AMENDMENTS OF SOLICITATIONS					

The above numbered solicitation is amended as set forth in Item 14. The hour and date specified for receipt of Offers ☐ is extended, ☐ is not extended.

Offers must acknowledge receipt of this amendment prior to the hour and date specified in the solicitation or as amended, by one of the following methods:

(a) By completing Items 8 and 15, and returning _____ copies of the amendment; (b) By acknowledging receipt of this amendment on each copy of the offer submitted; or (c) By separate letter or telegram which includes a reference to the solicitation and amendment numbers. FAILURE OF YOUR ACKNOWLEDGMENT TO BE RECEIVED AT THE PLACE DESIGNATED FOR THE RECEIPT OF OFFERS PRIOR TO THE HOUR AND DATE SPECIFIED MAY RESULT IN REJECTION OF YOUR OFFER. If by virtue of this amendment you desire to change an offer already submitted, such change may be made by telegram or letter, provided each telegram or letter makes reference to the solicitation and this amendment, and is received prior to the opening hour and date specified.

12. ACCOUNTING AND APPROPRIATION DATA (If required)

Funding Data for this amendment is on page 4.

13. THIS ITEM APPLIES ONLY TO MODIFICATIONS OF CONTRACTS/ORDERS, IT MODIFIES THE CONTRACT/ORDER NO. AS DESCRIBED IN ITEM 14.

A. THIS CHANGE ORDER IS ISSUED PURSUANT TO: (Specify authority) THE CHANGES SET FORTH IN ITEM 14 ARE MADE IN THE CONTRACT ORDER NO. IN ITEM 10A.
B. THE ABOVE NUMBERED CONTRACT/ORDER IS MODIFIED TO REFLECT THE ADMINISTRATIVE CHANGES (such as changes in paying office, appropriation date, etc.) SET FORTH IN ITEM 14, PURSUANT TO THE AUTHORITY OF FAR 43.103(b).
C. THIS SUPPLEMENTAL AGREEMENT IS ENTERED INTO PURSUANT TO AUTHORITY OF:
D. OTHER (Specify type of modification and authority)

E. IMPORTANT: Contractor ☐ is not, ☒ is required to sign this document and return 3 copies to the issuing office.

14. DESCRIPTION OF AMENDMENT/MODIFICATION (Organized by UCF section headings, including solicitation/contract subject matter where feasible.)

The purpose of this amendment is to:

- Define additional work to be performed under the contract;
- Extend the term of the contract;
- Revise the itemized budget, total estimated cost, fixed fee, and total estimated cost plus fixed fee of the contract; and,
- Increase the amount of funds obligated under the contract.

Except as provided herein, all terms and conditions of the document referenced in Item 9A or 10A, as heretofore changed, remains unchanged and in full force and effect.

15A. NAME AND TITLE OF SIGNER (Type or print) ROBERT J.F. McPHAIL Principal		16A. NAME AND TITLE OF CONTRACTING OFFICER (Type or print) Diane M. Miller, OP/OS/EE (md)	
15B. CONTRACTOR/OFFEROR R.J.F. McPhail (Signature of person authorized to sign)	15C. DATE SIGNED 9/27/91	16B. UNITED STATES OF AMERICA BY Diane M. Miller (Signature of Contracting Officer)	16C. DATE SIGNED SEP 28 1991

INSTRUCTIONS

Instructions for items other than those that are self-explanatory, are as follows.

(a) Item 1 (Contract ID Code). Insert the contract type identification code that appears in the title block of the contract being modified.

(b) Item 3 (Effective date).

(1) For a solicitation amendment, change order, or administrative change, the effective date shall be the issue date of the amendment, change order, or administrative change.

(2) For a supplemental agreement, the effective date shall be the date agreed to by the contracting parties.

(3) For a modification issued as an initial or confirming notice of termination for the convenience of the Government, the effective date and the modification number of the confirming notice shall be the same as the effective date and modification number of the initial notice.

(4) For a modification converting a termination for default to a termination for the convenience of the Government, the effective date shall be the same as the effective date of the termination for default.

(5) For a modification confirming the contracting officer's determination of the amount due in settlement of a contract termination, the effective date shall be the same as the effective date of the initial decision.

(c) Item 6 (Issued By). Insert the name and address of the issuing office. If applicable, insert the appropriate issuing office code in the code block.

(d) Item 8 (Name and Address of Contractor). For modifications to a contract or order, enter the contractor's name, address, and code as shown in the original contract or order, unless changed by this or a previous modification.

(e) Items 9, (Amendment of Solicitation No.—Dated), and 10, (Modification of Contract/Order No.—Dated). Check the appropriate box and in the corresponding blanks insert the number and date of the original solicitation, contract, or order.

(f) Item 12 (Accounting and Appropriation Data). When appropriate, indicate the impact of the modification on each affected accounting classification by inserting one of the following entries:

(1) Accounting classification
Net increase \$

(2) Accounting classification
Net decrease \$

NOTE: If there are changes to multiple accounting classifications that cannot be placed in block 12, insert an asterisk and the words "See continuation sheet".

(g) Item 13. Check the appropriate box to indicate the type of modification. Insert in the corresponding blank the authority under which the modification is issued. Check whether or not contractor must sign this document. (See FAR 43.103.)

(h) Item 14 (Description of Amendment/Modification).

(1) Organize amendments or modifications under the appropriate Uniform Contract Format (UCF) section headings from the applicable solicitation or contract. The UCF table of contents, however, shall not be set forth in this document.

(2) Indicate the impact of the modification on the overall total contract price by inserting one of the following entries:

(i) Total contract price increased by \$

(ii) Total contract price decreased by \$

(iii) Total contract price unchanged.

(3) State reason for modification.

(4) When removing, reinstating, or adding funds, identify the contract items and accounting classifications.

(5) When the SF 30 is used to reflect a determination by the contracting officer of the amount due in settlement of a contract terminated for the convenience of the Government, the entry in Item 14 of the modification may be limited to —

(i) A reference to the letter determination; and

(ii) A statement of the net amount determined to be due in settlement of the contract.

(6) Include subject matter or short title of solicitation/contract where feasible.

(i) Item 16B. The contracting officer's signature is not required on solicitation amendments. The contracting officer's signature is normally affixed last on supplemental agreements.

1. Section B, "SERVICES AND COSTS" is modified as follows:

(i) Paragraph B.2. "Estimated Cost and Financing", as amended, is deleted in its entirety and the following is substituted therefor:

B.2. ESTIMATED CONTRACT COST AND FINANCING

(a) The total estimated cost for performance of the work required hereunder is \$3,102,088. The fixed fee is \$175,109. The total estimated cost plus fixed fee is \$3,277,197.

(b) The amount of funds obligated under this contract is \$3,277,197.

(c) Payment of allowable costs hereunder shall be made in accordance with the clause of this contract entitled "Allowable Cost and Payment" (FAR 52.216-7).

(ii) The "Itemized Budget" of paragraph B.3.(b) is deleted in its entirety and the following is substituted therefor:

<u>Category</u>	<u>Itemized Budget</u> <u>(9/24/90 - 9/30/92)</u>		<u>Total</u>
	<u>Fr: 9/24/90</u> <u>To: 9/23/91</u>	<u>Fr: 9/24/91</u> <u>To: 9/30/92</u>	<u>Fr: 9/24/90</u> <u>To: 9/30/92</u>
Salaries & Wages	\$114,420	\$260,473	\$374,893
Fringe Benefits	28,445	64,754	93,199
Overhead	171,438	390,273	561,711
Consultants	13,024	32,000	45,024
Allowances	65,989	98,680	164,669
Travel, Trans., Per Diem	80,080	155,403	235,483
Nonexpendable Equipment	-0-	183,600	183,600
Training Courses	-0-	60,000	60,000
Subcontracts	220,106	785,971	1,006,077
Other Direct (Inc. DBA)	27,215	55,560	82,775
G & A	<u>80,937</u>	<u>213,720</u>	<u>294,657</u>
Total Estimated Cost	\$804,654	\$2,300,434	\$3,102,088
Fixed Fee	<u>48,099</u>	<u>127,010</u>	<u>175,109</u>
Total Est. CPFF	\$849,753	\$2,427,444	\$3,277,197

2. Section C - "STATEMENT OF WORK" is modified as follows:

Attachment 1 hereto is added to describe the work to be performed by the Contractor for the period from 9/24/91 to 9/30/92.

3. Section F - "DELIVERIES OR PERFORMANCE" is modified as follows:

(a) Under paragraph F.1., delete "the estimated completion date is twelve months thereafter." and substitute "the estimated completion date is September 30, 1992."

(b) Delete paragraph F.5.(a), in its entirety and substitute the following:

a) The total estimated level of effort for performance of this contract is approximately 152.20 person months of effort as set forth in paragraph (b) next below.

(b) Under paragraph F.5.(b), the listing of positions under "Category", and the numbers of months listed under "No. of Person Months" are deleted in their entirety and the following are substituted therefor:

<u>Category</u>	<u>No. of Person Months</u>	
	<u>Fm: 9/25/90</u> <u>To: 9/24/91</u>	<u>Fm: 9/25/91</u> <u>To: 9/30/92</u>
Privatization Advisor (Long Term)	12	12.0
Market Initiated Privatization Advisor (Long Term)	0	12.0
Home Office Support/Proj. Mgmt.	1	1.8
Short Term Consultants a/o Training 55 days	24	2.5
Management Information System Implementation	0	22.5
Financial Management Staff	0	7.5
Financial Mgmt. Consultants		6.8
Investment Promotion	0	1.1
Emergency Response Team	0	48.0
Procurement	<u>0</u>	<u>1.0</u>
Totals	37	115.2

3. SECTION G, "CONTRACT ADMINISTRATION" is modified as follows:

(a) In paragraph G.1. the identification of the Project Officer is changed to "the Director of the Office of European Affairs, Bureau for Europe and near East (ENE/EUR), AID/W."

(b) In paragraph G.3. the identification of the administration office is changed to "Eastern Europe Branch, Overseas Division, Office of Procurement, Bureau for Management Services (MS/OP/OS/EE), AID/W."

4. Except as expressly hereby amended, all terms and conditions of this contract remain unchanged and in full force and effect.

5. Funding Data for This Amendment:

PIO/T	:	180-0014-3-1183482
Appropriation	:	72-11X1010
Allotment	:	184-63-180-01-69-11
Budget Plan Code	:	QAIX-91-33180-IG-12
Obligated - <u>This Amend.</u>	:	\$2,427,444
<u>Prior Obligations</u>		<u>849,753</u>
<u>Total Obligations</u>		\$3,277,197
Total Estimated CPFF		\$3,277,197

Contractor's E.I. No.	:	13-5133500
Contractor's DUNS No.	:	001664820

SCOPE OF WORK: ATTACHMENT NO. 1
(180-0014-31183482)

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY

JULY 1991

I. BACKGROUND:

In January 1990, Mr. Alexander C. Tomlinson and Professor John Schermerhorn visited Hungary at the invitation of Dr. Janos Martonyi, State Commissioner for Privatization of the Government of Hungary (GOH). The purpose of their visit was to participate in the planning phase of the GOH's soon to be launched official privatization vehicle, the State Property Agency (SPA). Their report gave conceptual guidance, outlined a recommended organizational framework, and set out the steps that the proposed SPA should take to make itself quickly functional.

The GOH accepted the report's findings and its recommendation that an experienced Privatization Advisor should travel to Hungary to advise the Managing Director and Deputy Managing Director of the SPA during the organization and implementation phase of the SPA. These activities, the first action phase, were to include the formation of the Agency: organization, funding, equipping, training, prioritization of efforts and other start-up activities.

After six months of assisting the SPA in its initial formation, the GOH asked that the Privatization Advisor be provided on a long-term basis and that he/she reside in Hungary with an office in the SPA. Since late September of 1990, the Long-Term Privatization Advisor has been resident in Hungary, continuing to advise the SPA on policy matters such as: management of information; the SPA's funding strategy (including donor coordination); coordination with other GOH agencies and relationships with internal and external participants (including investors) in the privatization process; a communications strategy; the recruitment of senior personnel; and the development of a training program.

The efforts of the Long-Term Privatization Advisor were complemented by 24 person-months of short-term technical assistance (TA) and 1 person-month of project management support. The SPA and the Privatization Advisor identified several areas of technical assistance which were urgently needed to support the operational phase of the SPA's activities. Upon receipt of requests for a short-term T.A. by the SPA through the Long-Term Privatization Advisor, an illustrative budget and the task definition were prepared. The Contracting Officer's Technical Representative approved each task. To date, the following technical assistance tasks have been completed:

- . Installation and configuration of a local area network (LAN)

- . Design and initial programming of a management information system (Phases I through III)
- . Development of an accounting and financial management tool for tracking Hungarian funds
- . Development of Communications Strategy, a Communications Action Plan and provision of immediate public relations support
- . Outline and first draft for an SPA publication on investment opportunities in Hungary, to be published in August 1991
- . Recommendations for establishing links between the SPA and the AITP to improve investment promotion
- . Visits to Czechoslovakia and Poland by SPA senior staff to exchange information and documents with their counterparts in other privatization ministries
- . Development of a training program, including training policies and procedures, evaluation of training needs, a training schedule, and sending an SPA deputy director to a training school in Chicago.

When this project first began, many of the SPA's technical assistance requirements were undefined and A.I.D. was not as familiar with the GOH's technical assistance requirements. Now the SPA has requested that the technical assistance under this project be continued and there is more information available to both A.I.D. and the SPA about where additional help would have the most impact.

There are three areas of ongoing activities to strengthen the SPA organization requiring immediate funding: Implementation of the Management Information System (MIS), Financial Management and Linkages for Investment Promotion. This support is key to continuing the progress toward making the SPA a more effective institution in the privatization process because:

- . The MIS work has two more phases (Phases IV and V) to be completed before the privatization transaction system is implemented, refined, and fully operational.
- . It is important that the SPA upgrade its financial management processes beyond the initial financial accounting package assistance provided as an early task.
- . A strong link between the SPA and the Agency for Investment and Trade Promotion (AITP) has been recognized by the principals in both agencies as key to facilitating the privatization process and ensuring that transactions happen because foreign investors and local project sponsors interact.

- . In addition, the SPA has asked that assistance be provided to help the SPA in the spontaneous and investor-led privatization units. Assistance would be provided in specific sectors to facilitate the privatization process and, at the same time, assist the SPA's role in propelling companies through the financial and administrative procedures to prepare them for privatization. The results would be that the SPA would have much-needed information on the assets, based on financial analysis, to judge their value and the soundness of the spontaneous or investor-led proposal.

II. OBJECTIVES

A main objective of the A.I.D. foreign assistance program in Hungary is to accelerate the privatization process and provide a vehicle to overcome barriers which may inhibit the process. The objective of this project is four-fold: 1) to provide a Long-Term Privatization Advisor to the SPA who will serve as the senior policy advisor on the privatization process; 2) to provide a Long-Term Market-Initiated Privatization advisor who will assist the SPA in the spontaneous and investor-initiated privatization units; 3) to provide the SPA with rapid access to technical experts to advance privatization transactions; and 4) to provide training and equipment to the SPA. The project's success to date during this critical stage in the privatization process in Hungary has been due to its ability to respond rapidly to a quickly transforming environment.

III. GENERAL DESCRIPTION

There are five components to this project modification:

- 1) To continue to provide the Long-Term Privatization Advisor to the State Property Agency who will serve as the senior policy advisor to the Agency. The Advisor's principal focus will continue to be the institution-building of the SPA as a key to supporting and accelerating the privatization process in Hungary.
- 2) To provide a Long-Term Market-Initiated Privatization advisor who will assist the SPA in the spontaneous and investor-initiated privatization units.
- 3) To provide technical assistance in four major areas:
 - a) the implementation of the Management Information System;
 - b) the improvement of the SPA's financial management process;
 - c) strengthen the GOH's relationship with potential investors including institutionalizing the link between the SPA and the Agency for Investment and Trade Promotion;

- d) the provision of an Emergency Response Team that would enable the SPA to rapidly access the appropriate skills to undertake valuations of joint ventures and help realize privatization deals.
- 4) Procure office automation equipment for the SPA.
- 5) Allocate funding for a Hungarian delegation, hosted by the SPA, to attend the Advanced Executive Management Program on Privatization.

IV. SCOPE OF TECHNICAL ASSISTANCE SERVICES

A. Level of Effort

The following summarizes the project's level of effort:

Privatization Advisor	12 Person-Months
*Market Initiated Privatization Advisor; Long-Term	12 Person-Months
*Management Information System Implementation	495 Person-Days
*Financial Management Short-Term	365 Person-Days
*Investment Promotion Short-Term	25 Person-Days
*Emergency Response Team	1056 Person-Days (220 Days Direct; 836 Days Subcontracted)
*Procurement	20 Person-Days
Project Management	2 Person-Months
*Training	5 Person-Days

*Indicates the project's technical assistance components.

B. Reports and Other Deliverables

The Long-Term Privatization Advisor will continue to report monthly on the progress for each of the above listed tasks.

In addition, he (Mr. Chick Twyman) will produce interim reports or position papers as requested by the SPA or A.I.D.

At the project completion, the Long-Term Privatization Advisor will generate a final report which summarizes all work products, presents in detail the accomplishments of this project and describes the SPA's continued role in the privatization process. A final report outline will be agreed upon with the SPA and A.I.D. before the report is written.

Reports for specific short-term tasks will be produced as agreed with the SPA. Deliverables in the form of MIS documentation, financial management policies and procedures, and other hands-on guides will be produced for day-to-day use by the SPA.

C. Tasks

1. Long-Term Privatization Advisor

The following list of tasks has been revised from the Long-Term Privatization Advisor's original scope of work to reflect current circumstances at the State Property Agency.

--Work with the Director of the SPA and GOH officials to bring together the various legislated, legal, and executive orders that establish the guidelines and framework for the activities of the SPA.

--Work with the GOH and the Director of the SPA to implement the execution oriented work plan, already prepared by the Privatization Advisor, that will attract the support of appropriate donor agencies. Assist as appropriate by laying the groundwork with the relevant agencies and assure the various agencies are coordinating their privatization activities with the SPA.

--Work with the GOH and the Director of the SPA to define the short and long term organizational needs of the privatization process. Assist them in institutionalizing the decision making apparatus in support of the privatization program.

--Work with the GOH and the Director of the SPA to help structure an organization that will achieve the objectives of the Hungarian privatization process without the institutionalization of a bureaucratic barrier to market activity.

--Work with the GOH and the Director of the SPA to help define the physical space, communications, computer and transportation requirements of the SPA so as to assist them in analyzing their funding needs.

--Work with the GOH and the Director of the SPA to help define the type of staffing needs that the SPA will have and work with them to establish likely sources for the needed skills and a recruitment plan.

--Work with the GOH and the Director of the SPA to help define the likely types of training that will be needed by the staff and policy makers involved in the privatization process. Try to establish those areas where training should be formalized and scheduled.

--Work with the GOH and the Director of the SPA to analyze available information on Government owned entities and begin to systematize them with the objective of creating prioritization lists that will be the objectives of the initial SPA activities.

--Work with the GOH and the Director of the SPA to understand the critical role the privatization program plays in a broad range of other national activities; capital market development, enlargement of the tax base, retraining workers, expanding export earnings, expanding political linkages in the European Community and the rest of the world.

--Work with the GOH and the Director of the SPA to help them define their technical assistance (TA) needs and schedule the TA so that it progresses logically and appropriately and will be integrated into and support the program.

--Work with the GOH and the Director of the SPA to define a strategy for bringing value, systematic assistance and process definition to the spontaneous privatization phenomena.

--Work with the GOH, the SPA, and consultant teams to define detailed sector and enterprise specific privatization strategies.

--Supervise the Long-Term Market-Initiated Advisor

--The Long-Term Privatization Advisor will have the support of short-term technical skills to provide specialized project services to the SPA as the needs arise.

2. Long-Term Market-Initiated Privatization Advisor

The SPA has asked that U.S. government assistance be provided to help the SPA in the spontaneous and investor-initiated privatization units. These two units have similar mandates: to review privatization proposals from Hungarian companies (usually management), termed "spontaneous" privatization, and from domestic and/or foreign investor groups, "investor-initiated" privatization. Groups operating in the Hungarian market are required by law to bring the privatization proposals to the SPA primarily to ensure the transparency of the transaction and protect state assets from "sweetheart" deals.

This program is distinct from the Active Privatization program, in which specific state assets are identified for sale. In the Active Privatization program, the SPA has contracted with advisors (usually a consortium led by an investment or merchant bank) for each particular company. In addition, the British Know-How Fund is currently providing two long-term expatriate advisors to the Active Privatization unit. No such support is currently available for the spontaneous and investor-initiated units.

A principal reason for linking one long-term advisor with the two units is the "matchmaking" role which the advisor shall play. The advisor may expedite privatization transactions and accelerate the privatization process by matching companies seeking to privatize and investors seeking to invest in privatizing companies, as s/he will be in regular contact with both parties.

The advisor would be an integral part of the entire team working under this project and would report to Mr. Twyman, the Long-Term Privatization Advisor. The advisor to these two units would be expected to undertake several tasks:

--Work with the spontaneous and investor-initiated officers to review the currently backlogged privatization proposals, identify work steps in the review process, assess the risk within each step to develop a risk-based approach to establishing priorities, develop work plans with the unit directors for officers in both units, and agree upon a systematized process for review.

--Meet with spontaneous and investor-initiated case officers to identify barriers to completion of proposed privatization. For example, a proposal may lack an independent valuation or the project investors may need assistance in identifying sources of financing. Meet directly (or with case officer) with proposed privatization sponsors to discuss barriers and make recommendations to overcome them.

--Assist the SPA in developing work plans for the Emergency Response Team, identifying types of skills needed, reviewing proposed staffing, managing task performance, monitoring and evaluating task output. The Emergency Response Team provides the SPA with a pool of skills available to respond quickly to its technical assistance needs, particularly to implement changes recommended in the previous paragraph.

--Meet regularly with the designated officer from the AITP, AITP advisor and with directors from market-initiated units to review investors' information needs and identify potential buyer interest. Work together on special projects as appropriate to facilitate specific transactions.

--Meet regularly and report to SPA officers, SPA Board of Directors, other government of Hungary agencies, the Donor Community to ensure the flow of communication. Take action, with the SPA's approval, as necessary.

--Assist the SPA in reporting on successes and events in the spontaneous privatization area, particularly when English-language skills are required.

--Write monthly status report which describes progress against task objectives. Write other deliverables to be defined at a later date.

--Discuss with SPA management any additional tasks required as the needs of the SPA continue to evolve.

3. Technical Assistance

a. Implementing the Management Information System (MIS)

The majority of the design of the SPA's MIS has been completed. During Phase IV, large portions of the SPA's MIS will be available for review and approval. The first training classes in the new MIS will begin. The Hungarian programming team will continue to produce software as the Deloitte and Touche team continues to forward specifications to them. Training of SPA users will begin. During Phase V, the final phase of activity, all software review and approval will be completed. All available users will have access to the LAN and the application software that has been installed.

PHASE VI

During Phase VI, large portions of the SPA MIS will be available for review and approval. The first training classes in the new MIS will begin. The Hungarian programming team will continue to produce software as the Deloitte and Touche team passes design information on.

WORKSTEPS:

- . Complete expansion of network implementation to include any remaining users, depending upon the availability of hardware
- . Continued support of SPA in hardware operation and maintenance
- . Continued user support
- . Continued development and delivery of programming specifications
- . Continued software development by Hungarian developers
- . Review of software by Deloitte and Touche
- . Review of software by DRT Hungary
- . Review and approval of products by SPA
- . Begin training of SPA users

OUTPUT:

- . Novell LAN with all available personnel on network
- . Staff sharing word processing resources, electronic mail, printers and other software supported by the network
- . Support of network by SPA staff
- . Modular implementation of application software

- . SPA review and approval of application software
- . SPA use of some MIS modules

PHASE V:

During Phase V, the final phase of activity, all software review and approval will be completed. Also, all software documentation will be completed and approved. All applicable users will have access to the LAN and the application software that has been installed.

WORKSTEPS:

- . Review of software by Deloitte and Touche
- . Review of software by DRT Hungary
- . Review and approval of software by SPA
- . Complete programming specifications for all modules
- . Continued review of software products
- . Initiate documentation
- . Continue training of SPA users
- . Review of software by Deloitte and Touche
- . Review of software by DRT Hungary
- . Review and approval of software by SPA
- . Completion of SPA training
- . Completion of software development
- . Completion of software documentation

OUTPUT:

- . Completion of all programming specifications
- . Initial system documentation
- . Increased number of SPA staff on the system
- . Completed SPA MIS
- . Completed SPA MIS documentation
- . Completion of SPA training for use of MIS

Upon the completion of the MIS in late August, the team will develop a plan for the design and implement a module within the current system which links the SPA with its sister agency, the Agency for Investment and Trade Promotion (AITP) of the Ministry of International Economic Affairs. This work, which will be subcontracted, complements the investment promotion effort.

b. Financial Management

This task will provide the SPA with trained personnel resources to accomplish the record keeping and financial control functions that are required by the SPA's principal funding agencies. The SPA has chosen to contract-out this unit, as it would require that the SPA's most needed resources be redeployed away from the critical job of managing the sale of enterprises. Another reason is due to

budgetary limitations. The unit will report directly to the SPA's Chief Financial Officer.

The financial management team will include a treasury specialist for one year, two senior bilingual accountant-type consultant staff for one year, and short-term assistance from specialists in procurement regulations for the World Bank and the European Community.

The Treasury specialist will undertake the following worksteps:

- . Review current financial management system
- . Develop list of areas for immediate support, such as payment of pending invoices and development of payment approval process
- . Develop list of long-term task areas, such as automation of financial management process and development of policies and procedures
- . Clearly identify roles and responsibilities of each team member, then assign immediate and longer term tasks.

The treasury specialist, two senior accountants, current SPA accounting staff and procurement specialists, "the team" will:

- . Review roles and task assignments with team members and SPA management
- . Contribute to the development of a fully integrated financial management unit including Hungarian and expatriate staff reporting to the Chief Financial Officer of the SPA
- . Establish financial management policies and procedures including regular reporting procedures to the SPA, donors and project management
- . Undertake completion of tasks
- . Report progress to SPA and donor community
- . Assist in developing position descriptions and recruiting for permanent staff to continue financial management tasks.

In addition, procurement specialists will:

- . Assist the establishment of policies and procedures to conform with donor requirements
- . Train financial management staff in procurement procedures

- . Review procurements to ensure compliance
- . Assist the SPA in monitoring and tracking funds from assigned donors

c. Linkages for Investment Promotion

Based on the recommendations made, in a task to explore linkages between SPA and the Agency for Investment and Trade Promotion (AITP), the Director of the AITP and the Managing Director of the SPA have agreed to development of a formal link by sharing information from the MIS. A short-term investment promotion specialist will be subcontracted to continue with the project to ensure that the link is completed to the satisfaction of both agencies. The specialist will assist both agencies in the development of investment promotion policies and assist in matching foreign investment capital with enterprises available for privatization.

The specialist will follow-up on recommendations made including:

- . Review the efforts of the AITP Liaison officer serving at the SPA to determine his/her effectiveness and recommend changes if appropriate
- . Advise and assist the AITP in strengthening relationships with foreign investors, including training the AITP to identify interested investors to assist investors in shaping their investment
- . Assist the AITP in the establishment of links with other organizations, by demonstrating the SPA linkage as a model.

The Specialist will work with the project MIS team to undertake the following worksteps to create direct access for AITP officials to the SPA's data base:

- . Equipment evaluation at the AITP
- . Review of the SPA's management information system to identify which information is relevant to AITP's work
- . Assist in negotiations with the SPA to agree on which information it will agree to provide to the AITP
- . Design specific software to create access to information
- . Install system and train AITP personnel

In addition to the information link between the two agencies, this task will also include advising the AITP Liaison Officer to the SPA. The liaison officer will spend three to four days a week at

the SPA and his/her function will be to receive all foreign investors who call on the SPA. It is critical that the investment promotion specialist be subcontracted quickly, as this is the first time such a relationship has been implemented in Hungary.

d. Emergency Response Team

There are two particular areas in which the SPA requires technical assistance to accelerate the privatization program:

- . In responding within the mandated 60-day period to company proposals for spontaneous privatization
- . In assisting companies and investors to overcome barriers to their privatization "deals."

A purpose of the Emergency Response Team is to fulfill the lack of professional skills needed by the SPA to facilitate spontaneous or investor-led privatization requests. The objective of the efforts of the Emergency Response Team in this capacity would be to help realize privatization deals. While the Active Privatization program has tendered for advisors for each company, the spontaneous and investor-led units have no such support.

The team would perform a series of tasks to be defined by the SPA and developed with the Long-Term Market-Initiated Privatization Advisor. Tasks might include:

- . Performing valuation services on behalf of the SPA as the owner of state properties. The valuations would be independent of those which are submitted by companies to the SPA for review and which are rejected on the basis of an unacceptable valuer (valuers must be registered with the SPA) or a contested valuation methodology.
- . Conducting company or business reviews to assist in solving problems which are barriers to privatization. The teams may review recent sales, production or trading results and assist in development of forecasts. Interviews would be conducted with company management to determine specific information. The teams will report that information to the SPA.
- . Developing alternative organizational or financial structures for the entities to be privatized.
- . Reviewing a specific industry sector to provide the SPA with adequate information to evaluate and compare the market-initiated proposal.

- . Training case officers in spontaneous and investor-led units in proposal review and evaluation process, including the development of working paper files for each case.
- . Developing standard approaches or methodologies where appropriate with the SPA officers for the proposal review and evaluation process.

V. PROCUREMENT OF EQUIPMENT

The U.S. Agency for International Development has already provided the SPA with office automation equipment and computers to meet approximately 60% of the needs of the SPA. The SPA has requested that additional equipment be provided to them, due to the fact that the SPA staff is considerably greater in size than originally anticipated (107 staff compared to a planned staff of 60). Accordingly, a MIS specialist has identified the SPA's equipment needs and produced a list of requested equipment. A preliminary equipment list has been provided.

A procurement specialist will undertake the following worksteps:

- . Confirm requested list with the SPA (more than four months have elapsed since the preliminary list was developed)
- . Identify cost of equipment on the General Services Administration Schedule
- . Obtain bids following U.S. government and A.I.D. procurement regulations for equipment not on schedule
- . Identify vendors, shipping agents, freight forwarders and obtain bids for transport and customs costs
- . Identify maintenance and warranty information and select the one which meets the SPA's needs
- . Make final equipment selection
- . Make transportation arrangements, including export licenses if necessary, of equipment and documentation
- . Process invoices for payment of vendors and carriers.

VI. TRAINING

The SPA would like to send a Hungarian delegation to the International Development Training Institute's course on Privatization to be held in July. A team of six senior officers from the SPA, the National Bank of Hungary and the Ministry of Trade and Industry would be attending.

SCOPE OF WORK*

1. Help define the operational framework of the SPA.
2. Help prepare a funding strategy for the SPA's activities.
3. Help define the organizational needs of the privatization process.
4. Help define the initial and longer term organization structure of the SPA.
5. Help define the office and equipment requirements of the SPA.
6. Help define the personnel requirements of the SPA.
7. Help define the training needs of the SPA and help initiate an appropriate training program.
8. Help define the prioritization of privatization activities.
9. Help define the critical privatization program linkages in the economy.
10. Help establish a plan to define and manage the technical assistance requirements of the privatization program.
11. Help integrate spontaneous privatization, the SPA and the GOH's privatization program.
12. Help the GOH and the SPA understand the role of ESOPs and specialized tools that may have a suitable role in the privatization program.

* NOTE: The task activities of the project are woven from this Scope of Work and frequently overlap several categories.

MEASURING THE PACE OF PRIVATIZATION

31. December, 1992

1. Transformations:	pc	billion HUF
-with state share less than 49% (value according to full revalued balance sheet)	142	201.33
-with state share between 49 and 100% (private property revalued on the basis of weighing according to the proprietary structure)*	362	46.41
-companies with 100% state share	125	
2. Foundations of companies (with domestic and foreign partners)	172	44.82
3. Selling subject to the Property Protection Act (at contractual value)**	453	36.30
4. Receipts from preliminary privatization ***		11.12
5. Selling of shares passed on to SPA		1.15
6. Companies of the second property management tender		4.00
----- Total:		355.63

Book equity of state-owned companies belonging to the
competitive sector 2000.00

Privatized property: 355.63:2000 = 17.78%

-
- * In case of MVM Rt's transformation we considered only
the municipality shares as a market factor
 - ** The amount includes the amount of sales performed
together with deals of contribution in kind.
 - *** Includes the selling of the right of lease as well.

STATE PROPERTY AGENCY
DIRECTORATE OF INTERNATIONAL RELATIONS

INFORMATION

on the performance of the task of the State Property Agency
on the Reform Loans for enterprises

1. Prior to loan negotiations the World Bank has approved the State Property Agency's institutional development and work program for 1992.

The task specified in the Work program have been either executed or are expected to be implemented. The organizational changes implemented since the adaptation of the work program have been included into the institutional and work program. For this reason we believe there is no need to develop a new institutional development and work program.

The organizational structure of the State Property Agency has been modified. While earlier we had transaction directorates separated based on who initiated the privatization (the state, the enterprise, the investor) the new structure is based on sectors.

It was reasonable to modify the structure, because:

- program based management failed to meet expectations
- it is now easier to validate sectorial and professional policy aspects,
- the interest of foreign investors is targeted on the enterprises of concrete sectors, and so it is easier to provide information on the choices available,
- competition considerations are easier to monitor.

2. According to the calculation method approved by the World Bank by the end of 1991 we privatized 7.22% of the assets in the competitive sector.

According to the calculation method, by the end of June 1992 8.81% was the privatization schedule. In accordance with the obligation we undertook with the World Bank by the end of 1992 we need to privatize 12% of the asset in the competitive sector.

The Aid Memoire drawn up following the visit by the World Bank mission in July recommended to refine the information base. For this reason, based on the data composed by the Property Transfer and Compensation Directorate (which also include the data on the associations established prior to SPA coming into existence, the interim sales of shares which

take place are also registered with the relevant companies) we have calculated the speed of privatization, which according to December data reach 17.78 %.

3. The June and September reports have been forwarded to the Directorate of Governmental Relations.

4. In connection with the Reform Loan to Companies the Government has set the condition that independent experts should develop case study minimum 10 transactions.

5. We have agreed with the members of the World Bank mission on the conditions of preparing case studies (list of companies, experts, deadline, financing, etc.). We have commissioned 12 experts to prepare altogether 15 case studies. 7 proposals have been received on the tender invitation, and so 13 case studies can be developed. The work is coordinated by Marko Simoneti, Executive Director of the Slovenian Privatization Agency. The launching meeting took place during December. The second meeting with Mr. Simoneti will take place during the first week of February. The Summary will be prepared by early March.

6. The time rated execution of the work program - in accordance with the sequence specified in the matrix - is presented below.

It should be noted however that in harmony with the modification of the organization of the SPA the transformation and privatization, registration shall be based on the sectorial order in the future. Transformation in process will be included in the information system only at a later stage.

Active privatization programs:

Task: Starting in September 1990 to initiate privatization of 60 enterprises with a total assets value of HUF 300 B.

Status as per December 31: Since September 1992 statistical information have not been prepared regarding the active privatization programmes in process and the large enterprises as well as corporations (MATAV Rt., MVM Rt.) were taken over by the State Asset Management Company Flc.

Task: The finalization of the privatization process for 40 enterprises since September 1990, with a total asset value of HUF 200 B.

Status as per December 31: The transformation of 49 enterprises was approved with a total book value of HUF 366.03 B and transaction value of HUF 927.17 B. The task is completed.

Task: Also starting in September 1990 the privatization process completed (up to sale) for 25 enterprises with total asset value of HUF 100 B.

Status as per December 31: The number of completed deals is 23 with book value of HUF 76 B., transaction value of HUF 249 B. Together with MVM Rt (the holding has been established, the local governments have received their shares) the number of completed deals is 39, their book value HUF 252 B., transaction value HUF 812 B, thus the task is completed.

We can regard as completed all the deals where privatization has already been completed but the rest of the companies have remained on the long term in state ownership.

Pre-privatization program:

Task: In 1992 auctions are to be organized for 2500 units

Status as per December 31: In 1992 the number of initiated privatization cases was 2312. This number may be increased by 563 as that was the increase in the number of auctions compared to the presumed number when the matrix had been prepared. Thus 2875 auctions were organized.

The number of privatized units in 1992: 4504.

Total number of privatized units altogether is: 7637.

Privatization initiated by the enterprises:

Task: Since January 1. 1991 400 proposals have been initiated.

Status as per December 31: The World Bank lists here the establishment of associations and sale of assets. Since January 1. 1991 556 proposals have been evaluated. The task is completed.

Privatization deals initiated by investors:

Tasks: The survey of all proposals initiated by investors, but minimum 75 proposals (the lesser number of the two).

Status as per December 31:

Since March 31, 1990: 296;

since January 1, 1991: 269 transformations initiated by investor and/or enterprises have been completed. (Statistics do not differentiate between enterprise and/or investors initiated transformations)

Self-privatization:

Task: Prior to drawing down the second part of the loan: concluding agreement with the consultants of enterprises listed for the first phase; based on the experiences the necessary modification of the construction; approval of the list of consultants for the second phase.

Status as per December 31: The task have already been, completed.

Adaptation of the principles of bank privatization:

Approved by the government.

Property management:

As a consequence of the new privatization acts, with a few exception the rights of the ministries as founding members have been transferred to the State Property Agency. On the other hand the compulsion for transformation dramatically increased the number of enterprises for which SPA has to exercise the rights of owners until privatization take place.

It is impossible to exercise the rights of owners the traditional way (as the task of one property management directorate). For this reason, according to the planned Organizational and Operation Regulations an officer will be in charge of a given organization until the denationalization process is completed, starting with the transformation up to the full privatization; thus property management becomes one function without being turned into an independent organization. The transaction

officers will receive the same kind of professional support as provided in legal or property evaluation matters.

Transformations:

Task: From June 1991 by the end of 1992 altogether 400 state enterprises should be transformed with asset value of HUF 500 B.

Status as per December 31: Since July 1991 508 enterprises have been transformed with book value of HUF 456.80 B and transaction value of HUF 1128.27 B.

February 5, 1993.

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The SPA still has 562 state companies under its control and has shares in another 541 converted companies. Together these amount to assets worth around HUF 800 billion. However, this value is reduced by the debts these companies have accrued, he said. The SPA must, by law, allocate some HUF 80-90 billion worth for exchange for compensation vouchers and a further HUF 300 billion worth to be transferred to the social security fund.

Facts about Hungarian privatization 1990 to 1992

PRIVATIZATION AS A MEANS OF POLITICAL AND ECONOMIC POLICY IN THE HANDS OF THE GOVERNMENT

The Hungarian government formed on May 23, 1990, laid down in its Program for National Renewal the political principles on the basis of which a process of economic transformation began.

At stake was the transformation of a market economy built on the dominance of private property, a long-term task. The objective is clear: the national economy can be rebuilt and function effectively only on market principles, and only this can ensure Hungary's integration, not only with the economy of a Europe headed toward union, but with the whole world. One of the most complex tasks facing the political transformation in Hungary is to carry out ownership reform, and in this connection the promotion of a middle class indispensable for stability in democratic societies, primarily an entrepreneurial middle class.

The above facts call for the replacement of the excessive weight of state property, through its speedy although gradual dismantling by a steady replacement of private ownership based on the fundamental principles as specified in the constitution. Parallel to this process, the sectoral and production pattern of the national economy is being transformed, and the closure of unviable economic activities and companies and the former monopolistic positions materializes.

Privatization forms but one element in the implementation of a reform of ownership. The transfer of ownership regulated by laws on local government, cooperatives and compensation, and other movements of ownership are also part of this process, as is the expansion of the private sphere that goes hand in hand with the development of private enterprises.

The state has turned out to be a bad entrepreneur, and it must cede its place to new owners. Private property is expected to be reinforced alongside an improvement in the efficiency of the national economy. The government's goal is to reduce – partly through privatization – the share of state assets from 90 to 50 percent before the end of 1994.

New arsenal of privatization

After two years of experience in privatization, the government intends to speed up the process in mid-1993 and particularly to give large sections of Hungarian society access to property by elaborating and implementing a new strategy of privatization. As part of this strategy, a new arsenal has been worked out that enables citizens to take advantage of various types of new benefits. Thus they can become more easily involved in the privatization of state assets, and by risking a lesser share of own capital or even without having to resort to this risk, and to engage in entrepreneurial activity.

The new arsenal, by means of its various elements, is designed to improve both involvement in privatization and the elements of

private enterprise. This is basically ensured by three factors: it establishes new privatization techniques and ensures greater benefits, and the state undertakes certain guarantees to ensure that enterprises can function with fewer burdens.

The new techniques provide new opportunities for all important figures in the process of privatization. The lawful possibility of acquisition of property by employees was created by the Employee Share Ownership Program, on which Parliament passed a law in 1992. Thanks to it, members of an ESOP organization can become co-owners of the company where they are employed.

In addition, management buyout offers the same opportunity for the company management. In the interest of speeding up the process, the leasing of state companies transformed into partnership form – thus not just assets! – has become a possibility, followed by their gradual transfer into private ownership.

Leasing as such can only be applied for in the privatization of property by natural persons or groups with Hungarian citizenship and resident in Hungary, whose property cannot be sold either through the regular tendering or in cash sale transactions. Leasing is preferential because it does not require cash, and the installment for the first year is only half of the payment liabilities, in order to ease the concomitant financial burdens in an equitable manner. The installment for the first year should as naturally be repaid from the pre-tax profit, in an identical manner as the known financial leasing method. With the expiration of the maturity period the company is transferred into the ownership of the lessee, but until that point the ownership rights remain with the SPA.

The privatization and Existence Credit designed to support the involvement of enterprises in privatization were practically linked to the process of pre-privatization under way in retail trade, while the other credit structure did not function. Therefore the government decided in favor of merging the forms of credit. In order to ease the financial conditions, the government reduced the interest on E-Credit to three percent (an interest mark-up charged by banks involved in the transactions represents an extra four percent for the applicants), and other terms (grace period, maturity period and own-share) have also changed for the better.

In an effort to further encourage domestic purchasing power and mobilize the fast increasing savings of the population, the government makes it possible to buy state property by payment in installments, and to use the Small Investors' Share Purchase Program in an agreement to be concluded with the Property Agency on the terms of concrete deals. As part of the deal the shares of such companies are offered on a preferential basis to small investors that are able to prove their viability on the Stock Exchange. The list of these companies is expected to be made public on June 30, 1993.

In the Small Investors' Share Purchase Program, all adult Hungarian citizens are entitled, for payment of a registration fee, to use

an individual share purchase framework, whose upper ceiling is HUF 100,000. The choice includes five to 15 percent of a package of shares of state companies laid aside for the purposes of this program. If demand exceeds supply, those subscribing to the fewest shares have an advantage, while the rest will have another chance with the following issues. The aim of providing preferential treatment to small investors is to give the largest number of applicants access to securities. This program also allows the use of various benefits. In addition to the 15 to 20 percent benefit in the purchase of shares, investors keeping their securities for a definite length of time receive bonus shares for their "loyalty." The purchase can be effected in installments. In this case buyers are given a chance to draw interest-free credit with a maximum five-year maturity period.

Along with the new methods, the new means of encouraging demand and the cash-saving privatization facilities, the government set up the Credit Guarantee Rt. in December 1992, thus creating the ways and means of shouldering a considerable part of risks relating to private enterprises, and thus promoting the propensity of commercial banks to extend credits.

As a result of the switch of strategy by the government, privatization is expected to pick up in 1993. In this process, assisting a segment of domestic entrepreneurs to get access to property, another considerable portion of still state-owned assets may find responsible entrepreneurial owners, and each of the companies still in state ownership will be involved in the process of transformation. Nevertheless, it is still necessary to involve foreign resources. Modern technology, new markets and management skills are indispensable for the further development of the national economy. The acceleration of privatization shows promise that private property will become a dominant feature – as is the intention of the government – in the national economy by late 1994.

PROCESSES OF PRIVATIZATION IN FIGURES

Assets controlled by the SPA and their economic content

The prevalence of state property is indispensable – even amid the frameworks of a market economy based on private property – for the implementation of state tasks. Some of the state property ensures the operation of the state administration, while others ensure the operation of the so-called non-profit making organizations (e.g. cultural, health, scientific and social) to perform state public tasks. The state property necessary for that is not part of the entrepreneurial property of the state. Furthermore, the entrepreneurial property of the state does not necessarily consist of the sphere of assets which qualify as so-called exclusive state property, as defined in the Civil Code, such as natural resources or riverbeds. It is, however, also possible that the state will use the assets in exclusive state ownership in forms of enterprise. This sphere of property falls within the authority of the Treasury Holding Organization.

The entrepreneurial property of the state – which is currently managed by state companies, or which embodies the assets of state-owned economic partnerships – can be grouped according to the future intentions of the state regarding those assets. The direction of renewing the regulations pertaining to the entrepreneurial assets of the state is set by the government's strategy on ownership and privatization. Laws regulating the operation of the state entrepreneurial assets have been drafted on the basis of this strategy. As for next year, Parliament will define the main viewpoints of selling and utilizing the state assets functioning in enterprises – in line with the law on the budget – in the Property Policy Guidelines.

Under Act LIV of 1992 the State Property Agency is the budg-

etary body operating under the supervision of the government – as practiced by the minister in charge of privatization. However, as regards the representation of the rights of the state as owner, it only has powers over those company assets that can be privatized without restrictions. The State Property Agency is entitled to all rights of ownership in the course of the sale of or preparing for sale assets falling under the effect of law.

Act LIII established the State Holding Company. The companies/partnerships falling under its authority are those important from the point of view of the national economy, or strategic considerations, which remain in constant whole or part state ownership.

The possibility of regrouping the two spheres of assets – permanently or temporarily in state ownership – continues in the future. However, it is of fundamental importance from the point of view of legal security that until a decision limiting or excluding privatization is issued in a legal regulation, assets affiliated to the SPA can be sold while asserting the viewpoints determined in the guidelines.

The legal regulation notes that adequate regulation is necessary to protect state property even in times of transition, and in cases even to ensure more powerful social control. Therefore the law molds and also advances the provisions of Act VIII of 1990 on the protection of property entrusted with state companies. As compared to earlier regulations, the new one contains some reasonable, stricter provisions in the details, but it does not change the basic provisions of the law on the protection of property and the structure of the regulation.

A total of 2244 companies were in state ownership on January 1, 1991. Of these, 1987 fell under the authority of the State Property Agency. The book value of state property represented by these totalled about HUF 1.9 trillion (determined at book value as of December 31, 1990). Of this, assets worth HUF 645 billion (that is, about one-third of the state assets) were transferred to the State Holding Company.

By adding up the value of buyouts, options and capital increases as defined in contracts, it can be stated that the control of private ownership is asserted over a minimum 18 percent of assets transferred into partnership ownership.

THE TRANSFORMATION AND PRIVATIZATION OF STATE COMPANIES UNDER THE DIRECT PARTICIPATION OF THE SPA

With the exception of property protection cases (sale of real estate, assets) representing the sale of tangible assets, privatization is proceeding with the transformation of the state company in question into a form of partnership, or with the establishment of a new partnership.

It is a question of actual privatization if private investors obtain at least a 50.01 percent share, or if the acquisition of a minor share (30 to 39 percent) goes hand in hand with a right to options ensuring the purchase of the other shares.

In the past three years considerable privatization was carried out in the tobacco, alcohol, sugar, sweets, luxury goods, beer, road building, cement, paper and building material industries, retail trade, foreign trade, insurance market, industrial gases sector, and the printed press.

Privatization has begun and progressed in the canning meat, plastic processing, fitting, refrigerating and paint industries, in the household appliances (refrigerator, stove, lighting technology) sectors, manufacture of transportation means and some sectors of the light industry and machine engineering.

Privatization has virtually not started in the major banks, the chemical industry, the energy sector, telecommunications, mining, public utilities and some major companies in the energy industry, all controlled by the State Holding Company.

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Company transformations

Concerning the transformation of state companies and other business organizations into economic partnerships, Act LIV of 1992 differentiates between the regulation of procedures launched before and after June 30, 1993. Three types of legal solutions may serve transformation for procedures launched before June 30, 1993. It is possible, as in the former regulation, to implement transformation under the control of the SPA, or transformation can materialize on the initiative of the company in question.

The law also mentions the simplified procedure for transformation, whereby a consulting firm commissioned by the SPA and being in a contractual relationship therewith proceeds in privatizing state companies defined by the SPA Board of Directors.

Those state companies that have not started their transformation as of June 30, 1993, will be transformed by the SPA into economic partnerships.

Since its formation in 1990 to the end of the year, the SPA has approved the transformation into partnerships of 27 state companies which have HUF 26 billion of book value assets and HUF 41 billion worth of reassessed assets. In 1991, 181 state companies representing about HUF 300 billion in book value were transformed at HUF 418 billion of reassessed own assets. As of December 31, 1992, another 384 state companies at around HUF 300 billion worth of book value (this represented almost HUF 900 billion of reassessed property) were transformed into partnerships. In order to give a suitable assessment of the increase, one should know that the transformation of the Hungarian Electricity Works Trust alone into a joint stock company represented a transfer of tremendous assets, assessed at about HUF 526 billion into partnership.

As of late 1992, one-third of the companies falling under the authority of the SPA, or the book value falling thereto, were formed into partnerships. Significantly, the assets following reassessment considerably exceeded the so-called book value, something that reflects the data obtained from the method of accounting. On December 31, 1992, the transformation of a further 443 state companies was underway. By virtue of the laws of privatization accepted in the summer of 1992, the founders' rights of companies were also transferred to the SPA.

Over and above the supervision of company-initiated (spontaneous) transformations and privatization transactions, the First Privatization Program was launched in 1990, followed by several minor programs organized on the basis of sectorial principles. The role the state actively played in privatization needed modification according to the experience gained in 1991 in the privatization implemented via state-initiated programs. The privatization programs did not fulfill expectations. As regards the First Privatization Program, the privatization of only smaller units of management involved could be concluded in 1991. Following the sale of IBUSZ shares, the biggest transaction in 1992 was the extraordinary success with which shares of Danubius Hotels Rt. were sold in an open flotation.

Failure to implement the privatization of other major companies regarded as the "flagships" of the program is retraceable to several factors. These include a radical change in external economic and business conditions as well as a lack of cooperation on the part of the company management, and in some cases that of a united privatization concept relevant to transactions.

Experience shows that it is not advisable to simultaneously launch the privatization of a major group of companies unprepared for such operation in an incomplete market economic environment and with only partial infrastructure. It follows from this that privatization controlled by the state is not worth running according to the indications of market demand.

The difficulties of managing such an operation have clearly indicated that direct state involvement in transactions is only justified

with the acceptance of full control, with the coordination of the administration displaying unequivocal responsibility and structural guidance and only for the privatization of the biggest companies.

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
Number of all transformed companies:	27	218	690
B. in billion HUF*	26.19	345.07	645
value**	41.47	456.20	1364

* B. in billion HUF = (former) owned state book property

** Value in billion HUF, acknowledged during the transaction

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
Out of this:			
self-privatization number		20	257
B. in billion HUF		1.15	28.5
value		1.56	26.3
company and/or investor initiated	27	180	296
B. in billion HUF	26.19	281.48	410
state initiated	-	18	49
B. in billion HUF	-	150.43	366
value	-	182.16	927

Refused transactions***

number	8	11
in billion HUF	3.99	5.04

*** Once refused, but later accepted, or during without transaction.

Cases of property protection

As part of the property protection procedures requiring the approval of the SPA, 172 major companies were founded before late 1992. The value of state assets involved totalled HUF 20.2 billion. In the course of the transactions business value on average doubled the book value which corresponds to a revaluation identical with the state assets.

Accepted Corporation Establishments

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
with domestic partner	18	70	99
B. in billion HUF	1.51	3.73	5.3
value	2.07	9.10	13.4
with foreign partner	28	56	73
B. in billion HUF	9.99	17.61	17.9
value	17.38	28.20	31.4
total	46	126	172
B. in billion HUF	11.50	21.34	23.19
value	19.45	37.30	44.8

Refused Corporation Establishments

number	12	15	17
B. in billion HUF	0.49	0.71	1.04

Accepted property protection cases (sales, other):

number	38	207	451
B. in billion HUF	1.86	8.59	14
value	3.96	17.11	29.3

Refused property protection cases

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
number	11	16	19
B. in billion HUF	0.92	1.86	90.8

Pre-privatization

Privatization (known as pre-privatization) of the retail trade began in the autumn of 1990 on the basis of legal regulations. One of the achievements of 1991 was that the process of pre-privatization launched following the clarification of credit facilities improved and even accelerated in the second half of the year.

Privatization of 3133 out of the more than 10,000 units discussed in the course of pre-privatization materialized in 1991, and the sale price rose to 134 percent on average of the put up price during the auctions. The total value of sales ran to HUF 5 billion in 1991.

By late 1992 the number of privatized stores rose to 7637 and revenues more than doubled as against 1991. Pre-privatization is expected to be wound up in the course of 1993.

Decentralized privatization

Within the framework of the simplified company-initiated privatization scheme launched in October 1991, the first and second phase of the program affects 700 small and medium-sized companies. Thus, privatization entailing the contribution of consultants in this sphere of companies is the decisive form of privatization. The process of privatization started on the road toward transformation into partnerships for 85 percent of the companies authorized to take part in phase one (62 percent of them have gone beyond this).

Privatization has materialized with nearly 30 percent of the transformed companies with the cooperation of consultants. Nearly 70 companies have been sold.

In the course of the program 10 building industry and investment companies, nine car repair, eight household appliances and electrical machines firms, seven machine engineering companies, five companies engaged in organizing educational courses, and further extension courses, five quarries, five light industry small companies, four small printing presses and some trading and food industry companies and those engaged in consumer services were transferred into private ownership. So far HUF 3 billion of earnings from privatization accrued in the course of self-privatization.

In the framework of the decentralization of the separate units of state farms, bids were invited for the sale of about HUF 30 billion worth of independent assets and property and HUF 6.5 billion worth of assets were actually sold. Privatization revenues could be used toward the financial reorganization of state farms. Demand was keenest primarily in fodder mixing plants, animal breeding, food production capacities with a raw material base, viticulture and viniculture, food processing, tourism and hunting infrastructure.

Smaller hotels, bakeries separable from major bakery industrial units, and small brickworks went ahead in the framework of other decentralized programs.

Privatization cum winding up procedure

Winding up procedures are launched against an ever-growing number of state companies and in such cases assets are sold free from debt. This process is proceeding slower than desired, and hence a further loss of assets materializes in the companies affected.

The better-known deals concluded in 1992 are as follows: the Gyongyos and Kazincbarcika factories of the Light Concrete Fac-

tory, the Nyiregyhaza unit of the Engine Works and Painting Equipment Factory, Granvisus, Tatabanya Meat Industry Company, one of the plants of the Pest Machine Factory, the Csot plant of Robix tractor factory and a few coal mines.

Significant companies privatized in 1992

Dunaferr Hideghengermű, Agrimpex, Interag, Növényolaj- és Mosószergyártó Vállalat, Alföldi Porcelángyár, Jamina Cserépgyár, Soproni Sörgyár, Répcelaki Szénsavgyár, Primagáz Rt., Kner Nyomda, Artex, Color Ruházati Vállalat, Nyugat Élelmiszer-kereskedelmi Vállalat, Zalaegerszegi Hűtőipari Vállalat, Energiagazdálkodási Intézet, Sátoraljaújhegyi Dohánygyár, OFOTÉRT, Telefongyár, Mezőtúri Téglaipari Vállalat, Debreceni Dohánygyár, Debreceni Fomméchanikai Vállalat, Foka Rt., Transelektro, Gyár- és Gépszerelő Vállalat, Pharmatrade, Alfa Kereskedelmi Vállalat, Budapesti Édesipari Vállalat, Salgótarjáni Kályhagyár, Nagykanizsai Sörgyár, Sopker, MÖBIUSZ Hűszipari Vállalat, Kecskeméti Konzervgyár, Chemol Rt. Metrimpex, Szigetvári Konzervgyár, Altera Építőipari Vállalat, Utasellátó, Székesfehérvári Könnyűfémmű, Keravill, Aranyók, Bátaszéki Cserép- és Vízkerámiagyár, Budapest Tourist, Koping-Datorg, Monimpex, Pick, Danubius, Nikex, Metalimpex Kereskedelmi Kft., Mogúrt, Triál Csoport, Kontravill, Staticum, Fajértej, Debreceni Tangazdaság, Alkalmi Áruk Háza, Budafoki Papírgyár, Orosházi Mezőgép, Veszprémi Vágóhíd, Hajdúsági Univerzitas Rt., Szombathelyi Agroker, Innofinance, Parádi Üveggyár, Tritex, Albaker Rt., Bácskú, Hőszigetelő Vállalat-, Nagykőrösi Konzervgyár, Budalakk, PEMÜ, Dunántúli Kőolajipari Gépgyár, Tiszai Vegyiművek, Országos Ásvány- és Kőolajipari Gépgyár, Tiszai Vegyiművek-, Országos Ásvány- és Ércbányák, Kühne Mezőgazdasági Gépgyár, Novapack, Elegant, Nagykanizsai Bútorgyár, Pannonplast, EVIG, Vilati, and Tokaji Borkombinát factories, plants and units.

Privatization revenues

Revenues of the SPA in Hungarian currency and foreign currency between January 1 and December 31, 1991, totalled HUF 31.38 billion. Nearly 76 percent of the revenues included foreign currency. In the form of direct buy-out, capital increase and non-cash contribution as well as other purchases, foreign currency worth HUF 58.68 billion in 1991, and HUF 96.23 billion in 1992, was invested in transformed and privatized partnerships.

This means that a minimum 60 percent of the foreign capital that moved to Hungary has been invested through privatization. Projected on the total number of transformed companies, the ratio of foreign capital is merely nine percent. (Major companies which transformed assets, for instance MVM Rt., pull the ratio downwards, while the base of projection for joint ventures shows an above 40 percent average foreign participation.)

In 1992, direct privatization revenues nearly doubled, totalling HUF 72.14 billion, of which sales for foreign currency totalled 41 billion. The 57 percent ratio of foreign participation constitutes a decrease compared to previous years, but it still increased in absolute terms. It is an unchanging trend that, like in 1991, about half of the foreign capital targeting Hungary flowed into the country through various channels of privatization in 1992, too.

A major achievement of 1992 is that domestic buyers have surged ahead, buying up HUF 17.5 billion worth of assets for forints. In addition, a further HUF 9 billion worth of assets were bought through the E-Credit.

It is worth emphasizing that the following privatization revenues do not include the sum paid to partnerships through privatization

PRIVATIZATION

through an increase in base capital, and the sums paid to companies in question from assets sold (property protection cases) by state companies.

Foreign capital investments

Like last year, a considerable capital investment was implemented in Hungary in 1992.

	1991 (USD m)	1992 (USD m)
Capital effected in cash	1 450	1 470
Capital in non-cash contribution	250	230
Direct investment credit drawn by foreign or joint venture	200	300
Total:	1 900	2 000

Major foreign investors (investments over USD 20 million) in Hungary: General Motors (U.S.), Suzuki (Japan), General Electric (U.S.), Allianz (Germany), Prinzhorn (Austria), Guardin Glass (U.S.), Siemens (Germany), Ferruzzi (Italy, France), Unilever (Holland), Sanofi (France), Ford (U.S.), Corvinus Lufthansa (German consortium), Alitalia (Italy), Electrolux (Sweden), Amilum (Belgium), Reetsma (Germany), Messer Grieshein (Germany), Sara Lee (U.S.),

Begin Say (France), US TEL (U.S.), DAWEO (South Korea), Alcoa (U.S.), Atex (Russia), Agrana (Austria), Coca-Cola (U.S.), Philip Morris (U.S.), CIB (Britain), Wienerberger (Austria), British American Tobacco (British-American), CP Holdings (British), Linde (Germany), Voest Alpine (Austria), Citibank (Britain), Aegon (Holland), Stollwerck (Germany), Philips (Holland), Strabag (Austria), Zwack Consortium (Austria-Germany), Heidelberg-Schwenk (Germany), Pankl-Hofmann (Austria), Holderbank (Switzerland), Julius Meinel (Austria), West-Deutsche Landesbank (Germany), Henkel (Germany), Ansaldo (Italy), Brau AG (Austria), Scholler (Germany), Columbian (U.S.), First Hungarian Fund, American-Hungarian Enterprise Fund, and several oil companies.

Compensation and privatization

About HUF 25 billion worth of compensation vouchers were issued by late 1992. About HUF 2.2 billion worth of assets were sold in exchange for compensation vouchers at the SPA. The sale of shares was most successful with Inter-Europa Bank, Julius Meinel and Pici companies. A large number of people paid with compensation vouchers during the pre-privatization process.

By late 1992, 1.9 million gold crowns worth of cropland was transferred to individual ownership in exchange for compensation vouchers, and this was nearly seven percent of the entire land area (30 million gold crowns) designated for compensation.

FACTS AND DATA ON
PRIVATIZATION
1992

FACTS AND DATA ON HUNGARIAN PRIVATIZATION - 1992
compiled by Government Counsellor Bertalan Diczházy

The transfer of state assets to private hands speeded up in 1992; privatization has been accomplished in conformity with the principles of the market, with the rules of competition. In addition to enterprise and investor-initiated procedures, self-privatization carried out with the collaboration of consultants as well as the unit-by-unit (decentralized) sale of state enterprises gained on importance. At the end of the year, the partial privatization of the Danubius and Pick companies was implemented by the issue of shares to the public; the sale of eight enterprises by way of leasing was also announced, in which case the conclusion of contracts will be realized in 1993. Data on the processes taking place under the supervision of the State Property Agency:

1. TRANSFORMATIONS

1.1. Endorsed transformations:

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
Total number	27	218	602
Book value, HUF billion*	26.19	345.07	645
Value**	41.47	465.20	1364

* Book value of the (former) equity held by the State

** Value acknowledged in the course of the transaction, in HUF billion

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
Of this: No. of self-privatization projects		20	257
Book value, HUF billion		1.15	28.5
Value		1.56	26.3
No. of enterprise and/or investor initiated privatization projects	27	180	296
Book value, HUF billion	26.19	193.49	251
Value	41.47	281.48	410
No. of state-initiated privatization projects	-	18	49
Book value, HUF billion		150.43	366
Value		182.16	926

1.2 Rejected transformations***

Number	8	11
In HUF billion	3.99	5.04

*** Without the transformation projects rejected but later endorsed and the projects in progress.

2. TRANSACTIONS TO PROTECT STATE PROPERTY

2.1 Endorsed company foundations:

	Dec. 31, 1990	Dec. 31, 1991	Dec. 31, 1992
No. of domestic partners	18	70	99
Book value, HUF billion	1.51	3.73	5.3
Value	2.07	9.10	13.4
No. of foreign partners	28	56	73
Book value, HUF billion	9.99	17.61	17.9
Value	17.38	28.20	31.4
Total number	46	126	172
Book value, HUF billion	11.50	21.34	23.19
Value	19.45	37.30	44.8

2.1 Rejected transformations

Number	12	15	17
Book value, HUF billion	0.49	0.71	1.04

2.2 Endorsed cases of asset protection (sales, other)

Number	38	207	451
Book value, HUF billion	1.86	8.59	14
Value	3.96	17.11	29.3

2.3 Rejected cases of asset protection:

Number	11	16	19
Book value, HUF billion	0.92	1.86	90.8

Direct (state) proceeds of privatization

In 1992, HUF 72 billion of direct privatization revenues were generated, of which HUF 41 billion was the value of sales against foreign exchange, HUF 17.5 billion worth of assets were purchased by domestic buyers against forints and HUF 9 billion worth of sales were realized making use of the E-loan arrangement. It should be stressed that this privatization revenue does not include the amounts collected by the companies themselves by way of raising the capital and thereby effecting privatization or the amounts paid to the state enterprises against the sale of state assets (cases of asset protection).

Transformation and privatization of state enterprises with the direct participation of the State Property Agency (SPA)

With the exception of cases of asset protection (sale of real estate, machinery, tools, etc.), privatization is implemented by way of transformation or the foundation of new companies. Actual privatization takes place when individuals or foreign investors acquire at least a 50.01% holding in a company, or if the acquisition of a minority holding (of 30-39%) also includes an option to buy a larger share.

Major companies privatized in 1992

Dunaferr Cold Rolling Mills, Agrimpex, Interag, Vegetable Oil and Detergent Manufacturing Co., Alföldi China Factory, State Insurance Co., Jamina Tiles Factory, Sopron Brewery, Répcelak Carbonic Acid Factory, Primagáz Co. Ltd., Kner Press, Artex, Color Clothing Enterprise, West Food Trade Co., Zalaegerszeg Frozen Food Co., Mezôtúr Brick Co., Energy Management Institute, Sátoraljaújhely Tobacco Factory, OFOTÉRT, Telephone Factory, Debrecen Tobacco Factory, Debrecen Precision Engineering Works, Foka Co. Ltd., Transelectro, Plant and Machinery Assembling Enterprise, Pharmatrade, Alfa Trading Co., General Bank for Venture Financing, Budapest Confectionery Enterprise, Salgótarján Stove Factory, Nagykanizsa Brewery, Sopker, M²BIUSZ Meat Processing Co., Kecskemét Canning Works, Cemol Co. Ltd., Vidia, Metrimpex, Szigetvár Canning Works, Alterra Constructions, Utasellátó Catering, Székesfehérvár Light Metal Works, Keravill, Aranypók, Bátaszék Tile and Water Ceramics Works, Budapest Tourist, Kopint-Datorg, Monimpex, Pick, Danubius, Nikex, Metalimpex Trading Ltd., Mogürt, Triál Group, Kontavill, Statigum, Fehértej Dairies, Malév, Debrecen Model Farm, Alkalmi Áruk Háza (Broken Lots Store), Budafoke Paper Works, Orosháza Agricultural Implements Works, Veszprém Slaughterhouse, Hajduság Univerzatis Co. Ltd., Szombathely Agroker, Reálbank, Innofinance, Parád Glass

Works, Tritex, Albaker Co. Ltd., Bácskú Meat Processing Co.; moreover, individual units and plants of the Heat Insulation Co., Nagykőrös Canning Factory, Budalakk, PEMÜ, Főszér, Transdanubian Petroleum Industry Machine Works, Tisza Chemical Works, National Mineral and Ore Mines, Kühne Agricultural Machinery Co., Novopack, Elegant, Nagykanizsa Furniture Works, Pannonplast, EVIG, Vilati, Tokaj Wines Co.

In the course of the past three years, significant parts of the tobacco, alcoholic beverages, sweets, confectionery, luxury goods, brewing, road construction, cement, paper and building materials industries, domestic trade, foreign trade, the insurance business, industrial gases sector and the printed press were privatized.

Privatization began and progressed in the canning industry, meat processing, plastics, processing, assembling, frozen food, dyes industry, in the household appliances (refrigerator, stove, illumination technology), vehicle manufacturing, certain sectors of the light industry and machine manufacturing.

Essentially, privatization has not yet begun in the cases of the large banks, the chemical industry, the energy sector, telecommunications, mining, public amenities, and of a number of sectors of machine manufacturing and the electronic industry.

Pre-privatization

It is expected that shop-by-shop sales in the areas of retail trade, catering and consumer services will be accomplished by the end of 1993. Managers managing their units on a contract basis have been given the opportunity to buy their units without competitive bidding, at a price determined by valuation. Whereas until the end of 1991, 2100 shops were sold, by the end of 1992, the sale of 7637 shops was concluded.

Self-privatization

The first and second phases of the program effect some 700 small- and medium-sized enterprises; within this range, the decisive form of privatization is the one based on the collaboration of the consultants. Transformation into a company form was launched in the case of 85% of the enterprises participating in the first phase; 60% have already accomplished this. With the assistance of consultants, nearly 30% - 70 companies - were privatized.

In the course of the program, 10 companies in the building trade and general contracting, 9 car repair companies, 8

household appliances repair firms, 7 firms in machine manufacturing, 5 companies in training and organization, 5 quarries, 5 firms in the light industry, 4 minor printing presses and a few companies in trade, the food industry and consumer services were privatized. So far, self-privatization generated HUF 3 billion in privatization revenues; in the case of several firms, payment will be effected only in 1993.

Decentralized privatization of independent units of state farms

Within this program, independent assets and properties worth about HUF 30 billion were offered for sale, of which HUF 6.5 billion worth were actually sold. The proceeds of privatization could be used for the financial reorganization of the state farms. Feed mix plants, the animal husbandry verticum, food processing capacities with a reliable raw material base, viticulture, fruit processing, tourist and hunting infrastructure were in greater demand.

Other decentralization programs

The decentralization program for small hotels, separable bakeries, small brick factories has also been accomplished vigorously.

Privatization linked to liquidation

Liquidation procedures are initiated against an increasing number of state enterprises; in such cases, the firm is sold free of encumbrances. This process is taking place at a rate much slower than desirable, hence the firms concerned are losing even more of their value.

Some of the well-known transactions concluded in 1992 were: the Gyöngyös and Kazincbarcika factories of the Light Concrete Works, Nyiregyháza plant of the Drive and Dye Equipment Works, Tatabánya Meat Processing Enterprise, a plant of the Pestvidéki Machinery Works, Csót plant of the Robix Prime Mover Works, a few smaller coal mines, etc.

"Invisible" privatization

In this case, the markets of state enterprises are taken over by privately held companies founded by their managers and employees. The state assets do not exchange hands, but the activities formerly pursued by the state enterprise are taken over by the new company; at best, the company rents some of the state assets. Evidently, this process cannot be

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"measured". Invisible privatization characterizes foreign, retail and wholesale trade, the construction trade, design and the services.

Privatization of municipal assets

Local governments were given assets of great value in the form of real estate property, housing and land; in addition, they get shares and business shares of significant value upon the transformation of state enterprises. Apart from a few towns and Budapest districts, they seem to have a strong propensity to hold on to their assets which does not facilitate the evolution of market conditions.

Compensation and privatization

Until the end of 1992, compensation warrants worth HUF 25 billion were issued. The State Property Agency arranged for the sale of state assets worth about HUF 1 billion against compensation warrants. The sale of shares was the most successful in the case of the Inter-Europa Bank, the Julius Meinl and the Pick companies. Also in the course of pre-privatization, the ratio of those effecting payment using compensation warrants, was high.

By the end of 1992, arable land of 1,9 million gold crown value was transferred to private owners against compensation warrants; this constitutes nearly 7% of the total area (30 million gold crown) earmarked for compensation.

The growing share of the private sector in generating GDP

Official calculations have not been prepared to show the changes in the contribution of the private sector to the GDP. To this end, I made my own estimates based on data available from the Central Statistics Office, the Tax and Financial Audit Office, the SPA and various representative organizations, to determine the share of the private sector.

I estimated the performance of the private sector on the basis of the following partial data:

- a. Performance of proprietary businesses, households and business partnerships that are not legal entities;
- b. Performance of companies held by foreigners in full or in part, the part corresponding to holding in private hands;
- c. Performance of companies that are legal entities, held by individuals.

According to the estimates, the share of private sector (without cooperatives) in the GDP is:

1989	1990	1991	1992
16%	19%	25%	ca. 33%

Development of the number of business organizations

The rush to found companies observed in 1990-1991 did not abate in 1992 either. The number of business organizations increased dynamically in all main groups, except for the budgetary and social security organizations.

Number of business organizations (at the end of the period)

Form of organization	1991	1992
Business organization that is legal entity	52,756	69,386
Business organization, not legal entity	52,136	70,597
Budgetary, social security organization	15,915	15,091
Other, non-profit organization	27,407	33,891
Proprietary business	500,000	ca. 600,000

The majority of the new business organizations that are legal entities (86%) are small firms employing 20 people or less. In 1992, most businesses were founded in the areas of trade and the repair of vehicles and consumer goods.

The transformation of the cooperatives - owing to the implementation of the new Cooperatives Act - begins in the second half of the year: in 1992, 763 new cooperatives were established, of which 375 came into being by way of break-up, secession from, or the transformation of existing cooperatives. 302 cooperatives were wound up, of which 126 terminated their activities for good.

The largest number of terminations was registered in the enterprise sector: 42.6% of the organizations wound up in 1992 had operated in the enterprise sector. 3% of these terminated their activities for good, 97% continued their operations in a different sphere of the economy.

Number of business organizations that are legal entities
(end of period)

Form of organization	December 1991	June 1992	December 1992
Enterprise	2233	2008	1733
Enterprise and trust	1947	1751	1505
Subsidiary	286	257	228
Company, legal entity	42,696	52,417	59,363
Association	231	232	158
Joint enterprise	188	168	231
Limited liability company	41,204	50,622	57,262
Company limited by shares	1072	1395	1712
Cooperative	7766	7807	8229
Agricultural, fishing cooperative, agricultural specialized cooperative	1421	1460	1388
Small farmers' cooperative, other cooperative	2710	2788	3365
Small cooperative	3101	3048	2941
Union	534	511	535
Other organization	62	62	61
Total	52,756	62,294	69,386

Number of business organizations that are legal entities, in a breakdown by categories of number of employees (end of period)

Number of employees	No. of business organizations		Distribution by number of employees	
	1991	1992	1991	1992
Above 300	2396	1937	4.7	2.9
51-300	5373	5773	10.6	8.5
21-50	6168	6970	12.2	10.3
20 and less	36,810	52,825	72.5	78.3
Total	50,747	67,505	100.0	100.0

Proprietary businesses

The willingness to enterprise continued to pick up also among the proprietary businesses. Of the 60,000 proprietors, 46% pursued their business activities full time, 42% part time and 12% as pensioners. With respect to their vocation, 39.3% are small industrialists, 32.6% retailers and 27.5% are free-lance professionals. The number of independent farmers is negligible, constituting a mere 0.6% of the total.

Bankruptcy declarations, bankruptcy procedures

The *Cégközlöny* (the official trade bulletin) published the bankruptcy declarations of a total of 2294 business organizations that were legal entities in 1992. Of these, 62% were companies (most of them limited liability companies), 26.1% were cooperatives, 11.5% were enterprises. 32.3% of the bankruptcy declarations effected firms in the processing industry, 24.8% in trade, vehicle and consumer goods repair and maintenance, 14.2% in agriculture, game management, forestry and fisheries, 13.4% in construction, 8.5% in real estate, renting and business services. In the course of the year, bankruptcy proceedings were completed against 1041 business organizations that were legal entities. Of these, 627 arrived at a successful agreement with their creditors, while liquidation proceedings were initiated against 377. At the end of 1992, 2078 business organizations that were legal entities were subject to liquidation proceedings: of these, 50% were cooperatives, 40% were companies, 10% were enterprises.

Number of business organizations that are legal entities in
a breakdown by economic branches (on December 31, 1992)

Economic branches	No. of orga- nizations	Enterprise	Ltd. Co.	Ltd. Co.	Coops
Agriculture, forestry, game management, fishing	3493	154	1628	45	1630
Of this: agriculture	3287	127	1491	42	1596
Mining	177	23	137	8	8
Processing	13,809	621	11,124	544	1479
Of this: food, beverages, tobacco	1724	117	142	108	65
Textile, clothing, leather, fur	1707	80	1187	86	351
Wood, paper, printing, publishing	2500	93	2188	67	145
Chemical ind.	1092	29	883	55	121
Non-metal mineral	465	43	382	22	18
Metallurgy, metal-working	1845	72	1456	49	260
Machine ind.	3785	162	3105	133	378
Other processing, recycling	691	25	501	24	141
Electricity, gas, heat, water supply	155	57	68	26	-
Industry total	14,141	701	11,329	578	1487
Construction	7046	131	5479	103	1236

Trade, repair, maintenace of vehicles, con- sumer goods	23,417	262	21,942	416	725
Accommodation, catering, services	2232	30	2104	61	22
Transportation, storage, post, telecomm.	2673	71	2464	36	93
Financial act.	643	7	254	112	259
Real estate, leasing, business services	12,920	242	9693	318	2072
State administration, mandatory social security	2	-	-	-	-
Education	382	4	359	5	8
Health care, welfare	414	1	391	5	15
Other communal, social, personal services	2032	130	1619	33	147
Business organizations, total	69,386	1733	57,262	1712	7694

(Abbreviations: Ltd.: limited liability company
Co. Ltd.: company limited by shares)

Direct foreign investment

Similarly to the preceding year, significant capital investment was effected in Hungary.

	1991 (USD million)	1992 (USD million)
Investment made in cash	1450	1470
Non-cash contribution	250	230
Investment loan directly borrowed by foreign or mixed company	200	300
Total	1900	2000

Major foreign investors (with investments exceeding USD 20 million) in Hungary:

General Motors (USA), Suzuki (Japan), General Electric (USA), Allianz (Germany), Prinzhorn (Austria), Guardian Glass (USA), Siemens (Germany), Ferruzzi (Italian-French), Unilever (Netherlands), Sanofi (France), Ford (USA), Corvinus-Lufthansa (German consortium), Alitalia (Italy), Elektrolux (Sweden), Amilum (Belgium), Reemsta (Germany), Messer Griesheim (Germany), Sare Lee (USA), Atex (Russia), Agrana (Austria), Coca-Cola (USA), Begin Say (France), US TEL (USA), DAEWO (South Korea), Alcoa (USA), Confines (French-Italian), CIB (UK), Wienerberger (Austria), British America Tobacco (UK-USA), CP-Holdings (UK), Interbrew (Belgium), Nestlé (Switzerland), Bau Holding (Austria), Linde (Germany), Voest Alpine (Austria), Henkell (Germany), Citibank (UK), Aegon (Netherlands), Stolwerck (Germany), Philips (Netherlands), Strabag (Austria), Zwack consortium (Austrian-German), Heidelberg-Schwenk (Germany), Pankl-Hofmann (Austria), Holderbank (Switzerland), Juilius Meinl (Austria), West-Deutsche Landesbank (Germany), Henkel (Germany), Ansaldo (Italy), Brau AG (Austria), Schöller (Germany), Columbian Chemicals (USA), Hungarian Investment Company (UK), First Hungarian Fund, American-Hungarian Enterprise Fund, and several oil companies.

Sources:

1. Information on the privatization processes taking place under SPA supervision (ÁVÜ Monitor, January 1993)
2. Changes in the number of business organizations (KSH, January 1993)
3. National Bank of Hungary (verbal information, January 1993)

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SPA revenues and expenditures

Budapest, January 14, 1993 (MTI-ECONEWS) - The SPA board of directors today released a statement to clarify conflicting press reports on its privatisation revenues and expenditures.

In 1992, the State Property Agency had total revenue of HUF 72.1bn, which comprised HUF 41bn (56.8 pc) hard currency income and HUF 22bn (30.6 pc) forint income. The remaining HUF 9bn (12.6 pc) came from 'E-credit' privatisations.

Apart from this cash income, the Agency also received HUF 1bn worth of compensation coupons.

The main items of expenditure were the following: the central budget received HUF 20bn of the privatisation revenue, plus HUF 4.4bn as dividends on state assets of partly or wholly state-owned companies. HUF 2.7bn was transferred to the Social Security Directorate. Under the Property Policy Guidelines, the SPA paid HUF 2bn into the Small Enterprise Guarantee Fund, which underwrites the guarantees of the Credit Guarantee Rt. It also paid HUF 1bn into the state fund from which compensation is paid to people injured in road accidents.

In line with the property policy guidelines, the SPA spent HUF 10.8bn on restructuring and job-creating schemes, HUF 6.9bn on the establishment of companies and on other investments and paid HUF 1.5bn into the World Expo fund. The SPA also paid HUF 4.3bn to local councils and other organizations. The HUF 9bn from E-credit went towards repayment of the state debt. HUF 5.8bn went for guarantees, and a further HUF 5.8bn on privatisation and asset-management costs. The SPA's overspending of HUF 2.1bn was met from money carried over from 1991. +++

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Inflation slowing further in December/02

Budapest, January 15, 1993 (MTI-ECONEWS) -

Hungarian Central Statistical Office figures for
December
consumer price increases in Hungary:-

ITEM	Dec, 1991	Change (pc)	
	= 100	in 1 months	in 12 months
Foodstuffs	119.4	+1.7	+27.6
Alcoholic beverages, tobacco	119.6	+0.4	+23.3
Clothing	123.0	+1.3	+17.4
Consumer durables	114.3	+0.9	+11.7
Household energy	143.2	+0.5	+17.4
Other industrial articles, fuels	127.2	+1.2	+22.8
Services	126.0	+0.7	+19.0
TOTAL	123.0	+1.1	+21.6

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Privatization in Hungary
for the Third CEEP Annual Conference
on Privatization in Central and Eastern Europe
December 4-5, 1992 Ljubljana, Slovenia

By Dr. Lajos Csepi and
Dr. Erzsébet Lukács

I. Introduction

Privatization in the context of economic and political reforms:

1. Economic reforms

The first reform steps were taken in 1968. The target of the "New Economic Mechanism" was to replace the bureaucratic management of regulatory controls, with the profit motive and a market-like mechanism.

Price liberalization was achieved gradually. For instance after the 1972-73 agriculture and oil price shocks the Government's policy of maintaining low food and energy prices amplified the distortions in the price system. Because of the unbearable level of subsidies the government decided to link the energy and raw material prices to that of the world market, while the prices of the manufactured goods were calculated according to the convertible export prices. By 1992 the price control has been nearly completely abolished and only 10 per cent of the prices are set by the state (public transport, fuel, rents, some basic food etc.).

There was also a need for setting up the Competition Office in the emerging market economy.

Already in 1984 it became clear that in an economy where less and less role was given to central planning while a larger role was intended to the market forces, the state enterprises (SE) needed more independence. The Law on enterprise Councils divided the state enterprises into three categories. One third of all enterprises (utilities, strategic SE-s) remained under state supervision and belonged to the appropriate sectoral ministries, but in the remaining two categories (one below and one over 500 employees) the Law introduced the self-management system. This meant that the members of the Council were allowed crucial decisions such as: the appointment of the chief executive, structural reorganizations (mergers, subdivisions, joint ventures). In the case of smaller enterprises the Council consisted of employees, in the case of larger ones 50 per cent of the members were elected by the employees. Thirty-three per cent came from the higher level of management, one person was appointed by the sectoral ministry and the rest designated by the managing director.

The Law on Economic Associations was approved already in 1988. This law regulates the formation, organization and operation of all business entities in Hungary with the exception of cooperatives, sole traders etc.

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(1) There were abuses concerning the evaluation of the assets that were taken into companies as contributions-in-kind. It was not the task of the Registry Court to control the evaluation.

(2) Sometimes the most productive units of the enterprises were taken into private companies, thus the remaining parts were not viable for future operation.

(3) The partners of the companies were mostly selected according to the short-term interests of the management.

(4) Enterprises could not transform into a company as a whole.

To solve the above problems, first the Act on Transformations has been approved by the Parliament in 1989, thus whole enterprises could convert into company forms. The "state had to be personalized" by nominating an entity therefore the Act on the State Property Agency (SPA) was approved in 1990, as a second step.

The third was the Law on Asset Protection that outlined the rules concerning the establishment of the rules concerning the sales of real-estate. Over a certain transaction value of contracts the enterprises had to seek approval of the SPA.

The fourth - to deal with small shops - was the Law on SE-s engaged in Retail Trade, Catering and Consumer Services

- the privatization process should conform to the characteristics of the market such as real domestic and foreign demand and purchasing power. But at certain strategic points state intervention is needed e.g. liquidating of monopolies.

- The application of different privatization methods should promote a wide circle of investors who are able to acquire property. (Allowances to employees, workers.)

- Selling of state property to foreigners:
The government encourages purchases by foreigners, granting them advantages in the course of the privatization process. Capital import may promote the modernization of factories, plants, means of production and business instruments which are in a poor technical state, and encourage technological development and the reform of management techniques.

-Transfer of state property without counter value :
In the course of privatization the state should transfer part of the public properties to the local governments, to social security, and to foundations and associations that benefit the public. In the latter case the state property can only be dispersed free of charge if the subsidies granted by the budget for a given project of common interests is simultaneously reduced proportionately. The churches are also to be given their former real estates.

- controlling the establishment of joint-ventures, and sales of real estates
- controlling the privatization of state enterprises dealing with retail trade, catering trade and consumers' services.

The 1992 Asset Policy Guidelines are based on the "new" Laws on Privatization that came into effect from the end of August 1992. The main characteristics of these laws are the following;

- A special Company, the State Asset Management Company, was established to administer the assets that are to be state owned exclusively (or in 50 or in 25 or in 5 per cent plus one vote) in a longer term. The list will be revised every second year and contains 163 enterprises (such as infrastructure, strategically important ones etc.).

- The Law on the Temporarily State Owned Assets summarizes the former laws concerning the roles and operation of the SPA. The role of the SPA was broadened. It gained the founding rights of the ministries, and the enterprises have to transform by mid-1993 into corporate form.

As to the 1992 Asset Policy Guidelines, recently approved by the Parliament, reaching the highest possible proceeds of privatization can not be considered as one of the priorities, while a much more attention is devoted to the support domestic investors, and to reaching agreement concerning the future operation, employment level of the

(1) The former SPA organization which was set up according to who initiates privatization, has been changed according to a sectoral approach.

(2) Also, it was decided, that the SPA should focus on larger deals, and smaller cases should be handled by advisory firms, "privatizing of privatization". This is the so called self-privatization, or decentralized, or simplified enterprise initiated privatization.

3. The fundamental privatization dilemmas;

Many contradictory problems need to be solved;

A: Pace of privatization

- if the SPA wants to sell a property with maximum yield in many cases restructuring is needed. Restructuring takes time, money and special skills. The dilemma is therefore speed against yields.

- the pace of privatization cannot be easily judged because it is relative as to what do we compare it?:

- = considering to the requirement to create a market economy, it is slow

= it is essential to harmonize the interests of the employees, management, trade unions. The privatization laws prescribe that when privatizing welfare institutions, the approval of employees has to be received. This takes a rather long time.

= There are different methods of privatization which lead to different results. The free distribution, or a mass privatization scheme (vouchers) may lead to a faster privatization, while the question of how the future operation of the economy will be effected remains (in lack of focusing on foreign capital, technology inflow etc.). Hungary has no free distribution program. The Hungarian Government prefers the case-by-case privatization where not only the future of the companies, but also the issues of competition, and sectoral policy can be followed.

B;Ownership structure:

- the majority of purchases may be expected to come from foreign investors, while it is clearly stated by the Government that a wide strata of domestic owners should be created who are presently lacking of purchasing power. Even if there is quite a huge amount of savings, the per capita saving is rarely high, and people are hesitating to invest. It has to be taken

II. Political and macroeconomic conditions affecting privatization during 1992

The Hungarian economy had to face the disappearance of 70% of Eastern markets. In order to survive the enterprises/companies were forced to reorient their trade toward the western countries. As a result more than 50 per cent of the exports now go to the EC countries. As a consequence of ongoing privatization and import liberalization a growing competition has been experienced in the economy. The shrinking market combined with an increasing competition led to wiping out inefficient producers. The number of bankruptcies and liquidations is growing, the restructuring of the economy has started. According to data from the Central Statistical Office, the per-employee income production was 20 to 25 per cent higher in mixed companies than in state companies in 1991.

During the transition a growing level of unemployment couldn't be avoided. The rate of unemployment is 12-13 per cent, and will slightly grow next year. The drop is expected only in 1994. The revenues of the state budget decreased what couldn't be counterbalanced with the decrease of subsidies (from 19 per cent to 5 per cent of the GDP). The deficit of the state budget is now 7 per cent of the GDP.

transaction value reached 1324 billion HUF. All these transformations took place with the supervision of the SPA. 28 enterprises transformed before the establishment of the SPA. The first attachment contains the list of laws that regulate this process. The possible owners could be foreigners, domestic investors, employees, local governments, and some of the assets are changed for compensation notes.

As of the September 1992 data out of all transformed companies 114 were in exclusive or majority private ownership. Their value according to their full revalued balance sheet was 192 billion HUF. In 323 cases there was a minority private ownership. Their value was 34 billion HUF revalued on the basis of weighing according to the propriatory structure. Out of the transformations 194 belonged to the self privatization program. Their transaction value was 19 billion HUF.

The number of enterprise and/or investor initiated transformation was 263, with a transaction value of 386 billion HUF.

The number of state initiated transformations was 45 with a 921 billion HUF transaction value.

by Hungary's physical location (favorable for commercial purposes), legal framework, preferences and the well-trained, easily motivated working force. Within industry (40%), construction (20%), trade (20%), manufacturing, food etc. industry attracted the most foreign capital. American, Austrian and German investors made the most valuable foreign investments, but the French and British capital share is also considerable. (See attachment 2.)

Buyers are professional, operating investors almost without exception they conduct activities similar to the companies on sale. Financial investors were successfully attracted in one or two cases last year. There are only a few examples of privatization with the participation of the Budapest Stock Exchange and their results were not convincing enough. (IBUSZ, Zalakerámia Rt, Styl Ruhagyár Rt and in the near future Danubius, Pick) The Stock Exchange has not yet developed as a major force. The number of companies listed are about 20. Last year's experiences show that beyond the acquisition of material assets, company purchases and joint ventures establishments are aimed principally at acquiring new market positions and sales opportunities.

The successful sales of food, alcohol, soft drink and tobacco industry companies prove that the privatization

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- on negotiations SPA behaves as an owner but doesn't know the markets, future perspectives of the enterprise, while the management on the contrary. The responsibilities have to be clarified
- how to define clearly the role of foreign advisors (They can help in preparing companies for sale, strategies, in finding investors, managing tender procedures, negotiations, etc.)
- in tenders how to upgrade the different offers
- how to evaluate the bids (price structures and payment conditions, undertakings by the buyer and seller, guaranties, etc.)
- how to sanction promises concerning future commitments by the buyer (employment, investments, etc.)
- too many participants in negotiations; ministry, enterprise, (management, employees) SPA, it takes time to harmonize interests.
- factors that reduce the price: lack of information of the future perspectives of the enterprise.

- e) Depending on the speed of their activity and the size of the relevant enterprise / company they get a success fee.

Management/employee buyouts

The Asset Policy Guidelines and the Law on Associations regulate how much property can be sold on a preferential basis to employees as shares or property shares. The employees can get for 10 per cent of the raised equity a maximum 90 per cent allowance from the face value. Following the transformation workers can get a 50 per cent allowance from the market value. All these possibilities have to be added and the allowances cannot be higher than 10 per cent of the shareholders capital or the gross wage per capita. Always the lower amount has to be applied. If the workers wish to buy even more shares they have to pay the full market price. The Law on Employee Share Ownership Program was recently approved, that extend the possibilities of employees to become owners. The manager buy out as a method is under elaboration. The leasing technic that is to be introduced in the near future will also facilitate acquiring property.

Preprivatization (an auction program that deals with smaller retail operations)

Preprivatization is carried out by the State Property Agency with the assistance of agents in accordance with the

The most important task has successfully been solved, the legal and institutional framework has been established. Beside these the privatization process has to be based on a clear strategy and principles elaborated by the Government. This is the only guarantee that the decisions will be consistent.

It is very important to reach and maintain a social consensus concerning the need for privatization. The advantages of privatization can be felt slowly, while adverse affects, unemployment, inflation have an immediate affect and cause social tensions. Only a thorough and permanent sophisticated public relation activity can help in reaching this consensus.

In the selection of privatization strategies it is very important to have clear sectoral policy. During the transition it takes a rather long time to elaborate them as lots of the characteristics of a market economy and the tasks of the ministries are not clearly defined.

It is very important to measure both the supply and demand side of the assets to be privatized. Lots of measures can be taken in order to harmonize them.

The selected methods of privatization should be handled flexibly.

Agency and on the Management of State Property in State Enterprises

Law No. VIII of 1990 on the Protection of Property Entrusted to State Enterprises

Law No. LXXIV of 1990 on the Privatization, Alienation, and Utilization of State-Owned Enterprises Engaged in Retail Trade, Catering and Consumer Services (Preprivatization Law)

Law No. XXXIII of 1991 on Transferring Certain State Properties into the Ownership of Local Governments

Law No. XXV of 1991 on Partial Compensation for Damages Unlawfully Caused by the State to Properties Owned by Citizens in the Interest of Settling Ownership Relations

Law No. I of 1992 on Cooperatives

Law No. II of 1992 on the Entry into Force of Law I of 1992 and the Rules of Transition (Cooperative Transition Law).

Law No. LIV of 1992 on the sale, utilization and protection of assets in provisional state ownership

Law No. LIII of 1992 on the management and utilization of entrepreneurial property permanently remaining in state ownership

Law No. XLIV of 1992 on the Employee Share Ownership Programme (ESOP)

Law No. LV on the modification of regulations regarding the state's entrepreneurial assets

RESOLUTION PROPOSAL

For the implementation of that contained in the proposal which was prepared based on the macro economic effects of the Bankruptcy and Liquidation Law

Based on the analysis of the macro economic effects of the Bankruptcy and Liquidation Procedures Law, the Government passed the following resolution:

1. The respective ministries must continue to observe the bankruptcy and liquidation procedures and prepare evaluations and assessments of the branches' state.

Responsible: Industrial and Commercial Minister
Agricultural Minister
Transportation and Communications Minister
Environmental Protection and Area
Development Minister

Deadline: continuous, that is the 15th of each month following a quarter.

- 2.A/ The structure for a financial technique must be worked out, which would be placed into effect during bankruptcy and liquidation procedures.

Responsible: Finance Minister
with the cooperation of the
President of the National Bank of Hungary
Dr. Tamas Szabo, Minister without
portfolio

Deadline; 1992. December 31.

- 2.B/ There is no need for a financial technique structure

3. Proposals must be made for the modification of the Bankruptcy Law.

Responsible: Finance Minister
Justice Minister

Deadline: 1992. December 31.

4. The bankruptcy and liquidation procedures in progress be continuously observed, and the bankruptcy settlement agreements must be continuously evaluated.

Responsible: Finance Minister
Justice Minister
Industrial and Commercial Minister
Agriculture Minister
Transportation and Communications Minister
Environmental Protection and Area
Development Minister
The Head of the State Bank Supervisory
Commission
The Head of the Superintendence of the
National Health Service
The Secretary General of the Bank
Association

Deadline: continuous

5. The possibilities for the introduction of the bankruptcy trustee institution must be examined.

Responsible: Finance Minister
Dr. Tamas Szabo Minister without
Portfolio

Deadline: 1992. December 31.

6. The personnel and technological support of the courts must be ensured during the bankruptcy and liquidation procedures.

Responsible: Justice Minister

Deadline: immediately

7. The Government must be informed of the effects of the Bankruptcy Law in 1192.

Responsible: Finance Minister
Justice Minister
Labor Minister
with the cooperation of the branch
ministers

Deadline: 1993. March 31.

Appendix 1.

The situation of various branches

Since the implementation of the Bankruptcy Law, the government decisions related thereto primarily wanted to achieve settlements, where realistic, during the bankruptcy procedures.

The advancement of the bankruptcy settlement agreements were contributed to by the profession policy concepts drawn up by the Industrial and Commercial, Agricultural, and the Transportation and Communication Ministries. Based on this, the following is a summary of the situation and actions taken by the various ministries.

Industry, trade, and construction industry

In comparison to the national economic average (based on the first semi annual figures) one and a half times more industrial economic organizations came under bankruptcy proceedings. In the construction industry, the amount of bankruptcy claims are at about average, and the trade situation can be considered relatively favorable. The majority of the organizations undergoing bankruptcy proceedings had deficits last year and their liabilities exceeded their own company value. Characteristically, those companies experienced a financial crisis, whose sales were mostly based on the COMECON market which they lost with drastic speed (light industry, machines industry).

The majority of those companies in a crisis situation, already claimed bankruptcy or liquidation, and in these cases a further increase can possibly be expected from the continuing effect of the payment moratorium.

The profitability of the construction material industry in 1991 became critical, half the organizations were in deficit and a gradual danger of bankruptcy should be expected.

Trade is that area, where contrary to industry a large number of bankruptcies did not take place and a large increase is not expected.

In addition to familiarizing the state creditors, banks and the National Health Service with their profession policy concepts. the Industrial and Trade Ministry continuously observes and professionally assists the organizations under bankruptcy and liquidation proceedings.

Agriculture

In agriculture, the food industry and forestry a total of 523 bankruptcy proceedings were in progress, of which 88% (463 organizations) belonged to the agriculture. In the six months following the 1992 April 8th massive declarations at the Court of Registry, 67,4% of the proceedings have not been concluded. The cause of the delay is usually due to the extremely long period between the declaration of bankruptcy and the Court of Registry's announcement.

New declarations in the past 1 - 2 months have ceased, but this is partly due to the familiar economic course of events, and partly to the "waves" incited by the Bankruptcy Law (payment moratorium, delayed payments in the interest of a bankruptcy settlement agreement, the groundlessness and non-payment thereof, the large sum of irrecoverable claims during the course of liquidation, as well as insolvency caused by the drought) because of which, agricultural experts predict yet another bankruptcy wave. In their opinion, this will take place this year.

Their statements are also supported by the fact that the liquidity of the large agricultural concerns/farms in the second half of 1992 continued to decrease, and the commercial bank loans necessary to continue farming more often require state guarantees.

Due to a lack of agreement, 55,6% of the bankruptcy settlement negotiations held so far - ended in liquidation, which exceeds the previous prognosis. It can be predicted, that due to the depletion of possibilities on the creditors side and the loss of income due to the drought will only increase this ratio.

A particularly critical situation has developed in the counties of Nograd and Borsod, and there are serious problems in Szabolcs, Bekes and Bacs counties.

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The companies of the food industry are also gradually entering the critical zone, due to the previously indicated lack of working capital as well as their indebtedness, thus requiring numerous bankruptcy claims primarily in the critical branches.

The Ministry of Agriculture worked out it's branch policies as did the Industrial Ministry, and in the interest of crisis management the Ministry will participate in the implementation of the bankruptcy agreements and complex development concepts for the companies belonging to this sphere. They feel that assistance is required for the state farms and companies which were state founded, will remain long term in state ownership and which are under the supervision of public administration, as well as for those branches in strategic or crisis situation. An individual program of the concepts for the bankruptcy procedures and solutions in the food industry, has been prepared for each company.

Foreign Trade

In the area of foreign trade presently only two companies have claimed themselves bankrupt. Even so, the ministry feels that based on the 1991 macro economic figures, the foreign trade is one of the most critical branches.

If, due to the bankruptcy and liquidation procedures the value of the exports imports decrease in an approximate degree as indicated by the 1991 balance sheet figures, next year a multiple recession could be possible. The 1992 economic indicators do not yet show this, it seems the effects will be much more moderate.

According to the observations of the Ministry's foreign trade experts:

- " - Due to the bankrupt state of the Hungarian companies, well established foreign and domestic cooperative and business ties will be lost, and will only be regained at the cost of sacrificing a substantial surplus, or perhaps never regained at all. A major reason for this is that the word bankruptcy in international practice means liquidation.
- If the foreign partners turn away, the foreign trade companies stand to lose their established markets. In the interest of keeping their ties, the foreign trade companies which usually operate on a consignment basis could fall into a difficult

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situation: the foreign partner will sue, threaten with other sanctions and could force the domestic partner to their debts.

In the interest of a successful reorganization process, the central financial organizations could assist the recovery of those companies who are capable of a recovery and renewal, with the use of preferential loans and financial structures. In the case of those companies who will undergo liquidation, it would be necessary to quicken the process so to decrease the liquidation costs".

The Public Service area

In accordance with the Government's 1992/3254 ruling, the branch profession policy concepts relating to the ministry's branches and which they wish to implement in the bankruptcy proceedings have been completed and delivered to the respective central organizations (Ministry of Finance, Ministry of Agriculture, NGKM, and the Tax Authority), who are also directly effected by the problems arising from the bankruptcy proceedings in the ministry's sector. The ministry finds it vital, that those organizations in direct contact with the public service area receive an exact picture of their sector's situation within the bankruptcy proceedings. This purpose is also served by their continuous company data gathering and evaluations of the financial situation of those economic organizations which belong to our ministry.

The primary problem within the Ministry's sector is collecting 90 day overdue public service claims. As a consequence, the continuance of those state and local government public services which belong to the Ministry's sector are threatened by the engulfing bankruptcy effect which is caused by the start of massive bankruptcy claims. To handle the problem, a lasting conceptual solution which can be used long term is required to handle the public services on a national economic level, through the development of a united governmental strategy.

Environmental Protection

The KPM wrote an information report for the Environmental Protection Inspectorate pertaining to the implementation of the Bankruptcy Law, regulating their bearing during proceedings based on uniform principles. Inclusively, as a government authority they must obligate the debtor, in the case of a liquidation, to declare all environmental disfunctions.

Inspectorates acting as creditors during settlement negotiations strive for an agreement, particularly in the event of termination without a legal successor being that, in these cases the costs of the "abandoned" environmental damages most likely cannot be charged to the expense of the liquidation. It is possible, that the cost of settling the damages greatly exceeds the expected income from the sale of the assets. In regards to the Inspectorate's applicable concessions, they must also conform to the larger state creditor's actions.

Of the liquidations in progress, the Inspectorates were effected as creditors in 10% of the cases, and in majority participate only as an authority.

Based on experiences gained until now, problems are caused by the insufficient information contained in the above mentioned declarations, the lack of obligations arising from examination of the environmental state, as well as how to charge the cost of environmental damages caused by their activities to the liquidation expenses.

Financial Institutions

The direct effect of the Bankruptcy Law on financial institutions can be measured by the development of the loans. The outstanding loans of those companies effected by bankruptcy make up for 8 -13% of all loans granted to businesses. On May 31, 1992 the amount of loans granted to companies by commercial banks and financial institutions was HUF 728,5 billion. In August of this year the amount of outstanding loans of those companies who declared bankruptcy, was HUF 84,2 billion, based on the 1991 balance sheet figures and the outstanding loans of those companies whose bankruptcy was already in progress based on the 1992 August figures was HUF 57,4 billion.

The amount of loans outstanding from companies declaring liquidation effecting the banks is HUF 145,1 billion (20% of all business loans granted), while based on the 1992 August figures the amount from those in the process of liquidation is HUF 46 billion (5%).

Based on the 1991 balance sheet figures, the combined outstanding loan amount from bankruptcy and liquidation procedures at the end of August 1991 was HUF 229,3 billion, and based on the 1992. August figures the amount of outstanding loans from companies under bankruptcy and liquidation proceedings was HUF 103 billion.

The figures show, that the majority of the financial institutions' loans - more than 30% - are in dangerous businesses.

Labour

In reference to the effect the liquidation procedures have on production and export, those expectations that during the period of liquidation drastic production decreases will take place, were not justified.

The staff fluctuations also reflect a course similar to production, which are supported by the following labor proposals:

Due to the continuously implemented staff reductions and the spontaneous staff reductions the increasing number of businesses effected by liquidation procedures will not cause massive unemployment for the remaining part of this year. The obligatory staff reduction reports sent to the labor centers also support the sign that a new bankruptcy wave is not expected for the remainder of this year.

Although, we must realize that in those areas which were previously also at a disadvantage in regards to employment, unemployment will only get worse. These are Baranya, Borsod-Abauj-Zemplen, Szabolcs-Szatmar-Bereg, Bacs-Kiskun and Csongrad counties.

In the opinion of the Labor Ministry, the development of the number of company bankruptcy and liquidation procedures, and the increase of unemployment are not so closely related as previously assumed. Based on experience, it seems that the majority of companies implement numerous waves of staff reduction before the initiation of the bankruptcy procedures.

As a result of the above, in the next short term period the increase in the number of unemployed will moderate somewhat, but the increase during 1993 will be significant.

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Chart #1

The number of bankruptcy initiations

	(no.)
I. quarter	786
IV. month	2,259
V. month	201
VI. month	145
VII. month	154
VIII. month	113
IX. month	151
<hr/>	
I-IX month total	3,809

Chart #2

The number of liquidation initiations

	(no.)
I. quarter	2,617
IV. month	1,281
V. month	837
VI. month	927
VII. month	699
VIII. month	701
IX. month	797
<u>I-VIII. month total</u>	<u>7,859</u>

Chart #3

Based on the 1991. balance sheet figures, the main indicators
of those legal entities which initiated bankruptcy
proceedings by 1992 August 30th

	Gross prod val.	Dollar exports	No. empl.	Co. assets	Short term	Long liabil.	Tax debt	Short term rec.
	mio. HUF	mio. HUF		mio.HUF	mio.HUF		mio.HUF	
Indust.	149823	49614	152493	111879	114073	15489	16212	49264
Constr.								
Indust.	13922	1287	20195	10086	14261	702	2581	7020
Agricul.	67091	5359	76159	67763	46167	8830	2630	23190
Transpor.								
Post	3794	919	5521	3422	2198	130	352	1645
Trade	13562	5177	12160	16514	38317	2365	3585	19114
Water Man.	292	29	392	985	191	36	26	91
Other activ.	8130	253	5846	14270	10421	1048	2203	5448
Health-Cultur.								
Services.	2896	165	3420	2205	4592	206	501	1698
Common								
Other	538	57	936	1075	919	20	158	353
Total	260.048	62.860	277.122	228.199	231139	28.826	28248	107823
National Economy Total								
Comp.ratio%	7,7	9,3	10,3	6,4	3,5	6,4	14,5	1,8

Based on the 1991 balance sheet figures, the main indicators
of those legal entities which initiated liquidation
procedures by 1992 August 30th

	Gross prod val.	Dollar exports	No. empl.	Co. assets	Short term	Long liabil.	Tax debt	Short term rec.
	mio. HUF	mio. HUF		mio.HUF		mio.HUF		mio.HUF
Indust.	294456	102536	231372	247841	212437	35443	28789	113148
Constr.								
Indust.	38511	7051	48116	29836	28869	1094	3611	16562
Agricul.	53156	5406	59166	57560	36827	7013	2112	19621
Transpor.								
Post*	93196	31227	129822	110192	34701	2966	2621	33311
Trade	28373	7858	25880	37978	66442	5971	7217	33521
Water Man.	59	-	82	199	22	-	3	28
Other								
activ.	17021	519	8506	21397	83000	17581	2475	93617
Health-Cult.								
Services.	6453	369	4178	3450	4074	77	424	2318
Common								
Other	958	231	1488	2132	978	81	185	517
Total	523.183	155.197	508.610	510.585	467.350	70.226	47437	312643
National								
Economy								
Total								
Comp.ratio%	15,8	23,0	19,0	15,2	6,9	15,6	24,0	5,3

* figures combined with the Hungarian State Railways

The number of bankruptcies in progress

	(no.)
I. quarter	285
IV. month	205
V. month	465
VI. month	482
VII. month	300
VIII. month	69
IX. month	104
I-IX month total	1,910

Chart #6

Based on the 1991. balance sheet figures those legal
entities undergoing bankruptcy proceedings
by 1992 August 30th

	Gross prod val.	Dollar exports	No. empl.	Co. assets	Short term	Long liabil.	Tax debt	Short term rec.
	mio. HUF	mio. HUF		mio.HUF	mio.HUF		mio.HUF	
Indust.	121097	40767	121367	84516	85874	12700	9194	34830
Constr.								
Indust.	16108	2317	21130	10444	11381	292	1610	6497
Agricul.	56148	3688	65186	56948	36423	7179	2085	17828
Transpor.								
Post	1202	75	1815	533	636	77	95	483
Trade	8841	3647	8661	9092	21950	2411	1331	12149
Water Man.	331	29	464	1103	207	36	27	97
Other activ.	2846	58	2757	8249	2619	527	439	1617
Health-Cult.								
Services.	1691	89	1958	1369	2524	177	120	682
Common Other	276	29	501	662	481	20	91	151
Total	208.540	50.699	223.839	172.916	161.735	23.419	14992	74304
National Economy Total								
Comp.ratio%	6,2	7.5	8.4	4.8	2,4	5,2	7,7	1,3

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Chart #7

The number of liquidation procedures in progress

	(no.)
I. quarter	120
IV. month	161
V. month	202
VI. month	166
VII. month	219
VIII. month	210
IX. month	482
<u>I-IX. month total</u>	<u>1,560</u>

Chart #8

Based on the 1991. balance sheet figures those legal
entities undergoing liquidation proceedings
by 1992 August 30th

	Gross prod val.	Dollar exports	No. empl.	Co. assets	Short term	Long liabil.	Tax debt	Short term rec.
	mio. HUF	mio. HUF		mio.HUF		mio.HUF		mio.HUF
Indust.	38187	7794	41110	35772	39176	4073	8763	14721
Constr.								
Indust.	4364	44	7063	2520	5316	89	939	1691
Agricul.	4462	579	5301	4824	5182	612	346	2494
Transpor.								
Post	48	-	76	11	35	2	16	10
Trade	722	314	960	431	4286	17	719	1662
Water Man.	-	-	-	-	-	-	-	-
Other activ.	797	16	663	218	3049	79	567	1866
Health-Cult.								
Services.	510	72	876	593	526	-	57	148
Common								
Other	8	3	17	16	24	-	2	4
Total	49.098	8,822	56.066	44.385	57.594	4.872	11409	22596
National Economy Total								
Comp.ratio%	1,5	1,3	2,1	1,2	0,9	1,1	5,9	0,5

USAID

The US Government initiated its support of the privatization process in Hungary in the summer of 1989 followed by the opening of a USAID Project Office within the SPA in March, 1990. The flow of US aid has been continuous and growing ever since. The objective of US assistance to the SPA is to promote the acceleration of the privatization process in Hungary by making available the technical skills, systems, and equipment that will help the SPA function more effectively. This assistance has included computers, software, and copiers, Management Information System development, planning and financial management assistance, assistance to the compensation note program and the Self Privatization program.

The aid is provided by the Government of the USA and is managed by the United States International Development Agency Project Office which is assigned responsibility for the day to day delivery of assistance to the SPA through a consultant team directed by the consultancy firm Deloitte & Touche. USAID support is delivered on a project basis. Each project is designed with and approved by the SPA subject to the review and approval of the USAID. The budgeting and accounting system of the USAID project does not effect the SPA directly as all budgetary and payment issues are between the contractor and USAID

USAID's 1993 assistance is focused on 5 major project areas to include the Self Privatization Program, Financial Management, Training, Equipment and the Project Office.

USAID
SPA Project Support
Historic

TYPE OF SUPPORT	USAID 1989@, 1990@, 1991, 1992				
	1989	1990	1991	1992	TOTAL
<u>Long Term Assistance</u>					
Project Office			\$374,560	\$ 353,193	\$ 727,753
Training Asst.				134,085	134,085
Financial Mgmt.					
Privatization					
Insolvency					
Total Long Term			\$374,560	\$ 487,278	\$ 861,838
<u>Short Term Assistance</u>					
Equipment	\$	\$200,000	\$ 20,543	\$ 203,555	\$ 424,098
Training	30,000	170,000	52,746	60,000	312,746
Strategic Planning *		240,000			240,000
financial mgmt.			23,215	313,880	337,095
Priv. Info. System			153,946	635,806	789,752
Investment Prom.			117,052	48,645	165,697
Self Privatization				118,226	118,226
Compensation Notes				357,874	357,874
Public Relations			70,483	191,346	261,829
Other short term					
Project Management			37,208	10,384	47,592
Total Short Term	\$30,000	\$610,000	\$475,193	\$1,939,716	\$3,054,909
TOTAL **	\$30,000	\$610,000	\$849,753	\$2,426,994	\$3,916,747

@ The figures for 1989 and 1990 are approximate though correct in order of magnitude. Expenditures during this period were managed through several separate contracts by a different contractor and precise figures are not available. 24 September, 1990 and onward figures are actual.

* This figure incorporates the work by the Tomlinson team and the work of the current project manager for the period 17 March, 1990 to 24 September, 1990 when the 1st. long term contract commenced.

** The total 1989, 1990, 1991, and 1992 are the amount committed and disbursed on a fiscal/contract year basis (1 October - 30 September). As all available facilities were utilized the committed and disbursed numbers are the same. A correction of a charge-rate number made retroactively in fiscal 1993 has made an additional amount available from the previous contract years in fiscal 199

USAID 1993*

Quarterly Status Report
31 December, 1992

Quarter ended: 31 December, 1992*					
TYPE OF SUPPORT	Brt. Fwd.®	Committed	Disbursed	Available%	TOTAL**
<u>Long Term Assistance</u>					
Project Office	\$ 727,753	\$ 458,825	\$ 114,706	\$ 344,119	\$1,186,578
Training Asst.	134,085	112,241	28,060	84,181	246,326
Financial Mgmt.					
Privatization					
Insolvency					
Total Long Term	\$ 861,838	\$ 571,066	\$ 142,766	\$ 428,300	\$1,432,904
<u>Short Term Assistance</u>					
Equipment	\$ 424,098	\$ 217,486	\$	\$ 217,486	\$ 641,584
Training	312,746	70,781	46,000	24,781	383,527
Strategic Planning	240,000				240,000
financial mgmt.	337,095	130,024		130,024	467,119
Priv. Info. System	789,752				789,752
Investment Prom. #	165,697				165,697
Self Privatization	118,226	317,576		317,576	435,802
Compensation Notes	357,874				357,874
Public Relations	261,829				261,829
Other short term					
Project Management	47,592	118,547			166,139
Total Short Term	\$3,054,909	\$ 854,414	\$ 46,000	\$ 808,414	\$3,909,323
TOTAL	\$3,916,747	\$1,425,480	\$ 188,766	\$1,236,714	\$5,342,227

* USAID fiscal 1993: 1 October, 1992 - 30 September, 1993
 ® The balance brought forward total is for 1989, 1990, 1991, 1992 not including a correction which will be noted in the next quarterly report.
 % The contract for fiscal 1993 was signed 23 November, 1993 and mobilization for the project work began in December and the first billings have not been passed thus the available number is overstated slightly.

** The TOTAL column is the total of Brought Forward and the total committed for fiscal 1993
 # The investment promotion effort is now a separate budget with a long term adviser in the Ministry of International Economic Relations.

none This indicates that the funds for this category are/or were fully committed for the balance of the fiscal year at the budgeted level.

realloc. Reallocated indicates that the project as budgeted was finished and the balance in the budget was reallocated to other projects.

MEMORANDUM

TO :USAID Budapest Representative Office
Attn: Mr. David Cowles
FROM :Project Manager's Office
Technical Assistance to the State Property Agency of
Hungary
Contract No. ANE-0002-C-00-0047-00
Project No. 180-0014
Charles G. Twyman

REF :Summary Annual Report: 28 Spt. 1991 - 15 Aug. 1992

DATE :19 August, 1992

BACKGROUND: The USAID Project Management office at the SPA has been asked to summarize its achievements during the year. This is to be used as a basis for the non-competitive waiver on the extension of the project

CURRENT SITUATION: I have prepared a review in bullet point format. I am incorporating last years annual report by reference as it sets the stage for the activity of this second project year. This is particularly appropriate as; the background is important to understand, the Scope of Work for both the first and second project years are essentially the same and the objectives continue to be valid.

REQUEST: Could you review the attached to see that it correctly reflects the project activity for the 1992 fiscal/contract year to date.

ATTACHMENTS:

ACHIEVEMENT SUMMARY memorandum

Scope of Work

III OBJECTIVES, extract from the 1st. annual report

IV ACHIEVEMENT OF SCOPE OF WORK, extract from the 1st.
annual report

Technical Assistance to the State Property Agency of
Hungary

Contract No. ANE-0002-C-00-0047-00

Project No. 180-0014

ACHIEVEMENT SUMMARY

2nd. Contract Year to date 09/25/91 - 08/15/92

OVERALL:

The Annual Report for the first contract year establishes the background for the present year's activities and is incorporated by reference in this summary. During its second contract year the USAID SPA Project's main task was to maintain its effectiveness and responsive support with limited resources. This took place in an environment where the SPA became a Ministerial level activity, doubled its staff, changed its site, made several major personnel and management changes and dramatically increased the range of its activities.

The support delivered by the USAID funded team has been varied but principally focussed on 10 major project activities and coordination tasks. The achievements for the contract year are summarized by category in the following pages.

The initial and present Scope of Work has constituted a flexible guideline within which the project can work. The project's design structure of a knowledgeable advisor targeting specific technical assistance activities on precisely defined and tailored mutually agreed SPA needs has continued to be the key to the project's success.

The careful guiding of USAID's activities into areas complimentary to the activity of the SPA's major donor/lender support has allowed a high degree of project integration into the SPA giving far greater impact than numerical weight justifies.

The USAID Project in its second contract year accomplished several major institution building tasks which were critical to the SPA's survival. Due to the cost involved and the pre-emptive positioning of other donor/lenders (EC-PHARE, World Bank and Know How Fund among others) and more importantly the SPA's limited absorption capacity, the USAID Project's activity stayed out of direct transaction activity.

SUCCESS FACTORS:

USAID's SPA support is viewed as rapid, responsive, effective, useful, and non-threatening. There are two principle reasons for this.

1. Client knowledge: USAID, the USAID Long Term Advisor and the D&T team have developed credibility which enables them to get the required access to define work, design the answers, and get the answers accepted and operational. This intimate knowledge -which extends throughout the SPA organization- has enabled the Project to successfully anticipate needs and have the answers in place in a timely manner. The limited ability of the other donor/lenders to get effective absorption of their support highlights the importance of this factor.

2. Contract Flexibility: A flexible contract with a generic scope of work designed by a very knowledgeable USAID team, a consultant team with a broadly based and experienced privatization skill mix, and all technical assistance being client (SPA) defined with active D&T team and local USAID participation has made it work.

ACTIVITIES

1. Strategic Planning:

- Prepared the SPA's institutional Development Plan
 - *Wrote, translated, saw to revisions, helped get approvals
- Initiated, helped design and addressed the 1992 off-site SPA strategic planning meeting chaired by the Minister for Privatization.
- Helped the SPA/GOH negotiate and then comply with the World Bank's privatization progress conditionality language in their Privatization and Restructuring SAL.

2. Financial Management:

- Prepared the SPA's 1st annual budget
 - *Wrote, translated, saw to revisions, helped get approvals
 - *Designed and implemented a quarterly reporting system to support management, budgeting, and the future planning process.
- Prepared the SPA's parliamentary budget justification for its fiscal 92 budget.
- Defined the SPA's needs in the area of financial management
 - *Defined problem, wrote TOR for CFO, trained and supported CFO
 - *Designed and implemented the financial control modules for the EC and WB funding.
 - *Redesigned the SPA's financial control and reporting system.

3. Equipment:

- Defined the SPA's equipment and software needs
- Provided the core SPA work stations and software
- Met the initial copier requirements of the SPA

4. Local Area Network:

- Defined the SPA's LAN needs and configuration
- Provided the LAN servers and software.
- Installed the LAN twice (once at old location once at new)
- Trained three SPA officers on LAN system management
- Provided in-house support for daily LAN management

5. Privatization Information System:

- Designed and installed a relational data base Privatization Information System for the SPA.
- Designed and produced a training program and manual and users manuals for the PIS. SPA wide training program begins 1 September, 1992
- Provided in-house system support and training to the SPA system staff on the program.
- Up-loaded the national enterprise data-base into the program
- Using the data base produced the first by-enterprise/by sector marketing piece for the SPA.

6. Investment Promotion:

- Defined the SPA's Linkage to investment promotion
- Advised the establishment of the first formal linkage between the SPA and the Investment Promotion Agency.
- Designed and Produced Hungary's first "Invest Hungary" brochure
- Hired and integrated a Long Term Advisor - Investment Promotion who is now providing follow-up particularly for US investors.
- Project designed data base enabled the production of the first comprehensive by-enterprise list of SPA enterprises available for sale.
- Helped coordinate the first formal Investment Promotion Agency visit to the US (Houston and LA) to take place in Oct. 1992.

7. Public Relations:

- Redesigned the SPA's PR plan
- Provided weekly support on the publication of the SPA's newsletter.

8. Training:

- Continued day to day mentoring activities at various levels and as part of all project activities.
- Trained the CFO by providing him a formal mentor as part of the financial management project.
- Trained two SPA Lawyers at the International Law Institute in Washington on how to deal with foreign investors.
- Trained two SPA systems people at the USDA on LAN management
- Trained one Privatization Minister advisor on the US legal system and legal system development at the University of Texas.
- Trained six SPA personnel in negotiation skills at the Banker's Training Institute in Budapest
- Trained the new personnel officer of the SPA in the training function and its requirements.
- Created the model job definition format and organization chart breakdown for the SPA by doing it for the Finance area of the SPA.
- Supported directly the SPA's training function to enable them to utilize its EC training funding.
- Trained SPA accounting staff in the operations of the new budgeting and control systems.
- Provided continuing training of the SPA systems staff on the LAN and PIS management.
- Continue to train the SPA on how to utilize training funds to support a well thought through training program

9. Compensation Note/Warrant Scheme:

- Provided the basic manual on the overall program defining the organizational steps required by the GOH and specifically the SPA.
The advice has been taken and was implemented.
- Providing the basic operating manual for brokers and investors for the instrument.
- Providing the basic model to evaluate SPA enterprise holdings for inclusion in the Warrant program.

10. Self Privatization Program:

-Provided the basic organizational analysis defining the program's projected needs with the purpose of assisting them in getting funding support.

11. Coordination:

-Work very closely with:

- *The World Bank missions to the SPA
- *The EC PHARE Project Management Unit at the SPA
- *The Canadian Government PR advisor to the SPA
- *The USAID Budapest Representative Office
- *The US Embassy

-Coordinated with:

- *The three Know How Fund advisors to the SPA
- *The two new Treuhandanstalt advisors to the SPA
- *The US Executive director at the EBRD and staff
- *Visit by the Slovak investment coordination mission
- *The U.S. Treasury effort in Hungary

-Supported:

- *The Szekesfehervar model cities program
- *Visits by the Japanese Eximbank analysts to Hungary
- *MBA enterprise corp, briefed incoming and existing personnel.
- *Numerous briefings to visiting US businessmen, congressional delegations, Govt. agency staff, etc.

III OBJECTIVES

The principal objective of the USG aid assistance to the Hungarian privatization effort, embodied in this contract to provide Technical Assistance to the State Property Agency of Hungary, is to help Hungary develop a self-sustaining privatization program that is largely market driven. The desired goals are to channel support to help Hungary avoid the problems of using institution-driven thinking instead of transaction-driven thinking, focus on creating the minimum necessary apparatus to support transactions and build free market supporting models and private institutions.

The further objective is to help sustain the strong political will supporting the Privatization process in Hungary by helping to solve the "easy" problems confronting the process. Such areas as equipping, training, technology transfer of working models and TA to help resolve Hungarian problems are easy fixes and within the area of aid delivery competence.

Managing the political aspects of the Privatization process, judging its appropriate pace, dealing with the social safety net issue and designating the program's leadership pattern are the exclusive realm of Hungary's leadership.

In all cases, the initiatives in the privatization program are generated by Hungarians. The initiatives must be perceived as helping to solve Hungarian problems which must and can be dealt with. By focusing resources selectively, considerable guidance can be provided.

During the first contract year, the objective was to guide the modest US aid funds made available in a targeted manner so as to break roadblocks and give support to the SPA's management. The support delivery was always carefully crafted to support the SPA - not to push it out of the way. It was important that the support be perceived as solving problems, not creating them. The support was guided to have key desired organizational effects on the SPA and the Privatization Process in Hungary.

The principle governing US and other major donor/lender assistance is that it would be a great loss for all concerned if the Hungarian privatization program should falter or fail because it does not receive the supporting knowledge and funding required to move it forward. It would be equally inappropriate to flow funds or advisors that would not support the reasonable and immediate progress of the privatization program.

There should never, at any time in the program, be a question as to who is in charge. The Hungarians are in charge. There should not be a problem of advisors "doing" without developing Hungarian skills. There should not be any doubt that the success of the privatization process in Hungary will be a Hungarian success.

IV ACHIEVEMENT OF SCOPE OF WORK

Background: The D&T team was guided in its work with the Hungarian privatization program and the SPA by a set of specific objectives. These objectives comprise the Scope of Work of the contract. They were achieved through individual actions taken by the LTA or through specific task definitions reflecting support requested by the SPA, and reviewed by and preapproved by USAID.

To understand the successful operation of this project, it must be understood how the interaction between the SPA and the LTA takes place. The LTA is fully integrated into the SPA. The LTA knows the organizational culture of the SPA, its key operating officers and the staff. He is part of the reporting and policy making layer of the organization and tracks all the major operational areas. He works carefully with directors and staff to define how he or other USAID funded technical assistance can support the SPA's activities without conflicting with the activities of other donor/lenders or local funding. This high level of integration is critical in order to accomplish the Scope of Work.

SCOPE OF WORK*

1. Help define the operational framework of the SPA.
2. Help prepare a funding strategy for the SPA's activities.
3. Help define the organizational needs of the privatization process.
4. Help define the initial and longer term organization structure of the SPA.
5. Help define the office and equipment requirements of the SPA.
6. Help define the personnel requirements of the SPA.
7. Help define the training needs of the SPA and help initiate an appropriate training program.
8. Help define the prioritization of privatization activities.
9. Help define the critical privatization program linkages in the economy.
10. Help establish a plan to define and manage the technical assistance requirements of the privatization program.
11. Help integrate spontaneous privatization, the SPA and the GOH's privatization program.
12. Help the GOH and the SPA understand the role of ESOPs and specialized tools that may have a suitable role in the privatization program.

* NOTE: The task activities of the project are woven from this Scope of Work and frequently overlap several categories.

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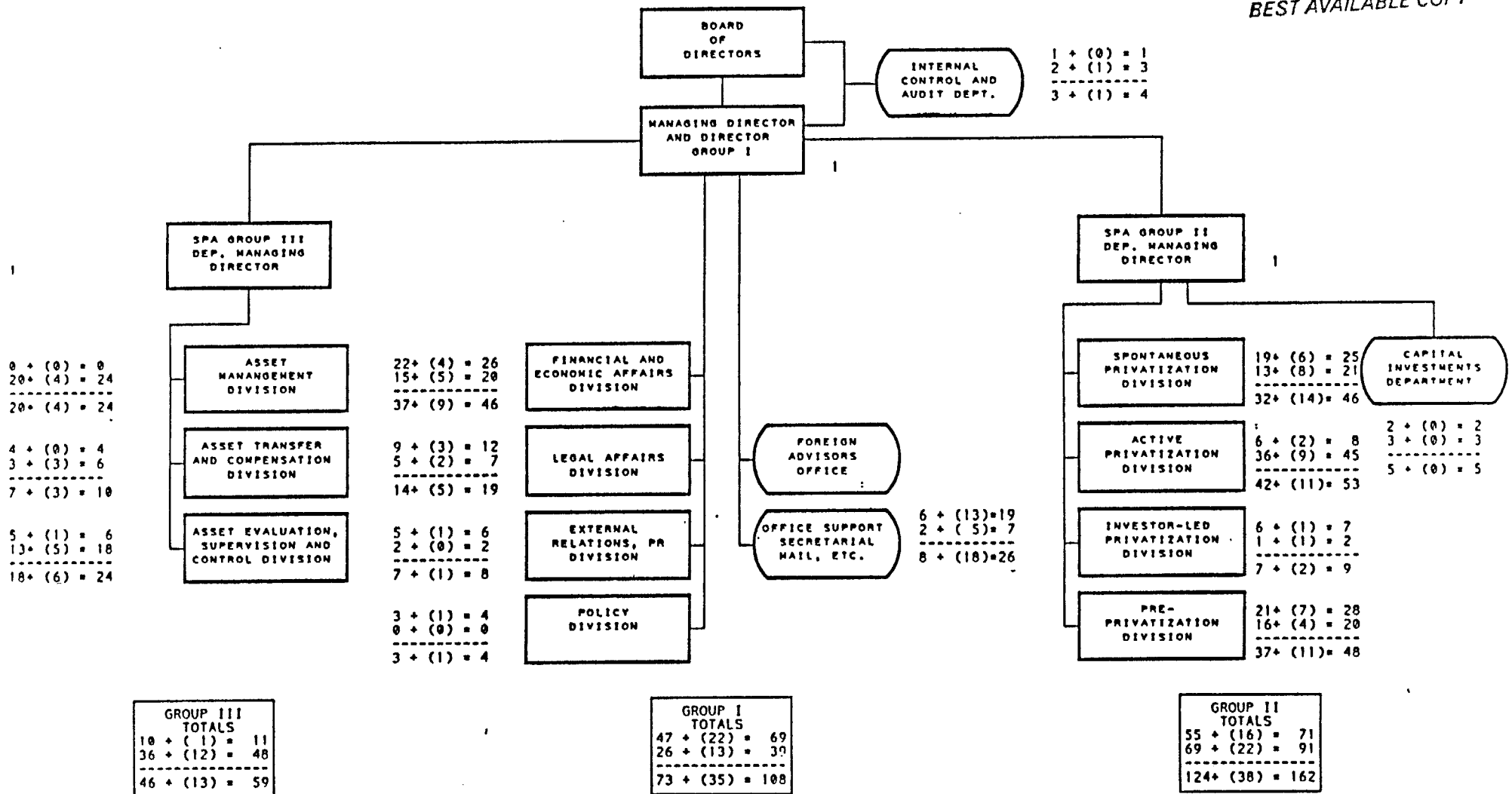
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STATE PROPERTY AGENCY (SPA)

BEST AVAILABLE COPY



DIVISION

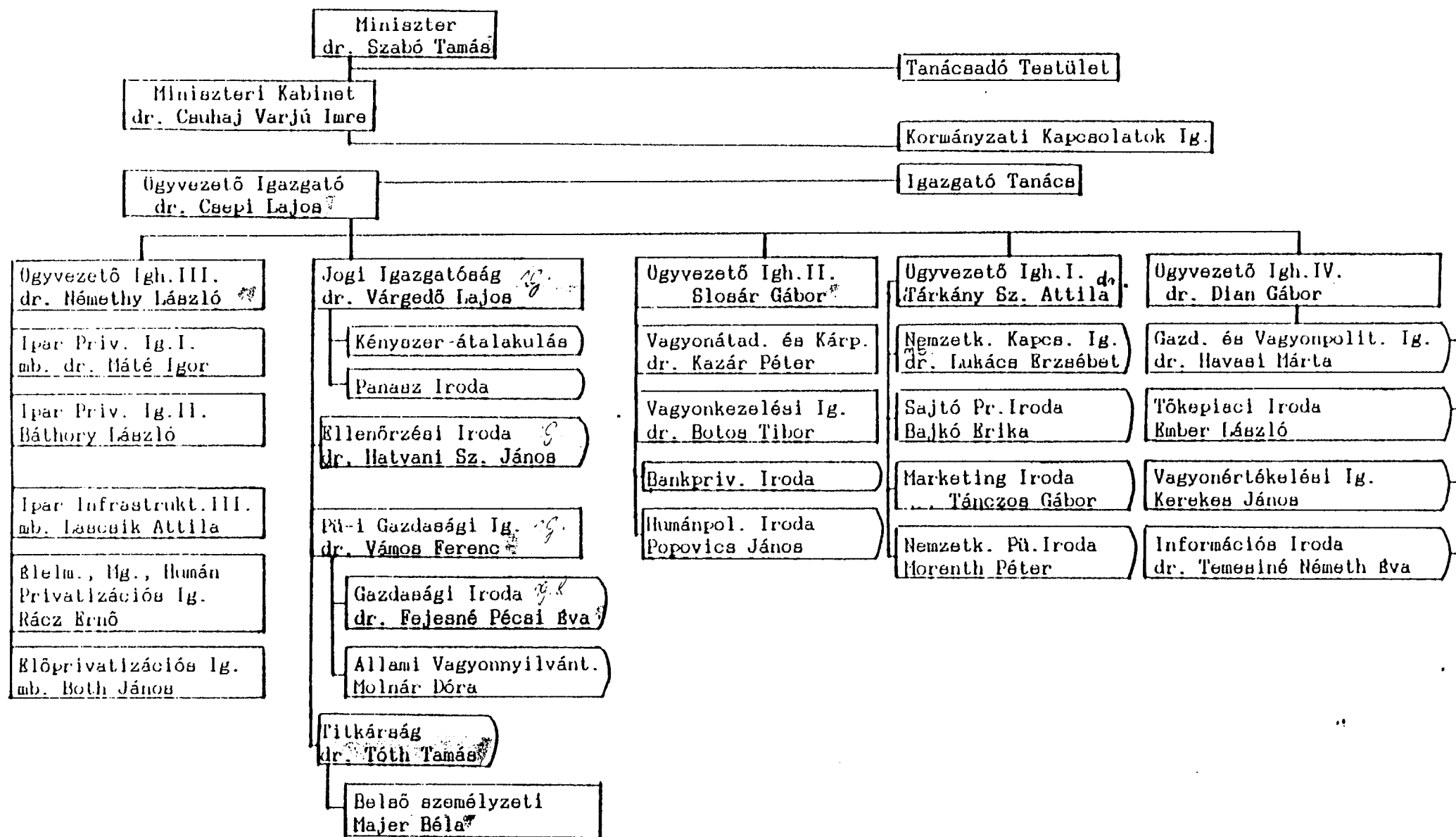
DEPARTMENT

SPA	DEC 1991	REQUEST	TOTAL 1992
MANAGERS/OFFICERS :	112	131	243
SUPPORT STAFF:	39	47	86
TOTAL :	151	178	329

STAFFING LEGEND	
EXISTING 1991 MANAGERS/OFFICERS + (SUPPORT STAFF) = TOTAL	
REQUESTED 1992 MANAGERS/OFFICERS + (SUPPORT STAFF) = TOTAL	

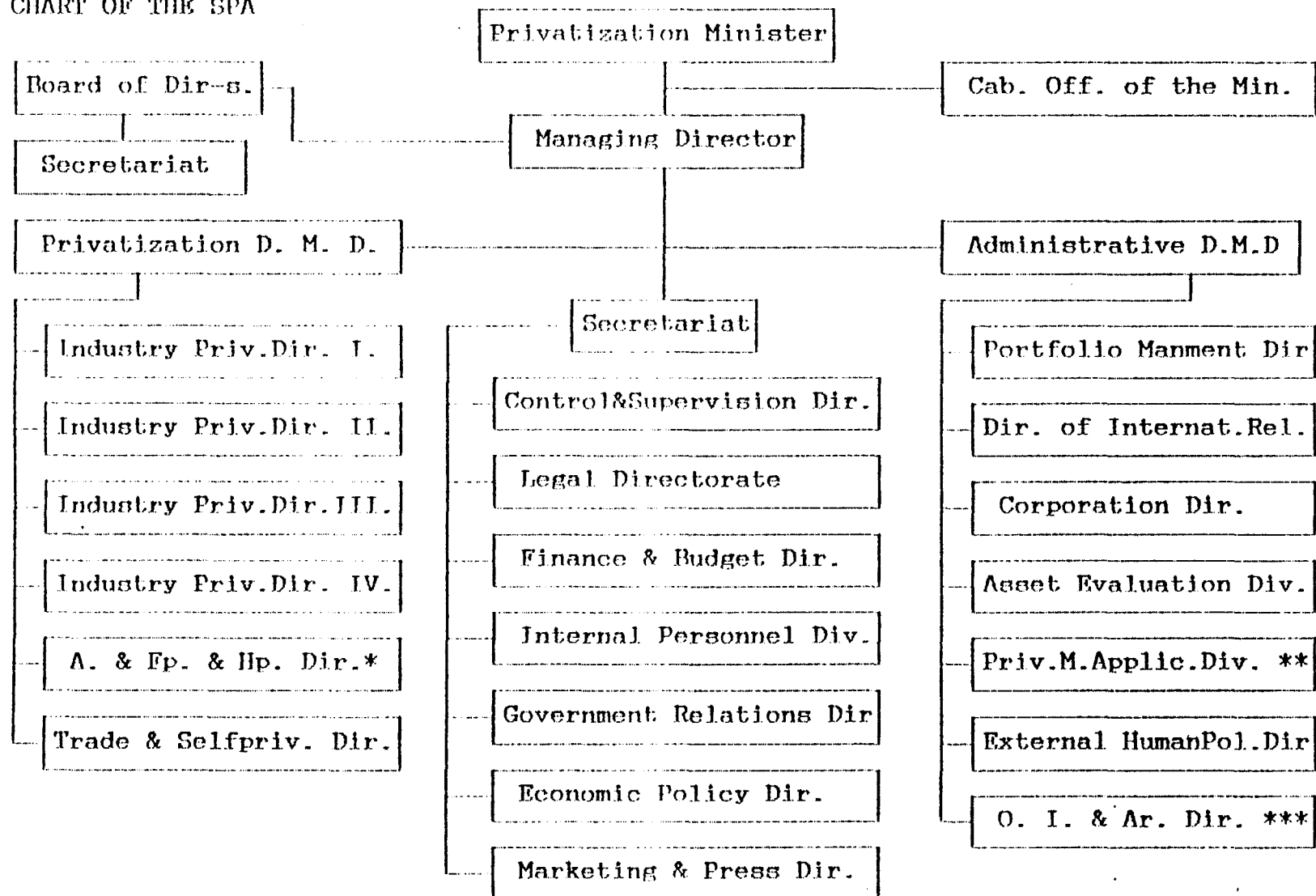
GRAND TOTAL 1992	

DECEMBER 3, 1991
A:\SPADEC91



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ORGANIZATIONAL
CHART OF THE SPA



* Agriculture and Food Processing and Humanpolicy Directorate

** Privatization Methodology Application Division

*** Organization, Informatics and Asset Registration Directorate

1989

STATE PROPERTY AGENCY
1992
INSTITUTIONAL DEVELOPMENT PLAN

December, 1991

STATE PROPERTY AGENCY
1992
INSTITUTIONAL DEVELOPMENT PLAN

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II PROGRESS TO DATE	1-2
III OUTSTANDING ISSUES	2-3
IV FUNDING	4-7
V SUMMARY	8

DECISION PROPOSAL

STATISTICAL APPENDICES

Charts: State Property Agency

State Property Agency: Organization with current (1991) and required (1992) staff by Group and Division 1991 and 1992.

State Property Agency Operating Divisions

1. Asset Management Division
2. Asset Transfer and Compensation Division
3. Asset Evaluation, Supervision and control Division
4. Spontaneous Privatization Division
5. Active Privatization Division
6. Investor-led Privatization Division
7. Pre-privatization Division
Preprivatization unit
8. Pre-Privatization Division
Self-privatization Unit (Phase I)
9. Pre-Privatization Division
Self-privatization Unit (Phase II)
10. Pre-Privatization Division
Municipal Buildings Program

Budget Summary:

Summary comparison 1991(actual) -
1992(proposed) budgets

II BACKGROUND

The State Property Agency (SPA) has been entrusted by the Government with responsibility for privatizing Hungary's state owned assets. Time left to accomplish this is now rapidly running out. As a result there is increasing pressure to accelerate privatization and complete it as rapidly as possible. Specifically the Government of Hungary (GOH) has set the SPA the medium term target of privatizing more than 50% of all state owned property by the end of 1994.

THE SPA's OBJECTIVES

Act No. XIII of 1989 (The Transformation Act) and Law no VII. 1990, The State Property Agency Foundation Law) and subsequent amendments, state that the primary objective of the SPA is rapid privatization of state owned assets.

In addition the SPA has also been charged with responsibility for setting up an Asset Management Unit to supervise short term holdings of the Government during the period preceding privatization, and the liquidation of any residual state assets following completion of the greater part of the privatization program.

The work program now contemplated by the SPA therefore includes completion of the following by the end of 1992:

- o Setting up the organization and systems to deal with Government enterprises transformed to Rts. and Kfts.
- o Setting up the organization and systems needed to transform Government enterprises that have not yet completed or undertaken this process.
- o Developing and implementing the programs and services needed to manage, privatize and/or liquidate the shareholdings of the Asset Management Unit.

III PROGRESS TO DATE

1. The SPA has been set up, housed, equipped and staffed and has commenced operations.
2. The SPA has designed launched and either used operationally or tested a range of privatization programs. Functioning programs now encompass all the approximately 2200 enterprises and approximately 10,000 retail outlets in the state owned sector, with the exception of the enterprises being retained by Government.(see below - Principal programs now in place)
3. The legal underpinnings for Privatization are now in place and the basic privatization laws are being amended to reflect recent SPA and Government experience.

Principal programs now in place cover:

1. Hungary's 400 largest and most important enterprises that will not be retained by the state. This in turn includes a number of sub-programs and sector concentrated launches.
2. Hungary's 1000 small and middle market enterprises form part of the enterprise initiated Self Privatization Program
3. Investor initiated privatizations can be dealt with through the SPA.
4. The regulation of the spontaneous privatizations not covered by the other programs is in place.
5. The SPA has launched a program to deal with major real estate property.
6. Hungary's 10,000 retail outlets are being dealt with through an auction program.

The SPA is also in the process of organizing the next phase of its privatization activity. Amongst other activities this requires that the SPA expand its processing and management capabilities to handle the new asset management function.

These developments have resulted in the SPA being separated into three major functions:

1. Management and Control
2. Privatization
3. Asset Management

The SPA is also planning to undertake the additional activities being required by the Compensation Law Warrant Scheme.

III OUTSTANDING ISSUES

There are a number of major issues that need to be addressed as a result of these changes.

1. The pace of Privatization needs to be speeded up.

This means that the two external variables which have an important effect on the pace of Privatization require continued emphasis. These are:

- 1.1. The Government's political will to sustain privatization which must be supported by continuing insistence by the Government on the passing of the legislation that is necessary to make a competitive free market economy work.
- 1.2. Foreign and domestic confidence in Hungary which must be sustained to ensure that investors continue to view Hungary as an attractive area for investment.

2. Acceleration in the pace of Privatization means that the SPA requires more resources.

Acceleration in the pace of privatization requires that necessary resources must continue to be made available to the SPA in order to ensure that it can sustain its role as the principle driving force behind privatization.

Privatization and asset management are transaction related activities. The pace of both will be directly tied to the availability of manpower, technical support and funding for the SPA.

The SPA's presently projected workload, given the transaction level expectations of the Government, cannot be met with the current staffing, space and funding levels of the SPA.

The new programs being undertaken and being contemplated by the SPA, such as the Asset Management Program and the Warrant Compensation Scheme will also result in additional demands on the SPA and will require additional resources.

3. The Demand for additional resources will result in a related need for increased funding.

The SPA is still not fully funded for its present workload. It clearly will be unable to support either present and projected levels of activity without additional financial support from Government and other external sources.

The costs of the every day operation of the SPA; manpower, space, etc. are a Government budgetary matter and must be addressed quickly.

It is anticipated that the selling costs incurred by the SPA will be recovered from the sale of state owned assets. However there will nevertheless be a substantial short term increase in the SPA's requirement to outside funding as a result of the need to cover the increases in operating costs that will occur as the SPA gears up to meet the increasing demand for its services.

It is the guiding principal that the SPA must continue to manage and control its allocated resources as a responsible and transparent public agency. Those resources must be utilized to produce identifiable and reportable results and the SPA must also fully control and account for the assets entrusted to it.

IV FUNDING CONSIDERATIONS

The SPA will therefore continue to require external contributions towards its fixed and overhead costs into 1993.

It is projected that these costs will total HUF 566 million in 1992. These costs will cover the fixed and overhead costs of supporting anticipated volumes of transactions to be undertaken by the SPA in 1992. If the necessary funding is not made available the SPA's privatization workload will have to be proportionately curtailed.

Anticipated funding levels

1. The Government of Hungary has assumed funding responsibilities for three of the principle areas of SPA activity.

1.1. Fixed and overhead costs of the SPA:

If the SPA does not receive the resources it needs -space, manpower, funding, etc.- it cannot deal successfully with the tasks it has been given according to the timetable that is desired. The SPA's present work in process, particularly given the volume throughput expectations of the Government, cannot be met by current staffing, space and funding levels of the SPA. New program requirements and/or tasks being imposed levied on the SPA will also result in further commitments.

The SPA requires HUF 566 million to fund its fixed and overhead costs to meet its projected workload for 1992.

1.2. A portion of the direct costs associated with selling state owned assets.

In accordance with Law No. VII, 1990 the SPA's direct selling costs are to be financed from sales proceeds.

These costs however are directly related to the number of privatizations being undertaken at any given time. The greater the number, the greater the costs incurred.

1992 will be a year of rapid buildup in the volume of selling expenses incurred.

The anticipated decline in international lending and donor agency support after 1992 is likely to exceed the anticipated slight decline in the number of new transactions being undertaken in 1993 and 1994. Consequently the requirement for funding of The SPA's direct selling costs from sales proceeds is likely to continue at the peak levels experienced in late 1992 or early 1993.

1.3. SPA Warranty and Guarantee Commitments.

The Government of Hungary has also undertaken warranty and guarantee commitments in connection with their various privatization transactions and will continue to do so in the future. These warrantees and guarantees deal with such issues as future environmental liabilities, treatment of redundant workers, etc.

This are likely to become an increasingly important issue and need to be provided for under some sort of trust arrangement so that the SPA is provided with the resources it will need to meet anticipated future warranty and guarantee claims.

2. In addition to anticipated levels of funding from the Hungarian Government certain international lenders (the World Bank) and donors such as the EC's PHARE program and the USAID have provided support of a bridging nature to the SPA to help Hungary get its privatization effort started. These international agencies are continuing to provide invaluable support to the SPA during the period needed to generate initial sales and cash flow.

International lenders have currently committed about US \$38.6 million to fund the SPA's major transaction requirements. Specifically:

- (a) USAID is providing approximately \$2.5 million for support of the SPA (advisors, equipment, technical assistance, training, partial funding of the public information program) during 1992.
- (b) EC PHARE which is drawing from both its PHARE I and PHARE II programs is providing about ECU 21 million for transaction support and ECU 5 million for support of the SPA, principally for advisors, training, technical assistance, equipment with some small support of the public information program in 1992.

It is anticipated that for 1993 and beyond that the PHARE funding will cease and that USAID's may be reduced.

3. In addition the SPA currently has beside the EC and USAID funded advisors, three British Know How fund advisors, one Canadian, and one partially French government funded advisor. It is hoped that when transaction volumes are substantially increased that additional advisory assistance may be made available from these sources but this cannot be assumed.

Timing and other Constraints associated with funding during
FY 1992-1994

1. Fixed and Overhead Costs:

The SPA has developed its full range of privatization products and services and has now had experience managing them. It is however presently unable to carry out its responsibilities at required levels because it cannot hire, pay, or provide office space for all the staff required to undertake volume of work associated with increased volumes of privatization activity.

The SPA therefore requires immediate approval of an increases in its headcount, operating budget and office space if it is to operate efficiently at projected necessary levels.

The Government of Hungary has the ability to provide this support.

It should be noted that the SPA has been heavily dependent in 1991 and 1992 on support from donors who have helped it to meet its operating needs with advisors, equipment and key technical assistance particularly in the management area. It is hoped this will continue but it cannot be predicted past 1992. This donor assistance has meant the Government has had to absorb much less than the real cost of launching the privatization effort in Hungary.

2. Selling and Direct Costs:

Rapid response funds -sales proceeds

A critical funding need of the SPA is the need for funding of the selling and direct costs that arise as the result of a buyer or enterprise initiating a privatization transaction. Many individual privatizations cannot await a program approach. If a sales opportunity presents itself it must be exploited immediately. The SPA must therefore have the rapid response capability that access to flexible funding allows so that it can focus its professional resources rapidly on individual on privatization opportunities. These funds are now available in sufficient volume in the sales proceeds pool. The use of proceeds in this way will need to increasingly become a feature of the SPA's activities.

Slow response funding -Multilateral and Bilateral Donor and
Lender Agency Funds

Donor funding, grants, (EC PHARE, USAID) are highly attractive as they effectively make net additional resources available to Hungary.

Lending Agency funding (World Bank) make available relatively low cost funding to achieve sales activities. Sales activities as they generate proceeds justify the use of loan funds as the principal and interest can be repaid from proceeds, and a net additional debt burden on Hungary is not incurred as a result of the sales and related borrowing activity.

The problem with donor and lender funding is that it is project cycle driven, administratively complex, and difficult to absorb. Project cycle funding means that in practice you must plan your needs at least 18 months in advance. The tendering and contracting cycle and form tend to be specific for each different donor-lender and are also long cycle. In addition they are source restricted under for instance EC PHARE and other bilateral programs. Thus donor and lender funding, lends itself only to long lead time transactions. It is suitable for individual major privatization efforts that can be undertaken on a long term project basis, but is not useful for solving the problem of enterprises that need to be privatized quickly or for enterprises where there is already an existing market demand.

Warrantee and Guarantee Costs:

These costs need to be met from sales proceeds. This is frequently an issue between the Government and the investor. It is a legal as much as it is funding issue.

STATE PROPERTY AGENCY

1992. OBJECTIVES		NUMBER OF COMPANIES		HEADCOUNT	
		1991.	1992.	1991	1992
A. ASSET MANAGEMENT DEPARTMENT	1. TO ESTABLISH 3 HOLDINGS WITH HUF 70 BILLION WORTH OF ASSETS IN EACH.	NONE (NEW TASK)	x	0 (NEW DEPARTMENT)	20
B. ASSET TRANSFER AND COMPENSATION DEPARTMENT	1. TO ESTABLISH 15-20 PORTFOLIOS WITH HUF 5 BILLION WORTH OF ASSETS IN EACH.		x	1	5
	2. TO CREATE A PACKET OF HUF 15 BILLION FOR COMPENSATION		x		
	3. THE ASSETS TO BE TRANSFERRED TO SOCIAL SECURITY IS HUF 15-20 BILLION		x	4	5
	4. THE ASSET TO BE TRANSFERRED TO FUNDS IS 2x HUF 5 BILLION.		x		
C. ASSET VALUATION SUPERVISION AND CONTROL DEPT.	1. TO EXERCISE OWNERSHIP FUNCTIONS REGARDING THE SHARES IN SPA'S HANDS.				
	2. TO DEVELOP AND INTRODUCE A UNIFIED REGISTRY AND REPORTING SYSTEM	70-80	1,000	6	18
D. SPONTANEOUS PRIVATIZATION DEPT.	1. ASSET PROTECTION * NEWLY RECEIVED * COMPLETED	300	220 220		
	2. TRANSFORMATION * NEWLY RECEIVED * COMPLETED	120	308 194	25	44
E. ACTIVE PRIVATIZATION DEPT.	1. ASSET SALE CASES	43	97		
	2. TRANSFORMATION CASES	125	203	8	33
	3. CRISIS MANAGEMENT TEAM	NONE	40	0	13
F. INVESTOR-LED PRIVATIZATION DEPT.	1. ASSISTANCE TO INVESTORS	1,350	2,200		
	2. ONGOING CASES	120	220	5	9
	3. COMPLETED CASES	14	40		

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STATE PROPERTY AGENCY

1992. OBJECTIVES		NUMBER OF COMPANIES		HEADCOUNT	
		1991.	1992.	1991	1992
G. PREPRIVATIZATION PROGRAM DEPT.:PRE- PRIVATIZATION UNIT	1. SALE OR PREPARATION FOR SALE OF 10.000 BUSINESSES.	2,120 (FINISHED)	4,500 (FINISHED)	8	4
H. SELF-PRIVATIZATION PROGRAM DEPT:PHASE I	1. TO FINISH THE PRIVATIZATION OF THE 350 COMPANIES IN THE PHASE I. OF THE COMPANY INITIATED, SIMPLIFIED PRIVA- TIZATION PROCESS BEFORE MARCH 31, 1993.	21 (FINISHED)	200 (FINISHED)	5	10
I. SELF-PRIVATIZATION DEPT. PHASE II	1. BY THE END OF 1994. TO FINISH THE PRIVATIZATION OF 650-700 COM- PANIES IN THE PHASE II. OF THE COMPANY INITIATED, SIMPLIFIED PRIVATIZATION	0	100	0	6
J. CITY OFFICE BUILDING PROGRAM	1. THE PRIVATIZATION OF 12 OFFICE BUILDINGS IN THE CITY OFFICE BUILDING PROGRAM	0	6	2	4

Legend

Double line
highlights
new function

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V SUMMARY

OBJECTIVE:

The State Property Agency (SPA) is committed to accelerating the privatization program in Hungary so that over 50% of the assets in the competitive sector of the economy are in private hands by the end of 1994.

PROGRESS TO DATE:

- o The SPA has designed and tested and implemented on an operational basis the full range of programs and services that it needs to deal with all the state owned assets to be privatized
- o The SPA cannot manage its present workload at the required volumes with its current level of manpower and overhead funding. The SPA needs to expand its activity levels and programs if it is to meet intended volumes of privatization work.

REQUIREMENTS:

To move from its start-up mode into full operation in 1992 the SPA requires:

SPACE 4110 square meters of contiguous space

PERSONNEL 301* Hungarian staff (not including
 foreign funded long and short term
 advisors

* This staff estimate is net of building maintenance, security, and building service personnel.

BUDGETARY
FUNDING HUF 566 million

EXTERNAL			
FUNDING	US\$10.5	million	- transactions World Bank
	ECU18.0	million	- transaction EC PHARE
	US\$ 5.0	million	-*assistance- EC PHARE
	US\$ 2.5	million	-*assistance- USAID
			-*advisors, Know How Fund
			-*advisor, Canada
			-*advisor, France
			-*assistance, EBRD
			-*assistance, UNIDO

* the 1992 number of advisers and level of technical assistance from these organizations is under discussion.

TRANSACTION
FUNDING HUF 2,100 million -sourced from proceeds
(This number is dependent on the number of privat-
izations and the pace with which they proceed)

STATE PROPERTY AGENCY

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B. ASSET TRANSFER AND COMPENSATION DEPARTMENT	1. TO ESTABLISH 15-20 PORTFOLIOS WITH HUF 5 BILLION WORTH OF ASSETS IN EACH.		x	1	5
	2. TO CREATE A PACKET OF HUF 15 BILLION FOR COMPENSATION		x		
	3. THE ASSETS TO BE TRANSFERRED TO SOCIAL SECURITY IS HUF 15-20 BILLION		x	4	5
	4. THE ASSET TO BE TRANSFERRED TO FUNDS IS 2x HUF 5 BILLION.		x		
C. ASSET VALUATION SUPERVISION AND CONTROL DEPT.	1. TO EXERCISE OWNERSHIP FUNCTIONS REGARDING THE SHARES IN SPA'S HANDS.				
	2. TO DEVELOP AND INTRODUCE A UNIFIED REGISTRY AND REPORTING SYSTEM	70-80	1,000	6	18
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		1991.	1992.	1991	1992
G. PREPRIVATIZATION PROGRAM DEPT.:PRE- PRIVATIZATION UNIT	1. SALE OR PREPARATION FOR SALE OF 10.000 BUSINESSES.	2,120 (FINISHED)	4,500 (FINISHED)	8	4
H. SELF-PRIVATIZATION PROGRAM DEPT:PHASE I	1. TO FINISH THE PRIVATIZATION OF THE 350 COMPANIES IN THE PHASE I. OF THE COMPANY INITIATED, SIMPLIFIED PRIVA- TIZATION PROCESS BEFORE MARCH 31, 1993.	21 (FINISHED)	200 (FINISHED)	5	10
	This program is administered by PRI-MAN Kft.				
I. SELF-PRIVATIZATION DEPT. PHASE II	1. BY THE END OF 1994. TO FINISH THE PRIVATIZATION OF 650-700 COM- PANIES IN THE PHASE II. OF THE COMPANY INITIATED, SIMPLIFIED PRIVATIZATION	0	100	0	6
	This program is administered by PRI-MAN Kft.				
J. CITY OFFICE BUILDING PROGRAM	1. THE PRIVATIZATION OF 12 OFFICE BUILDINGS IN THE CITY OFFICE BUILDING PROGRAM	0	6	2	4

Legend

Double line
highlights
new function

PROPOSAL OF THE STATE PROPERTY AGENCY
1992 PROGRAMME PHARE

1. Background:

A key element of the economic reform in Hungary is the asset restructuring and privatization of some 2,200 state owned enterprises and approx. 10,000 retail units and 120 state farms. The importance of undertaking the privatization process is based on the need to increase the efficiency of the economy by establishing new private owner/managers and the need for privatization proceeds to help pay state debts.

The institutional framework of privatization was created by the establishment of the State Property Agency (SPA) on 1 March, 1990. The SPA was established by the government, is an independent agency, and it is audited by the State Audit Office. Its task is to guide and control privatization by:

- In the case of the self initiation of privatization (spontaneous privatization) by state owned enterprises, the SPA plays a regulatory review role.

- In the case of the Active Privatization Programme (those initiated by or with the help of the SPA) which involve the large state owned enterprises, the SPA seeks the help of professional advisers chosen through a tendering process.

- In the case of privatizations proposed by investors, the SPA can initiate the process based on the proposal typically by initiating a bidding process.

- In the case of the Pre-privatization Programme, small retail operations are auctioned

- In the case of the Self Privatization Programme, a large predetermined group of state enterprises can privatize themselves by undertaking the process together with a previously qualified consulting firm's assistance.

2. The role of PHARE assistance in the operation of the SPA

The 1990-1991 PHARE Programmes have increased and shall continue to significantly increase the efficiency of the SPA's operations and they have made a significant contribution to the privatization of the 540 plus state owned companies currently involved in the privatization process.

2.1 The PHARE Programme - 1 December - 31 December, 1991

The programme made available ECU 5 million for the basic startup costs of the SPA and to assist in meeting the costs of outside consultants involved in some of the initial model privatization transactions (ECU 2.825 million). These funds were also used for short term legal and industry specialist assistance, the funding of a PHARE programme Financial Administrator, training of the SPA's staff, and making available the necessary tools of the task (computers and office equipment).

2.2 PHARE Privatization Programme for 1991

The Restructuring and Privatization Assistance Programme proposed by the EC makes available ECU 21.4 million to support the SPA's continuing operation. Within this Programme the emphasis is on assisting the SPA's Active Privatization Programme.

For general institutional support, the Programme makes available ECU 1.55 million for short term legal and specialist skills to support individual privatization transactions, long term advisers in area of asset management and investor initiated privatizations, and for the supply of computers and office equipment for the Pre-privatization Directorate (the department dealing with the privatization of retail outlets).

For support of the the spontaneous privatization of small and medium sized enterprises the Programme makes available ECU 2.75 million to finance the consultancy service requirements for about 25 enterprises.

For the Active Privatization Programme ECU 17 million is made available, making possible about 34 major transactions.

For the establishment of investment companies to manage part of the residual shareholdings of the state after privatization, ECU 100,000 is provided.

3. Proposal for utilization of the 1992 PHARE Programme.

In the third phase of the PHARE's participation in the privatization programme, institutional support will still be required, major support will still be required in the Active Privatization area but at a somewhat reduced level. In addition the new privatization programme, the Self-Privatization Programme, which was launched in September 1991, will need major and continuing support from external sources.

3.1 Continued institutional support will include additional systems, computer hardware and office equipment expenditures to support the SPA's expanding responsibilities.

The 1991 PHARE Programme did not have a training element as the 1990 ECU 546,000 allocation was sufficient for both years. An examination of current needs indicates that there will be a need in 1992 for additional training funds for such needs as: language training, courses of study abroad, funding foreign experts to come to teach at the SPA, and post graduate training of SPA employees.

The increased staffing levels in almost all Directorates of the SPA driven by new initiatives such as; the warrants issued under the Compensation Law, the asset management being required of the SPA, and the new Self-Privatization Programme, mean a significant increase in office equipment, computer and system needs, and training.

The establishment of the Self Privatization Unit has meant increased space requirements which have to be met temporarily by the outside rental of office space at some cost.

The establishment of the Programme Management Unit (PMU) established in partnership with the Ministry of Industry and Trade for the administration of the Restructuring and Privatization Programme represents significant additional costs as well.

The combined needs of these program elements is approximately ECU 3.5 mil.

3.2 The proceeds of previous privatization have made available a certain amount of financing to support further transactions (to pay for legal and other sale required specialist skills). However the increased pace of privatization means that the process will still require significant outside support.

External support will be required to assist with 24 transactions at a cost of approximately ECU 12 mil.

3.3 The financial requirements of the expanded initiative to establish investment management companies have increased from the previous ECU 0.1 need level.

The requirements of this initiative are approximately an additional ECU 0.5 mil.

3.4 The objectives of the Self Privatization Programme are:

1. To accelerate the privatization process by focusing the resources of private sector consulting firms on the privatization needs of designated small and medium sized government enterprises. The approved consultants will have the task, working with the enterprises, to take enterprises through the entire privatization process with no review delay at the SPA.
2. To systematically privatize the process of converting designated medium and smaller government owned enterprises and their assets to private management. This will be achieved by designating a short list (an 80 consulting firm short list for the first phase -based on a public tender- has already been designated) who are preparedly to undertake the full privatization of the designated enterprises. The approval of their actions is pre-committed by the SPA.
3. To decentralize the privatization process so that the SPA does not provide a procedural and administrative road block to the rapid conversion of designated small and medium sized enterprises and their assets to private management. This will be accomplished by the SPA granting blanket preapproval to the privatization activities undertaken by the preparedly consulting operations. Reviews of the process will be EX POST and will effect the consultants' access to future business not past transactions.
4. To stimulate the development of the private sector, money, capital and financial markets by increasing the pool of assets in play.

The resources of small and medium sized enterprises available to pay for the costs of undertaking their own privatization are limited and need to be supplemented.

The estimated consultancy costs of an average transaction is ECU 20,000. Assuming a 50% cost sharing this would mean an external funding requirement of about ECU 10,000 per transaction. From the about 1600 small enterprises that might be considered under the program we assume about 1000 will eventually participate.

To accelerate and stimulate this privatization process will require about ECU 10 mil.

3.5 Summary - Funds requirements under the Programme PHARE 1992:

	Mil. ECU
General Institutional Support	3.5
Active Privatization	12.0
Investment Companies	0.5
Self Privatization Programme	<u>10.0</u>
	26.0

Csepi Lajos
General Manager

STATE PROPERTY AGENCY

1992
INSTITUTIONAL DEVELOPMENT AND WORK PLAN

December, 1991

STATE PROPERTY AGENCY

1992
INSTITUTIONAL DEVELOPMENT AND WORK PLAN

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DIRECTORY OF APPENDICES
(Appendices are available in Volume II)

- (1) SPA: Organization Chart and Headcount (December 10, 1991)
- (2) SPA: TRANSACTION ORIENTED DIRECTORATES -- Summary of Major 1992 Objectives.
- (3) SPA: Institutional Development and Operational Work Plan timetable
- (4) Spontaneous Privatization Directorate:
 - *Organization Chart
 - *Products, Objectives
 - *1992 Work Plan
- (5) Active Privatization Directorate:
 - * Organization Chart
 - * 1992 Major Objectives
 - * 1992 Work Plan by quarter with List of Targeted Companies (Ref. Attachment III, "Annual Report 1990" for by enterprise detail on sectorial and program launches)
- (6) Investor-Led Privatization Directorate:
 - * Organization Chart
 - * 1992 Major Objectives and Work Plan
- (7) Pre-Privatization Directorate:
 - * Organization Chart
 - * 1992 Major Objectives and Work Plan
 - * List of enterprises in the 1st. Tranche of the Self Privatization Program (Ref. Attachment V for the list of the pre-approved consultants for the 1st. Tranche of the Self Privatization Program.)
- (8) Capital Investments Office
 - * Organization Chart
 - * 1992 Objectives and Work Plan
- (9) Asset Management Directorate
 - * Organization Chart
 - * 1992 Major Objectives and Work Plan (draft)
- (10) Asset Transfer and Compensation Directorate
 - * Organization Chart
 - * 1992 Major Objectives and initiation of Work Plan
- (11) Asset Evaluation, Supervision, and Control Directorate
 - * Organization Chart
 - * 1992 Major Objectives (The Work Plan is yet to be defined)

(12) Financial, and Economic Affairs Directorate:

- * Organization Chart
- * 1992 Major Objectives
- * SPA 1991-1992 Budget Summary
- * Description of the SPA Privatization Information System
- * Information Office 1992 Objectives and Work Plan
- * 1992 Budget and Planning Program, Managing Director's Memorandum to all Directors

(13) External Relations, PR Directorate:

- * Organization Chart
- * 1992 Major Objectives and Work Plan
- * Communications Action Plan

(14) Training:

- * Organization Chart
- * 1992 Major Objectives and Work Plan
(Ref. Attachment VI, Training Manual)

(15) Policy Directorate:

- * Organization Chart
- * 1992 Major Objectives and Work Plan

(16) Legal Directorate:

- * Organization Chart
- * 1992 Major Objectives and Work Plan

ATTACHMENT DIRECTORY

ATTACHMENT I

State Property Agency Publication

"GUIDE FOR FOREIGN INVESTORS"

ATTACHMENT II

State Property Agency Employee Handbook

"Rules and Regulations Governing Employment at the SPA"
Draft Dated November, 1991

ATTACHMENT III

State Property Agency Report

"ANNUAL REPORT 1990"

ATTACHMENT IV

State Property Agency Publication

"INVESTOR INITIATED PRIVATIZATION"

ATTACHMENT V

State Property Agency Publication

"DIRECTORY OF APPROVED CONSULTANTS, SELF PRIVATIZATION
PROGRAM PHASE I"

ATTACHMENT VI

State Property Agency Manual

"TRAINING MANUAL"

ATTACHMENT VII

State Property Agency, Ministry of Industry and Trade joint
Publication

"PRIVATIZATION OPPORTUNITIES IN INDUSTRY AND TRADE:
A listing and summary of approximately 300 companies
available for privatization December, 1991.

- * VOLUME I : Mining, Metallurgy, General Machinery
- * VOLUME II : Manufacturing
- * VOLUME III: Construction
- * VOLUME IV : Trade

STATE PROPERTY AGENCY

1992

INSTITUTIONAL DEVELOPMENT AND WORK PLAN

I SUMMARY AND CONCLUSIONS

1. The State Property Agency (SPA) has successfully established itself as an important contributor to the process of liberalizing the Hungarian Economy and reshaping Hungary as a country able to make a vigorous and increasingly effective contribution to the Western Economic Community.
2. The initial start-up phase of the SPA has now been completed.
3. Major increases in volumes of transactions under the SPA's various privatization programs are occurring. This trend is expected to continue into late 1992, after which it is expected to stabilize at high levels into late 1994.
4. A full range of transaction related methods and services to be provided by the SPA in connection with its various privatization programs, are now either fully operational or in use on a test basis.
5. The SPA is in the process of expanding its organization and management infrastructure to provide the internal support and technical services that it needs to do its job.
6. All the major organizational functions of the SPA with the exception of Planning and Budgeting (which is just now being institutionalized) have either been set up or are in process of being organized. Many of these functional areas need significant strengthening in light of the anticipated needs of the SPA.
7. The SPA's present and projected workload, particularly given the volume throughput expectations of the Government of Hungary (GOH), cannot be met with its current staffing, space and funding levels. If the SPA does not receive the additional funding it requires, it will be unable to handle its workload at the desired levels of activity. New program requirements and/or new tasks given to the SPA will tend to aggravate this problem.
8. Major increases in the need for additional funding from internal (GOH budgetary support) and external sources (proceeds and donor and lender agency resources) are therefore to be expected as a result of the need to meet the costs of increasing levels of operating (selling and consultants) costs and indirect and overhead costs. It is projected that in excess of U.S. \$30 million will be needed from external sources in 1992.

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9. It is projected that levels of privatization activity will begin to decline in late 1994 or early 1995 following completion of the greater part of the SPA's workload, allowing the start of the process of winding up and closing down the SPA

10. As could be expected the precise timing and pace of the winding up of the SPA's activities is still subject to uncertainty because of unresolved questions about the time it will take to complete some of the more complex privatisations, the precise nature and extent of its longer term responsibilities in connection with warranty and guarantee exposures, the Compensation Note Administration, and Asset Management programs. These are outstanding issues that will require resolution at GOH level at the appropriate time.

II BACKGROUND

The State Property Agency (SPA) has been entrusted by the Government of Hungary (GOH) with responsibility for privatizing Hungary's state owned assets. The time left to accomplish this is now rapidly running out. As a result there is increasing pressure to accelerate privatization and complete it as rapidly as possible. Specifically the GOH has set the SPA a medium term target of privatizing more than 50% of the total assets in the competitive sector of the economy by the end of 1994.

In the longer term it is the Government's intention to privatize virtually all existing state owned enterprises with a limited number of exceptions. The enterprises to be held will be managed by a specialized group, the SPA will manage the assets moving toward privatization, and a specialized liquidation agency will manage the inviable entities.

It is the purpose of this document to outline the 1992 program for the Institutional Development of the SPA, incorporating the Work Plan the institution hopes to accomplish.

III THE SPA'S OBJECTIVES

Summary:

The major organizational objectives of the SPA are to:

- o. Establish a fully operational (staffed, equipped, housed, funded, and managed) Multi Program Agency to undertake the privatization of state owned assets.
- o Set up a fully staffed, equipped, housed and funded Asset Management Unit capable of managing state owned assets toward privatization or liquidation.

Privatization:

Act No. XIII of 1989 (The Transformation Act) and Law no VII. 1990, (the State Property Agency Foundation Law) with its subsequent amendments, state that the primary objective of the SPA is the rapid privatization of state owned assets.

It is further directed to accomplish this objective by means of processes that are rapid, open to public review, competitive and market driven.

Asset Management:

The SPA has been charged by the Government with responsibility for setting up an Asset Management Group to supervise where required the short term holdings of the State during the period preceding privatization, and the possible sale of any residual state assets following completion of the major part of the privatization program.

The work program for the Asset Management Group now being contemplated by the SPA therefore includes completion of the following by the end of 1992:

- i Setting up the organization and systems to deal with "transformed" State enterprises.
- ii Developing and implementing programs and services needed to manage, privatize and/or liquidate the holdings of the Asset Management Unit.
- iii Setting up the organization and systems needed to transform and privatize State enterprises under SPA stewardship that have not yet completed or undertaken the process.

It is also required that the SPA plan the preparation of comprehensive institutional development and work plans for the Asset Management Unit by the end of its first year of active operations(1992).

It is anticipated that the life cycle of this Asset Management Unit may extend beyond the completion of the SPA's privatization activities, given the probable long term nature of some of the assets it will have to supervise.

IV PROGRESS TO DATE.

The legal underpinnings for Privatization are now in place and the basic privatization laws are being amended to reflect recent SPA and Government experience.

The SPA has been set up, housed, equipped and staffed. It has commenced operations and has designed and either used in full operational mode, or tested, many of the range of procedures and services it intends to use in its privatization programs.

Functioning programs now encompass all the approximately 2200 enterprises and approximately 10,240 retail outlets in the state owned sector, with the exception of the few major enterprises that the Government intends to retain under state ownership for reasons of national interest or security.

Principal programs now in place cover:

- 1. Hungary's largest and most important enterprises (about 400). This in turn includes a number of sub-programs and sector concentrated launches and an investor led privatization program.
- 2. Hungary's small and middle market enterprises as part of the Self Privatization Program (about 1000).
- 3. All Hungarian enterprises that chose to spontaneously privatize outside the programs listed above.
- 4. Major individual real estate properties.
- 5. Hungary's 10,240 retail outlets.

The SPA is also in the process of organizing the next phase of its privatization activity and expanding its processing and management capabilities to handle the new asset management function.

These developments have resulted in the SPA being separated into three major functional groups:

Group I	Management and Control
Group II	Privatization
Group III	Asset Management

The SPA in addition is now planning to undertake the additional activities required by the new Compensation Law Note Scheme which will be part of the Asset Management Group.

V OUTSTANDING ISSUES

The following major issues need to be addressed in connection with recent and pending changes.

1. SPA Management Issues

1.1. In connection with the "Active" Privatization Program Management needs to:

- (a) Identify the criteria to be used for setting industry and company privatization priorities.
- (b) Define the division of responsibilities between the SPA and relevant government departments in connection with the "driver role" for government dictated privatisations.

1.2. In connection with the "Spontaneous" Privatization Program, Management needs to clarify the objectives and division of responsibilities between the "Spontaneous" Privatization Department's regulatory role and the SPA's Self Privatization and Asset Management programs.

2. Pace of Privatization Activity.

Pressure is being brought to bear on the SPA by the GOH to speed up the pace of privatization. This means that three external variables that have an important effect on the pace of Privatization will require continued emphasis. These are:

2.1. The Government's political will to support privatization with:

- (a) Continued reduction and elimination of subsidies to enterprises
- (b) Measures to ensure that the threat of bankruptcy has real meaning.
- (c) Insistence at the enterprise level on the need for transformation and privatization.
- (d) Legislation that makes a competitive free market economy work.

- 2.2. The Government's recognition of the importance of measures that ensure that foreign and domestic investors continue to view Hungary as an attractive area for investment.
- 2.3. Continuing availability of the resources including levels of funding that are necessary to allow the SPA to sustain its role as the principal driving force behind the Privatization Process. This subject is discussed in greater detail below.

3. Requirement for Additional Resources.

- 3.1. The increasing volume of privatization work being undertaken by the SPA as it moves through the High Growth phase of its institutional life cycle, combined with the pressure for acceleration of the overall pace of privatization being exerted by the GOH, will inevitably result in a rising demand for staff, technical support and other resources on the part of the SPA.
- 3.2. In addition the new programs being undertaken and contemplated by the SPA, including the Asset Management Program and the Compensation Note Scheme will result in additional demands on the SPA which cannot be met with the current staffing and other resource, including space levels. The SPA will therefore require additional staff and other resources if it is to be expected to meet its developing workload requirements.

4. Requirement for Increased Funding.

- 4.1. It is anticipated that almost all of the direct privatization costs incurred by the SPA will eventually be recovered from proceeds of sales of state owned assets. There will be a greater number of such costs in the 1992 and 1993 period than in subsequent years. Salary, office space and other overhead costs (met primarily by the GOH with some outside donor assistance) that will occur as the SPA gears up to meet growing demand for its services will peak in 1992 and 1993 and most likely decline after that.
- 4.2. The SPA is not currently fully funded for what it needs to handle its present workload and clearly will be unable to handle projected increases without additional GOH financing. It therefore needs to move as quickly as possible to confirm the availability of this financing to ensure that there is no interruption in its ability to handle its increasing work load.

VI SPA'S INSTITUTIONAL LIFE CYCLE

The SPA, with its specific charter, defined responsibilities and proscribed, though not necessarily precisely predetermined life span, will experience an institutional life cycle that can be separated into five distinct phases.

1. Start-up

The initial phase of setting-up, and equipping the SPA with the resources it needs to become a viable organization, capable of directing its own growth and development. This occurred in 1990 and early 1991.

2. High Growth

The follow on phase in which the SPA:

- 1.1 Expands, and develops necessary organization, staff, and management and systems infrastructure.
- 1.2. Develops the products and services it needs to fulfill its mission.
- 1.3 Starts to undertake useful levels of privatization work.

The SPA is presently in this phase of its development. This phase will continue into mid 1992.

3. Consolidation and Work-out

The phase in which the SPA having equipped itself with necessary staff and other resources, is able to undertake its full workload and focus on working through its privatization backlog as rapidly as possible.

The SPA should be in this phase by the 2nd half of 1992.

4. Winding Down

The phase in which the SPA, while continuing to process significant workload finds that its ability to fully employ its in house staff is diminishing, allowing it to begin the process of consolidating and releasing staff and other resources in anticipation of eventual closedown.

The SPA would hope to be in this phase by late 1994 and early 1995.

5. Close Down

The phase in which the SPA either completes its outstanding workload, or the decision is made for arbitrary or other reasons, to close it down.

The SPA would like to be in this phase in mid 1995.

The SPA completed its Start-up Phase in late 1990, and is now (December 1991) in the midst of it's High Growth Phase. Its activity levels are expected to reach their peak and stabilize in the third quarter of 1992, and continue thereafter at high levels into late 1994. Following this a period of declining activity and the Winding-up Phase are expected to commence and to continue into 1995.

This institutional life cycle has important implications for the SPA because its phases will be reflected in changes in the nature and levels of its activities, and consequently in its resource, organizational and other needs.

This makes it desirable that the SPA monitor and evaluate the effects of these phases on a continuing basis, so that it can manage the evolution of its organization and management infrastructure with a view to avoiding bottleneck and overload situations that will disrupt its privatization work and waste scarce resources.

It also has important implications for purposes of developing the levels of understanding necessary to:

- (1.) Set informed planning and budgeting priorities
- (2.) Identify their causal relationships
- (3.) Identify the probable direction of their trend, as well as their orders of magnitude.

The actual pace of the wind-down, and the timing of the SPA's final close down is uncertain because of uncertainties about such matters as the pace at which the more difficult privatisations will be completed, continued investor interest in Hungarian assets, the extent of the SPA's involvement in such things as; asset management activities, and the nature of problems that may be experienced in connection with outstanding warranties and guarantees.

Because of these factors it is anticipated the SPA's life cycle, and in particular the winding-up and close down phases are likely to develop along the lines indicated in the Chart below:

The probable impact of this anticipated life cycle on the SPA's operational and overhead activities, and its financial characteristics, is summarized in the Table below:

TABLE

Impact of Life Cycle Phases on SPA

		<u>Life Cycle Phases</u>			
	<u>Start</u>	<u>High</u>	<u>Work</u>	<u>Wind</u>	<u>Close</u>
	<u>-up</u>	<u>Growth</u>	<u>out</u>	<u>-up</u>	<u>Down</u>
LEVELS OF OPERATIONAL & SUPPORT ACTIVITIES					
Privatization Volume	-	ooo	oooo	oo	o
Work Load					
Sales	o	oo	oooo	oo	o
Accounting & Control	o	ooo	oooo	ooo	oo
Administration & Personnel	ooo	oooo	ooo	oo	oo
Training	ooo	oooo	oo	-	-
Public Relations	ooo	oooo	ooo	oo	oo
Staffing Levels					
SPA employees	o	ooo	oooo	ooo	o
Outside Consultants	-	oo	oooo	o	-
Organizational Development	oooo	oooo	oo	o	-
PIS Development	oooo	oooo	oo	-	-
Policies & Procedures	o	oo	oooo	o	-

FINANCIAL CHARACTERISTICS

Costs					
Direct -from the state	-	oo	oooo	oo	-
Indirect -Donors & proceeds	o	oooo	oooo	oo	oo
Revenues	-	oo	oooo	ooo	o
External Funding Requirement	ooo	ooo	oooo	oo	o

Key: Very High =oooo
High =ooo
Moderate =oo
Low =o
None ==

VII ORGANIZATION AND MANAGEMENT INFRASTRUCTURE

Objectives

The operational and life cycle requirements of the SPA discussed in SECTIONS V and VI, indicate that its organization and management infrastructure objectives should include the following:

1. Further in depth evaluation of the effects of SPA's life cycle phases on its resource and manpower requirements.
2. Quantification of 1. in terms of the SPA's functional/skill requirements during its life cycle phases.
3. Development and implementation of the organization, systems and procedures necessary for ongoing:
 - o Planning and budgeting.
 - o Performance reporting and monitoring.
4. Preparation of "bottom-up", "zero-base" 1992 Operating, Capital Expenditure and Cash flow budgets for the SPA, that include the information developed in 3.
5. Completion of the SPA, Government of Hungary, and other processes necessary for the approval of 4.
6. Procurement of the resources, including the hiring and training of staff that are necessary to allow the SPA to achieve its budget and other objectives.

Scope and Approach

The major elements of the scope and approach for accomplishing these objectives are set out below. A more detailed Gant chart outlining and giving a time frame for the various key institution building activities may be found in the TIMETABLE portion of this text and attached as Appendix 3.

1. PREPARE SPA INSTITUTIONAL LIFE CYCLE PLAN

- 1.1. Establish a Planning Function to implement planning within the SPA
- 1.2. Develop a more detailed lifecycle plan for the SPA to provide a basis for managing the evolution, growth, and eventual winding up of its activities. This should:
 - (a) Identify the major characteristics of the phases of the SPA's expected institutional life cycle.
 - (b) Identify its institutional goals and objectives.
 - (c) Identify its major management and organizational priorities.
 - (d) Define the strategies to be used to achieve these priorities, goals and objectives.

- (e) Identify planning assumptions concerning timing and other key data, that need to be incorporated in the FY 1992 and subsequent annual budget processes, including the winding up and cessation of SPA activity.
- (f) Develop benchmarks to be used to measure the performance of SPA management.

2. TECHNICAL SUPPORT AND MANPOWER PLANNING

- 2.1. Evaluate evolving skill, technical support and manpower requirements needed to achieve the SPA's FY 1992 and other life cycle objectives.
- 2.2. Identify the costs, lead times, training and procurement cycles involved in integrating these resources into the SPA
- 2.3. Secure commitments for any separate financing needed to fund procurement of these resources.
- 2.4. Secure necessary SPA, Government of Hungary, and other approvals. (Note: Most but not necessarily all of these approvals can be incorporated in the approval phase of the annual budget process).
- 2.5. Set up and implement timetables for procuring these resources.

3. INTRODUCE EFFECTIVE BUDGETING PROCESSES

- 3.1. Design and implement processes for preparation of:
 - (a) Annual "Bottom-up" Operating and Capital Budgets.
 - (b) Annual Sources and Uses of Funds Budgets.
- 3.2. Incorporate these budgets into the management and control, including reporting and performance measurement, of ongoing operational and cash management activities

4.0. UPGRADE OTHER ORGANIZATION AND MANAGEMENT INFRASTRUCTURE.

- 4.1. Continue the development and implementation of the Management Information System on the Novell Local Area Network introduced in 1991.
- 4.2. Develop and implement key accounting and control systems including:
 - (a) Responsibility reporting of costs for all departments and sub-units with budget responsibilities.

- (b) Project reporting on a basis and at a level of detail that allows effective monitoring and control of the progress of all significant privatization transactions.
 - (c) Management reporting of cost, transaction and other performance indicators to departmental and other senior levels of Management with significant oversight responsibilities.
- 4.3. Strengthen the Finance and Treasury Function including;
- (a) Introduction of detailed cash management reporting including daily cash reports, weekly and monthly cash forecasts and rolling twelve month sources and uses of funds forecasts.
 - (b) Clear definition of cash and other asset management policies and guidelines.
 - (c) Further strengthening and formalization of the SPA's finance sourcing (Fund Raising) activities.
- 4.4. Upgrade the SPA's interface functions with the European Economic Community Project Management Unit and World Bank, including the hiring of additional staff and the setting up of necessary systems and procedures, to enhance the SPA's ability to achieve rapid and full drawdown of funds allocated by these institutions.
- 4.5. Establish the organizational and other management infrastructure needed to fulfill the SPA's responsibilities in connection with:
- (a) The Compensation Note Program.
 - (b) The Self Privatization Program.
- 4.6. Develop a comprehensive manual of policies and procedures for key SPA activities.
- 4.7. Continue to upgrade SPA Personnel and Administrative activities including;
- (a) Preparation of job descriptions.
 - (b) Introduction of a formal personnel performance evaluation process.
 - (c) Further development of an employee benefits program.
 - (d) Further expansion of the SPA's technical and management training programs.

VIII OPERATIONS WORK PLAN

1.0 the State Property Agency's Economic and Political Operating Environment

1.1 GENERAL -NATIONAL ECONOMIC AND POLITICAL CONSENSUS-

The productive assets of Hungary have been used inefficiently for the past several decades. The reason for this has been Government mis-management of those assets. As a result Hungary's economy is weak. To strengthen Hungary's economy, private ownership and management of Hungary's productive assets must be accomplished as quickly as possible.

1.2 GOVERNMENT OBJECTIVES -PRIVATIZATION-

By the end of 1994 the Government of Hungary's (GOH) medium term objective is to reduce through privatization the share of state-owned property to less than 50 percent of total assets in the competitive sector of the economy. In the longer term the Government will privatize virtually all existing state owned enterprises with a limited number of exceptions. By the end of 1992 the objective is that at least 15% of the total assets in the competitive sector will be privatized.

1.3 GOVERNMENT OBJECTIVES -ASSET MANAGEMENT-

The Government is likewise dealing systematically with the issue of state asset governance through two programs:

1. Long term holdings for the few (principally public service and defense) retentions.
2. Short term holdings during the period precedent to privatization or liquidation and residual shareholding arising for a variety of reasons.

1.4 GOVERNMENT -PRINCIPLES GUIDING PRIVATIZATION-

The Government's objective is that privatization of the Government owned productive assets in Hungary must be a rapid, transparent, market driven, and competitive process.

2.0 -The State Property Agency's Operational Objectives

The State Property Agency (SPA) is established to rapidly privatize and manage toward privatization the Governments assets in the competitive sector of the economy. Once this objective has been substantially achieved the SPA will be wound up.

The SPA's schedule for reduction of the role of the Government in the competitive sector of the economy is:

- a. By the end of 1992 to less than 87%
- b. By the end of 1993 to less than 65%
- c. By the end of 1994 to less than 50%
- d. By the end of 1995 the SPA shall have reduced the share of state owned property as a percent of total assets in the competitive sector of the economy so that the SPA can be dissolved except for certain residual activities.

3.0 Operating Structure:

3.1 Legal

The legal framework establishing the guidelines for privatization in Hungary and giving the SPA its mandate is contained in the Transformation Act (Act No. XIII of 1989), The State Property Agency Foundation Law (Law No. VII. 1990), the Law on the Protection of the State Property (Act No. VIII of 1990), as well as various Property Policy Directives. The most pertinent items are in the SPA "Guide for Foreign Investors" made available as Attachment I.

3.2 Organizational (Refer to Chart on following page and Appendix 1)

To enable the SPA to achieve it and the Government's objectives the SPA is now reorganized into three major groups. Each of the two Deputy Managing Directors (DMD) assumes responsibility for one of the major transaction-oriented Groups, the Managing Director (MD) has assumed direct responsibility for the Management and Control functions; financial, legal, public relations, policy, and the foreign advisors:

Management & Control:	Group I	Managing Director
Privatization	: Group II	Deputy Managing Director
Asset Management	: Group III	Deputy Managing Director

The Internal Control and Audit Department is a separate unit with a Board of Directors direct report responsibility as well as a line report to the Managing Director.

3.3 Organization Manual (Attachment II)

To clarify and to communicate each group's range of responsibilities the SPA completed in November, 1991 an Organization Manual which outlines the SPA's objectives, organization, rules and regulations (including those related to conflict of interest, ethical standards and confidentiality); describes the role (summary job descriptions) of directors, officers and supervisors; and summarizes the rules governing meetings of the Board of Directors. This manual is awaiting Government approval before being formally implemented though it is in place functionally. The Hungarian version of this manual, which will be translated into in English after approval by the Government is made available as Attachment II.

4.0 Major Operating Units (Appendix 1, 2):

4.1 Overview

The following sections provide a summary of each the Directorate activities of the three SPA functional Groups. When appropriate their 1992 key objectives for summarized. The attached chart in Appendix 2 focuses the Work Plan information, the Gant Chart in the Timetable portion of this document and in Appendix 3 summarizes the timetable for the achievement of the operating units objectives. The individual groups' data, to include organization and manning charts, and their 1992 planned activities are in appendices 4-16.

insert organization Chart

This core data when fully systematized in the formalized budgeting and control project now underway will be integrated into the Privatization Information System (PIS). The PIS should be fully operational by early February, 1991 and the budget data inputted as a control document by early March.

The "Annual Report of the SPA" which covers the period 1 March 1990 - 31 May 1991 (ie from the SPA's inception to the end of May 1990) contains expanded descriptions of the major product activities of the SPA and is made available as Attachment III.

4.2 SPA GROUP II -PRIVATIZATION- (Appendices 2, 4, 5, 6, 7, 8)

Headed by a Deputy Managing Director this group is the core of the privatization activity of the SPA. It employs 80% of the SPA's personnel (124) and carries out its most complex activities. The group has 4 Directorates and one Department. Group II's Work Plan is summarized in Appendix 2. This group is ending its high growth phase however much of the 1992 institutional development work of the SPA will be designed around supporting its activities.

4.2.1 Company-initiated "Spontaneous" Privatization Directorate (Appendix 4):

Under "spontaneous" privatization a state-owned company can itself initiate privatization by proposing a transfer of ownership under the "Transformation Act" or a sale of an enterprise's assets. The intention of permitting the Spontaneous Privatization method -subject to SPA review- is to encourage companies to initiate fair proposals avoiding forced privatization at a later date and getting fair value for the owner -the State-.

The regulation of the "Spontaneous" Privatization method complements and supports the Active Privatization Program, the Self Privatization Program, and the Asset Management Program. For enterprise managers it is the alternative to the Active Program for major enterprises, it is an alternative to the Self-Privatization Program for smaller enterprises (less attractive due to its uncertainty), and is a way to not become involved in privatization under the Asset Management Program wherein the enterprise managers will lose their guiding role.

If the SPA approves a transformation transaction, this leads to the "transformation" of the company into a limited liability company and usually the subsequent 100% or partial transfer of ownership to a new joint ownership.

Under the Law on the Protection of State Assets, the SPA reviews privatization proposals as regards the sale of individual assets (as opposed to the sale of shares or an interest in a KFT or RT) and either approves or rejects the sale.

This directorate is also responsible for the privatization of four of the large state-owned companies included in the First Privatization Program (FPP) -out of FPP's total of 20 companies-.

From March 1, 1990, until November 30, 1991, a total of 410 (110 completed transformations and 300 completed asset protection cases) enterprises have been privatized partially or in their entirety through this method.

During 1992, it is projected that about 220 new cases will be reviewed and approved under the asset protection function and about 194 new cases of transformation will be completed.

To handle effectively the existing and expected work-load during 1992, this directorate has requested an increase in its headcount from the current 25 to 46.

4.2.2 "Active" Privatization Directorate (Appendix 5):

This directorate is responsible for the rapid privatization of medium to large state-owned companies. As the name implies, by initiating the privatization effort itself (as opposed to investor or enterprise initiated programs) and acting through professional, competitively appointed advisors, the state actively promotes transparent privatization. Indirectly it also stimulates the process of company-initiated privatization through the implicit threat to companies that if they do not take the active role, the SPA will take the lead. The costs required to package a major enterprise for sale through the active privatization program make this the most expensive privatization route though essential for important assets.

This program complements and supports the Spontaneous Program, and the Self Privatization program. It is the alternative to the Spontaneous Program for major enterprises, and it is a privatization method for important smaller enterprises.

As of December, 1991, the active program has involved itself with over 151 enterprise transactions including the first and second privatization programs and the sector-specific privatization efforts. This unit's workload is expected to expand to about 183 in 1992. Appendix 5 includes a summary by quarter and enterprise name of the scheduled workload of the Active Privatization Directorate. The SPA's "Annual Report" (Attachment III) has further details.

It is important to note that, based on current experience, it is expected that the privatization of these larger enterprises (through transformation into Kft. and RT. form and the subsequent sale) requires an average of 14 months from the date of application. During the past six months there has been a dramatic increase in the rate at which companies have been added to the backlog of mandated privatization handled by this directorate. To handle the existing backlog volume of over 125 companies plus the scheduled inflow, this directorate has requested an increase in headcount from the current eight persons to fifty-three.

The requested manpower and budget increase, includes the proposed creation of a group of fifteen turnaround specialists to help deal with the privatization of the troubled, larger state-owned companies in an effort to make them more attractive to private investors.

4.2.3 Investor-Led Privatization Directorate (Appendix 6):

This directorate overlaps the same group of state-owned enterprises as are covered by the Spontaneous and Active Privatization directorates as well as the Self Privatization Program. However, they concentrate on projects proposed by potential investors. This arises when investors identify potential partners and contact the SPA with their proposal and request approval to pursue privatization possibilities directly with the targeted enterprise with SPA support.

The genesis of this program was the inability or unwillingness of enterprises to initiate serious negotiation in some cases without the SPA's added encouragement. The SPA typically adds its endorsement to discussion when it satisfies itself that the appropriate requirements like tendering have been met. This program is further explained in Attachment IV, the SPA's "Investor Initiated Privatization" information booklet.

It is estimated that the personnel assigned to this unit spend 20% of their time advising prospective investors of the legal and commercial requirements related to potential investments. Their activities overlap in this respect the activities of the Ministry of International Economic Relations (MIER) Hungarian Investment and Trade Promotion Agency and led to the creation of the SPA's "Guide for Foreign Investors" (Attachment I)

With a total staff of five persons, during 1991 this unit worked on approximately 120 specific cases and closed 14 transactions; it is projected that next year 40 additional companies will be privatized by this unit. They anticipate they will continue to deal with about 180 corporate inquiries a month. They are requesting a staff increase to 9 persons.

4.2.4 Pre-Privatization Directorate (Appendix 7):

This directorate has three active units.

1. Its initial mandate was derived from the "Preprivatization Law" covering the approximately 10,000 small retail operation in Hungary.
2. Its activities have now been expanded into the small and middle-market firms through the Self-Privatization Program
3. A pilot program to deal with commercial buildings.

This Directorate's programs complement and support the Active Privatization Program, the Spontaneous Program, and the Investor Led Program. It provides a quick and transparent way to deal with the smaller enterprises through the auction system. The Self Privatization Program is the alternative to the Spontaneous Program for smaller enterprises that want to take an active role in their privatization and the Program clears the regulatory activity pipeline of the Spontaneous unit. The Self Privatization Program is a privatization method that can and should encourage investor led privatizations. The Self Privatization Program provides a low cost way to encourage smaller enterprises to seek professional advisors to help them privatize. This is a more rapid and less expensive alternative to either the Active Privatization Program or the Asset Management Unit's activities.

-a. Pre-Privatization Unit:

Handles the sale through public auctions of approximately 6,000 retail and similar facilities in the service and tourism sectors. (Note: while the retail sector consists of approximately 10,000 small shops only about 6,000 are privatizable, of the balance many are already private, many are part of operating enterprises and not separable and some are bound by lease and other legal obligations and problems from which they cannot be readily distangled). To date 2,042 shops have been sold in this way and in 1992 the SPA anticipates selling 4,000 more. A detailed summary of this unit's activities and projected activities can be found in Appendix 7.

-b. Self-Privatization Unit:

-- Phase I: This program's objective is to complete the rapid privatization of 378 small enterprises (refer to list in Appendix 7) defined as those with a maximum book value of HUF 300 million, annual revenue of less than HUF 300 million, and a headcount of fewer than 300 persons. The objective is to sell 100% of these enterprises by March 31, 1993. The enterprises have been pairing themselves with preapproved consultants. The enterprise and their consultant will carry through the entire privatization with the SPA's approval given in advance. On September 20, 1991, the SPA selected by prequalification tender a pre-approved list of 84 consultants. (The complete list of consultants is in Attachment V).

Through the end of December, 1991 172 contracts have been signed by these enterprises with one of the pre-approved consultants and 21 enterprises have been privatized.

-- Phase II: The second phase of the self-privatization program, which should be launched by the end of the first quarter of 1992, is designed to complete the privatization by the end of 1993 of the group of approximately 700 middle-market companies (employing less than 1000 persons) in a manner similar to that utilized in Phase I. The consultants will be chosen through an open prequalification tender (it is estimated that between 100 and 120 consulting firms will be selected). It is estimated that over 700 enterprises will chose to participate in the Phase II program.

-c. Municipal Real Estate Privatization Unit:

Recently established to promote the privatization of 12 commercial buildings in the central part of Budapest, the unit's scope of work will be enlarged if successful, within Budapest and in other municipalities. This unit is currently staffed with two persons.

4.2.5 Capital Investments Department (Appendix 8)

A five man unit, this group specializes in coordinating the capital market aspects of all of the privatizations the SPA is actively pursuing. This department is a specialist support unit that occasionally takes the lead in transactions however it does not have its own transaction goals.

Current transactions that they have assumed the lead on include Malev and Ibusz. Issues that they specialize in include such things as property notes (which act in many ways like preference shares), and stock market coordination.

4.3 SPA GROUP III -ASSET MANAGEMENT GROUP- (Appendices 2, 9, 10, 11):

This Group consists of three newly-created directorates under the new Deputy Managing Director. The group was organized to systematically deal with the issue of asset governance in the period preceding their privatization under the direction of the Asset Management Directorate. In their asset governance role they only deal with enterprises or companies that are not going through either the Active Privatization Program, the Spontaneous Privatization Program, or the Self-Privatization Program. They also deal with residual asset holdings.

This group also houses the Directorate to support the SPA's role under the Compensation Law and the Directorate to track and administratively manage all of the asset holdings of the SPA.

This group is in its formative start-up stage. It is simultaneously doing the design work on all its operating Directorates. The design studies' current products are in the related Directorate's Appendix. As the Asset Management Group is new and its basic organizational work is just now being accomplished its work plan is currently to define its needs and tasks, agree with the SPA Board and the Government its role and then commence operations. Its indicative Work Plan objectives are summarized in Appendix 2.

4.3.1 Asset Management Directorate (Appendix 9):

Its primary functions are the preliminary valuation, evaluation, and packaging of companies with an average capital base of approximately HUF two billion each; the solicitation and evaluation of bids for their privatization; the negotiation of an acceptable acquisition; and the packaging of several such companies into larger holdings for their efficient management prior to privatization.

During 1992 this directorate expects to create 15 to 20 portfolios each with an average value of HUF 5 - 10 billion and/or three to five holding companies with an average value of HUF 50 - 70 billion each. For this purpose the SPA has requested a manpower increase of 23 to 28 persons. A detailed analysis and recommended strategy for 1992 (prepared by Coopers and Deloitte and not yet Board approved) and beyond is found in Appendix 9.

This Directorate is projected to have a staff of 24 by year end 1992.

4.3.2. Asset Transfer and Compensation Directorate
(Appendix 10):

This Directorate is charged with the responsibility for administering the SPA's role in converting the warrant-like notes under the Compensation and similar laws into shares in state owned enterprises.

Under the current compensation legislation the SPA is required to transfer assets to individuals and a variety of entities as partial compensation for losses incurred during the past decades. Additional, new legislation addressing the same issues is also expected. Although the implications are not yet clear, the SPA is already required to include a compensation note scheme in its program for 1992. This program may result in the distribution of shares worth approximately HUF 10 billion.

Two laws currently before parliament may add assets worth an additional HUF 10 billion to this program during 1992. These laws involve asset transfers through warrants to cultural, educational and other foundations.

In addition assets worth approximately several billion may need to be transferred to the Social Security Department. That transfer will be coordinated by this Directorate.

Appendix 10 provides the first step detailed analysis of the needs of this directorate for the Compensation Law portion of this Directorate's activities prepared by DRT Hungary and not yet Board approved.

This Directorate presently has planned staffing of 10 by year end 1992.

4.3.3. Asset Evaluation, Supervision and Control Directorate
(Appendix 11):

With the expected rapid increase in the number of companies in transition from state ownership to private ownership, during 1992 a significant increase is expected in the number of companies which are temporarily owned by the SPA. This new Directorate was created to enable the SPA to administer the management of these companies (perhaps as many as 1,000 during 1992) during this interim stage.

The fiduciary, registrar, and management responsibilities entrusted to this directorate are numerous and range from basic review and evaluation functions (documentation, capital structure) to senior personnel decisions such as naming directors and ensuring that qualified senior management is in place during the period of SPA's stewardship. A more detailed description is available in Appendix 11.

4.4 SPA GROUP I -MANAGEMENT AND CONTROL- (Appendices 2, 12,
13, 14, 15, 16)

This Group, directed by the Managing Director, incorporates four Directorates, plus the Internal control and Audit Department, the Office Support Unit, and a Foreign Advisors Office. It is through this Group that the bulk of the institutional development activities of the SPA will take place and thus the Group's work plan and the institutional development plan of the SPA are substantially the same.

4.4.1. Directorate of Financial and Economic Affairs:
(Appendix 12)

This newly created directorate incorporates two basic functions; financial management and budgeting and the systems office. The Directorate currently manages 37 personnel and should have 46 by the end of 1992. This is the Directorate under whose responsibility the greatest number of institutional changes in the SPA will be made. It is anticipated that it will have several restructurings during 1992 for such purposes as institutionalizing the planning, budget and related control functions, expanding the personnel function and combining it with training, and other activities.

-a. Administration Office:

i. Bookkeeping and Treasury and FX:

Incorporates the accounting, bookkeeping, treasury and Foreign Exchange control function. This department is in the process of being upgraded and will require further upgrading to deal with the planned increase in the SPA's activity level. For instance it presently has difficulty dealing with the multilingual contract and invoice problem associated with the SPA's EC PHARE and WB activities.

This group in 1992 will have to track about US\$7 million in Government of Hungary budgetary funding, US\$10.5 million in World Bank Funding, ECU 21 million in EC PHARE funding, and over US\$20 in proceeds funding for sales activities.

ii. Personnel

The personnel function is presently administered from this office. It is planned that the personnel function will be expanded in 1992 and a separate office put in place which will administer the hiring, training, reviewing, release and benefits of the SPA's employees.

-b. State Assets and Proceeds Tracking Office:

This office provides the registry and tracking function for the proceeds from actual sales and the expenditure of proceeds for sale related costs. This office will be further automated in 1992 and will be expanded to accommodate the fiduciary responsibility for a warrantee trust fund.

-c. International Financial Institutions Office:

Newly established, this office is designed to oversee and coordinate the activities of the various Lender and Donor institutions active in the SPA. This units main activity will be coordination with the EC PHARE's Project Management Unit -PMU- (presently expected in late February, 1992), there is a World Bank coordinator presently on a part time basis, and a fully staffed USAID office.

-d. Computer Services Office:

This office houses all of the systems and computer functions of the SPA. This office has helped design and implement the Privatization Information System and in 1992 will be largely stabilized in a data management role.

4.4.2. Directorate of External Relations, PR:
(Appendix 13)

Originally established to manage all the external contacts of the SPA the External Relations Directorate is now almost fully focussed on the role of Public Information for the SPA. The Training Office is presently housed in the Directorate but its expansion and subsequent movement into the to-be-organized Personnel Directorate is anticipated. The Translation Office, which serves the entire SPA is housed for convenience in the External Relations Directorate as they are a heavy user of its services.

-a. Translation Office

Serving the entire SPA this office accomplishes translation work through the efforts of its own staff and the efforts of outside contractors. There is no planned changes in its activities for 1992.

-b. Communications Office

This is the core function of the Directorate. Working principally through external contractors it designs and executes the public information strategy of the SPA. Dramatically short of funding, this activity has not been able to play the important role it should. In 1992 with a new communications strategy in place (appendix 13) and some funding, it is hoped that it will be more effective.

-c. Training Office (Appendix 14)

Temporarily housed in the External Affairs Directorate, this important functional unit was established and partially staffed in 1991. It has designed and put in place the basic training infrastructure for the SPA (training manual and personnel training data base) and, with the limited funding available, has been conducting in house training and training people outside of the SPA and abroad. (REF "Training Manual" ATTACHMENT VI)

4.4.3. Directorate of Legal Affairs: (Appendix 16)

The Legal Affairs Directorate house the legal staff of the SPA. This staff is not compartmentalized. It assists the SPA in 4 principal areas:

1. The design and drafting of suggested legislation and regulations to support the privatization process.
2. The design and drafting of contractual forms to be used when employing consultants.
3. The drafting and negotiation of sales contracts prepared in conjunction with the privatization of state property.
4. Other legal assistance as required.

The Directorate's activity level is directly related to the number of privatization transactions being undertaken by the SPA particularly through its active program. 1992 is expected to be a very busy year and a staff increase to 19 is required.

4.4.4. Policy Directorate: (Appendix 15)

The Policy Directorate's activities are designed to support the SPA's Senior Management and Board primarily on Government and Parliamentary related matters. In addition this Directorate deals with SPA matters that overlap with other Government Policy areas for instance the World Bank conditionality language, the national level donor coordination activities, and such things as developments in tax and other policies that may effect the SPA's activities. In addition the Policy Directorate will take responsibility for particularly sensitive privatization transactions.

This support function is closely tied to the SPA's privatization activity levels and is very much involved in helping the SPA function in the rapidly changing Hungarian legislative and political environment.

4.4.5. External Control and Audit Department

This newly formed unit is responsible for verifying to the Managing Director and the External Board the SPA's adherence to its internal and external guidelines and constraints. It is anticipated that this unit's activities will become all the more important in 1992 as the work pace at the SPA starts to peak and staff levels grow.

4.4.6. Foreign Advisors Office

The foreign Advisors Office is a convenient organizational fiction. Foreign Advisors are housed functionally within various operating Directorates and can be moved as and when required and agreed. However given that most of the foreign advisors are under one of several foreign multilateral or bilateral agreements they are given a direct report access to the Managing Director as required.

The current foreign advisory staff includes: 2 USAID staff, 3 Know How Fund staff, 1 Canadian, 1 French funded lawyer, the proposed EC PMU, and periodic short term technical assistance personnel. It is anticipated that the number of foreign advisors in the SPA will increase in 1992.

4.4.7. Office Support: secretarial, mail, etc.

The Office Support unit is a convenient organizational way of handling the various support staff that are housed throughout the SPA. This unit includes all of the secretarial help, the mail room, etc.

The management of the support staff is handled by the various units and their personnel related activities are all housed in the personnel office. Their training, related to their functions, is also centrally handled.

IX FUNDING CONSIDERATIONS

The SPA will continue to require Governmental budgetary as well as external contributions towards its fixed and overhead costs into 1993.

It is projected that the budgetary costs will total HUF 566 million in 1992. These costs will cover the fixed and overhead costs of supporting the anticipated volumes of transactions to be undertaken by the SPA in 1992. If the necessary funding is not made available the SPA's privatization workload will have to be proportionately reduced.

Anticipated funding levels

1. The Government of Hungary has assumed funding responsibilities for three of the principle areas of SPA activity.

1.1. Fixed and overhead costs of the SPA:

The Government of Hungary is committed to funding the full HUF 566 million of SPA fixed and overhead costs projected for 1992.

1.2. A portion of the direct costs associated with selling state owned assets.

In accordance with Law No. VII, 1990 the SPA's selling and other costs are to be financed from sales proceeds whenever possible.

These costs however are directly related to the number of privatizations being undertaken at any given time. The greater the number, the greater the costs incurred although not proportionally.

Due to the fact that 1992 will be a year when the number of transactions in process will exceed the number of sales being completed by a wide margin, the stream of sales proceeds (as compared with future years when the sales proceeds stream will be better established) will be reduced by selling costs to a significant degree. This will continue in 1993 principally due to the decline in donor and lending agency support of this activity.

1.3. SPA Warranty and Guarantee Commitments.

The Government of Hungary has also undertaken warranty and guarantee commitments in connection with the SPA's various privatization transactions and will continue to do so in the future. These warranties and guarantees deal with such issues as future environmental liabilities, treatment of redundant workers, etc.

This is likely to become an increasingly important issue and needs to be provided for under some sort of trust arrangement form so that the SPA is provided with the resources it will need to meet anticipated future warranty and guarantee claims.

2. In addition to anticipated levels of funding from the Hungarian Government certain international lenders (the World Bank) and donors such as the EC's PHARE program and the USAID have provided support of a bridging nature to the SPA to help Hungary get its privatization effort started. These international agencies are continuing to provide invaluable support to the SPA during the period needed to generate initial sales and cash flow.

International donor and lender assistance has come in two principal forms:

2.1 International lenders and donors (World Bank US\$ 10.5 million and EC PHARE ECU 21 Million) have committed funding to support the SPA's major transaction requirements.

2.2 International donors have committed:

- (a) * USAID is providing approximately \$2.5 million for support of the SPA (advisors, equipment, technical assistance, training, partial funding of the public information program) during 1992.
- (b) * EC PHARE which is drawing from both its PHARE I and PHARE II programs has committed is providing about ECU 5 million (US\$6,7 million) for support of the SPA, principally for advisors, training, technical assistance, equipment with some small support of the public information program in 1992.

(* It is anticipated for 1993 and beyond that the PHARE funding will cease and that USAID's may be reduced.)

- 2.3 In addition the SPA currently has beside the EC and USAID funded advisors, 3 British Know How fund advisors, 1 Canadian, and one partially French government funded advisor. It is hoped that when transaction volume is substantially increased additional advisory assistance may be made available from these sources, but this cannot be assumed.

Timing and other Constraints associated with funding during FY 1992-1994

1. Fixed and Overhead Costs:

The SPA has developed its major product pipeline and has now had experience managing it. It is however at present unable to carry out its responsibilities at required levels because it cannot hire, pay, or provide office space for all the staff required to undertake the work associated with increased volumes of privatization activity.

The SPA therefore requires immediate approval of an increase in its headcount, operating budget and office space to operate.

The Government of Hungary can provide this support.

It should be noted that the SPA has been heavily dependent in 1991 and 1992 on support from donors who have helped it to meet its operating needs with advisors, equipment and key technical assistance particularly in the management area. It is hoped this will continue but it cannot be predicted past 1992. This donor assistance has meant the Government has had to absorb much less than the real cost of launching the privatization effort in Hungary.

2. Selling and Direct Costs:

Rapid response funds -sales proceeds

A critical funding need of the SPA is the need for funding of the selling and direct costs that arise as the result of buyer or enterprise initiating a privatization transaction. Privatization cannot await a program approach. If a sales opportunity presents itself it must be taken advantage of immediately. The SPA must therefore have the rapid response capability that access to flexible funding allows so that it can focus its professional resources quickly on privatization opportunities. These funds are now available in sufficient volume in the sales proceeds pool. The use of proceeds in this way will need to increasingly become a feature of the SPA's activities.

Slow response funding -Multilateral and Bilateral Donor and Lender Agency Funds

Donor funding, grants, (EC PHARE, USAID) are highly attractive as they effectively make net additional resources available to Hungary.

Lending Agency funding (World Bank) make available relatively low cost funding to support sales activities. Sales activities as they generate proceeds justify the use of loan funds as the principal and interest can be repaid from proceeds and a net additional debt burden on Hungary is not incurred as a result of the sales and related borrowing activity.

The problem with donor and lender funding however is that it is project cycle driven, administratively complex, and difficult to absorb. Project cycle funding means that in practice you must plan needs at least 18 months in advance. The tendering and contracting cycle and form tend to be specific for each different donor-lender and are also long cycle. In addition they are source restricted under for instance EC PHARE and other bilateral programs. Thus donor and lender funding lends itself only to long lead time transactions. It is suitable for individual major privatization efforts that can be undertaken on a long term project basis, but is not suitable for solving the problems of enterprises that need to be privatized quickly, or for enterprises where there is already an existing market demand.

Warrantee and Guarantee Costs:

These costs need to be met from sales proceeds. This is frequently an issue between the Government and the investor. It is a legal as much as it is funding issue. This issue will have to be systematically addressed in 1992.

X TIMETABLE

The timetable for accomplishing the SPA's Institutional Development and Operational objectives during the period January 1, 1992 to December 31, 1992 is summarized below and in the charts in Appendix 2 and 3. It must be borne in mind that this timetable and the objectives of the operating units are dependent upon the SPA's ability to obtain the required resources and upon external events over which the SPA has no control such as changes in the law, investor appetite, etc. This timetable has been prepared for internal SPA use as of 31 December, 1991. Several laws currently under Parliamentary consideration that effect the SPA, the Government's budget, and Government organizational changes may change this timetable significantly.

TIMETABLE

[illegible]

1992

	1 Qtr	2 Qtr	3 Qtr	4 Qtr
2.3.2 Asset Transfer and Compensation Directorate				
1. Establish 15-20 Portfolios with HUF 5 billion worth of assets in each.				
2. Create packets of HUF 15 Billion for compensation.				
3. Transfer assets to the social security system.				
4. Transfer assets to various funds, 2 x HUF 5 billion.				
2.3.3 Asset Valuation, supervision and Control Directorate				
1. Exercise the ownership functions for the shareholdings of the SPA.				
2. Develop and introduce a unified registry and reporting system.				
2.4 PRIVATIZATION GROUP: Complete the work outlined in appendices 4,5,6,7,8				
2.4.1 Spontaneous Privatization Directorate				
1. Asset Protection				
Newly received	55	55	55	55
Completed	55	55	55	55
2. Transformation				
Newly received	77	77	77	77
Completed	48	49	48	49
2.4.2 Active Privatization Directorate				
1. Asset Sale cases	24	24	24	25
2. Transformation cases	50	51	51	51
3. Crisis Management team	10	10	10	10
2.4.3 Investor-led Privatization Directorate				
1. Assistance to Investors	600	600	500	500
2. Ongoing cases	60	60	50	50
3. Completed cases	15	5	10	10
2.4.4 Preprivatization Program	1000	1000	1000	1000
Complete sale or preparation for sale of the entire portfolio				
2.4.5 Self Privatization Program	50	50	50	50
Phase I				
Complete the privatization of the 354 Phase I enterprises by 31 March 1993.				

1992

	1 Qtr	2 Qtr	3 Qtr	4 Qtr
2.4.6 Self Privatization Program Phase II Complete by the end of 1994 the privatization of the 650-700 enterprises in Phase II.		25	25	50
2.4.7 City Office Building Program The privatization of the 12 office buildings in the program	1	2	2	1
2.5 PRIVATIZATION GROUP: Complete the work outlined in appendices 12,13,14,15,16				
2.5.1 Financial and Economic Affairs Directorate:				
1. Lead and coordinate the SPA's bottom-up planning and budgeting effort beginning with the 1992 cycle.				
2. Lead and coordinate the SPA's monthly management review and quarterly re-forecasting efforts.				
3. Complete the development of a comprehensive Privatization Information System.				
4. Improve SPA's systems and controls for handling incoming funds from a variety of governmental and multinational sources; develop and introduce new/additional systems as needed.				
5. Complete the implementation of an efficient computer network throughout the SPA.				
6. Design and implement a formal personnel function. Combine with the training function if appropriate.				
2.5.2 External Relations Directorate:				
1. Develop and execute a comprehensive public information program. (appendix 13)				

[illegible]

3. As a result of item 2, develop and offer training as needed.

- 3.1. Establish a planning and budget function within the SPA
- 3.2. Develop an institutional development plan incorporating lifecycle concepts.
- 3.3. Implement a training/familiarization program to "market" the SPA's development plan and budgeting processes to SPA management and staff
- 3.4. Update SPA's evaluation of its evolving skill, technical support and manpower requirements.
- 3.5. Prepare 1992 annual "bottom-up, zero based" (a) Operating Budget
(b) Capital Expenditure Budget
(c) Sources and Uses of Funds Budget.
- 3.6. Secure necessary SPA, Government of Hungary, and other approvals for organization and management infrastructure changes.
- 3.7. Continue implementation of the PIS Novell based local area network.
- 3.8. Introduce additional accounting and control systems to provide:
 - (a) Responsibility reporting
 - (b) Project reporting
 - (c) Management reporting.

[illegible]

1992

	1 Qtr	2 Qtr	3 Qtr	4 Qtr
3.9. Strengthen specific Finance Department functions including:				
(a) Cash forecasting				
(b) Cash management and investment				
(c) Fund-raising.				
3.10. Enhance the SPA's EC PMU and World Bank interface activities to ensure its ability to secure full and rapid drawdown of funds allocated by international agencies.				
3.11. Warrant Administration Program: Implement necessary supporting organization, management and systems infrastructure.				
3.12. Privatisation Program: Implement necessary supporting organization, management and systems infrastructure.				
3.13. Develop an SPA Policies and Procedures Manual.				
3.14. Strengthen Personnel & Administration Function:				
(a) Prepare job descriptions				
(b) Implement a performance evaluation process.				
3.15. Expand and strengthen the SPA's training function to accommodate an expanded range of training needs.				
3.16. Identify the need for and seek appropriate technical assistance and short and long term advisers.				
4.0. FUNDING				
Secure commitments for any outside financing needed to fund FY 1992 operations.				

MEMORANDUM

DATE: 9 September, 1991
TO : USAID Budapest Representative Office
FROM: Deloitte & Touche

REFERENCE: Strategic Recommendation to support the new privatization initiatives of the State Property Agency (SPA) of the Government of the Republic of Hungary (GOH): Self Privatization Program PHASE I -(GOH request February, 1991, SPA followup request 13 August, 1991)-

BACKGROUND: The SPA has just designed a program to decentralize, privatize, and speed up the privatization program of the Republic of Hungary. This program, which has already been announced, is designated the Self Privatization Program (SPP). The SPA must set up a major, professionally functioning organization to manage the Self Privatization program by year end 1991. This organization will be overseeing the work of about 100 consultants assisting the privatization of 1,000 or more enterprises. The organization is being established in September, 1991. Work space has been located, 348 enterprises have indicated the desire to participate in the program, 80 consulting firms have been designated as preapproved for work under the program.

USAID has been requested to support the initial and all or part of subsequent phases of the establishment of this Self Privatization Unit (SPU). In addition USAID has been requested to support some portion of the consultant costs related to the actual privatizations initiated under the program. Currently, USAID does not have sufficient information with which to decide if U.S. assistance should be provided to this effort. and in which form.

CURRENT SITUATION: The SPA has undertaken to have the Self-Privatization Program functioning by the end of 1991. However the SPA has not formally and systematically defined what the needs of the proposed organization are. Before they can successfully implement they must have a clear definition of what is needed. Before they can approach potential sources of funds, the GOH, Donors or Lenders, the SPA needs such a definition in English and in Hungarian and in the terminology of the technical and financing assistance providers. This is not an issue of establishing the feasibility of a SPU, but rather establishment of specific action steps which the SPA must undertake to get the SPU up and operating.

RECOMMENDATION:

1. We recommend that a task be quickly undertaken to define the needs of the SPU and to define action steps for the SPA to establish the SPU. The task should be funded using the most readily available USAID funding vehicle that will quickly commit a team with the requisite skills to define the SPU's needs.
2. We recommend that an output of this team's effort will be sufficient clear analysis to enable the SPA to produce the detailed Terms of Reference (TOR) for required technical assistance (TA) to support the action plan for the execution phase of the project. The teams output can also be utilized to support a request to USAID and/or other Donors to support the SPA's request for SPU assistance.
3. We recommend that USAID, based on the findings of this study, consider whether they are prepared to consider supporting the later phases of the project. This is needed so that the SPA can know how to position itself

with its various potential donor supporters.

Attachment: Concept Proposal for Phase I of the SPU project

MEMORANDUM

TO: David Cowles, OAR/Hungary
Mark Karns, AID/EUR/RME/ER/ED
FROM: Deloitte & Touche
DATE: 9 September, 1991

REFERENCE: Strategic Recommendation to support the new privatization initiatives of the State Property Agency (SPA) of the Government of the Republic of Hungary (GOH): Self Privatization Program PHASE I

CONCEPT PROPOSAL: A Self Privatization Unit for the State Property Agency of the Government of Hungary, Phase I

I. Background

The Government of the Republic of Hungary (GOH) has underway the longest existing, most comprehensive and successful privatization program in Central Europe. The State Property Agency (SPA) is the GOH's agency charged with the regulation and stimulation of the operational aspects of the privatization process.

The privatization program's objectives are to reduce GOH ownership of the manufacturing sector from over 90% in September 1990 to under 50% by the end of 1993. To date, depending on the definition of privatization, between 3-9% of state owned enterprises have been privatized under the guidance of the SPA.

The GOH has requested and received assistance from the United States Government (USG) through its Agency for International Development (USAID) since the conception of a formalized GOH privatization program. This assistance has encompassed training, long term advisers, equipment, and technical assistance in a broad range of areas. In addition and in conjunction with this the GOH has submitted a very detailed list of its additional requirements to USAID, many of which are focussed on assisting their privatization program. The privatization program is a repeatedly stated Hungarian national priority. The GOH's formal request for USG assistance of February, 1991 and the SPA's followup request of 13 August, 1991 are the pertinent references.

Privatization, particularly in the Central European context, encompasses a broad range of activities which include development of capital, money, and financial markets, the clarification of title and ownership rights, the writing or revision of Company, Tax, Investment and other laws. Thus a comprehensive privatization strategy as that of the GOH involves simultaneous progress in several areas.

Hungary lacks the practical technical skills to simultaneously undertake the many basic tasks that they must accomplish to achieve their privatization goals within the time frame they have set. Hungarians are quick learners and are eager to modify and adopt market economy experiences to suit Hungary's needs. At this point, however, they do not have the experience to achieve what they desire and by policy are looking to the industrialized western nations to fill that gap.

The focus of the current USAID program in Hungary is to support Hungary's desire to privatize and to fill the knowledge gap until Hungary is self sustaining in the many needed market economy privatization related disciplines.

Initiating Request

USAID has received a request from the GOH to help develop and implement a Self Privatization Program (SPP) that the GOH has conceived. The GOH has set a target to fully implement the SPP by the end of 1991.

The Hungarian SPP designed to accelerate the the privatization process in Hungary, privatize it and decentralize it. The Program will be targetted on the small and medium sized enterprises in Hungary. This encompasses about 1000 enterprises. This program is the "retail" product of the experience gained in the major privatization efforts where major high cost international advisory teams are committed to undertake major privatizations (ultimately effecting about 400 enterprises) in conjunction with the SPA. (Hungary's approximately 8000 small retail "mom and pop" operations are dealt with under the separate "Preprivatization Program" which is an auction driven program) The SPP reflects the GOH's pragmatic approach as the SPP is directly responsive to the needs of the Hungarian Privatization Program as observed by supportive (and some not so supportive) commentators on the program to date. The SPP program's first phase already has 348 enterprises who have chosen to participate. It is anticipated that should the model prove successful that it eventually directly effect over 1000 enterprises (about 50% by number of government enterprises).

The SPA will be the implementing agency of the SPP. The activities envisaged for the SPP will be undertaken by a new and essentially separate subsidiary organization of the SPA which will be designated the Self Privatization Unit (SPU). It is presently envisaged as reporting through the existing Preprivatization Department of the SPA and therefore continuing under the control of the Managing Director of the SPA and the existing Board.

Three approaches are being considered. The findings of this study and the availability of funding will decide the alternative chosen:

- A. One approach is to establish a separate 20-30 person SPU to administer the SPP.
- B. The second approach is to contract the basic setup of the program using contracted legal, consulting, public information and other skills under the supervision of a SPU team within the existing pre-privatization Directorate.
- C. The third approach would blend A & B above.

The principle objectives of the SPP are:

1. To accelerate the privatization process by focusing the resources of private sector consulting firms on the privatization needs of designated small and medium sized government enterprises. The approved consultants will have the task, working with the enterprises, to take enterprises through the entire privatization process with no review delay at the SPA.
2. To systematically privatize the process of converting designated medium and smaller government owned enterprises and their assets to private management. This will be achieved by designating a short list (an 80 consulting firm short list for the first phase -based on a public tender- has already been designated) who are preapproved to undertake the full privatization of the designated enterprises. The approval of their actions is pre-committed by the SPA.

3. To decentralize the privatization process so that the SPA does not provide a procedural and administrative road block to the rapid conversion of designated small and medium sized enterprises and their assets to private management. This will be accomplished by the SPA granting blanket preapproval to the privatization activities undertaken by the preapproved consulting operations. Reviews of the process will be EX POST and will effect the consultants' access to future business not past transactions.
4. To stimulate the development of the private sector, money, capital and financial markets by increasing the pool of assets in play.

II. Objectives

The objective of this Phase I activity is to design the SPA's SPU related activities. Subsequent phases will undertake the establishment and continuing support of the SPU.

The consultant team will be asked to define for the SPA:

1. The Self Privatization Units's (SPU's) objectives and the tasks it must accomplish to achieve them.
2. The phasing of the implementation of SPU's activities.
3. The organizational and administrative needs of the SPU.
4. The equipment and system needs of the SPU.
5. The technical skills required of staff and external advisory support to the SPU.
6. The personnel and training needs of the SPU.
7. The financial needs of the SPU and likely sources.
8. The legal and documentary needs of the SPU.
9. The public information requirements of the SPU.
10. The role to be played by the designated consultants, how they will be chosen, instructed, and their work reviewed.

The team's output will be expected to be the core of the GOH's and the SPA's strategy and design for the SPU and will then be used to establish the SPU. The report will also be used to define the terms of reference for the various specific technical assistance skills that will be needed to implement the SPU.

III. Scope-of-Work: Self Privatization Unit (PHASE I)

Overview:

The contractor will be mobilize quickly the skills required to analyze the needs of the SPU. The skills they will be expected to commit include:

- a. Strategic planning
- b. Project review and control skills
- c. Analytical Product design and training skills
- d. Computer systems design and office equipment definition skills to support a through c above
- e. Personnel need assesment and training analysis
- f. Practical experience in Hungary
- g. Knowledge of the consulting skills available and their needs in order to accompolish the SPU's requirements.
- h. Knowledge of the funding mechanisms available for and needs of an SPU type activity
- i. Legal skills to identify the practical problems and documentation needs of the SPU
- j. Public information skills to define the information and public relations needs of the SPU
- k. Knowledge of the USAID and its IQC mechanism

The contractor will:

1. Review the current thinking of the SPA, selectively interview the Board members of the SPA and other appropriate officials to determine the practical constraints of the program.
2. Determine the requirements of the SPU and define the objectives of the SPU.
3. Develop with the SPA management a strategic plan for accomplishing the objectives. (Items 1-3 will be accomplished quickly.)
4. Develop an initial organizational structure and plan for the SPU
5. Identify the computer and office automation equipment and systems needed by the SPU and recommend configuration
6. Identify the legal documentation and contracting needs of the SPU and recommend model documents to be developed.
7. Identify the skills required of staff and external advisors needed and recommend a recruiting strategy for the SPU
8. Assist the SPA in developing a budget for the SPU
9. Design the Public Information program needs of the SPU
10. Define how the external consultant teams will be identified, selected, instructed and reviewed and the needs of that process and how the IQC procedure might be used to fund some part of the consultants' services.
11. Develop an action plan identifying steps required to implement the recommended strategy and tactics.

IV. Level of effort

The contractor will provide U.S., local Hungarian and European regionally based consultants who have the specialized technical and industry specific expertise to fulfill the task. The level of effort for this PHASE I of the SPU project is estimated at 110 person days.

V. Deliverables

1. An overall strategy statement and a strategic plan.
2. An organization plan.
3. A systems and equipment plan.
4. A specific plan to systematically: select, direct, contract with and review the designated consultants and their work.
5. A specific plan for the review, selection, and tracking of the enterprises to be involved in the SPU program.
6. A personnel needs assessment and training needs plan.
7. A financial needs assessment and plan with a proforma budget.
8. A legal needs assessment.
9. A public information program design.
10. An analysis of how the consultants will function and be funded through the IQC or other mechanism.
11. Based on 1-9 design an action plan for phase II and beyond
12. A separate independent recommendation to USAID as regards the SPU and its viability and role in the privatization process and whether it merits funding assistance and at what level.

VI. Roles and Responsibilities

The consulting team will be acting under the day to day guidance and direction of the SPA but the project will be managed by the Project Director working closely with the USAID/SPA Long Term Advisor (LTA).

The USAID Budapest Representative and the USAID enterprise development project officer will be in constant liaison contact with the Project Director and his staff, the LTA and the SPA. They will be responsible for providing general guidance and direction to the contractor on this task.

VII. Performance Period

The consultant will be expected to have finished his PHASE I activities by 15 October, 1991.

VIII. Special Provisions

- A. Duty posts: Republic of Hungary, Washington D.C., London England
- B. language Requirements: English and Hungarian on a selective basis particularly for presentations and policy discussions.
- C. Access to Classified Information: Contractor shall not have access to any United States Government (USG) classified materials.

- D. Logistical Support: The contractor will not require logistic support from the USG or any of its agencies.

The SPA will provide some office and related support plus access to the required information and decision making personnel. DRT Hungary will provide basic office support. Communications and Transportation will be by commercial means as a budgeted items.

The contractor is authorized a 6 day work week for all duty posts.

IX. Budgets

MEMORANDUM

TO: David Cowles, OAR/Hungary
Mark Karns, AID/EUR/RME/ER/ED
FROM: Deloitte & Touche
DATE: 2 September, 1991

REFERENCE: REPUBLIC OF HUNGARY, ACT No. XXV of 1991, "The Compensation Act"
-The responsibilities of the State Property Agency - The Warrant system -

CONCEPT PROPOSAL: A Warrant Administration Unit for the State Property
Agency of the Government of Hungary, Phase I

I. Background

The Government of the Republic of Hungary (GOH) has underway the longest existing, most comprehensive and successful privatization program in Central Europe. The State Property Agency (SPA) is the GOH's agency charged with the regulation and stimulation of the operational aspects of the privatization process.

The privatization program's objectives are to reduce GOH ownership of the manufacturing sector from over 90% in September 1990 to under 50% by the end of 1993. To date, depending on the definition of privatization, between 3-9% of state owned enterprises have been privatized under the guidance of the SPA.

The GOH has requested and received assistance from the United States Government (USG) through its Agency for International Development (USAID) since the conception of a formalized GOH privatization program. This assistance has encompassed training, long term advisers, equipment, and technical assistance in a broad range of areas. In addition and in conjunction with this the GOH has submitted a very detailed list of its additional requirements to USAID, many of which are focussed on assisting their privatization program. The privatization program is a repeatedly stated Hungarian national priority. The GOH's formal request for USG assistance of February, 1991 and the SPA's followup request of 13 August, 1991 are the pertinent references.

Privatization, particularly in the Central European context, encompasses a broad range of activities which include development of capital, money, and financial markets, the clarification of title and ownership rights, the writing or revision of Company, Tax, Investment and other laws. Thus a comprehensive privatization strategy as that of the GOH involves simultaneous progress in several areas.

Hungary lacks the practical technical skills to simultaneously undertake the many basic tasks that they must accomplish to achieve their privatization goals within the time frame they have set. Hungarians are quick learners and are eager to modify and adopt market economy experiences to suit Hungary's needs. At this point, however, they do not have the experience to achieve what they desire and by policy are looking to the industrialized western nations to fill that gap.

The focus of the current USAID program in Hungary is to support Hungary's desire to privatize and to fill the knowledge gap until Hungary is self sustaining in the many needed market economy privatization related disciplines.

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Initiating Request

USAID has received a request from the GOH to help develop and implement a Warrant system that the GOH has conceived. The GOH has set a target to implement the program by the end of 1991. By the terms of the Compensation Act the bulk of the Warrants will be awarded and in the market during the period 12 February - 12 May, 1992

The Hungarian have initiated under the Compensation act a program of payment through warrants to previous owners/investors for property seized from them. This Warrant system is recapitalizing an identifiable and historically active entrepreneurial and investor group.

This Warrant program differs fundamentally from the Polish and Czech and Slovak Republic voucher schemes as it is not designed to be a distribution of assets, but rather a recapitalization and payment mechanism designed to compensate former owners for assets seized during nationalization and other like uncompensated actions undertaken by the state in past decades and reinvolve them actively in the ownership of assets. Individual warrants will represent a claim on privatized state assets (assets chosen by the warrant holder) valid for three years in bearer form and interest bearing at 75% of the National Bank of Hungary's Base Rate. The warrants can be realized by being exchanged for:

1. Assets or shares in enterprises being privatized.
2. To purchase a flat or to fund a Social Security pension (These two can only be done by the individual receiving the compensation warrant).
3. Agricultural cropland compensation and the related warrants is a distinct category and will essentially be processed outside of the SPA mechanism.

The SPA will be the implementing agency of the Warrant System which is embodied in the Compensation Act (ACT No. XXV of 1991). The adjudication of claims and designation of warrant recipients will occur through the County and National Indemnification offices. The Indemnification awards are subject to review by the courts and may be revised by them. Once the warrants are assigned it will be the SPA's task to administer them to achieve the goals intended. The full range of activities that the SPA must undertake will be undertaken by a new and essentially separate organization which will be designated the Warrant Administration Unit (WAU). It is presently envisaged as reporting directly to the SPA's Managing Director as a separate unit and therefore continuing under the control of the existing Board of the SPA

The principle objectives of the Warrant System are:

1. To create a pool of domestic equity capital searching for investment in state assets being privatized. This pool will be in the hand of historically proven entrepreneurs and owners. It should dramatically support the development of the Stock exchange. (This pool of warrant equity will be the largest single domestic capital creation mechanism in Hungary to date)
2. To resolve the issue of residual title claims so that privatization can proceed. The Hungarians have not accepted the concept of compensation in kind or the right of previous owners to a preemptive right to property that was previously theirs with the exception of agricultural land in certain circumstances.

3. To stimulate the development of money, capital and financial markets by creating the first domestically freely traded securitized instrument that will have a natural secondary market of considerable depth that will be dedicated to supporting the privatization of state assets.
4. To compensate equitably those effected by prior Government actions in a way that can be afforded and that clears the slate for the national agenda of economic progress.

II. Objectives

The objective of this Phase I activity is to design the SPA's warrant related activities. Subsequent phases will undertake the establishment and continuing support of the WAU. It is to be specifically noted that the SPA is tasked to set up simultaneously a major registration and records facility and the largest money market instrument yet launched in Hungary. Both the technology for registering and controlling instruments like the warrants and the technology and skills required to establish and manage money market instruments like the warrants are familiar and proven products in other market.

The consultant team will be asked to define for the SPA:

1. The Warrant Administration Unit's (WAU's) objectives and the tasks it must accomplish to achieve them.
2. The phasing of the implementation of WAU's activities.
3. The organizational and administrative needs of the WAU.
4. The equipment and system needs of the WAU.
5. The technical skills required of staff and external advisory support to the WAU.
6. The personnel and training needs of the WAU.
7. The financial needs of the WAU and likely sources.
8. The legal and documentary needs of the WAU.
9. The public information requirements of the WAU.
10. An independent recommendation to USAID as regards the feasibility of the Warrant Program scheme and the level of support that might be appropriate, if any.

The team's output will be expected to be the core of the GOH's and the SPA's strategy and design for the WAU and will then be used to establish the WAU. The report will also be used to define the terms of reference for the various specific technical assistance skills that will be needed to implement the WAU. The report will also be an input into USAID decision making process as to whether to support the WAU and the Warrant Program further.

III. Scope-of-Work: Warrant Administration Unit (PHASE I)

Overview:

The contractor will be mobilize quickly the skills required to analyze the needs of the WAU. The skills fielded must be able to address specifically the problems in Hungary particularly in the Legal and Accounting areas. The report will be followed by implementation, it is not to be theoretical. The skills the contractor will be expected to commit include:

- a. Strategic planning
- b. Retail brokerage product control and distribution
- c. Money market management, secondary market management.
- d. Computer systems design and office equipment definition skills to support a through c above
- e. Training analysis
- f. Practical experience in Hungary
- g. Knowledge of the funding mechanisms available for and needs of the WAU type activity.
- i. Legal skills to identify the practical problems and documentation needs of the WAU
- j. Public information skills
- k. A working knowledge of USAID policy and the IQC funding mechanism

The contractor will:

1. Review the current compensation legislation and interview the Board members of the SPA and other appropriate officials to determine their interpretation of the law.
2. Determine the requirements placed on the SPA by the compensation law and define the objectives of the WAU.
3. Develop with the SPA management a strategic plan for accomplishing the objectives. (Items 1-3 will be accomplished quickly.)
4. Develop an initial organizational structure and plan for the WAU
5. Identify the computer and office automation equipment and systems needed by the WAU and recommend configuration
6. Identify the legal documentation and contracting needs for the WAU and recommend model documents to be developed.
7. Identify the skills required of staff and external advisors needed and recommend a recruiting strategy for WAU
8. Assist the SPA in developing a budget for the WAU unit
9. Develop a recommended public information program and schedule.
10. Develop an action plan identifying steps required to implement the recommended strategy and tactics.
11. Develop and independent recommendation for USAID on the viability of the Hungarian warrant program and the level of support, if any that should be considered.

IV. Level of effort

The contractor will provide U.S., local Hungarian and European regionally based consultants who have the specialized technical and industry specific expertise to fulfill the task. The level of effort for this PHASE I of the WAU project is estimated at 155 person days.

V. Deliverables: All deliverables will be in Hungarian and English.

1. An overall strategy statement and a strategic plan.
2. An organization plan.
3. A systems and equipment plan.
4. A specific plan supplement on the record keeping and control needs of the WAU
5. A specific plan supplement on the money market development and support function of the WAU
6. A personnel needs assessment and training needs plan.
7. A financial needs assessment and plan with a proforma budget.
8. A legal needs assessment.
9. A public information needs assesment and plan.
10. Based on 1-9 an action plan for the phase II and beyond
11. An independent recommendation to USAID on the Hungarian warrant program to assist them in making a baseline decision on the level of assistance, if any, to grant the Warrant Program.

VI. Roles and Responsibilities

The consulting team will be acting under the day to day guidance and direction of the SPA but the project will be managed by the Project Director working closely with the USAID/SPA Long Term Advisor (LTA).

The USAID Budapest Representative and the USAID enterprise development project officer will be in constant liaison contact with the Project Director and his staff, the LTA and the SPA. They will be responsible for providing general guidance and direction to the contractor on this task.

VII. Performance Period

The consultant will be expected to have finished his PHASE I activities by 1 October, 1991.

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VIII. Special Provisions

- A. Duty posts: Republic of Hungary, Washington D.C., London England
- B. language Requirements: English and Hungarian on a selective basis particularly for presentations and policy discussions.
- C. Access to Classified Information: Contractor shall not have access to any United States Government (USG) classified materials.
- D. Logistical Support: The contractor will not require logistic support from the USG or any of its agencies.

The SPA will provide some office and related support plus access to the required information and decision making personnel. DRT Hungary will provide basic office support. Communications and Transportation will be by commercial means as a budgeted items.

The contractor is authorized a 6 day work week for all duty posts.

IX. Budgets

USAID ACCELERATES HUNGARY'S PRIVATIZATION

In brief turnover ceremonies at Hungary's privatization agency the State Property Agency (SPA), the US Ambassador Charles Thomas, and the USAID Representative in Budapest David Cowles completed the delivery of the agency's core computer systems and copiers.

The SPA has received over 80 computers and 4 copiers and all their related systems from the United States Government. The USAID funded system will give the SPA one of the largest local area networks (LAN) -over 200- in Hungary when the full complement of Economic Community (EC) programme PHARE funded computers arrive. USAID has also funded all of the SPA's day to day software needs and, most importantly, its custom designed Privatization Information System (PIS) software which manages the thousands of transactions in Hungary's ambitious privatization program.

Within the long-term USAID-funded SPA support program to help the Government of Hungary accelerate and improve its privatization effort, the computerization effort is based on the premise of providing the tools needed to get the job done. While the hardware and off-the-shelf software is from the United States (the world's most competitive and attractive markets for these items in terms of both quantity and quality), the custom PIS was US-designed but developed and programmed in Hungary by Hungarians for Hungary in Hungarian so that the system follow-up and modification could be carried out in the most cost effective and efficient manner.

The SPA has now launched privatization programs that encompass almost all of the approximately 2,200 major government enterprises and the thousands of small retail "mom and pop" stores throughout Hungary. The privatization efforts of the SPA on this ambitious a scale are supported by the joint efforts of USAID, the World Bank, the EC Programme PHARE, the British Know How Fund, and the Canadian, German and French Governments. All of this assistance is required and is most welcome.

The USAID support at the SPA, constrained by its modest funding, has been primarily in the areas where "multipliers" can be put in place to help the SPA operate more effectively and efficiently. The heavy funding requirements of individual privatization sales transaction support has been split between the EC and the World Bank with their larger, if sometimes more cumbersome, program support. The USAID program is designed for and built into the SPA in the form of the SPA USAID Project Office managed by a DRT International team. It has developed a role as a responsive, knowledgeable and focused support provider. Other areas of assistance have included training, training program design, financial control systems design, budgeting and planning systems design and implementation, financial management, public relations, and specific support to Hungary's innovative Self Privatization and Warrant Programs. An outgrowth of the core SPA support program has been advisory assistance to the newly developed Hungarian Investment and Trade Promotion Agency and the production of an investment promotion publication for them.

As part of its role in the SPA, the USAID project office has provided support to the Szekesfehervar Model City Project, and coordinates closely with the Hungarian American Enterprise Fund, and the various other US-funded support activities in Hungary; IESC, the MBA corp. among others. In addition the USAID Project office is a ready source of information on Hungary's privatization efforts for US companies and citizens, the US Commercial Office, and the American Chamber of Commerce.

State Property Agency
Equipment Procurement Spreadsheet
April 3, 1992

1. Computers			
1.1	PC 386SX/20, 4MB, 40MB, SVGA	50	\$1,570.00 \$78,500.00
1.2	PC 486/33, 4MB, 120MB, SVGA	3	\$2,610.00 \$7,830.00
1.3	CMS Notebook 386/20SX, 60MB, 4MB RAM, DOS, WINDOWS, FAX/MODEM, Case, Expansion Chassis w/2 16bit slots	1	\$2,574.00 \$2,574.00
1.4	3COM EtherLink/16 Network Interface (5 Pack)	12	\$749.00 \$8,988.00
2. File Servers			
2.1	PC 486/33 EISA, 16MB, SCSI 1.2 GB, Mono	2	\$5,194.00 \$10,388.00
2.2	Eagle NE-3200 EISA Network Interface	2	\$675.00 \$1,350.00
3. Network			
3.1	Cabletron MR-9000C 8 Port Thin-Net Multiport Repeater	1	\$1,989.00 \$1,989.00
3.2	RG-58 PVC Cable, Mil. Spec., 1000ft	6	\$135.00 \$810.00
3.3	BNC 3-pc Crimp Connector	200	\$1.60 \$320.00
3.4	BNC T-Connector	70	\$4.30 \$301.00
3.5	BNC 50 Ohm Terminator	8	\$2.75 \$22.00
3.6	Microtest Cable Scanner TDR	1	\$1,199.00 \$1,199.00
3.7	Microtest Coax Adaptor	1	\$30.00 \$30.00
4. Printers			
4.1	HP LaserJet IIIsi, NOVELL/Ethernet I/F, A4	2	\$5,003.00 \$10,006.00
4.2	Toner Cartridge for LaserJet IIIsi	10	\$85.00 \$850.00
5. Software/Upgrades			
5.1	INTEL LAN Protect Version 1.0	4	\$649.00 \$2,596.00
5.2	NOVELL ver. 3.11 20 User Package	1	\$1,863.00 \$1,863.00
5.3	NOVELL ver. 3.11 100 User Package	2	\$3,730.00 \$7,460.00
5.4	NOVELL ver. 3.11 250 User Package	0	\$6,663.00 \$0.00
5.5	BindView 3.0	4	\$280.00 \$1,120.00
5.6	Frye Network Manager	4	\$325.00 \$1,300.00
5.7	Saber Menuing Software	4	\$229.00 \$916.00
5.8	NetWare Care Level II	4	\$495.00 \$1,980.00
5.9	Saber Meter	4	\$114.00 \$456.00
5.10	Paradox 3.5 (FREE)	2	\$0.00 \$0.00
5.11	Microsoft Entrepreneur Pack (FREE)	5	\$0.00 \$0.00
5.12	Microsoft Programmer Pack (FREE)	2	\$0.00 \$0.00
5.13	Microsoft EXCEL for Windows 3.0 (FREE)	46	\$0.00 \$0.00
6. Miscellaneous			
6.1	XEROX 5017-11 + consumables	1	\$6,934.73 \$6,934.73
6.2	EXEABYTE 8MM Tape Backup, Controller, Chassis, Cable	1	\$2,599.00 \$2,599.00
6.3	8mm HS-8/112 Cass	20	\$10.23 \$204.60
7. Shipping and Handling			
		1	\$13,727.00 \$13,727.00
8. Total			
			\$166,313.33
9. AMEG 8%			
			\$13,305.07

Technical Assistance to The State Property Agency of Hungary
USAID Contract No. ANE-0002-C-00-0047-00 Project No. 180-0002-3-0183107

Field Support for Project Expansion February 15 - September 30, 1992

Overview

The task objective was to support the efforts of the Long Term Privatization Advisor in the State Property Agency (SPA) and the Long Term Investment Promotion Advisor in the Ministry of International Economic Relations (MIER). **Support of Long Term Privatization Advisor** included provision of broad assistance to new SPA Personnel Office by defining the skills required within the SPA, the best training response and the means of integrating donor (EC PHARE, USAID) assistance. Support was also given in helping to organize in-house training programs, backstopping the efforts of the short term consultant teams and assisting in modifying and improving the project filing system. **Support of Long Term Investment Promotion Advisor** included assisting in the set up of the Investment Promotion Advisor's office, including identification of support staff and computer training. Help was also provided in coordinating the October 1992 Hungarian Investment Promotion Conferences in Houston and Los Angeles. On-going assistance is being given to senior MIER staff in planning for the implementation of their EC PHARE training budget, as well as identifying the US component of the MIER's training strategy. Other on-going assistance includes providing information about Hungarian companies to the Investment Promotion Advisor as a result of close liaison with the SPA

Tasks Accomplished

1. Assisted in Writing a Terms of Reference for EC PHARE-funded Expert for Designing a Training Program for the SPA
 - Because of a change in administration of the SPA PHARE assistance program, the SPA training budget was effectively frozen until a new PHARE project management unit could be selected and put in place. The EC requested that a supplementary training needs assessment be made by an EC-funded training consultant (the USAID-funded Training Needs Assessment had been completed 9 months earlier). Special care was taken to ensure that the Terms of Reference for the EC Training Expert would not call for redundant efforts which would repeat the work already completed by the USAID-funded Training Specialist and the SPA Training Officer.
2. Provided Advice and Assistance to SPA EC-funded Training Expert
 - In January 1992 the EC-funded Training Expert made an assessment of the SPA's training needs and visited local training institutions. The field support officer made introductions to several local training institutions and advised about the training

needs of SPA staff and constraints to providing and organizing training. A major recommendation of the report prepared by the EC Training Consultant supported the earlier USAID finding that a fully functioning Personnel Department should be established within the SPA to write job descriptions, oversee recruitment, maintain employee records and administer the large training budget.

3. Provided On-the-Job Training to New SPA Training Officer

- Assisted new SPA Training Officer in learning the essential aspects and functions of organizing in-house training.

4. Recorded Minutes of the Meeting of the Bid Review Committee for Review of Proposals for Financial Advisory Services to the Hungarian Government on Restructuring and Privatization of the Hungarian Telecommunications System and Minutes of Interviews of Short-Listed Candidates for Performing Financial Advisory Services to the Hungarian Government on Restructuring and Privatization of the Hungarian Telecommunications System

- Asked by the SPA, as a third party independent Agency observer, to take minutes of the meetings of the Bid Review Committee, comprised of officials of the SPA, The Ministry of Transport, Communication and Water and the Hungarian Telecommunications Company as well as a number of independent experts with the EC and World Bank in the status of observers. Recorded the minutes of interviews of the four finalists which were conducted by the same committee.

5. Provided Consultation in Human Resource Development to new SPA Personnel Director

- With the objective of introducing training within the larger framework of human resource development as it is known in the US, and adapting relevant components of that framework to the needs of the SPA, held a series of consultations with the new Personnel Director. It was agreed that the goals of the department would be to develop the following (*):

1. the skills of each employee as an individual
2. the skills of each individual in relation to his/her job
3. the skills of each employee in relation to his/her expected future role
4. the team spirit and productivity and efficiency in all departments
5. the collaboration among different departments
6. the SPA's overall "health" and self-renewing capabilities

- (*) An independent study conducted at the request of the Minister of Privatization during the summer of 1992 supports this goal to develop the SPA's human resources and calls for increased communication and teamwork within the agency, particularly at the upper management levels. The Managing Director of the SPA

has requested the Personnel Director to take responsibility for ensuring that communication and cooperation within and among departments is improved. He has stated that, to achieve this and other objectives, training should be a priority in 1992-93.

6. Provided On-Going Support and Assistance to the Personnel Director

Specific recommendations have included:

1. close, direct connection to the Managing Director, institutionalizing the Personnel Department at a very high level within the organization;
2. linkages with other departments and organizations through the establishment of ad hoc committees and task groups
3. the introduction of new Personnel and Training procedures and policies within the agency in a way which is carefully planned, using a combination of geographical, vertical and functional phasing in order not to sabotage their effectiveness in light of the fact that the personnel function, historically, carries a negative, political connotation in Hungary and the SPA staff is somewhat disillusioned with training due to the earlier failure to access the EC PHARE training funds;
4. ways to create an effective environment for adult learning which include physical and psychological surroundings and organizational settings;
5. how to plan for and approach initial meetings with directors about their departments' training needs for 1992-93.

7. Organized Training in Financing and Negotiating International Joint Ventures for Six SPA Transaction Executives at The International Training Center for Bankers

The Field Support Officer played a central role in arranging for partial Mellon Foundation funding for seminars jointly presented by The International Law Institute (ILI) and The International Training Center for Bankers (ITCB). Working closely with the SPA General Counsel and others, provided advice to the ILI and ITCB on topics and lecturers of particular interest to the SPA, thereby helping to "tailor" the course in a way in which it could be of greatest use to SPA executives.

8. Assisted Investment Promotion Advisor's Efforts at MIER to Respond to Requests for USAID-funded Training Assistance

- Began an on-going dialogue with top Ministry officials concerning the Ministry's training needs.
- Laid the groundwork for two Ministry officials to attend training programs at the World Trade Institute in New York City.
- Continuing to work with MIER to develop its training strategy, integrating the EC and other resources available to include joint SPA/MIER training.

9. Assisted in Launching a new SPA Lunch Time Lecture Series

- Helped to introduce a new series of weekly lunch time presentations on various topics of interest, particularly to SPA transaction staff. The idea was to combine the staff's desire for new information, knowledge and training with the abundant availability of local and foreign privatization experts by inviting them to deliver 90 minute presentations on subjects in their areas of expertise. Responsible for hiring the first several lecturers and subsequently training an individual within the Personnel Department to carry on the function. To date, presentations have been made on "Valuation", "Introduction to Business Plans", "Problems of Privatization", and "Critical Path Management." Future presentations will discuss the role of the banking industry in privatization, bank privatization, new privatization legislation, a look at the comparative privatization strategy of the Czech and Slovak Republics, the status of the telecommunications privatization, and a look at the MALEV (Hungarian National Airline) privatization.

10. Assisted in Review of Tender Proposals Submitted and Interview of Candidates for an EC Terms of Reference to Provide Negotiation Skills Training for SPA Transaction Staff

- In July 1992, the SPA reviewed bids from three contractors under a Terms of Reference for Negotiation Skills Training prepared by the EC PHARE Project Management Office. Was asked to be a member of the committee that reviewed the bids and concluded that none appeared to have the qualifications that the SPA required.

11. Organized and Arranged for USAID Funding of "Negotiation Skills" Training for Approximately 60 SPA Staff

- The USAID Project Office was requested to fund an American trainer who could provide the desired negotiation skills training methodology at the earliest possible date and preferably not later than November 1992. Selected an internationally known senior management consultant who could produce a course that met the requirements of the SPA. Worked closely with the Personnel Director and the Deputy Managing Director in charge of Transactions to arrange a schedule of workshops which would allow for a maximum number of employees to take part in the training, interviewed interpreters to select the one that could best translate ideas like "negotiation," "strengthening position," "reaching objectives", and the difference between "enthusiasm" and "strong interest" or "antagonism" and "anger." Written Final Evaluation of workshop is attached.

12. Organized and Arranged for Deloitte & Touche Regional Insolvency Specialist to Speak at Seminar on "Principles & Practices of Bankruptcy" Attended by Representatives of Major Hungarian Banks

The Field Support Officer assisted the ITCB and ILI in identifying a subject for a seminar for the Hungarian privatization, banking, and legal community. Drawing upon the advice of senior SPA executives and other experts, helped create a draft outline for this course on Bankruptcy and arranged for a D&T insolvency expert, a U.S. Treasury-funded securitization expert and a senior lawyer at Baker & McKenzie Budapest to participate as lecturers. This seminar was also partially funded by the Mellon Foundation.

Summary

A "Negotiation Skills" workshop was conducted during September and October 1992 for approximately 60 State Property Agency executives. Conducted by Edward E. Morler, Ph.D., an American negotiation expert, the workshops were funded by USAID at the request of the SPA top management to give transaction staff a better understanding of the negotiation process so that they could apply it directly to their day-to-day responsibilities and more competently and expeditiously get on with their task.

The workshop received high ratings on all counts, met the objectives of the participants, and generally enhanced their ability to function on the job. They found Dr. Morler to be persuasive, interesting and understandable. They were positive about the benefits of applying some underlying skills which are critical to the negotiation process such as communication, listening, in-depth probing, positioning and dealing with emotions. They gained a clearer understanding of how to place tactics and maneuvers in perspective and increase planning and prediction skills. They also developed a greater awareness of the strengths and weaknesses of the SPA. At the end, they agreed to organize a regular meeting where they can practice role plays, team negotiations and obtain more understanding of their own behavior as well as that of others'.

The participants requested that an advanced course be delivered. While the workshop increased their aspirations that they can attain more, leave less on the table, and still have a satisfied counterpart, they want to learn even more about how to make sure this happens at the SPA.

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"NEGOTIATION SKILLS"
Presented by Edward E. Morler, Ph.D.
to staff members of
The Hungarian State Property Agency

September 25-October 5, 1992
Budapest

FINAL WORKSHOP EVALUATION
(Group without interpreter)

On a scale of 1 - 7 (7 being the highest),
please evaluate the workshop in terms of:

1 2 3 4 5 6 7

1. Degree to which your objectives for the course were met. 0 0 0 2 5 2 10
Comments:

I can consider this workshop rather as a step towards achieving my objectives.

There could be more examples at the emotional degrees each.
Workbook is helpful, ideas are clearly presented. Tone scale is great

2. Degree to which material was clearly presented. 0 0 0 1 1 8 9
Comments:

More specific explanation would be useful if attached to the listed concepts.

It was very good presented!!

3. Degree to which workshop enhanced your ability to function on the job. 0 0 0 2 8 1 8
Comments:

I haven't understood clearly everything I must have done.
Strengthened self-confidence.

I hope.

4. Degree to which workshop was relevant/helpful to your personal needs/expansion: 0 1 0 2 3 13
Comments:

More examples would be needed, but to see it also how (but I know it is very difficult because the course was not exactly what I waited for)

Very. Would love more.

5. Overall, how would you rate the quality of instruction? 0 0 0 0 1 7 11

Comments:

Great!

Lively, purposeful, relevant. Ed was persuasive, ideas were interesting, understandable.

6. Overall, how would you rate the value of the workshop? 0 0 0 0 3 5 11

Comments:

I've participated in similar workshops, so I think I can make some comparison.

Very good!

It made a huge impact on me.

7. How will you use what you have learned?

Make it my everyday routine.

First, I do concentrate on the negotiations! Second, I do concentrate on my private life, too. (When I take a conversation I will do my best for even that some moments)

I will try to consciously apply the ideas presented during the seminar in real life negotiations.

To analyze what I have done automatically until now.

Using these skills and learning them are two different things. But I'll try to use it!

I have many negotiations and even after the first two days of the course I had a feeling that I can handle better the situations, because I can more precisely analyze the situation, observe the people and consequently to handle it.

I will read again the written material, try to make a logical system for use, and I attempt to supervise my behavior at the negotiations

I will look at myself during the negotiations and I will try to use what I have heard.

Directly in my job. I shall have less problem.

Intentionally.

During the business negotiations I will try to exercise the acquired skills.

In my work with valuers, helping transaction colleagues.

During the coming negotiations.

I will try to concentrate on certain points during negotiations which I've not paid attention to yet.

Negotiations (salary, vendors, for example). Practicing my ability to identify goals and objectives and plan ways to reach them.

Better presence, observation, probing, higher goals. I will try to collect personal experiences along the lines of the seminar.

I am involved in privatization transactions, so I hope I can use them at real negotiations.

On business talks.

Observing the next counterpart's and making controlled own conclusions.

8. What did you like most about the workshop?

The ability of the lecturer to deliver his messages.

The acknowledgment of the role of emotions and possibilities about it.

It gave me another way of view, another way of looking at the things and people.

The material presented, the good real life examples.

The fluency of the presentation.

The workshop delivered to me a completely new area of thinking about the negotiation.

I liked case studies and it was a good feeling that I realized very much improvement on my behavior in negotiations.

Lively presentation, case studies, structured presentation.

The examples.

The way the lecturer drove and controlled the course.

I have got some ideas how I should react in specific cases.

Mr. Morler's behavior, how he tried to curb his annoyance. It was really professional.

Good contact between lecturer and the participants.

The very practical approach.

Listening to Ed's stories, seeing other participants' interest and enthusiasm, feeling my own strong interest and enthusiasm.

It opened up to me a new territory, the personal aspect of negotiations. It was lively, and very relevant.

Learning the theory of negotiations, analyzing real cases.

That I could analyze the American mentality.

Cases, and analyzing the results. The recognition about scenarios, I've already known, but having problems to judge them in the right way.

9. What could be improved?

Only the milk for the coffee. Ed should give up smoking.

Actualize the role plays to the country, place and time.

Topics.

That the personality styles somehow directly or indirectly define the whole life, the whole world.

My practice.

The course could be less repetitive and cover a broader subject area.

Speaking more slowly and articulately.

I would need more written material to study long before the advanced course.

Graphs, figures, charts in the material.

Team exercises. More time for participants to discuss among themselves, in small groups at first, their concerns, confusions, doubts and fears about applying the model.

Techniques of negotiation.

More analysis of other peoples' behavior, or mine. Less politics, it was too repetitive, and based only on insufficient understanding of what happened in this part of the world, but this was not relevant. I understood the message, I agree with it, but it would be better if the lecturer would cite examples, and refer to experiences he lived through and observed, personally.

More Hungarian or European case studies.

It would be good to spend more time with evaluation of case studies, because we could learn more from the other people's failure as well.

Closer approaches concerning the participant's specialty.

More cases. Even team negotiating in from of the group.

10. Would you recommend the course for others? Yes 20 No If yes, who?

To anybody who negotiates.

To everybody who communicates.

To our management.

Yes, but for people who are not open to get new "data" will not have any effect this course.

Friends and enemies.

To all transactions people; commercial managers, etc.

To everybody who has to conduct negotiations, with responsibility.

Every member of SPA.

To my colleagues.

Absolutely.

For transaction people, legal department

To my colleagues, who deal with transactions and have many negotiations.

Other SPA staff. Actually, everyone/anyone could benefit, but most likely groups of professionals.

To my colleagues, to my Hungarian advisor-partners.

11. Topics/subjects you would like addressed in future workshops:

Follow up. Where are we after four weeks?

More technical skills, how to handle various maneuvers.

Topics, I don't know, but important for a negotiator.
case studies of important transactions.

Specialized courses.

If it is in your mind, please try to stimulate more the activity at the persons who are not believe you and will not want to believe in your "teacher's" ability.

More "tools" or models for self-analysis to show disbelieving individuals that this can work in a Hungarian context, not just an American one.

More details about the fields have been mentioned during the workshop, and more case studies.

Selling company property, shares for foreign investors, local venturers.

How to make an enemy become a friend.

More information about the background of psychology of negotiations.

Deeper analyzation of the possible behaviors and tactics.

Body language.

Case studies.

Do not avoid the survey of other aspects, opinions, originate from well-known other authors.

12. Additional comments are welcome

Theory in the morning and cases in the afternoon, because people get tired after half and need more action at the end of a seminar day.

I am interested in the advanced course.

I would like very much to attend an advanced level course or courses delivered by the same lecturer.

I hope an advanced course shall be delivered by you in the future.

Definitely, I will be present on the advanced workshop.

Congratulations!

I should like to attend the advanced seminar.

I feel it was very useful, and I hope it will have results soon.

TRAINING

Background

The training function of the SPA was early recognized as most important as the organization was embarking on a task that was very complex with inexperienced but capable personnel. Training is needed to enable the SPA's staff to perform their job, training is required to improve the standards of the Agency, training is required to improve the job satisfaction of the employees, and training is required to communicate the SPA's evolving standards and practices. Training is viewed as a continuous and repetitive process particularly given the expected high staff turnover that should characterize the SPA as a result of private sector interest in the skills the SPA develops.

Objectives

The training department's objective is to organize and deliver the appropriate blend of training activities to suit the SPA's training needs.

Progress to Date

To date the Training Function has:

1. Undertaken general training programs for SPA staff covering:
 - o Computer spread-sheets and word processing.
 - o Accounting Standards
 - o Valuation techniques.
 - o English language
2. Provided a number of individually designed programs intended to address specialized needs of the SPA's major directorates. To include attendance at specialized courses and on-the-job training outside of Hungary.
3. Set up an SPA employee experience and qualifications data-base.
4. Produced a detailed training manual for the SPA's training activities. (ATTACHMENT VI)

Outstanding Issues

A number of training programs that are judged to be crucial have had to be deferred because of insufficient funding. These include programs to cover:

- o Additional instruction on financial analysis and valuation techniques.
- o Mergers and acquisitions.
- o Negotiating techniques.

The need for additional funding to cover the costs of these programs has been estimated at 300,000 ECUs for the period 1992 to 1993.

Strategy and Action Plan

During the course of 1992, dependent upon funding, manpower, and space allocations, the training department should be staffed at the level of 2 persons, integrated into the more formalized SPA Personnel Department planned for 1992. It is anticipated that detailed training programs will be worked out and executed primarily working with the EC PMU with secondary support for US based or originated training from the USAID.

MEMORANDUM

TO :Dr. Csepi Lajos, Managing Director
Dr. Tarkany Attila, Deputy Managing Director
Hollo Gyorgy, External Affair Department
cc :PHARE coordination office

FROM :Twyman, Charles, Advisor

DATE :7 April, 1992

REF :Slovak Republic (SR) Investment and Privatization briefing:

BACKGROUND: The SR are just in the process of trying to establish both an investment agency and a privatization agency. They feel that it might be useful to see what they can learn from the Hungarian experience. They have available both PHARE and USAID assistance at this point and are trying to design their programs.

CURRENT SITUATION:

The SR have arranged through the MIER (Mr. Gombocz) and the SPA (Dr. Csepi) to pay a visit to Budapest. The MIER has set up a program for them.

What : The SPA has been asked to address Privatization related issues

When : During the period 13:30 - 15:30 on Wednesday April 8, 1992.

Where: The discussions will be held at INVESTCENTER in their ground floor conference room.

Who : Dr. Csepi Lajos at 13:30 for a few brief remarks (if available)

Dr. Tarkany Attila 13:30-14:30 on the practice of privatization in Hungary

Hollo Gyorgy, 14:30-1530 on the history and development of Hungary's Privatization Program

Language: English

Note : Linnea Corwin from the SPA's USAID office will be doing minutes

The USAID and PHARE investment advisors will address the team

An EC PHARE advisor is with the Slovak team

The SR Party consists of (as a minimum at this point):

Jan Amos Havelka Vice-Minister, Ministry of International Relations of the SR

Zigmund Bertok Commercial Law, Ministry of International Relations of the SR

Ing. Radovan Peknik Director of Slovak National Agency for foreign Investment and Development

Mr. Colin Adlam EC Advisor with Slovak National Agency for foreign investment and development

Attachments:

Schedule for the Slovak meeting

FAX on attendees

Page 1 of 3.

TOTAL OF 3 PAGES

F A X T R A N S M I S S I O N C O V E R S H E E T

TO: Mr. Katsutake Matsuoka
Deputy Director General
Economic Policy Analysis Dept.
The Export-Import Bank of Japan

FAX #: (03) 3287-9582

FROM: Peter J. Kurz
Penzugyi Tanacsado, State Property Agency
Facsimile number 36-1-118-7115

DATE: March 5, 1992.

URGENT

|| (PLEASE BE SO KIND AS TO FORWARD THIS MESSAGE TO MR. KATSUTAKE MATSUOKA. THANK YOU.) |

SUBJECT: VISIT TO BUDAPEST.

Dear Katsu:

I hope your trip is going well and look forward to hearing from you Saturday, March 7, upon your arrival in Budapest. As mentioned in my fax last week (hope your Tokyo office succeeded in forwarding it to you), we look forward to seeing you that afternoon/evening.

The following schedule is now confirmed:

TUESDAY, MARCH 10:

11:00 a.m. Meeting with Charles TWYMAN, U.S. advisor to the State Property Agency (SPA) since its founding (early 1990); Zoltán ZÁMORI of Deloitte, Ross & Tohmatsu's Budapest office, and with me. Room 205, SPA, Vigadó utca 6. Tel.: 36-1-118-5411; FAX: 36-1-118-7115.

12:00/2:00 p Lunch hosted by Benjamin L. CASE, Managing Partner, DRT Hungary. Also attending will be Charles TWYMAN; György SZELECZKI, Senior Manager, DRT Hungary; and I. Discussion topics: investment climate in Hungary; foreign investors in Hungary; expected outlook for the near and medium-term future.

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3:00/4:00 p Dr. Frigyes BANKI, Director General, Joint Venture Department, Hungarian Investment and Trade Promotion Agency, Ministry of International Economic Relations. Honvéd u. 13-15
Tel: 36-1-153-0000; FAX 36-1-153-2794.

WEDNESDAY, MARCH 11:

7:30 a.m. Breakfast with Gary L. GALLAGHER, Commercial Attache of the United States of America in Budapest. At the Forum Hotel.

9:00/10:30 a Meeting at CITIBANK BUDAPEST, Váci utca 19-21, Tel.: 36-1-138-2666, FAX 36-1-118-9694. With:

Béla SINGLOVICS, Vice President & Deputy Gen'l. Mgr.;
Peter B. ELIOT, Vice President, who is very knowledgeable about corporate lending in Hungary and credit issues related to investments; and,
Andrew VERMES, director of the corporate banking group which is responsible for large international accounts.

(Mr. Robin WINCHESTER, the Managing Director, is not scheduled to be in Hungary during your visit).

11:00 to approximately 6:00 p.m.:

Visit to SZÉKESFEHÉRVÁR as a guest of Mayor István BALSAY. SZÉKESFEHÉRVÁR is an old, historic Hungarian city with a population of approximately 120,000 persons about 45 minutes southwest of Budapest. It is working towards a "model city" designation and has succeeded in attracting major investments from both Hungarians and non-Hungarians.

11:00 Transportation from the City of Székesfehérvár will meet Messrs. Matsuoka, Zámori, and Kurz at corner of Vörösmarty tér and Dorottya utca (near Gerbeaud Cafe).

Noon Arrive in Székesfehérvár. Begin drive around the city for brief overview with a city representative.

12:30/1:30 LUNCH arranged by the City and hosted by Mayor István BALSAY. Also present will be the senior officers of five local firms (Ford, Phillips, Videoton, Köfém (Dr. Géza TOTH), Albacomp Szöv. (János MINAROVICS)). Dr. Otto GÖRÖG, of the Mayor's Office -- Tel. 0622-15-081, will make a short presentation on the economy of Székesfehérvár.

2:00/3:00 Private meeting during which Mayor BALSAY and Mr. MATSUOKA will discuss local and Hungarian economic, political and financial reforms, conditions and expectations.

Page 3 of 3.

3:00/5:15 Visits to three factories for separate discussions with the three Chief Executive Officers present at the lunch, as follows:

PHILLIPS: Dr. János RUDNAY
FORD: Larry HINKLE
VIDEOTON: Gábor SZÉLES

5:15 Mayor BALSAY bids farewell and Mr. MATSUOKA's party returns to Budapest (circa 6:15 p.m.).

Hope you will find your stay in Budapest informative and pleasant; again, look forward to seeing you beginning Saturday.

Best wishes and regards,

Peter.

(PLEASE NOTE THAT I AM STAYING AT THERMAL HOTEL, MARGITSZIGET, ROOM 634, BUDAPEST, HUNGARY; TEL.: 111-1000; FAX: 132-33-73).

MEMORANDUM

TO :Csepi Lajos, Managing Director
Vamos Ferenc, Financial Director

FROM :Twyman Charles, Advisor

DATE :7 October, 1991

REFERENCE: European Bank for Reconstruction and Development (EBRD or European Bank)

BACKGROUND:

We have had one a few previous contacts with the EBRD before they got themselves organized wherein they proposed doing work for us for which we would pay. The alternative at that time was to work with at least as well qualified private sector organizations at the same price or work with a start-up EBRD. We choose to stick with the private sector.

CURRENT SITUATION:

-A. The EBRD is now getting better organized. There are a team of Hungarians in place (I believe the key ones are: M. Nemeth, G. Matolcsy, P. Reiniger, and I. Szeguary). They have set up their country desk structure (Mr. Rolf Westling is the Senior Country Manager for Hungary) and they are trying to systematically identify areas where they can assist. Mr. Westling made his initial visit to Hungary this last week and visited with me on 3 October (He had been scheduled with Csaba Gelenyi but the Manresa pre-empted that meeting).

1. The EBRD now has grant money available to assist by providing technical assistance to activities critical to the development of a market economy (like privatization activities - the SPA)

2. The EBRD has considerable funds for investment activities but it is still trying to systematically allocate those funds, that may take a while.

-B. The US Director of the EBRD has requested I brief the interested EBRD staff on the progress of Hungary's privatization program on 28 and 29 October, 1991. The reason for his request is that he knew that I was preparing a briefing for the US Government in October in Washington and hoped to get me on the way back to come to London to give the same briefing to the EBRD country staff. (The US Director is very well known to me professionally from my previous work) By chance I also had the opportunity to meet with the new Hungarian Country Manager who also thought it would be a useful idea.

RECOMMENDATION:

1. That I take the opportunity offered by the US Director and the country director to brief the EBRD.

2. That Dr. Csepi contact the Hungarian delegation to advise them of my visit. I suggest that:

- a. I can update them on the program
- b. I can initiate SPA coordination to help them develop an appropriate strategy as regards privatization and the SPA with the new country desk officer and the office of the US Director.
- c. My visit can lay the groundwork for more meaningful contacts at the EBRD at the senior levels within the SPA.
- d. My visit to the EBRD (like my visit to the US) can be used to focus attention on Hungary's needs and significant achievements.

Attachment: Fax proposal to the US Director and Mr. Westling at EBRD

FINANCIAL AND ECONOMIC AFFAIRS DIRECTORATE

BACKGROUND

Unlike most Government Activities the SPA is a producer of results for Hungary in a direct proportion to the resources at its disposal. Its principal products are:

1. To be the catalyst for the transfer of asset management and ownership from the government sector to the private sector.
2. Cost reduction for the Government:
Reduction and elimination of subsidies
Reduction of the Government overhead to manage assets
3. An improvement in the efficiency with which Hungary's assets are managed with the directly related economic benefit.
4. Proceeds from:
 1. Asset sales
 2. An enlarged and improved tax base

OBJECTIVES

The Financial and Economic Affairs Directorate has been established to manage the financing needs of the SPA, both sources and uses, and provide the control, planning and budgeting activities needed to support this effort.

STRATEGY AND ACTION PLAN

During 1992 the Finance Directorate will design, lead and coordinate the SPA's bottom-up planning effort integrating it into monthly variance reporting all as part of the Privatization Information System that it will completed in early 1992. In addition it will expand its internal control and accounting capability so as to be able to better coordinate and control its Donor and Lender Agency funding and its increasing pool of proceeds funds.

PROGRESS TO DATE

- The Local Area Network is in place
- The Privatization Information System is designed and will be operational by the end of the 1st. qtr. 1992
- The bottom-up budgeting and planning process has been initiated
- The World Bank and EC PHARE funding control problems are being addressed with the new EC PHARE PMU scheduled to arrive in Feb. 1992.
- A staff member is now focussing full time on EC PHARE activity with another focussing on World Bank activity.
- The new Financial Director is working his way through his first budget and planning cycle
- The core 1992 Work Plan has been designed and accepted

FINANCING NEEDS

-The largest funding need of the SPA is its selling costs, the purchase of the highly skilled resources required to undertake major privatization or allow sound judgements to be made on technical issues. *

The approximate funding requirements of the SPA by the end of 1992 or early 1993 will peak and stabilize at about: US\$120,000,000 (HUF 9,600 million) (These fees are currently running less than 5% of the sales yields expected. This fee as a percent of sales proceeds is expected to rise over time as the quality of the assets being privatized declines)

* These expenses include: accounting charges, valuation charges, legal expenses, industry expertise advisors. These costs precede sales and do not include success fees which are usually only appropriate in the case of a sale with proceeds. The bulk of these fees are directly recoverable from sales proceeds. As an indication an average major privatization requires approximately US\$600,000. The SPA plans to be undertaking up to 200 transactions simultaneously with an average turnover of 18 months per transaction (i.e. about 75 sales per year about 1 sale every 5 days at peak in mid 1993)

-The most important funding need of the SPA, though less than 6% of its actual total funding needs, are the SPA's projected 1992 operating costs. These are estimated to be HUF 566 million (US\$7,075,000)

It is the operating cost number which reflects the cost of sustaining the production line of transactions processed and regulated by the SPA. If these expenditures are not made the number of transactions concluded per year will decline, proceeds will be less, and the pace of transformation of the economy will be slowed. The target of the Government to have transferred over 50% of the assets in the competitive sector into private hands by the end of 1994 will be at risk

The funding responsibilities of the Government

-The Government of Hungary has assumed the responsibility for three principle funding activities:

1. The operating costs of the SPA:

The Government portion * of the total operating costs of the SPA (HUF 566 million -US\$7,075,000) are less than 6% of the peak continuous funding needs of the SPA they include:

- Staff expense
- Office space and expenses
- Basic office equipment
- Administrative costs
- Communications costs
- Public Information costs

* In 1992 the USAID will spend approximately US\$2.5 million for support of the SPA (advisors, equipment, technical assistance, training, partial funding of the public information program) and the EC PHARE program which be spending from both its PHARE I and PHARE II programs will expend about ECU 5 million (US\$6,7 million) for support of the SPA principally for advisors, training, technical assistance, equipment with some small support of the public information program. It is anticipated that in 1993 and beyond that the PHARE funding for operating purposes will cease and USAID's may be reduced.

In addition the SPA currently has beside the EC and USAID funded advisors, 3 British Know How fund advisors, 1 Canadian, and one partially French government funded advisor. It is hoped that when the transaction volume is substantially increased that additional advisory assistance may be made available. This cannot be assumed.

2. An increasingly greater portion* of the selling costs of the major asset of the Government. In accord with Law No. VII. 1990 These selling costs are to be paid from sales proceeds.

During 1992 the Government of Hungary will fund an ever greater portion of the selling costs of Hungarian enterprises. These costs are directly related to the number of privatizations under preparation at a given time. The greater the number of privatizations being prepared, the greater the number. In accord with the SPA present pipeline and expected new initiatives, this should grow to almost HUF 4,900 million (US\$61.4 million) outstanding by the end of 1992 and increase significantly to the peak number of approximately HUF 9,600 (US\$120 million) outstanding in 1993 and 1994.

MEMORANDUM

TO :Nemethy Lajos, DMD
FROM :Charles G. Twyman, Advisor
DATE :5 May, 1992

REF :Suggested SPA Management Meeting Schedule

BACKGROUND:

The SPA has just had its size doubled, is now a Ministerial rank organization, is in new quarters, is an established and maturing organization, and has just undertaken an internal reorganization.

The SPA's three principal characteristics are:

1. The SPA is a transaction driven organization. It must be deal driven at an increasing pace and volume.
2. The SPA's decision making process must be transparent. It's processes must assure that the basis for any decision it makes are clearly stated and derived through a systematic controlled review effort.
3. The SPA must add value or get out of the way. If the SPA is interposed in the privatization process it must contribute to the process with a minimum time and actual cost.

CURRENT SITUATION:

When the SPA was smaller and learning, the committee of the whole approach was appropriate. The daily morning management meeting discussing all of the major business before the SPA concentrated everyone on transactions in the pipeline, contributed to transparency, added value as more inputs could be brought to bear to resolve problems and make decisions, and most importantly was the SPA's major communications and training medium.

In the reorganized and expanded SPA the morning meeting no longer serves the purposes for which it was instituted. It is taking time away from getting work done, cannot go into enough detail on transactions to support transparency, and is adding less and less value to the processes of the SPA.

ANALYSIS:

A daily 2 hour meeting of the top 20 - 30 managers of the SPA costs the SPA a man month every week. It is too large a meeting for meaningful communications. The meeting has a crowded agenda with many items on it of very limited interest to all concerned. In addition a large meeting discussion of confidential information before a large audience without a need to know creates a situation where transaction price and buyer information may be too broadly known before a transaction is concluded creating a potential risk for the transaction.

The morning meeting's principal continuing usefulness is:

1. As a communication and training forum.
2. As a consensual management device.

Unfortunately the meeting is leading to a situation of collective irresponsibility with less clear lines as to who must assume responsibility for a transaction. Also the meeting device is bringing diminishing returns in transparency and value added.

CONCLUSION:

The management methods of the SPA should be revised to match its reorganization and expansion. The methods chosen should adhere to the original principles but accelerate and bring greater value to the privatization process while retaining the benefits of communication and training of the old.

SUGGESTED SOLUTION:

I

The SPA should have five basic meeting events in a week. These meetings are the basic transaction related meetings of the SPA. All other activities would be scheduled in relationship to them. Only the MD can alter this schedule in consultation with the SPA's Senior Management:

- | | | |
|--|------------------------|-------|
| 1. Meeting of the External Board | : Wednesday | 09:00 |
| 2. Meeting of SPA Senior Management | : Monday | 07:30 |
| 3. General Directors Meeting of the SPA | : Monday | 09:00 |
| 4. Meeting of the Privatization Group | : Tuesday and Thursday | 07:30 |
| 5. Meeting of the Asset Governance Group | : Wednesday and Friday | 07:30 |

Meeting of the External Board:

Purpose : To approve transactions, review and approve matters of policy, initiate SPA recommendations to Government, interpret Government and legal guidance given the SPA.

Attendees: Present practice

Reporting: Minutes prepared by the Board's secretary, circulated and approved by the Board members with the approved transactions attached and incorporated by reference.

Meeting of the SPA Senior Management:

Purpose : To review and approve the key transaction going through the system, to decide on and define the details of matter of policy, to make major personnel and organizational recommendations, to approve matters for the Board Agenda 10 days away, to review and institutionalize the instructions of the previous External Board meeting, to establish the Agenda for the General Director's meeting one week hence.

Attendees: MD, the 4 DMDs, The Director of the Legal Department and, by invitation the planning and finance Director, the personnel officer and such other Directors or staff members as are relevant to the day's agenda.

Reporting: Minutes and Operational Memorandum prepared by the SPA secretariat, circulated and signed by all the senior Management with the approved transactions attached and incorporated by reference.

General Director's Meeting of the SPA:

Purpose : To discuss the agenda established in the previous week by the SPA's senior management, to communicate and discuss policy decisions, to promulgate and clarify the policy directions of the Board and Senior Management of the SPA, to discuss new initiatives of the SPA and issues of general importance, to table issues for Senior Management decision.

Attendees: The MD and the present attendees at the morning meeting.

Reporting: Minutes prepared by the SPA secretariat.

Meeting of the Privatization Group:

Purpose : To discuss all the transaction and organizational issues concerning the Privatization Group, to approve transactions being submitted to the SPA Senior Management Committee, to create the policy and operational guidelines of the Privatization Group which must be reviewed and approved at the SPA Senior Management and (when necessary) the External Board level.

Attendees: The MD, the Privatization Group DMD, the Privatization Group Directors, privatization transaction officers as appropriate, usually the Legal Director or his representative, others by invitation.

Reporting: Minutes prepared by the DMD's office, circulated and signed by all the directors with the approved transactions and other materials attached and incorporated by reference.

Meeting of the Asset Governance Group:

Purpose : To discuss all the transaction and organization issues concerning the Asset Governance Group to approve transactions being submitted to the SPA Senior Management Committee, to create the policy and operational guidelines of the Asset Governance Group which must be reviewed and approved at the SPA Senior Management and (when necessary) the External Board level.

Attendees: The MD, the Asset Governance Group DMD, the Asset Governance Group Directors, Asset Governance officers as appropriate, usually the Legal Director or his representative, others by invitation.

Reporting: Minutes prepared by the DMD's office, circulated and signed by all the directors with the approved transactions and other material attached and incorporated by reference.

II

All the operating units of the SPA to include the above will schedule their individual substantial and specialized meetings as needed but mindful of the priority position taken by the above listed meetings.

While the above schedule is fixed additional and supplementary meetings can and will be expected to be scheduled to deal with special situations.

STATE PROPERTY AGENCY

FOREIGN FUNDS

CONTENTS

Introduction

Annex 1: Financial Tables 30th June 1992 and 30 Sept 1992

Annex 2: EC Phare Programme for Privatization and Enterprise Restructuring

Annex 3: Review of the Status of the World Bank Funds

Annex 4: Contract (between the National Bank of Hungary and the State Property Agency)

Annex 5: SPA USAID Project Office - Status Report

The PHARE budget in the financial tables of Annex 1 is listed both in ECU and USD.
(See tables 1 and 1/a.)

World Bank

In the autumn of 1990, the World Bank granted a loan of USD 10.5 million to the SPA through the Government of Hungary and the National Bank of Hungary, which was approved to cover the consultancy fees of the 20 enterprises involved in the First Privatization Program. Of this, USD 3,409,875 was disbursed by June 30, 1992. The closing date for the loan is June 30, 1995.

Both the World Bank loan and the Japanese grant are administered by the National Bank of Hungary and Innofinance Ltd; the interest on the loan is paid by the Ministry of Finance. Within the SPA the directorates handle the administration of the consultancy services; they draw up the contracts, forward them to the World Bank for approval, control performance, check the legitimacy of the invoices submitted and approve payment. They then forward the invoices to the State Asset Proceeds Office of the SPA who, after a formal check, instruct Innofinance Ltd. to make the payment.

Detailed information can be found in the summary tables of Annex 1 and in the enclosed report "Review of the Status of the World Bank Funds" in Annex 3.

Japanese Aid

In August 1990 the Japanese government granted an aid of ¥34.8 million which equals USD 240,000. The grant is administered by the World Bank, and its objective is to provide technical assistance in developing a privatization program, selecting enterprises and reviewing the legal framework. So far USD 72,135 has been disbursed from the total amount of the aid, and the outstanding amount can be utilized until 31 December 1992.

Detailed information is provided in the summary tables of Annex 1, the report "Review

**State Property Agency
Foreign Funds**

Introduction

In order to promote the Hungarian privatization process, the State Property Agency (SPA) has received support from various foreign sources in the form of loans and grants.

PHARE

The objective of the PHARE program of the European Communities is to support the privatization activity of the SPA, provide for the training of specialists and improve the technical facilities of the SPA. The first project (PHARE 1990) began on 1 December 1990 and has been extended until 31 December 1993; the approved grant is ECU 5.2 million. The second project spans from January 1992 to 31 December 1994 with an approved amount of ECU 21.4 million, plus the administrative fund to cover the services of PHARE officials (ECU 950,000).

The PHARE 1990 expenditure is accounted for by the Finance Office of the SPA. Their accounting system has been specifically developed to satisfy the needs of the SPA and the budgeting requirements of the PHARE 1990 programme. However, this system does not comply with the budgeting categories of PHARE 1991, and therefore it needs to be adjusted. This need for change coincides with the efforts of the central audit group of PHARE to standardize its budgeting and accounting systems used in various countries. To achieve this purpose, they have developed PHOS4, a new accounting software package which is currently being implemented at the SPA.

Detailed information is provided in the tables in Annex 1 and in the agreement attached in Annex 2 "EC PHARE Programme for Privatization and Enterprise Restructuring".

of the Status of the World Bank Funds" in Annex 3 and the "Contract between the National Bank of Hungary and the SPA" attached as Annex 4.

USAID

The US government started to support the privatization process in Hungary in the summer of 1989, which was followed by the opening of the USAID Office within the SPA in March 1990. The US aid has been continuous and growing ever since. Its objective is to promote privatization via management consultancy, the setting up of a Privatization Information System and the improvement of the technical facilities at the SPA.

The aid is provided by the government of the USA and is managed by the United States' International Development Office which assigned responsibility for the day to day assistance to the SPA to the consultancy firm Deloitte & Touche. The USAID Project Office at the SPA is staffed by members of the Washington and Budapest offices of Deloitte and Touche. USAID assignments are carried out on a project base: each project has to be applied for and approved separately by the SPA, and it then has to be reviewed and approved by USAID. All work is done by firms previously selected by USAID for a previously agreed fee, which is financed by USAID. This way, the USAID budgeting and accounting system is not intertwined with the financial affairs of the SPA.

Detailed information is provided in the tables of Annex 1 and the tables and footnotes of the "Status Report" of the USAID Project Office at the SPA attached as Annex 5.

TYPE OF SUPPORT	PHARE '90					PHARE '91				
	Grant	Committed	Disbursed	Outstanding Payments	Not Comitted	Grant	Committed	Disbursed	Outstanding Payments	Not Comitted
	ECU	ECU	ECU	ECU	ECU	ECU	ECU	ECU	ECU	ECU
Technical assistance	1,014,000	756,000	408,000	348,000	258,000	1,400,000	800,000	90,000	710,000	600,000
Training	706,000	474,000	232,000	242,000	232,000	0	0	0	0	0
Technical facilities	1,037,000	890,000	272,000	618,000	147,000	150,000	0	0	0	150,000
Consulting	2,481,000	1,064,000	0	1,064,000	1,417,000	19,850,000	0	0	0	19,850,000
Audit	10,000	10,000	10,000	0	0	0	0	0	0	0
PMU	0	0	0	0	0	950,000	950,000	190,000	760,000	0
TOTAL	5,248,000	3,194,000	922,000	2,272,000	2,054,000	22,350,000	1,750,000	280,000	1,470,000	20,600,000

30. September 1992

TYPE OF SUPPORT	WORLD BANK			JAPANESE FUND		
	Loan	Committed	Available	Grant	Committed	Available
	\$	\$	\$	\$	\$	\$
Technical assistance	10,500,000	4,008,429	6,491,571	240,000	72,135	167,865
TOTAL	10,500,000	4,008,429	6,491,571	240,000	72,135	167,865

30 September 1992

USAID

The US Government initiated its support of the privatization process in Hungary in the summer of 1989 followed by the opening of a USAID Project Office within the SPA in March, 1990. The flow of US aid has been continuous and growing ever since. The objective of US assistance to the SPA is to promote the acceleration of the privatization process in Hungary by making available the technical skills, systems, and equipment that will help the SPA function more effectively. This assistance has included computers, software, and copiers, Management Information System development, planning and financial management assistance, assistance to the compensation note program and the Self Privatization program.

The aid is provided by the Government of the USA and is managed by the United States International Development Agency Project Office which is assigned responsibility for the day to day delivery of assistance to the SPA through a consultant team directed by the consultancy firm Deloitte & Touche. USAID support is delivered on a project basis. Each project is designed with and approved by the SPA subject to the review and approval of the USAID. The budgeting and accounting system of the USAID project does not effect the SPA directly as all budgetary and payment issues are between the contractor and USAID

USAID's 1993 assistance is focused on 5 major project areas to include the Self Privatization Program, Financial Management, Training, Equipment and the Project Office.

USAID
SPA Project Support
Historic

USAID 1989@, 1990@, 1991, 1992					
TYPE OF SUPPORT	1989	1990	1991	1992	TOTAL
<u>Long Term Assistance</u>					
Project Office			\$374,560	\$ 353,193	\$ 727,753
Training Asst.				134,085	134,085
Financial Mgmt.					
Privatization					
Insolvency					
Total Long Term			\$374,560	\$ 487,278	\$ 861,838
<u>Short Term Assistance</u>					
Equipment	\$	\$200,000	\$ 20,543	\$ 203,555	\$ 424,098
Training	30,000	170,000	52,746	60,000	312,746
Strategic Planning *		240,000			240,000
financial mgmt.			23,215	313,880	337,095
Priv. Info. System			153,946	635,806	789,752
Investment Prom.			117,052	48,645	165,697
Self Privatization				118,226	118,226
Compensation Notes				357,874	357,874
Public Relations			70,483	191,346	261,829
Other short term					
Project Management			37,208	10,384	47,592
Total Short Term	\$30,000	\$610,000	\$475,193	\$1,939,716	\$3,054,909
TOTAL **	\$30,000	\$610,000	\$849,753	\$2,426,994	\$3,916,747

@ The figures for 1989 and 1990 are approximate though correct in order of magnitude. Expenditures during this period were managed through several separate contracts by a different contractor and precise figures are not available. 24 September, 1990 and onward figures are actual.

* This figure incorporates the work by the Tomlinson team and the work of the current project manager for the period 17 March, 1990 to 24 September, 1990 when the 1st. long term contract commenced.

** The total 1989, 1990, 1991, and 1992 are the amount committed and disbursed on a fiscal/contract year basis (1 October - 30 September). As all available facilities were utilized the committed and disbursed numbers are the same. A correction of a charge-rate number made retroactively in fiscal 1993 has made an additional amount available from the previous contract years in fiscal 1993

MUNKAKÖRI LEÍRÁS

A MUNKAKÖR MEGNEVEZÉSE: Gazdasági vezető

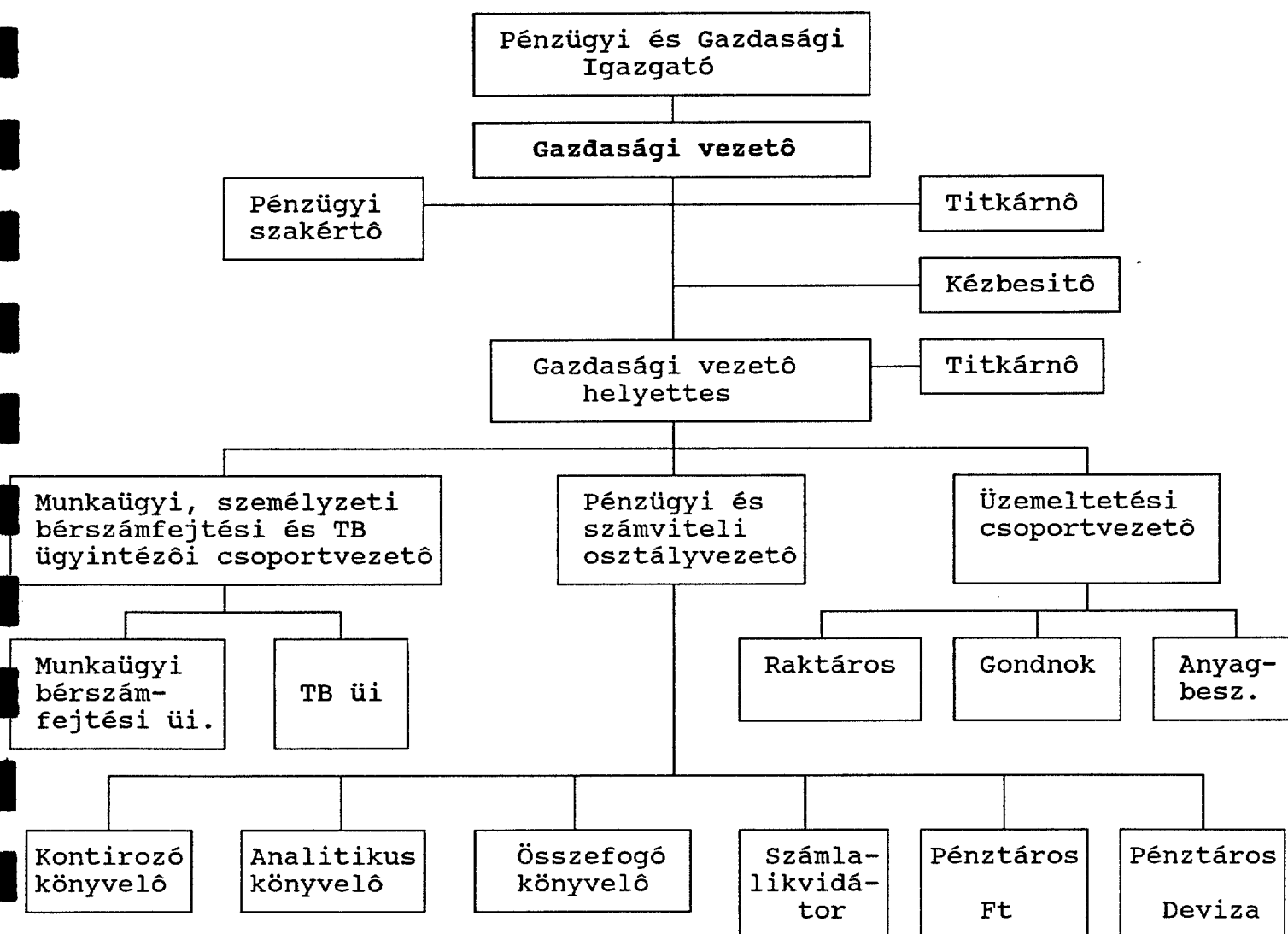
A MUNKAKÖRT BETÖLTŐ NEVE: Fejesné Pécsi Éva

A MUNKAKÖRNEK MEGFELELŐ BEOSZTÁS ÉS KÓD: Igazgatóhelyettes 204

KÖZVETLEN FELETTESE: Gazdasági és Pénzügyi Igazgató

HATÁSKÖRÉBE BEOSZTOTTAK: 19 fő

SZERVEZETI ÁBRA:



Gazdasági vezető/2

A SZÜKSÉGES TAPASZTALAT, KÉPZETTSÉG ÉS KÉPESSÉGEK:

Közgazdasági Egyetemi vagy Pénzügyi és Számviteli Főiskolai végzettség, és legalább öt éves vezetői gyakorlat. A vonatkozó szakrendeletek naprakész ismerete, jó kommunikatív készség.

A MUNKAKÖR Fő CÉLJA:

Az AVÜ költségvetésének és mérlegbeszámolóinak elkészítése és ellenőrzése; a Gazdasági Iroda teljes pénzügyi és számviteli munkájának irányítása és ellenőrzése.

FELADATOK ÉS KÖTELEZETTSÉGEK

- 1 Az AVÜ költségvetési tervét, éves és féléves mérlegbeszámolóját elkészíti.
- 2 Közvetlenül irányítja és ellenőrzi a hozzá tartozó munkatársak és ügyviteli alkalmazottak munkáját pénzügyi, számviteli, munkaügyi és személyzeti, bérszámfejtési és társadalombiztosítási területen, valamint az üzemeltetéssel kapcsolatos teendők terén.
- 3 A költségvetési szerv egészére gazdálkodási és pénzügyi intézkedéseket hoz.
- 4 A gazdálkodási keret betartásának ellenőrzése mellett pénzügyi kötelezettséget vállal.
- 5 Biztosítja az AVÜ működésének műszaki feltételeit.
- 6 Részt vesz a PHARE pénzügyi kereteinek tervezésében és felhasználásának kialakításában és nyilvántartásában.

Budapest, 1992 május

A MUNKAKÖRT BETÖLTŐ NEVE ÉS ALÁÍRÁSA

.....

KÖZVETLEN FELETTESÉNEK NEVE ÉS ALÁÍRÁSA

.....

MUNKAKÖRI LEÍRÁS

A MUNKAKÖR MEGNEVEZÉSE: Az állami vagyont kezelő iroda vezetője

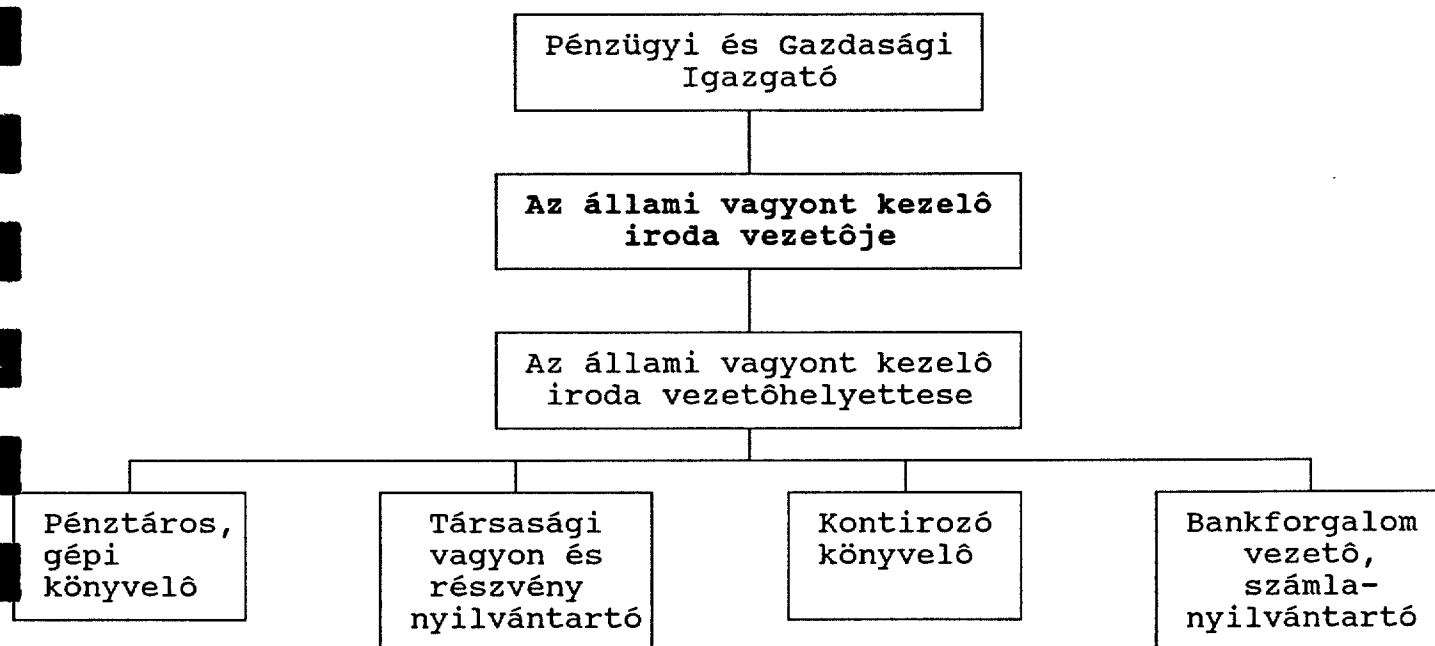
A MUNKAKÖRT BETÖLTŐ NEVE: Molnár Dóra

A MUNKAKÖRNEK MEGFELELŐ BEOSZTÁS ÉS KÓD: Tanácsos 103

KÖZVETLEN FELETTESE: A Pénzügyi és Gazdasági Igazgató

HATÁSKÖRÉBE BEOSZTOTTAK: 5 fő

SZERVEZETI ÁBRA:



A SZÜKSÉGES TAPASZTALAT, KÉPZETTSÉG ÉS KÉPESSÉGEK:

Közgazdasági Egyetemi vagy Számviteli és Pénzügyi Főiskolai végzettség, 3-5 éves vezetői ill. irányítói tapasztalat számviteli, pénzügyi területen; számítógép használatának ismerete előny

A MUNKAKÖR FŐ CÉLJA:

Az állami vagyon kezelése, tervezése és nyilvántartása

Az állami vagyont kezelő iroda vezetője/2

FELADATOK ÉS KÖTELEZETTSÉGEK

- 1 A számlarend és a számlamagyarázat karbantartása
- 2 Havonkénti főkönyvi egyeztetés
- 3 Féléves és éves mérlegbeszámoló készítése
- 4 A költségvetési tervezésben való részvétel
- 5 Jelentések és kimutatások összeállítása a vezetőség és a PM számára
- 6 Az irodán dolgozók munkájának irányítása és ellenőrzése
- 7 Az iroda munkatársainak alkalmasságát elbírálja és felvételét végzi

Budapest 1992. május

A MUNKAVÁLLALÓ NEVE ÉS ALÁÍRÁSA:

Molnár Dóra

.....

KÖZVETLEN FELETTESÉNEK NEVE ÉS ALÁÍRÁSA

Vámos Ferenc

.....

STATE PROPERTY AGENCY
PROPOSED MANAGEMENT REPORTING PROCESS

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STATE PROPERTY AGENCY
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June 1, 1992

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Pozsonyi út 56
Budapest, Hungary

SUBJECT: PROPOSED MONTHLY AND QUARTERLY MANAGEMENT
REPORTING AND REVIEW SYSTEM

Dear Dr. Vámos:

It is with pleasure that I forward for your review the recommended monthly and quarterly management reporting and review system: this project was developed with the assistance of your staff during the past two months and completed under a grant from the U.S. Agency for International Development (USAID).

This reporting system was designed

* To provide SPA management at various levels with key financial and operational information on a comparable and regular basis;

* To provide information on the progress of privatization to external sources, such as the Government of Hungary and the World Bank, since their needs were carefully taken into consideration as the package was being designed;

* To introduce in the SPA's major operating units a quarterly variance analysis and reforecasting process; and

* To create throughout the SPA a uniform and reliable base from which a meaningful budgeting and planning process can be started.

The SPA is a transaction driven organization with some moderate organizational complexities in such areas as asset management, but a relatively simple cost structure.

The two major areas of focus of its operations are privatization of companies and asset management and protection. Consequently its cost structure is driven primarily by personnel and personnel related costs such as payroll, Social Security payments, fees to consultants and travel expenses. It is estimated that these costs accounted for more than 75% of the SPA's total operating costs in 1991.

This minimizes the need for complex cost accounting and reporting systems in the SPA and emphasizes the importance of implementing simple and straightforward systems and procedures when these can be made to deliver sufficiently responsive (i.e., detailed, relevant, accurate and timely) cost effective results.

Another point that needs to be considered when implementing a management reporting system is the amount of work required to make it work. The burden of preparing a comprehensive management reporting package and of organizing and conducting periodic management review meetings involves a significant diversion of staff and management attention from the running of day to day operations. It is therefore important that a realistic balance be struck between the needs of management for a timely and responsive management review process and the ongoing operational needs of the SPA.

Experience suggests that the best basis for achieving this balance is a combination of quarterly management review meetings covering a broad range of operational and financial issues and more narrowly focused monthly reviews of selected key operational and financial indicators.

The material included here is intended to support this approach. Please note the following key characteristics of this reporting package:

* The number of tables was kept to a minimum: of the 22 tables included in the quarterly report ten represent the consolidation of monthly reports; the additional twelve contain information which is only needed quarterly.

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* The number of entries in each table was kept to a minimum: as a general rule only the most important items were listed and the remainder was aggregated.

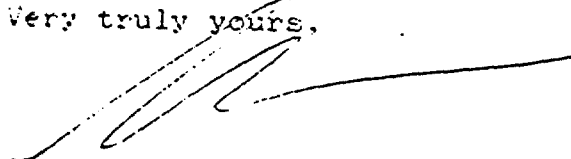
* The major entries correspond directly to key items in the SPA's Chart of Accounts and the budget forms introduced by the Government of Hungary this year.

* Each table is followed by a set of notes to help the user understand the purpose of that table and to assist in its use; the Hungarian version is more detailed since that is the one which will be used by the SPA.

We believe that one of the benefits of the process of creating this reporting system was the opportunity to discuss with your staff and others within the SPA the value and potential uses of such a management tool.

I hope that you will find our recommendations useful and that the DRT team will be given the opportunity to continue working on their implementation with you and with your colleagues at the SPA.

Very truly yours,



Charles Twyman
USAID Project Manager

Copies to: Mr. Lajos Csepi, Managing Director, SPA
Mr. David Cowles, USAID Representative, Hungary
Mr. Ben Case, Managing Director, DRT Hungary
Senior SPA managers

II. RECOMMENDATIONS

1. Use the proposed quarterly reports

a. As the primary means of supporting the SPA's internal management reporting and reviewing process;

b. To meet several Government of Hungary reporting requirements;

c. To provide the World Bank and other external organizations, if and as warranted, with information they have requested; and,

2. Use the proposed monthly reports to provide SPA's management with interim numbers that will allow it to monitor key manpower and financial indicators; this will reduce the risk that it will be taken by surprise by unexpected increases in costs or deteriorations in operating results that might go unreported until preparation of the quarterly reports.

3. Develop a planning and budgeting function within the SPA, with primary overall responsibility for coordinating the preparation of consolidated reports, their analysis, dissemination, and future refinement as needed.

4. Assign one person within each major reporting unit to be responsible for coordinating the preparation of that unit's monthly and quarterly reports, including variance analyses; this person should work closely with the group described above (recommendation number three).

5. Continue to provide the basic data needed for the preparation of the proposed reports through the Chief Financial Officer and the computerized Privatization Information System.

6. Implement the proposed monthly and quarterly management reporting and review system gradually. The following steps are recommended:

a. Insert the appropriate SPA data for the month of April (Chief Financial Officer's staff).

b. Forward the completed set of tables for April, with the full packet of monthly and quarterly pro-forma tables, to the four Deputy Managing Directors requesting that they:

-- Review the package; and,

-- Assign a person from their staff to assist the CFO with the preparation of a similar set of reports summarizing the data for their particular group;

-- Prepare sets of management reports for the month of April by major areas of responsibility (each DMD component plus major staff support directorates).

7. Prepare sets of monthly reports for the months of May and June.

8. During the first three weeks of July, prepare a consolidated quarterly report for the SPA and for each major reporting unit. Peter J. Kurz and DRT Hungary will be available to assist in this effort which, in addition to meeting the SPA's internal management needs should also fulfill the Government of Hungary and the World Bank requests for quarterly reports.

9. After the first quarterly report is prepared, it is recommended that this reporting system be made available on line through the local area network.

10. Use the third quarterly report as a starting point to develop the first-cut forecast of revenues and expenses for 1993. It is recommended that each reporting unit and the SPA begin the 1993 planning and budgeting cycle with the third quarterly report as a basis. Upon receipt of these preliminary, "bottom up" estimates, SPA's senior management can then develop a set of guidelines, provide parameters, and develop with the operating units a budget to be recommended to the Government for approval.

III.. INTRODUCTION

A. Background:

In December, 1991, the Institutional Development Plan prepared for the State Property Agency identified a need for the introduction of budgeting and management reporting as management tools for use within the SPA. This was to include implementation of a "bottom up" budgeting process and its use on a regular basis for variance analyses and the monitoring and measurement of operational performance.

The proposed quarterly and monthly management reporting package is an integral part of the overall planning, budgeting and reporting process being put in place at the State Property Agency.

An earlier step was the development of a computerized privatization information system by DRT Hungary and IDOM. Since March more than forty persons have completed training courses in the use of this system; by mid-June, with the data-base entered (covering approximately 2,000 companies and 1,000 transactions) the system will be ready for on-line use through the local area network which already includes eighty computers.

Successful implementation of a management reporting process almost invariably requires modifications following start-up, the gaining of first-hand experience of its strengths and weaknesses and a better understanding of management's reporting needs and priorities. This can be expected in the case of the SPA.

In addition, in the case of the SPA, there are a number of internal and external changes underway that are also likely to affect its management reporting activities. For example:

1. Changes are being made in the SPA's internal organization that will affect its management and reporting structure.
2. Detailed 1992 budgets have not yet been prepared for a number of areas. Departmental cost budgets are an example.
3. Implementation of the changes required to bring the SPA's charts of accounts into compliance with Ministry of Finance "Order No. 179/1991 XII.30, On the Obligation for Reporting and Bookkeeping by Organizations Managing on a Budgetary Basis," issued in late 1991, and the supplementary "Guide to Forms for Budgetary Institutions," issued in March 1992, is still incomplete.

All these changes can be expected to have an impact on the reporting process and it is probable that modifications will be required to ensure that they are properly incorporated in the reporting process once they have been completed.

B. Objectives:

1. To develop management report packages for monthly and quarterly reporting of:
 - 1.1. Financial and operational results including comparisons with budget.
 - 1.2. Capital expenditures including comparisons with budget.
 - 1.3. Sources and applications of funds.
2. To develop systems and procedures including selection of suitable "off the shelf" software to support (1) above.
3. To develop a methodology and recommend steps which will assist in the implementation of a budgeting, planning, and reporting process within the SPA.

C. Scope of Work:

1. To review the accounting, reporting and other relevant background material already in place.
2. To review applicable internal and external regulations and reporting requirements.
3. To consult with the SPA's Chief Financial Officer and his staff and determine current reporting needs.
4. To develop and propose the necessary reports in Hungarian and English.
5. Upon acceptance of the proposed reporting and reviewing process, to assist the SPA in its implementation.

IV. STATE PROPERTY AGENCY ACCOUNTING PRACTICES

An important change in the SPA's accounting practices occurred at the beginning of 1992.

The SPA is a "budgetary" organization under Hungarian Accounting Law. This law, which is administered by the Ministry of Finance, requires that "budgetary" organizations change from "accruals" based to "cash" based accounting, commencing January 1, 1992.

It has been confirmed in discussions with a senior representative of the Ministry of Finance that it is also intended that "budgetary" organizations use cash based accounting for their internal budgeting and management reporting commencing January 1, 1992.

This is consistent with the practices of most West European government agencies, which generally use cash based accounting. Their experience indicates that cash based accounting can be used successfully for internal budgeting and management reporting provided cash related transactions are kept reasonably current.

V. MANAGEMENT REPORTING PRINCIPLES

There are several important principles that need to be incorporated in the SPA's management reporting process to ensure its effectiveness as a management tool.

1. The information it provides must be sufficiently accurate and up to date to allow it to be used as a realistic basis for measuring management performance. At the same time it should not incorporate a level of detail that is irrelevant or unnecessary for this purpose. A balance has to be struck between unnecessary detail and a level of information that is sufficient to allow the success of management to be monitored at the day to day decision making level. This can require a level of judgement that it may be difficult to provide until there is a track record of prior experience to draw on.
2. The process must focus on measurement of Management's performance in terms of its success in managing the activities and costs under its control. It is generally recognised that it is counter-productive to attempt to measure an individual manager's performance on the basis of costs or results that are outside his control.
3. The information and support requirements of the management reporting process must be realistic and such that they can be supported by the SPA's systems and procedures.
4. The structure of the management reporting process must be sufficiently flexible to allow it to be modified to reflect changes in the nature and scale of the SPA's activities and reporting requirements without undue difficulty.
5. Finally the management reporting process must be both tightly organised and disciplined. Its timetable and the responsibilities of those involved for example, must be clearly explained and understood. It is the responsibility of senior management to ensure that the timetable and necessary level of discipline are observed.

It is recommended that the SPA use quarterly reports as the primary means of supporting its internal management reporting and review processes. Monthly management reporting is also recommended as a means of providing SPA management with interim numbers that will allow it to monitor key indicators.

VI. QUARTERLY MANAGEMENT REPORTING

It is recommended that the SPA use quarterly reports as the primary means of supporting its internal management reporting and review processes.

These reports are intended to meet the following broad needs of the SPA:

1. Provide management with the information it needs to evaluate the preceeding quarter's financial and operating results.
2. Serve as a basis for monitoring and evaluating the performance of individual managers.
3. Provide the information needed for the preparation of quarterly, semi-annual and annual progress reports to the Ministry of Finance, the Board of Directors and international lending agencies.

Two sets of proposed pro forma quarterly management reports, one covering financial information and the other covering operations information, are included in Section VIII. Each report is also accompanied by a page of notes that explain its intended purpose, and the source or sources of information used.

FINANCIAL SECTION:

This section provides

1. Summary data on major cost and receipts elements of the SPA's performance including its operating costs, capital expenditures, and capital transfers.
2. A sufficient level of detail to allow management's success in controlling costs to be monitored down to the department level.

Individual reports in the financial section have been based on reports and line item detail provided in the official Ministry of Finance Semi-Annual and Annual Reporting Package for "Budgetary" Organizations. This package, together with its supporting instructions, can be referred to for line item definitions.

The Financial Section compares actual data for the three months of the current quarter and the Year to Date with Budget and identifies variances from Budget.

Actual current quarter data is provided on an individual month by month basis, rather than a total for the quarter basis, because it is judged that this will improve management's ability to monitor the flow of transactions and, in particular, to determine whether transactions are being bunched or managed over time in ways that are intended to "dress up" quarter-end or other reported results.

It is also believed that this is a point that deserves special attention because of the SPA's use of cash based accounting and the importance of keeping its cash transactions on a current basis.

OPERATIONS SECTION:

The Operations Section of the Quarterly Management Report provides management with a summary, and in certain instances transaction level detail, on key operational activities of the SPA.

It is intended to provide management with the data it needs to monitor and measure its success in achieving operational objectives.

Whenever practicable, reports in the Operations Section compare actual transaction and activity results for the three months of the current quarter and Year to Date with budget or other previously identified performance targets.

Actual data for the current quarter, although compared to budget for the quarter is provided on an individual month by month basis, rather than a total for the quarter basis, because it is judged that this will improve management's ability to monitor the flow of transactions and, in particular, to determine whether transactions are being bunched or managed over time in ways that are intended to "dress-up" quarter-end and other reported results.

It is also believed that this deserves attention because of the SPA's use of cash accounting and the importance of keeping its cash transactions on a current basis.

VII. MONTHLY MANAGEMENT REPORTING

Monthly management reporting is also recommended as a means of providing SIA management with interim numbers that will allow it to monitor key manpower and financial indicators and reduce the risk that it will be taken by surprise by events such as abrupt increases in costs, or deteriorations in operating results, that might otherwise go unreported until the publishing of quarterly results.

Since monthly management report information is incorporated in quarterly management reports at the end of each quarter, monthly reports should only be prepared for the first and second month of each quarter in the ordinary course of events.

Two sets of proposed pro-forma monthly management reports are included in Section IX, one covering financial information, the other operations information. These ten monthly reports, when aggregated at the end of each calendar quarter, become ten of the 22 quarterly reports proposed. Each report is again accompanied by a page of notes to explain its purpose, assist in its use, and identify the source of information used.

Additionally, the Hungarian version includes a cross-indexing by account numbers of the entries on each table with the SPA's Chart of Accounts and the budget forms introduced by the Government of Hungary earlier this year.

The selection of monthly reports included here focuses primarily on major financial indicators such as receipts and expenditures and manpower levels. Their scope can readily be increased by the inclusion of additional reports on other financial or key operational indicators. New reports can be developed, or reports included in the Quarterly Management Report can be modified for this purpose.

Apart from this, the opening comments in the Quarterly Management Report Financial Section, relating to scope and purpose generally apply here as well.

STATE PROPERTY AGENCY

STATUS REPORT ON THE MANAGEMENT REPORT PROJECT

15 September 1992

The SPA's management report 1992 as part of the Agency plan initiated and supervised was co-ordinated by the USA carried out by outside consulting staff.

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By the beginning of May the completed in English in operational tables and accompanying Hungarian version was finished. Directorate started completing meet World Bank requirements; the new framework to SPA management Hungary and the World Bank its

The monthly financial and operational tables for April, May and June were completed first, followed by the extended quarterly ones. The original reports were slightly modified during the completion process according to the currently available data.

The following modifications were implemented:

- Data relevant only to the whole of the SPA and major units under the managing director and his deputies was collected.
- Some tables were not completed due to the lack of information available during this period: the tables (Quarterly Financial 4 & 6) designed to show the main expenditure items of sub-units i.e. directorates and offices, and the Quarterly Operational table No.8 regarding guarantees. In the future data relating to major units will be available to complete the Quarterly Financial table No. 4, but not Table 6. Information on guarantees will also be provided.
- Major changes were made to the line items and structure of the Quarterly Financial table No 9 and Operational table No 9.
- Two of the tables were changed completely: the Quarterly Operational tables No 12 and 13 were replaced by a four-page chart showing the status of the foreign funds in a source-based breakdown.

- The heading "Budget" was modified to "Yearly Budget" in some places; however, if no change is indicated the heading automatically relates to the quarterly or the cumulated period beginning on 1st January 1992 respectively. The SPA has no monthly budgeting requirement as yet, and therefore, the "Budget" and "Variance" columns were left blank in the monthly reports. In the Quarterly tables "Variance" was changed to "%" to express the actual figure as a percentage of the budget.

- A number of line items were inserted in or deleted from certain tables (both the quarterly and the monthly ones); in some places the line items were rearranged. See the Appendix for details.

Looking through the reports, it is apparent that not all tables were fully completed. The reason for this is partly that the SPA's present information system cannot provide data in the required breakdown, and partly that some of the activities included in the reports had not started by the time of completion, and therefore, there was no available data.

Work on the reports relating to the second quarter was finished by the end of July. World Bank representatives received a copy during their visit to the SPA in August and found it satisfactory.

Work has been continuing on the preparation of management reports since then: reports for the month of July were completed in the second half of August, and August data is currently being processed.

The management reports were designed using the EXCEL computer program. Data is inputted by approximately ten SPA staff using local work stations. EXCEL is now being programed into those work stations which did not have the facility in the past, and staff involved in the completion process is being trained to use EXCEL.

The program ensures that the reports are produced in two languages (Hungarian and English), although the inputting of data is done in Hungarian only.

In the future the charts will be prepared on floppy discs at the work stations and printed centrally. The complete package will then be forwarded to the director responsible for the management reporting process, the Head of the Financial and Economic Directorate.

APPENDIX

MODIFICATIONS

The changes relate to both the monthly and quarterly reports. Only the modified tables are listed below.

Financial reports

- 2 "Transfers from Ministry" was deleted from FUNDS FROM EXTERNAL SOURCES; "Interest Earned" was deleted from PRIVATISATION RECEIPTS; "Income from Rent/Leasing" and "Income from Bankruptcy Procedure" were inserted in PRIVATISATION RECEIPTS.
- 3 3/1 and 3/2 were merged into one table; "Odd jobs" was replaced by "Temporary staff"; "Part-timers" and Consultants' fee" were inserted; "Food supply" and "Other taxes" were deleted.
- 4 "Odd jobbers" was replaced by "Temporary staff"; "Part-timers" were inserted.
- 5 The following line items were deleted:
 - "Stationery",
 - "Postage"
 - "Other"
 - "Seminars"
 - "Payments to Ministry"
 - "Suspense items"
 - "Social Growth"
 - "Subsidies to non-profit entities"The following line items were inserted:
 - "Consultancy fees"
 - "Advertising"
 - "Valuation"
 - "Sales commission"
 - "Transfers to Managers"
 - "State debt repayments"
 - "Guarantees"
- 6 The following line items were deleted:
 - "Travel - Domestic"
 - "Travel - Foreign"
 - "Social Security Contribution"
 - "Seminars"
 - "Budgetary payments"
 - "Payments to Ministry"
- 7 The word "Rehabilitation" was inserted in the title; Line item "Rehabilitation" was inserted in the first sub-total; "Rehabilitation of Buildings" was deleted from the second.

Operational reports

- 1 The organisational structure of the SPA has changed since the report was drafted, which is reflected in the difference between the original list of organisational units and that of the completed report. The heading of all manpower charts (Operational 1, 2, 3) was changed: "Quarterly Budget" was replaced by "End of Quarter Actual"
- 2 Employee categories were extended by "Financial Assistant II" and the codes were modified
- 3 Same as above
- 4/1 "Value" was replaced by "Transactional value"
- 4/2 "Value" was deleted
- 6 "Sale price" and "Auction price" were added to the "Privatised Companies" entry; "Under bankruptcy" and "Book Value" were inserted
- 8 Not completed due to lack of information; however, the structure of the table will change in view of the information available in the future.
- 11 "Rejected Cases" was inserted in the heading

DESCRIPTIVE
SUMMARY OF THE 'ON-THE-GROUND' COMMUNICATIONS SUPPORT PROJECT OF
KRC - SKBH LTD. AT THE STATE PROPERTY AGENCY

The project involved on the average 2 person/days per week, which were allocated flexibly in response to the needs and requirements of the State Property Agency, particularly the Directorate of External Relations (PR)

We have organized a six part radio series with the participation of the members of Board of Directors. It was broadcasted with the title: 'Privatization as a National Program'.

We provided assistance in the preparation of quarterly and annual reports of the SPA.

We have organized meetings between the leaders of the SPA and the editorial boards of leading Hungarian newspapers and magazines creating personal contacts, building relationships and enhancing deeper understanding.

Before press conferences and interviews we worked out key thoughts and talking points for the Managing Director and members of the Board of Directors to establish coordinated and orchestrated messages, positions and positioning.

When the criticism concerning the SPA's work and the results of privatization intensified we worked out a pro-active 14 part communication action plan and after the Board of Directors gave its approval we assisted in its implementation (This project included keynote speeches, a year-end press conference in the Parliament Building, the Managing Director's letter to the members of parliament, to leading members of the press and media, articles in leading newspapers, etc).

As communication advisors of the SPA we participated in the work of the Inter-departmental Committee on Compensation. In this project dealing with the communication issues of Compensation, we researched, developed and wrote a brochure for people receiving compensation to provide them easy-to-understand information their possibilities and available options. Due to financing

reasons a part the communication action plan on compensation has not been implemented.

All through the contract period we assisted the SPA in the production and distribution of its monthly Newsletter (Hungarian and English language versions) We have made numerous proposals on how could further assist them in making the Newsletter more effective. .

An integrated data base has been developed for the different lists and mailing lists of the SPA containing more than 800 records. In order to make the data base system easy-to-use we have conducted a software and data base training for the staff of the Directorate of External Internal Relations.

At the request of the SPA, as of January we have taken over the management of and produced a monthly media-analysis containing with charts, outlines and analysis for the use of for the leaders of the SPA.

The circumstance that the State Property Agency has been going through basic structural changes involving the personnel we worked with made our activities difficult at times and in some cases despite our best efforts caused long delays on some parts of the project (Newsletter).

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AN ACT FOR EMPLOYEES' PARTIAL OWNERSHIP PROGRAM

The Parliament passed the Act for Employees' Partial Ownership Program. /EPOP/

The start of EPOP may be initiated by the employees of any joint stock or limited companies for the purpose of acquiring ownership share. The public enterprise, being in the transformation phase, upon the request of the employees' organization committee, the managing body may reduce the assets of the company and later may transform it into a managing association in order to establish the EPOP.

For the purpose of establishing the Organization Committee at least 25 per cent of the number of employees are needed. This Committee will conduct a feasibility study to see if the payment of the shares can be borne by the association. This study will have to be accepted by the association and at least 40 percent of the number of employees will have to vote "yes" during a general meeting of the association accepting founding articles. The declaration of a guarantor is also needed for this purpose.

The EPOP Organization will be an independent legal entity, registered by the Court of Registration and is controlled by the managing body according to the founding articles.

Its task is to purchase asset share as a trustee of the employees and to pay the purchase price (or interest). The property will be owned by the employees according to the schedule of capital repayment. The unpaid share of the capital will be held in trust until fully paid.

In the case of selling a public property, a payment of a so-called "own resources" (down payment) from the EPOP organization will be required which corresponds to the sum of "own resources" required by E-credit system. The amount paid per person may be deducted from the personal income tax basis up to 30 per cent. A compensation coupon may also be taken used as down payment. For the rest, credit may be raised the interests terms and conditions of which are equal to those of E-credit system. The same terms and conditions apply if the seller permits a payment in installments for the public body managing the assets. The duration of maturity is a maximum of ten years and the years of grace shall not exceed two years.

From the pre-tax profit of the corporation - up to 20 percent of the total - the corporation may contribute to EPOP installments and credits. The basis of the personal income taxes may be reduced to 30 per cent of the individual's tax base.

The Employees' ownership in Hungary

In Hungary - from March, 1990 on - the employees have acquired properties in a sum of 5,75 billion HUF under preferential terms in 60 companies. In further 28 cases the purchases by employees in a sum of 2,62 billion HUF have also been approved and these purchases are in progress.

Sales of shares for compensation coupons

The State Property Agency /SPA/ wishes to sell different bank shares from former public enterprises and further, shares of IBUSZ representing 5 per cent of the registered capital.

According to this decision:

Inter-Europe Bank	4 pcs	100 x	10.000 HUF
	18 pcs	100 x	10.000 HUF
General Entrepreneurial Bank	500 pcs		10.000 HUF
DUNABANK	5,000 pcs		10.000 HUF
OKHB	4 pcs		50.000 HUF
IBUSZ	2.882 pcs	10 x	1.000 HUF
	1.005 pcs		1.000 HUF

Total: 305,225,000 HUF
may be paid for by compensation coupons.

For the purpose of changing compensation coupons into shares, a consortium selling securities was established the members of which are:

- ☐ Budapest Security and Investment Corp.,
- ☐ 15 broker firms.

The shares are distributed among the members of the consortium according to an agreed quota by the SPA. This is to prevent over-subscription, and to ensure the equal opportunity of sales.

Brokers get equal shares in a sum of 250.000 HUF and in the case of successful transactions they may request further shares based on demand.

SPA will start the sales gradually. The first date will be June 22, 1992 in the case of IBUSZ shares.

Privatization of the Hungarian Telecommunication Company

The biggest sale in the East-European region will be the privatization of the Hungarian Telecommunication Company /MATÁV/ in which Rotschild and Sons, Ltd. is the financial adviser of the Hungarian Government.

The Hungarian Government - for the time being - wishes to retain 51 per cent of ownership of the company. According to this policy, MATÁV would be sold to professional investors by issuing new shares and secondly, purchases of public shares and shares over the 51 per cent government holding.

In the second phase, it is planned to sell new shares through public tender but the extent has not yet been defined.

NM Rotschild has already started the work in the area of regulation of the telecommunication sector - co-operating with KPMG Peat Marwick, the regulatory adviser of the government. Contacts are expected with potential investors in the late autumn of 1992 while concrete business transactions are likely to take place only in the middle of the next year.

The assets of MATÁV are 132 billion HUF and the company wishes to spend for development 600 million to 1 billion USD in the next three years and within ten years: 2 - 3 billion USD.



Decisions Made By The Board Of Directors Of The State Property Agency In May, 1992

Companies taken under state administration:

- ☐ Fantázia Trading Co.
- ☐ Középkő Co.

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Under trusteeship:

- ☐ Alföldi Nyomda: Géza György
- ☐ Ganz-Kiskunhalas Investment and Assets Management Company: P. Zoltán Nagy
- ☐ Machine Tools Works: Kázmér Lengyel
- ☐ Construction Co.: László Körösmezey

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Privatizations approved:

- ☐ Employees of KOPINT-DATORG were given option for purchasing a share package of the company in a sum of 87 million HUF before 10th July, 1993.
- ☐ At the Pécs MÖBIUSZ Meat Industry Co., the German Pañkl und Hofmann GmbH has acquired the majority of share of 78.9 %.

☐ Almost three quarters of the shares of HUNGAROVIN Corp., the biggest company having the largest capacity of wine and champagne production was purchased by the German Firm HENKEL und SÖHNLEIN.

☐ The Institute for Energy Management has been purchased by the German firm GEA AG. According to the agreement, the licences of Heller-Forgo owned by the company were handed over to a foundation established by EGI Corp..

☐ Almost 100 per cent of the Szigetvár Canning Factory was purchased by MANZ GmbH.

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Guarantees:

☐ SPA undertakes guarantees for raising credits to stabilize financial position of December 4 Wires Works up to the extent of income from the company's privatization. However, this does not constitute a guarantee of payment.

☐ SPA will provide guarantees for raising credit by Tokajhegyalja State Wine Combine for the sum of 220 million HUF:

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The ownership structure of transformed companies

Percentage of state ownership	Number:	Book value: bill. HUF	Recognized value: bill. HUF
100%	38	161.26	189.66
51 - 100 % *	161	218.92	511.81
1 - 50 %	45	162.38	547.91
0%	14	11.23	16.92

* Without self-privatization

Summarized Data On The Activities Of The State Property Agency

in the period of March 1, 1990 to May 31, 1992

Transformation of public enterprises

	Number:	Book value: bill. HUF	Recognized value: bill. HUF
Transformation approved	343	560.40	1,274.40
including:			
Self.privatization	85	6.60	8.10
Initiated by the company and/or inv.	215	194.76	345.15
Initiated by the state	44	359.04	921.15
Transformation under way	615	282.18	-
including:			
Self.privatization	368	27.60	-
Initiated by the company and/or inv.	152	120.82	-
Initiated by the state	95	133.76	-
Total	958	842.58	-
Transformations refused	11	5.04	-

Property protection cases

	Number:	Book value: bill. HUF	Recognized value: bill. HUF
Incorporations approved	141	21.97	41.43
with domestic partners	76	4.09	10.60
with foreign partners	65	17.88	30.83
Refused incorporations	16	0.86	-
Property protection cases approved	276	10.28	20.87
(sales, other)			
Refused cases	16	1.85	-

Pre-privatization

	number
Businesses tendered	5,012
Businesses on auctions	4,563
Privatized businesses	3,303

Incomes from state property sold

(In 1992)	Billion HUF
for HUF (in cash)	6.36
for HUF (E and P credits)	3.57
for foreign currency	25.26
for compensation coupons	-
Total:	35.19

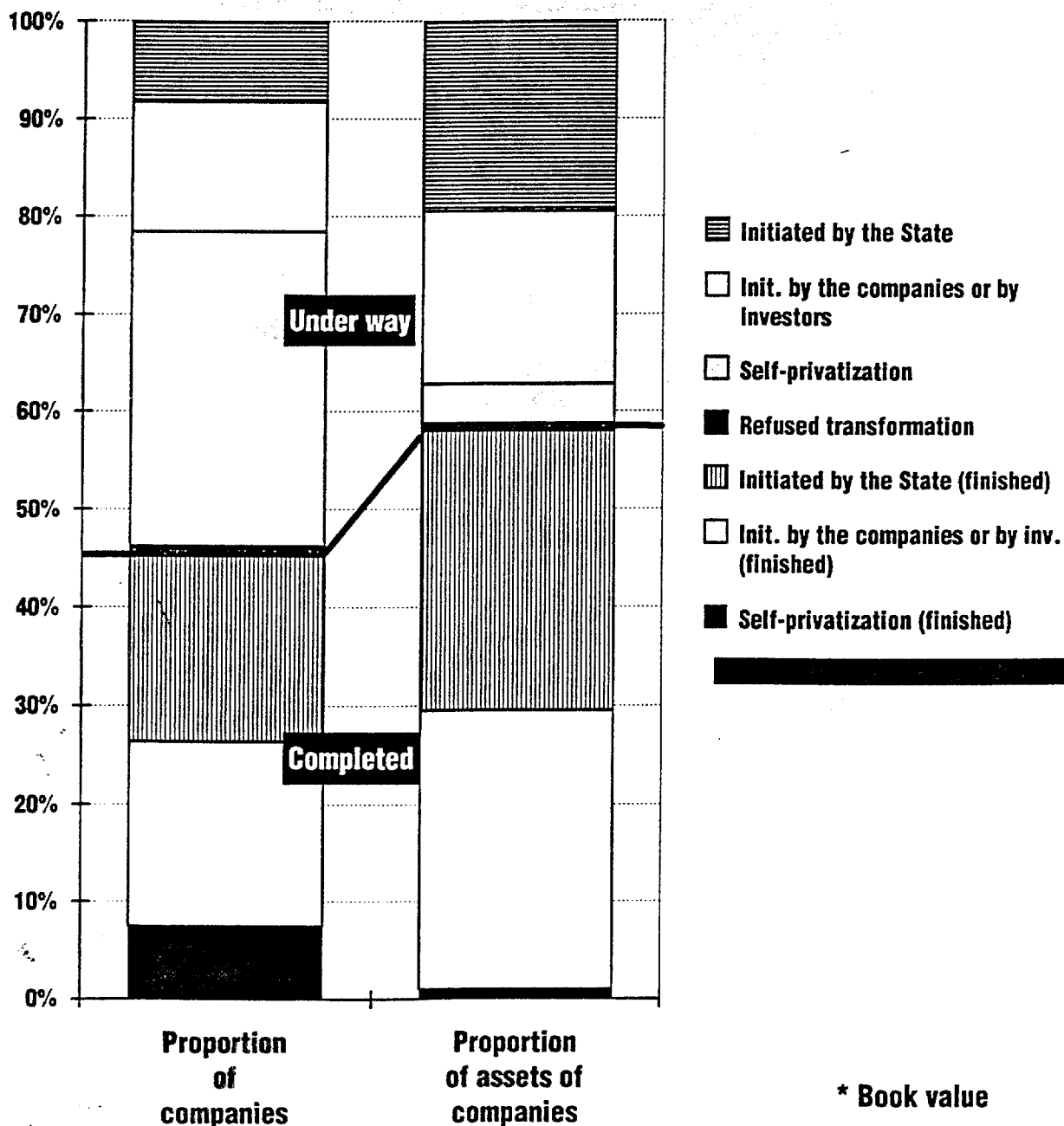
Role of foreign capital

	Billion HUF	
Foreign capital in privatization transactions	80.91	
(In the period of March 1, 1990 to May 31, 1992)		
	In transformed companies	In corporations
Share of foreign investors		
In joint companies	40.78	43.89
In corporations, total	3.78	34.82

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Corporations During Transformation According To Their Numbers And Assets*

(May 31, 1992)



Állami Vagyongügynökség Privatizációs Programiroda

Program Bureau of the State Property Agency

H-1074 Budapest, Hársfa u. 21., Hungary Telefon/Fax: 142-7734

Jelen ismertető egyúttal megrendelőként is szolgál, melyet kérünk a fenti címre eljuttatni levélben vagy telefax útján. A kiadványok postai utánvétellel kerülnek a tisztelt megrendelőhöz.

1100	Első privatizációs program.....	1.250,- (17 USD )	..... pld.
1110	Második privatizációs program	1.050,- (14 USD )	..... pld.
1120	Second privatization program	1.050,- (14 USD )	..... pld.
1130	Portfólió pályázat.....	2.500,- (34 USD )	..... pld.
1140	Tender for portfolio management.....	2.500,- (34 USD )	..... pld.
1150	Vagyongkezelői tájékoztató	1.500,- (20 USD )	..... pld.
1160	Information on the utilization and man. of property	1.500,- (20 USD )	..... pld.
1170	Önprivatizációs pályázati dokumentáció	3.000,- (40 USD )	..... pld.
1200	First privatization program	1.250,- (17 USD )	..... pld.
1250	Directory	1.200,- (16 USD )	..... pld.
1260	Directory II.....	1.500,- (20 USD )	..... pld.
1350	Annual Report 1990.....	2.000,- (27 USD )	..... pld.
1350	Évi jelentés 1990	2.000,- (27 USD )	..... pld.
1410	Opportunities I. /Mining, Metallurgy, General Machinery/	1.000,- (14 USD )	..... pld.
1420	Opportunities II. / Manufacturing /	4.000,- (54 USD )	..... pld.
1430	Opportunities III. / Construction /	2.000,- (27 USD )	..... pld.
1440	Opportunities IV. / Trade /	3.000,- (40 USD )	..... pld.
1500	Tájékoztató az állami vállalatok privatizációjáról	500,- (7 USD )	..... pld.
1600	Information on the privatisation of state-owned enterprises	600,- (8 USD )	..... pld.
1700	Befektetői tájékoztató.....	1.050,- (14 USD )	..... pld.
8003	Hatályos jogszabályok gyűjteménye 1990	400,- (5 USD )	..... pld.
8004	Hatályos jogszabályok gyűjteménye 1991	500,- (6 USD )	..... pld.
8005	Iránytű a külföldi befektetőknek	1.500,- (14 USD )	..... pld.
8006	Guide for foreign investors	1.800,- (24 USD )	..... pld.
8006	Richtlinien.....	1.800,- (24 USD )	..... pld.
8007	Negyedik vagyongkezelési pályázat	7.000,- (94 USD )	..... pld.
8008	Ötödik vagyongkezelési pályázat	4.000,- (54 USD )	..... pld.

Új kiadványaink :

9001	Katalógus az átalakult vállalatok állami vagyongrésének megvásárlásához.....	11.250,- (150 USD )	..... pld.
9002	Catalogue of the shares in transformed hungarian state-owned enterpr ready for purchase	13.750,- (195 USD )	..... pld.
9002	Firmenverzeichnis zum Erwerb von staatlichen Vermögensanteilen in dem umgewandelten ungarischen Unternehmen.....	13.750,- (195 USD )	..... pld.

A megrendelő neve

Telefonszám :

.....

Telefaxszám :

A megrendelő címe

.....

.....

.....

cégszerű aláírás

State Property Agency
Privatization Information System
Modification to Scope

The State Property Agency (SPA) Privatization Information System was accepted by the SPA in December of 1991 and was implemented in the SPA at the end of February 1992. Because of its flexible design characteristics, it is potentially an "off-the-shelf" privatization information management system, meaning that with minor modifications, it could be made available to various privatization agencies, especially in Eastern and Central Europe and the former Soviet Republics.

Individuals in each of the transaction departments within the SPA are able to record information about privatizations, information that can be easily accessed either online or through reports by SPA staff members. For the first time, any SPA staff member who is a user of the Privatization Information System may obtain a clear picture of the exact status and details of every privatization transaction in seconds.

During system development, the SPA has undergone dramatic changes. The SPA has approval to increase staffing to 250; the total staff during system requirements assessment in January and February of 1991 was 90. During requirement assessment, the SPA was just beginning to assess its internal management information needs. The SPA now possesses reasonably clear information requirements for effective internal management. Finally, during requirements assessment, the donor community was, in general, only beginning to establish working relationships with the SPA. At this point, most donor agency representatives within the SPA have been identified and clear requirements for information exist.

As we developed the system, we made efforts to accommodate the rapidly changing needs of the SPA. What is being installed in the SPA is a larger, more complex, and more transaction-oriented system than originally conceived. The original relational network of data offering comprehensive coverage and flexibility still exists and has served the developers well. Additional modules including the newest data input forms in use in the SPA have been integrated into the original design so users can either enter transaction data "after the fact", or track the information from beginning to end.

Our amendment request covers additional development activities undertaken to deliver the system installed in the SPA, increased planning and documentation requirements, increased level of training, and long-term support within the SPA provided by our local office. That support is a senior Hungarian MIS expert who will help to ensure that the system, now installed, is a success. His responsibilities will include individualized training for SPA staff members, identification of potential and actual problems, assignment of programmers to fix problems, management of local Hungarian software development staff, and coordination with

Deloitte's long-term advisor Charles Twyman.

Based upon our original funding request, the following activities have been completed:

- . Installation of an IBM-PC based Local Area Network (LAN)
- . Database and System planning and design
- . Development of Hungarian language software
- . Testing of Hungarian language software
- . Walkthrough and review of software with SPA staff at all levels
- . Development and integration of a Data Input Front End
- . Acceptance testing with SPA staff at all levels.

These activities are ongoing:

- . Testing and quality assurance of new software releases
- . Development of system and User Documentation in Hungarian
- . Development of training materials in Hungarian
- . Translation of all relevant materials into Hungarian
- . Planning for and preparation of Hungarian training classes.

These activities are planned:

- . Development of Maintenance and Support Plan
- . LAN "tuning" following implementation
- . Provision of a local long-term Hungarian MIS expert to facilitate system implementation and function as a "user Help desk" during the critical post-implementation phase. This support is planned through the end of fiscal year 1992.
- . Provision of local software support to accomodate changes and enhancements generated by SPA users during the post-implementation phase. This support is planned through the end of fiscal year 1992.

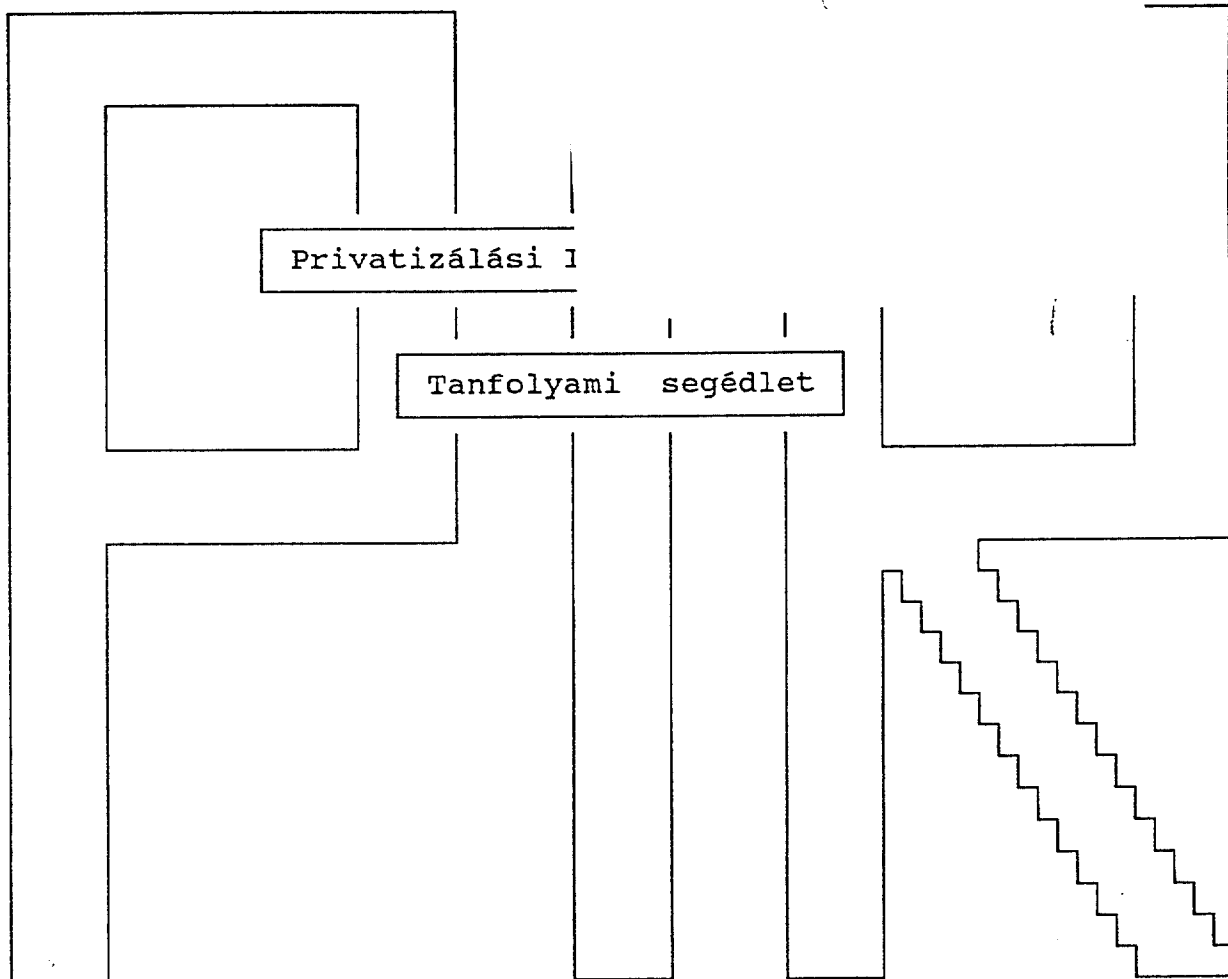
A detailed spreadsheet is attached.

26

B. mell

Á l l a m i V a g y o n ü g y n ö k s é g

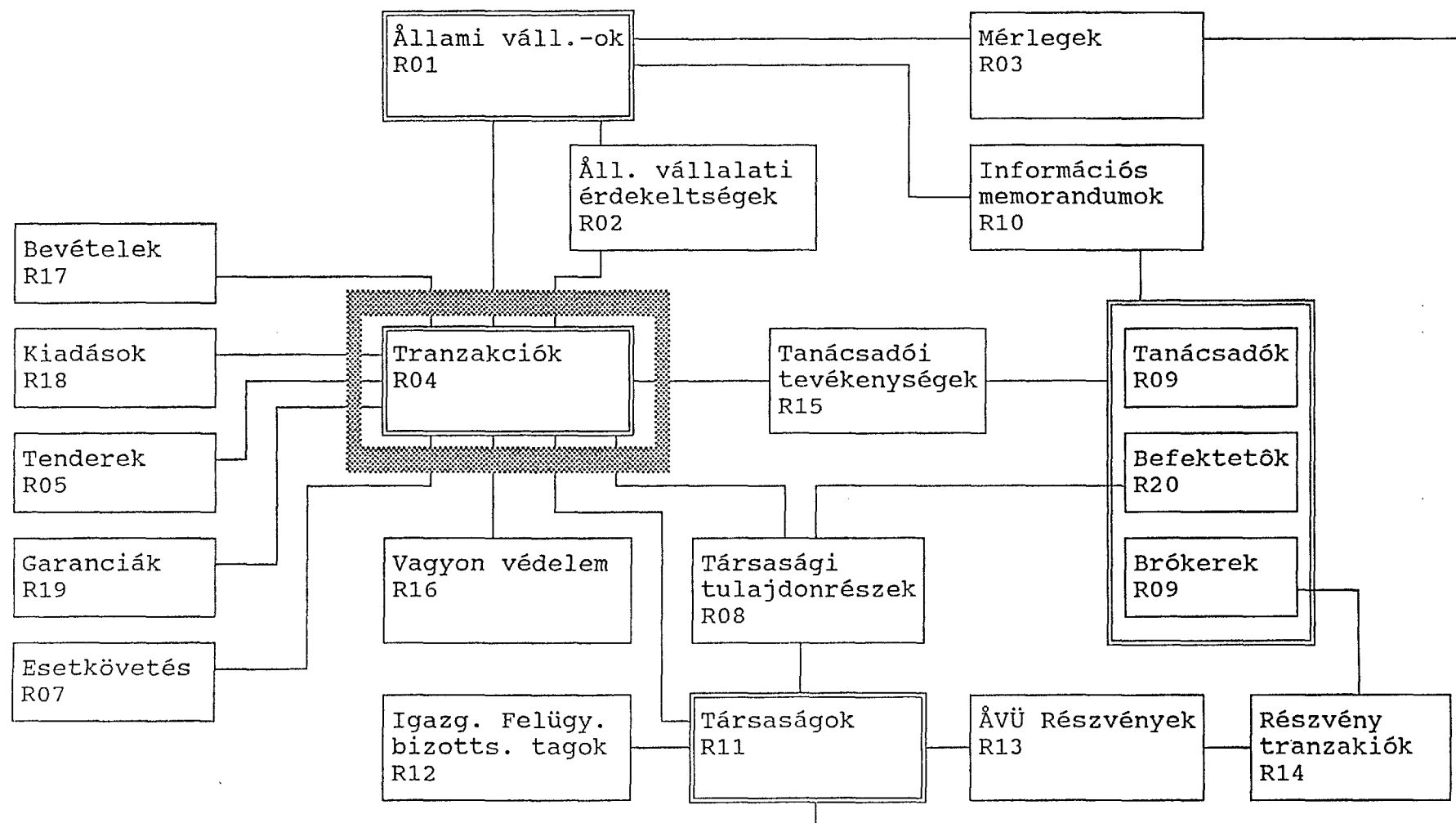
14/0
szekter



Budapest, 1992. február

D R T - I D O M

Állami Vagyonügynökség Privatizációs Információs Rendszer
Navigációs blokksema



CHANGE REQUEST FORM

NAME: _____

DEPARTMENT: _____

POSITION: _____

SCREEN NUMBER: _____

Please explain, in the space provided below, the modifications you wish to see on the screen. If it is more convenient, please attache a copy of the screen with your edits. (This can easily be done by getting a "print screen" and writing in your modifications.)

[illegible]

Signed _____

Date _____

Received by: (MIS Dept)

Date _____

(FOR OFFICIAL USE ONLY)

MIS
IDOM
DRT

Reviewed by:

Date _____

Level of Effort

P R I V A T I Z Á C I O S I N F O R M Á C I O S
R E N D S Z E R

FELHASZNÁLOI LEÍRÁS

Informatikai Iroda

Budapest, 1992 június

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1. számú melléklet
Belépés
2. számú melléklet
Adatkészlet ismertetése

Kidolgozatlan:

- a tanácsadó - inf.memo - befektető kapcsolatok
- nem végleges a navigációs ábra (csere)

P R I V A T I Z Á C I O S I N F O R M Á C I O S
R E N D S Z E R

ADATBEVITELI SZABÁLYZAT

Informatikai Iroda
Budapest, 1992 július

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MEMORANDUM

TO :USAID Budapest Representative Office
Attn: Mr. David Cowles
FROM :Project Manager's Office
Technical Assistance to the State Property Agency of
Hungary
ANE-002-C-00-0047-00
Charles G. Twyman
DATE :10 August, 1992
REF :SPA/LAN/USAID funded database work

BACKGROUND: You and Christine were both concerned about the utility of the Privatization Information System work that we had been doing and about whether it would get utilization.

CURRENT SITUATION: While the on-line aspects of the program in terms of case work control will only become fully operational starting with the formal training on 1 September, the enterprise database -which is the core of the system- has been used to generate the attached updateable book. It is worth noting that each case officer checked his individual enterprise's entry for accuracy on the LAN port at his site and the Marketing information office then drew all the data out of the database at his LAN port printing it on the Centrally sited LAN laser printer. (USAID funded all the above software and hardware).

ATTACHMENT: I am attaching two copies of the English language version of the "Catalogue of the Shares in Transformed Hungarian State-Owned Enterprises Ready for Purchase". It is also available in Hungarian and German.

I also am attaching a supply of order forms. Please note that with a registered version of the book you get an updating service that will provide new enterprise data as they are added or updated. Probably the Embassy should have at least one and Gary Gallagher might want one also. I am getting a set for Brian.

I also am attaching an English language version of "A summary of investment opportunities in the Self-Privatization Program". This is also available in Hungarian and English. This is a less sophisticated utilization of the same database. Hopefully when we get the new funding in place we can help tidy-up the Self-Privatization Program's system and data access.

REQUEST: Please pass a set to Washington asking that they may want to advise Commerce's Eastern European Information Center of the material's availability.

Please advise the Embassy internally of the existence of the Mark I version of these texts courtesy of your good equipment and software and a lot of Hungarian hard work and printing costs.

ÁLLAMI VAGYONÜGYNÖKSÉG

1899 Budapest, Pf.: 708 • Telefon: 129-4650 • Telefax: 140-2723

**CATALOGUE
OF THE SHARES
IN TRANSFORMED
HUNGARIAN STATE-OWNED
ENTERPRISES
READY FOR PURCHASE**

Budapest

STATE PROPERTY AGENCY

FOREWORD

Privatisation in Hungary is progressing at a good pace, however, results achieved to date must only be considered as the beginning. In 1992, the transformation of state-owned companies into limited liability companies and shareholding companies has accelerated. Through that transformation, many conditions of purchasing assets from state enterprises have been created. The increase in the economic stability of the country, the decrease of inflation and banking interests, improvements in the conditions of lending, increase the confidence and interest of foreign and domestic investors to participate in the privatisation.

The State Property Agency has always strived to continuously provide information on the investment opportunities to the most important participants of privatisation, potential investors and buyers, as well as the consultant and intermediary companies, who assist them.

The aim of this catalogue is to present interested parties many companies in which there is an opportunity to purchase state-owned shares. We hope that the information provided on the companies and classified according to various sectors, will help those, who are interested in investment opportunities, to select the companies which they seriously consider to purchase.

We are planning to update the catalogue, send additional pages and indicate changes monthly.

Therefore, if someone monitors the contents of this "document in a folder", may have almost up-to-date information on state-owned assets available for sale within the framework of privatisation.


The fact, that the catalogue also includes the data of the party (SPA employee, or consultant) authorised to negotiate in the sale of that company, helps to establish contact.

We must draw the readers' attention to an important fact: if someone wishes to purchase state-owned shares, he must acknowledge that his bid will be appraised in a tender.

Expressing these ideas in advance, I recommend this catalogue to our existing and future business partners.

I wish you good reading and successful investments,

Budapest, July, 1992


Dr. Lajos Csépi

Managing Director
State Property Agency

Guidelines to the Catalogue

The structure of the catalogue

This Catalogue is a flexible publication. It contains insertable pages which, providing new company data and changes, ensure that the contents are always updated.

The data sheets of the companies included in the Catalogue usually consist of two parts: *static data* and *data on the capital structure*. The Catalogue also includes information on the changes in the capital structure.

The right order of catalogue sheets is ensured by the classification index in the header (e.g., D15) and the table of contents, which are updated whenever new data are added. The classification is made easier through the fact that the header of each catalogue sheet also indicates the month of publication.

The main chapters are separated with register sheets, which also contain a detailed breakdown of the chapter.

In accordance with the classification system, the register is comprehensive, therefore it may also happen that there are no catalogue sheets behind a register sheet.

The Aspects of classification and Catalogue Maintenance

A publication of the Central Statistical Office, "*A Uniform Classification System and Contextual Definition of All Economic Activities*",

based on the ISIC (*Industrial Standard Industrial Classification of All Economic Activities, Third Revision*) and NACE regulations (*Council Regulation (EEC) NO. 3037/90 of 9 October 1990 on the statistical classification of economic activities in the European Community, First Revision*), was considered as the basis of classification of economic corporations according to activities.

The classification system of the Catalogue follows the Guidelines.

Within the breakdown of each chapter, the table of contents includes, in alphabetical order, all companies that appear in the Catalogue, which also determines the order of catalogue sheets.

Newly added companies are marked with an arrow (\Rightarrow), and changes in the capital structure are marked as (\Leftrightarrow). Those marks indicate where the catalogue sheets should be inserted or existing sheets should be replaced.

When the entire state-owned share of a company has been bought, we shall indicate it with an other arrow (\Leftarrow) at the name of the company in the updated table of contents. These catalogue sheets should be taken out of the Catalogue.

Regarding contextual issues, the persons indicated in the Catalogue have more detailed information.

If you have any question regarding the subscription and supplements, please contact the Privatisation Programme Office. In order to ensure continuous receipt of the publication, please fill in the attached card clearly, using block capital letters or a typewriter, and return it to us.

Budapest. July 1992.

*State Property Agency
Privatisation Programme Office*

Address: 21 Harsfa St., Budapest, 7th District

Postal address: Pf. 83. Budapest H-1400
Hungary/Magyarország

Phone: (36-1) 142-7734, Fax: (36-1) 142-7337

THE CLASSIFICATION SYSTEM OF THE CATALOGUE

A AGRICULTURE, WILD ANIMAL HUSBANDRY AND FORESTRY		D25	Rubber and synthetic material production
A01	Agriculture, wild animal husbandry and related services	D26	Production of non-metallic mineral products
A02	Forestry production and services		<i>Glass and glassware production</i>
B FISHING			<i>Ceramics production for the construction industry</i>
B05	Fishing and related services		<i>Ceramics production for the non-construction industry</i>
C MINING			<i>Fire proof ceramics production</i>
C10	Coal and peat mining		<i>Cement, lime, plaster production</i>
C11	Crude oil and and natural gas		<i>Other non metallic mineral products</i>
C12	Uranium ore mining	D27	Metallurgy
C13	Metal-bearing minerals mining	D28	Production of processed metal goods
C14	Other mining		<i>Metal constructions production</i>
D MANUFACTURING INDUSTRY			<i>Container and furnace production</i>
D15	Food and beverage industry		<i>Power station and industrial furnace production</i>
	<i>Meat, fish, poultry, fruit and vegetable processing, vegetable oil production</i>		<i>Repairing and assembly of furnaces and containers</i>
	<i>Dairy production</i>		<i>Metal working and processing</i>
	<i>Flour-milling products, starch and fodder production</i>		<i>Metal ware production for consumer use</i>
	<i>Other food processing (baking industry, sugar and pastry industry, production of dough)</i>	D29	Production and repairing of machine and equipment
	<i>Beverage production</i>		<i>Power engine production</i>
D16	Tobacco products		<i>Machine and equipment production for general use</i>
D17	Textile production		<i>Agricultural machine production</i>
D18	Clothing products for processing and dyeing (Textile, leather)		<i>Machine-tool production</i>
D19	Leather processing, production of leather goods and footwear		<i>Machine production for specific purposes</i>
D20	Timber processing		<i>Repairing and installation of machines and equipment</i>
D21	Paper and paper products		<i>Production of domestic appliances</i>
D22	Publishing and printing activity, sound recording and scanning activity	D30	Office equipment and computer production
	<i>Publishing activity, Printing activity</i>	D31	Production and repair of electric industrial machines and equipment
	<i>Sound recording and scanning activity, copying computer information</i>	D32	Production and repair of telecommunication equipment
D23	Crude oil refinement and coking coal production	D33	Production and repair of precision instruments
D24	Production of basic chemicals and products	D34	Road vehicle production
	<i>Production of basic chemicals</i>	D35	Production and repair of other vehicles
	<i>Production of chemical products (insecticides, pesticides, paints, pharmaceuticals, cosmetics)</i>	D36	Furniture and other manufacturing industrial goods production
		D37	Scrap recycling
E ELECTRICAL, GAS, HEAT AND WATER SUPPLY			
		E40	Electrical, gas, and heat supply
		E41	Water production, treatment and distribution

F CONSTRUCTION

F45 Construction (above and underground construction and civil engineering, maintenance)

G COMMERCE, REPAIR AND MAINTENANCE OF ROAD VEHICLES AND CONSUMER GOODS

G50 Road vehicle and petrol sale, repairing of road vehicles

G51 Wholesale trade (excluding road vehicle and petrol sales, internal and foreign trade)

G52 Retail trade (excluding road vehicle and petrol sales)

Retail trade of second-hand goods

Retail trade (excluding shops)

Repair of personal belongings and household goods

H HOTEL INDUSTRY AND CATERING

H55 Hotel industry and catering

I TRANSPORTATION, WAREHOUSING, POSTAL SERVICE AND TELECOMMUNICATION

I60 Overland and pipe transmission

I61 Water transportation

I62 Air transportation

I63 Related services

I64 Postal services and telecommunication

J FINANCIAL AND ADDITIONAL SERVICES

J65 Financial services other than insurance and pension fund

J66 Handling insurance and pension fund, without the mandatory social security

J67 Additional financial services (stock exchange brokerage)

K REAL ESTATE, LEASING AND SUPPORT SERVICES, ARCHITECTURE, BUILDING DESIGN

K70 Real estate

K71 Leasing other than property

K72 Computing and related activities

K73 Research and development

K74 Support services

Legal, accounting, auditing, tax advisory activity, market and public opinion research, business consultancy

Architecture, building design, civil engineering and other consulting

Advertising

Other services (employment exchange, security, photography, video making, packaging)

M EDUCATION

M80 Education

N HEALTH AND SOCIAL SERVICES

N85 Health and social services

O OTHER COMMUNAL SOCIAL AND PERSONAL SERVICES

O90 Treatment of sewage-water, garbage, sanitary services

O92 Entertainment, cultural and sport services
film making, purchase and sale, sound recording, news services, performance, entertainment,

O93 Other services
(laundry, dry cleaning, dyeing, hairdressing, beauty care, burying)

List and Classification of companies in the Catalogue	July 1992
--	--------------

A01	Agriculture, wild animal husbandry and related services Zalaegerszegi Agrár és Ipari Kft.		Fenyő Asztalosipari Kft. Soproni Faipari Rt.
D15	Food and beverage industry Borsodi Sörgyár Rt. Erdei Termékek Rt. Hajdúsági Sütődék Rt. Kisvárdai Szeszipari Rt. Miskolci Likőripari Rt. Szegedi Paprika Kereskedelmi Rt. Székesfehérvári Hűtőipari Rt. Thur Húsipar Gyógyós Rt. Zalai Húsipari Rt.	D22	Publishing and printing activity, sound recording and scanning ac- tivity Pátia Nyomda Rt.
D16	Tobacco products Nyíregyházi Dohányfermentáló Rt. SD Tabak Rt.	D24	Production of basic chemicals and products Alkaloida Vegyészeti Gyár Rt. Caola Kozmetikai Rt. EGIS Gyógyszergyár Rt. Erdőkémia Rt. Tiszai Vegyi Kombinát Rt.
D17	Textile production Albertfalvai Kft. Békéscsabai Kötöttárugyár Rt. Első Magyar Kenderfonó Rt. Glovita Kesztyű Rt. Heavytex Újszegedi Szövő Rt. Lőrinci Textil Kft. Nagyfoki Kenderfonó Rt. Soproni Szőnyeggyár Rt.	D26	Production of non-metallic mineral products GYAÉV Szilikát Kft. Győrbeton Betongyártó Kft. Pietra Épületkerámiaipari Rt. Salglass Salgótarjáni Síkúveggyár Rt. ST Glass Óblósüveg Rt.
D18	Clothing products, for processing and dyeing (Textile, leather) Kaposvári Ruhagyár Rt. SR. Soproni Ruhagyár Rt. Unicon Ruházati és Szolgáltató Rt.	D28	Production of processed metal goods Elzett Biztonságtechnikai Rt. Eurostahl Kft. Polímetál Győri Tömegcikkgyártó Rt.
D20	Timber processing Ablakcentrum Kft. Barcsi Fűrészipari Kft.	D29	Production and repairing of machine and equipment Agrogép Kft. Békési Gépgyártó Rt. Békéscsabai Mezőgazd. Gépgyártó Rt. Budapesti Kőolajipari Gépgyártó Rt. Fémtechnika Kft. Ganz Gépgyár Energetikai Kft.

- Ganz Gépgyár Forgácsoló Kft.
Ganz Gépgyár Karbantartó Kft.
Ganz Gépgyár Motor és Hajtómű Kft.
GYAÉV Gépköcsönző és Gépjavító Kft.
MSM Gépgyártó Kft.
Rekard Gépgyár Rt.
- D31 Production and repair of electric industrial machines and equipment**
- EL-CO Rt.
Elekthermax Rt.
Ipari Műszergyár Rt.
Szolvill Kereskedelmi Kft.
- D33 Production and repair of precision instruments**
- Ganz Műszer Rt.
MMG Automatikai Művek Rt.
Remix Elektronikai Kft.
- D36 Furniture and other manufacturing industrial goods production**
- Agria Bútoripari és Kereskedelmi Rt.
Bau-Möbel Rt.
Garzon Bútor Rt.
Viminor Bútorgyártó Kft.
Zala Bútorgyár Rt.
- F45 Construction**
- 26-os Építőipari Rt.
Alba Régia Építő Vállalkozó Rt.
Alterra Építőipari Kft.
Baupartner Rt.
Borsodi Szakipari Rt.
Borsodi Villanyszerelő Rt.
Földgép Általános Mélyépítő Rt.
GYAÉV Fa- és Üvegesipari Kft.
GYAÉV Óvár Építőipari Kft.
GYAÉV Terrazzo Építőipari Kft.
GYAÉV Thermo Épületgépész Kft.
GYAÉV Vill Kft.
Hajdúsági Univerzális Építőipari Rt.
Kipszer Építési Rt.
Középület és Lakásépítő Rt.
Középületépítő Rt.
Magyar Építő Rt.
Mémők Szolgáltató és Oktató Kft.
Monarchit Építőipari Rt.
Nord Invest Befektetési Rt.
Patina Rt.
Soproni Magasépítőipari Kft.

Szolnoki Általános Építési Rt.
Zalai Általános Építési Vállalkozó Rt.

G50 Road vehicle and petrol sale

Autofer Rt.
Autókomplex Kft.
Budafok Autójavító Kft.
Debrecenautó Rt.
Kerepesi Úti Autó Kft.
Pannonautó Rt.
Pápai Autójavító Kft.
Vízváros Autójavító Kft.

G51 Wholesale trade (excluding road vehicle and petrol sales, internal and foreign trade)

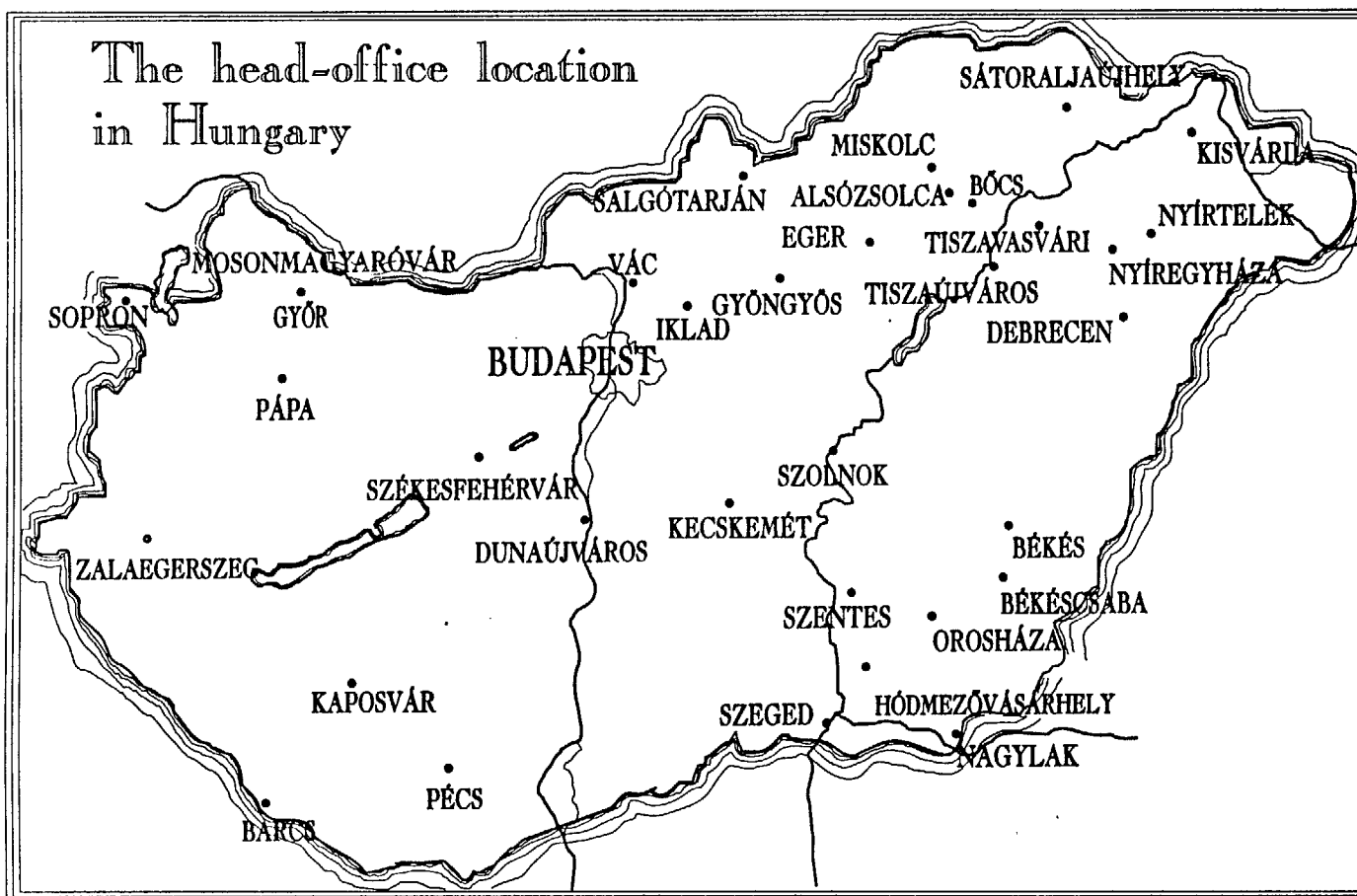
AGROINVEST Külkereskedő, Rt.
AGROKER Rt.
Anilin Kereskedelmi Rt.
Bakony Fűszért Rt.
Balaton Fűszért Kereskedelmi Rt.
Bácskonsum Kereskedelmi Rt.
Borsodi ABC Rt.
Chemol Rt. Csepeli Papír - Írószer Kereskedelmi Kft.
Debreceni Agroker Kereskedelmi Rt.
Dél-dunántúli PIÉRT Kereskedelmi Rt.
Dél-dunántúli TÚZÉP Rt.
Elektroimpex Rt.
Ergonett Rt.
Ferradiál Kereskedelmi Rt.
Gála Kereskedelmi Rt.
Hajdúsági Gabonaipari Rt.
Havas Kereskedelmi Rt.
Kelet-TÚZÉP Rt.
Metalimpex Kereskedelmi Kft.
Metalker Kereskedelmi Kft.
Metrimpex Rt.
Módi Kereskedelmi Rt.
Műszer és Irodagép Kereskedelmi Rt.
Topán Kereskedelmi Rt.
Tritex Kereskedelmi Rt.
Tűzépker Rt.

G52 Retail trade

Aroma Kereskedelmi Rt.
Baranyaker Kereskedelmi Rt.
Borsodi Iparcikk Kereskedelmi Rt.
Centrum Áruházak Rt.
GYAÉV Kereskedelmi Kft.
Hélikar Kereskedelmi Rt.
Iv Kereskedelmi Rt.

28

The head-office location
in Hungary



Keravill Nagy- és Kiskereskedelmi Rt.
 Komplet Kereskedelmi Rt.
 Mecsek Fűszért Rt.
 Mobilitás Jármű és Műszaki Rt.
 Primo Ipari Kereskedelmi Rt.
 Renomé Kereskedelmi Rt.
 Szegedi Élelmiszerkiskereskedelmi Rt.
 Titán Kereskedelmi Rt.
 Univerzál Kereskedelmi Rt.
 Váci Kereskedelmi Rt.
 Zala Megyei Iparcikk Rt.

H55 Hotel industry and catering

Budapest Tourist Idegenforgalmi Rt.
 Danubius Szálloda és Gyógyüdülő Rt.
 Hungária Szálloda Rt.
 Pannonia Hotels Rt.
 Pest-Budai Vendéglátó Rt.

I60 Overland and pipe transmission

Belsped Szállítmányozó Rt.
 Főtefu Teherfuvarozó Rt.
 Masped Rt.
 Volán Tefu Rt.

I63 Related services

Ganz Logker Kft.

K71 Leasing other than property

Gépellátó és Szolgáltató Kft.

K72 Computing and relating activities

GYAÉV Informatika Kft.
 Számítástechnika Kommunikáció és
 Innovatika Rt.

K74 Support services

Borsodi Építő és Szerelőipari Rt.
 Budapesti Városépítési Tervező Rt.
 Chemimas Rt.
 GYAÉV Komplex Építőipari Kft.
 Hungexpo Vásár és Reklám Rt.
 Idex Rt.
 Iparterv Épülettervező Rt.
 Nivo Team Általános Szolgáltató Kft.
 Paritas Ipari Szolgáltató és Ker. Rt.

M80 Education

GYAÉV Szakképzési Kft.

Dear Sir, Madam,

Let me have the pleasure of introducing the latest document, written in three languages (English, German and Hungarian) concerning Hungarian privatization, prepared by the State Property Agency of Hungary, the

**CATALOGUE OF THE SHARES IN TRANSFORMED
HUNGARIAN
STATE-OWNED ENTERPRISES
READY FOR PURCHASE**

Our goal to create this book was:

- To help investors find every transformed Hungarian firm with state asset available for purchase. This work of almost 500 pages focuses on the assets of the transformed, formerly state-owned enterprises and will give up-to-date information about their most important data.
- At the beginning the catalogue will provide data of some 160 companies, and an additional 150 by the end of 1992 is planned.

This booklet includes:

- main characteristics and main activities of the enterprise,
- staff composition,
- product divisions,
- production data,
- ownership, capital structure,
- the investment of the firm in other companies,
- the share of the SPA ready for purchase.

We wish to help you keep track of changes in every firm

- The Catalogue has carefully been designed. New pages can be inserted into the book, replacing out-of-date ones so you will always have the very latest information available about every single Hungarian company.
- The editors at the SPA will update the book as well as adding every additional Hungarian state-owned firm.
- We will be sending subscribers the updates month by month.

If you need more information than is included:

- We have also enclosed the name, the phone and the fax number of the contact person at the company and at the SPA who are will be happy to give further information.

Subscription:

- The subscription for the Hungarian version is 9.000 HUF.
 - The German or the English translation costs 11.000 HUF.
- This includes the catalogue, the updates through 1992.

(Please add 25 % VAT)

The Catalogue can be purchased at the Program Bureau, at the address below between 8^h-16^h on weekdays.

Please send your order to:

Állami Vagyongynökség Privatizációs Programiroda

(Programme Bureau of the State Property Agency)
H-1074 Budapest, Márcsi St. 21. Hungary
P.O. Box: Pf. 83 Budapest, 1400
Telephone: (36-1)-142-77-34, Telefax: (36-1)-142-73-37

**CATALOGUE OF THE SHARES IN TRANSFORMED HUNGARIAN
STATE OWNED ENTERPRISES READY FOR PURCHASE**

Ordering Form

Name: _____

please print

Company Name: _____

Phone: _____

No. of copies /language : _____

Address: _____

City: _____

Country: _____ ZIP: _____

Signature _____

STATE PROPERTY AGENCY

A SUMMARY OF INVESTMENT OPPORTUNITIES

IN THE "SELF PRIVATIZATION" PROGRAM

(HUNGARY)

Budapest, July 1992

**A SUMMARY OF INVESTMENT OPPORTUNITIES
IN THE "SELF PRIVATIZATION" PROGRAM I.**

(HUNGARY)

Budapest, July 1992

Introduction

We would like to thank you for your interest in the Hungarian privatization program. There are approximately 700 companies available to domestic and international investors in this program, providing an excellent range of investment opportunities.

The Hungarian government is committed to radically transforming an economy that was recently close to 100 percent government owned to an economy that is a free market economy. The State Property Agency is entrusted with the task of selling specific publically held companies to private investors.

The "self privatization" program is a uniquely Hungarian approach to privatizing the privatization program. The program is still in an experimental stage. Essentially, it involves allowing approved consultants to manage virtually the entire privatization process. The expectation is that keeping government intervention to a minimum will help speed up the privatization process. The self privatization process has been delegated by the State Property Agency to a wholly owned subsidiary known as Priman Kft.

If you would like to hear more about the specific opportunities presented in this brochure, please feel free to contact the consultant listed for each company in the brochure. Or you may also contact the following individuals:

Priman Kft	Gyorgy Kovacs	tel:	(361)-121-4882
		fax:	(361)-122-7241
State Property Agency	Janos Both	tel:	(361)-266-8508
		fax:	(361)-266-8508

We welcome your feedback with respect to the process. If you are not pleased with the service you receive from either the company being privatized, the consultant, Priman, or the State Property Agency, we would appreciate your letting us know by providing us with your comments via telefax. It is our aim to provide quality service to all concerned.

We wish you success with your investment program.

Yours truly,

Les Nemethy
Deputy Managing Director
State Property Agency

of	Advertising & public relations	1
where	Agriculture	2
	Building engineering	3
	Building investment company	4
non	Building material industry	8
for	Building trade	9
you	Car repair	13
you	Catering trade	26
the	Chemical industry	28
the	Clothes cleaner	29
	Commerce	34
	Dealing	36
	Food industry	44
the	Furniture industry	47
the	Hairstressing	50
	Light industry	53
	Mechanical engineering	56
	Metal industry, foundry	65
	Mining	68
	Organization, publication (edition)	70
	Precision engineering	73
	Printing house	75
	Real estate agent	78
	Repairing of household appliances	79
	Research and development institutions	96
the	Road building	97
the	Shoe industry	98
the	Silicate industry	99
	Tool engineering	100
	Transport	103
	Upkeep	104
	Wood working industry	107
	Other activity	109

MEMORANDUM

TO :United States Ambassador to Hungary
Mr. Charles Thomas

COPY TO :USAID Budapest Representative Office
Attn: Mr. David Cowles

FROM :Project Manager's Office
Technical Assistance to the State Property Agency of
Hungary, ANE-002-C-00-0047-00
Charles G. Twyman

DATE :18 March, 1992

REF :Monthly Report, February 1992, Investment Brochure

1. USAID Washington has been provided on about 4 March with the February, 1992 monthly report. I believe I sent it over to you as well before your trip but if so I forgot a record cover memo. Therefore I am forwarding another copy.

2. USAID funded some work on investment promotion under the SPA contract specifically for a brochure to be produced jointly by the MIER Investment Promotion Agency and the SPA. I attach the result.

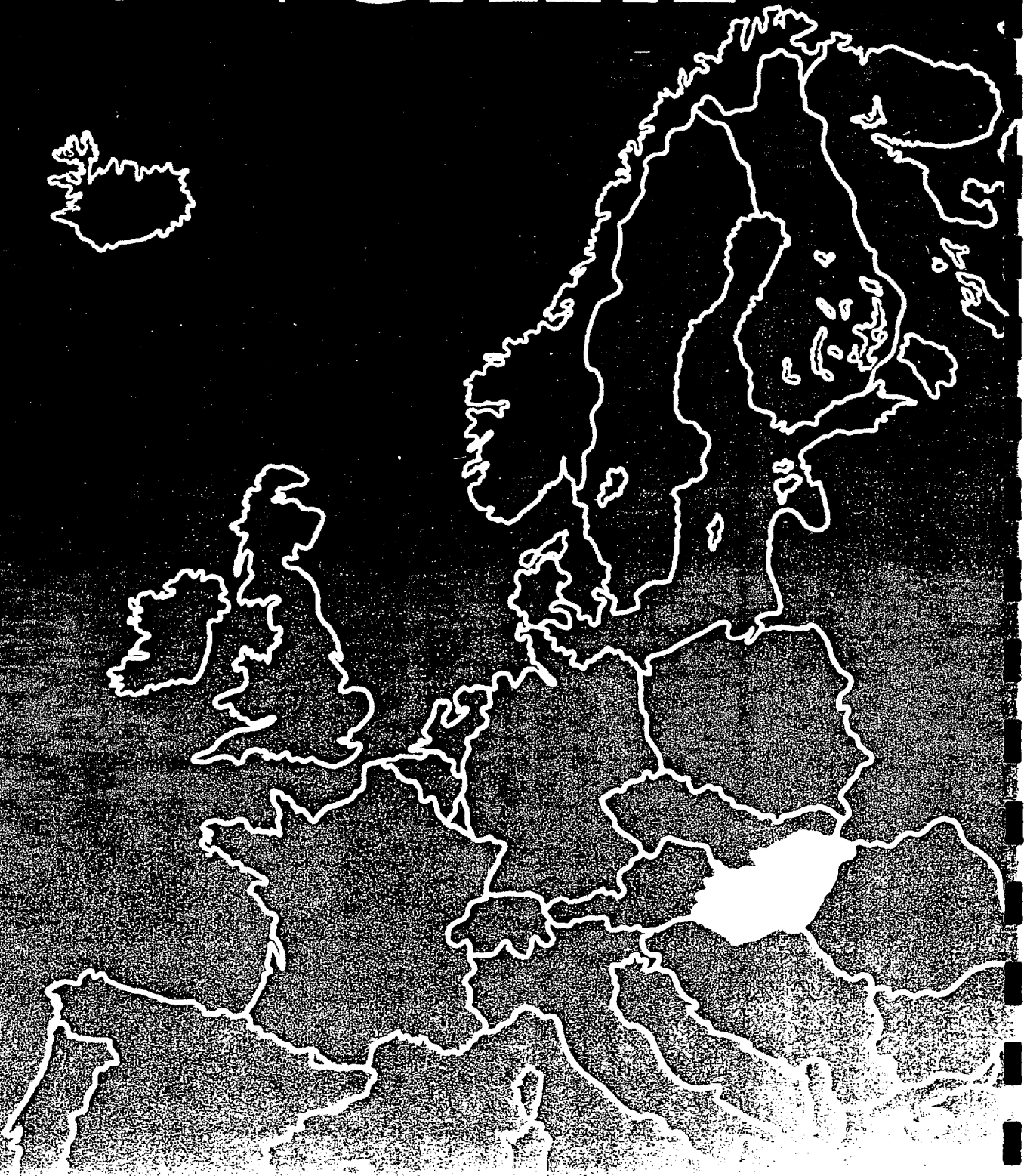
To understand the substance of this cooperative effort, USAID provided the funding for the design, text, and layout. All of the work was approved by a joint ministerial committee before anything went to press. The printing and distribution costs are jointly paid by the MIER and the NBH. Thus USAID paid about 2/3-3/4 of the total cost.

Besides being available in Hungary as the key English language brochure made available to serious investors, the intent is that part of the first printing of 5,000 will be made available at the commercial sections of Hungarian Embassies worldwide.

We will have to look in to makeing them available at the Eastern European Information Center of Dept. of Commerce in Washington etc. but as it now stands the production cost are too high for throw away distribution.

If you need a few more copies let me know. I have forwarded a few to USAID Washington for their growing "deliverables" collection. The Ambassador's office may forinstance be able to use a few. This is one of USAID's efforts that can fit attractively on a desktop. Sometimes it helps to have tangible results waved about!

INVEST HUNGARY



BEST AVAILABLE COPY

294

Labor and Social Policy

Taxation

Currency

Foreign Exchange

Finance

About Hungary

Operating

Environment

Privatization

The Investment

Environment

Why Hungary is

Investment-worthy

How to do Business

in Hungary

HUNGARY

A Privatization Program well underway

Presentation By: Charles G. Twyman
Deloitte and Touche
Senior Advisor to the State Property Agency

Date: 25 October, 1991

1. The speed of the Privatization Program in Hungary
2. The key statistics are:
 - a. Hungary has attracted over 50% of the foreign investment made to date in central Europe
 - b. Hungary already has in place the basic legislation and market structure for a free market economy
 - c. Hungary's private sector is taking off
 - d. Mass privatization is commencing:
 - i As at 30 September 1991 54% of Hungary's enterprises are involved in a privatization program
 - ii By year end over 80% will be involved in a program
 - e. Since its birth on 1 September 1990 the SPA has launched five different privatization programs.

The score is: 855 small privatizations
5564 small transaction pipeline
350 major privatizations
1197 major transaction pipeline

3. USAID has given and is giving key support.

US aid has been rapid and responsive
The SPA core contract
Equipment
LAN/MIS
Training program and training
Communication strategy and support
Financial systems support
Coordination with investment promotion effort

IQC pipeline

4. USAID can assist:
 1. Mass privatization program
 2. Warrant program
 3. Tell the story
 4. Continue responsive support
 5. Training
5. Working with other donors/lenders

REPUBLIC OF HUNGARY
PRIVATIZATION PROGRAM

COMMITMENT - INNOVATION - PROGRESS

"Jumping from airplanes with a poorly packed parachute can be expected to have a negative long term effect on your longevity."

Jump School, Fort Benning GA, June, 1965

There is evidence to suggest that the more the Hungarian government hierarchy had been involved in economic decision making the worse had been the results."

OECD Economic Survey HUNGARY, Paris
France, 25 July 1991

INTRODUCTION:

The role of US aid, the presenter and the Deloitte & Touche team in the development of Hungary's Privatization Program and the State Property Agency (SPA).

PRIVATIZATION:

Is driven by the need for a more efficiently functioning economic system. The concept is central to the economic transformation of Hungary and is not limited to title transfer. It encompasses the core activities associated with the transformation.

CHRONOLOGY:

Begun in the mid 60s, Hungary's economic revolution has been driven by pragmatic technocrats. The 1988 passage of the Companies Act signalled its acceleration. Stated Objective: reduce the pct. of state ownership/management of the economy from 90% to below 50% by the end of 1993. This is not gradualist!

ACHIEVEMENTS:

Legal Structure
Investments
Privatization programs
"Privatization of Privatization"
By year end 1991 over 1/2 of Hungary's enterprises will be involved in a Privatization program

THE ROLE OF US AID:

Rapid appropriate response
Limited but focused

USAID SUPPORT OF THE SPA

- Long Term Adviser (s)
- Equipment
- LAN
- MIS
- Support financial Management
- Design a training program
- Provide US based training
- Design and support Public Information Program

OTHER DONORS/LENDERS:

- World Bank (Includes Japanese)
- EC PHARE
- Know How Fund
- Canada
- France
- Germany

CASE STUDIES:

IBUSZ	: Capital Market development, political risk, role of ESOPs, the misleading 51% rule
LEHEL	: Foreign investment, the pragmatic answer
TUNGSRAM	: The biggest single transaction (\$150 mil.), GE and the US as an investor
GUNDEL	: Lang and affairs of heart
GUARDIAN GLASS	: The private sector shows how to shift strategies
FORD	: Greenfield investment may be the way to go?
GM	: Raba engine plant

FUTURE NEEDS:

- Support the momentum
- Management support, technology, equip
- Communications strategy and program
- Warrant system
- Privatize privatization
- Define risk retention
- Build national enterprise data base
- Investment promotion
- Train
- Continued rapid response

CONCLUSION:

A Hungarian process: We all are winners but Hungary must be the player.
Commitment - Innovation - Progress

HUNGARY

Current Privatization Programs

BACKGROUND: The State Property Agency (SPA) is the Hungarian Government Agency charged with stimulating and regulating the privatization of Hungary's enterprise sector. Since their inception on 1 March, 1990 they have created and launched several programs to achieve the government's objectives of privatizing over 50% of the economy by the end of 1993.

The programs are basically split between the one dealing with small enterprises (the Preprivatization Program, 6,982 operations) and the programs for the larger enterprises (about 2200 enterprises)

I Preprivatization Program

(Retail shops with less than 15 employees, typically sold by open auction, the program was initiated in October, 1990)

Groups	:	370
Units	:	10,322
Private	:	<u>3,240</u>
Program	:	6,982
Not ready:		<u>1,418</u>
For Sale	:	5,564

Results: (Program commenced 1 October, 1990)

Auctions	:	454
Percent Success:		58%
Auction Sales	:	794
Other methods	:	61
Total Sales	:	855 (30 Sept. 1991)

Schedule:

1991 (to March 1992)	3103
1992 (to March 1993)	1334
1993 (to March 1994)	1272

SIGNIFICANT ENTERPRISES: Hungary has approximately 2200 enterprises active in the full range of economic activity. The SPA has designed programs to try to move these enterprises as rapidly as possible out of the government sector. To largest 400 firms account for 85-90% of manufacturing GNP and about 75% of employment.

TOTAL NUMBER OF ENTERPRISES (APPROX.)	2200
Enterprises programmed (II, III, IV below) for privatization (30 September 1991)	1197
Percent enterprises presently programed	54%
To be programmed by 31 Dec. 1991 (about 80%)	1797

II ACTIVE PROGRAM

First Privatization Program	20	
Second Privatization Program		
1st. tranche	12	
2nd. tranche	11	
balance	<u>41</u>	
Program Total	64	
Sector Programs		
Wineries	15	
Construction	36	
Trading Cos.	15	
Airline (Malev)	<u>1</u>	
Program Total	67	
Buyer and Enterprise Initiated program	<u>159</u>	
TOTAL ACTIVE		310

III TRANSFORMATIONS (Spontaneous) PROGRAM

Completed	331	
Underway		523

IV SELF PRIVATIZATION PROGRAM

Tranche I	364
Tranche II (Dec. 1991 about 600)	
ENTERPRISES PROGRAMMED FOR PRIVATIZATION	<u>1197</u>

HUNGARY

KEY INDICATORS

Foreign Investment Flows: US\$1.5 mil. (cumulative to 1990) approx. 50% of total foreign investment in Central Europe
US\$ 1 bil. est. additional for 1991

US #1 : \$650 mil. (270 ventures)
Germany : 1000 ventures
Austria : 1000 ventures
Switzerland: 230 ventures

Housing ownership : 77.7% private 1990 (74.3% 1989)
Approx. 78% of population in owner occupied housing.
Company formation : 1989 total 4485, 1990 total 15,560,
1991 total (3 months) 22,695
Joint ventures : 1990 total 5000
Prices : 90% decontrolled
Small Business employment: 11-16% of total (1990) up from 7% (1989)
Debt Service Ratio : 40.6%
Unemployment : 1.7% (1990) rising
Inflation : 30+ percent
Per Capita GNP : \$2750 but effectively about 50% of Austria

PRIVATIZATION CHRONOLOGY

1960s -Agricultural sector (private plots) liberalized
-Acceptance of the shadow economy
1970s -State owned housing sold to private parties
-Retail outlets put on a contracted lease basis
-Foreign joint venture (minority) permitted
1980 -Economic working groups (1st. decentralization of enterprises)
1985 -Enterprise autonomy
1986 -1st. Bankruptcy law
1987 -Two tier banking system
1988 -Companies Act
1988 -Foreign Investment Act
1989 -Transformation Act
-Revision of Tax laws
1990 -Law establishing the State Property Agency
1990 -Revised competition law
1991 -New Accounting law (effective 1 Jan. 1992)
-Compensation Act
-Further liberalization of the foreign investment law

MEMORANDUM

TO :USAID Budapest Representative Office
Attn: Mr. David Cowles

FROM :Project Manager's Office
Technical Assistance to the State Property Agency of Hungary
ANE-002-C-00-0047-00
Charles G. Twyman

REF :SPA Project Funding Status

DATE :16 September, 1992

BACKGROUND:

The funding on the SPA portion of the project runs out at the end of September. The Investment promotion support (Brian) is funded through February 1993. In discussions with USAID commencing in June we had been planning for an extension of the project. This has been based on detailed discussions with the Government and the SPA to carefully craft a program that suits the objectives of the Hungarians and the US efforts in Hungary.

CURRENT SITUATION:

The present project is operating on a budget regardless of future plans and the money runs out at the end of September. A project close down and the related graceful withdrawal was not planned for and thus what is happening will have some very visible effects.

I need to work out with you and the Embassy a strategy to minimize the damage to the US effort in Hungary of an unsignalled project withdrawal.

I am holding funding for three efforts only:

1. The Transaction Support Specialist Agriculture: I can fund him through about the first week in October. If he is withdrawn now I would anticipate Ministerial involvement thus I would like to give us time to work this out.
2. The warrant scheme project has some key deliverables that are scheduled for October so I have held funding for that.
3. The Houston and Los Angeles Investment promotion support effort.

The current status of the project by component is:

1. Project Office: I can't fund it past the end of September. Both Kata's and Linnea's contracts are tied to the USAID project. If it goes they are not bound and I can't pay them. Work permits, my house lease, vehicle licenses and household goods imports all tie to the USAID contract.
2. Equipment: There is a minimal funding need there. It can be tidied with no real effort.
3. Self Privatization: All deliverables complete.
4. Financial Management: All in process deliverables complete. Peter Kurz has been scheduled for Spt. month end to drive the SPA's planning effort for 1993 -he is key in this regard- I will have to cancel him.

5. Information System: All new work has stopped. Support with training and problems continues on a by specific request basis. That will have to end 1 October.
6. Training: All complete but there are two immediate needs one at September end (negotiation skills) and another in October (investment and export promotion).
7. Public Relations: Final wind down and withdrawal about complete. No effort planned for next year. This would have required a new sub-contractor as we discussed had the effort been continued.
8. Privatization Transaction Support: We have mobilized support in the major crises area -Agriculture- assuming this new area of effort will go ahead. Without new funding we have to close that down. We can move in an SPA interviewed and approved specialist today (literally) in the insolvency area. We have in hand the teaming proposal for the whole project for initial interviews by the SPA presently scheduled for 21 September with mobilization in mid October. Without funding this goes indefinite and the teams will dissolve.

FUTURE SUPPORT:

A basic program has been designed and approved at all levels in Hungary, at the working level within USAID and with D&T. (It was decided not to ask for the refunding of the investment promotion effort at this point.) The overall level of effort budget is summarized (before contracting office slimming) in attachment I. It is to be noted that while the need for the transaction support teams is for two year funding it was decided to go for one year because of the size of the request.

DEVELOPMENT I:

D&T and this office was asked to do an analysis of what would be done with funding at the \$2.5 million level with a fair likelihood of additional funding made available later in fiscal 93. My memo on that is Attachment II. The basic at risk area in terms of the work getting done right will be in the transaction support teams -banking and insolvency- full funding for that effort alone would exceed \$3 mil. We can initiate work on a short term basis, as with Charlie Stamm (on the ground) and we could immediately get in an insolvency person (already interviewed and approved by Les). However the SPA does not want to train people up and then lose them when they start to be real effective (ie 3-6 months into their work at the SPA).

DEVELOPMENT II:

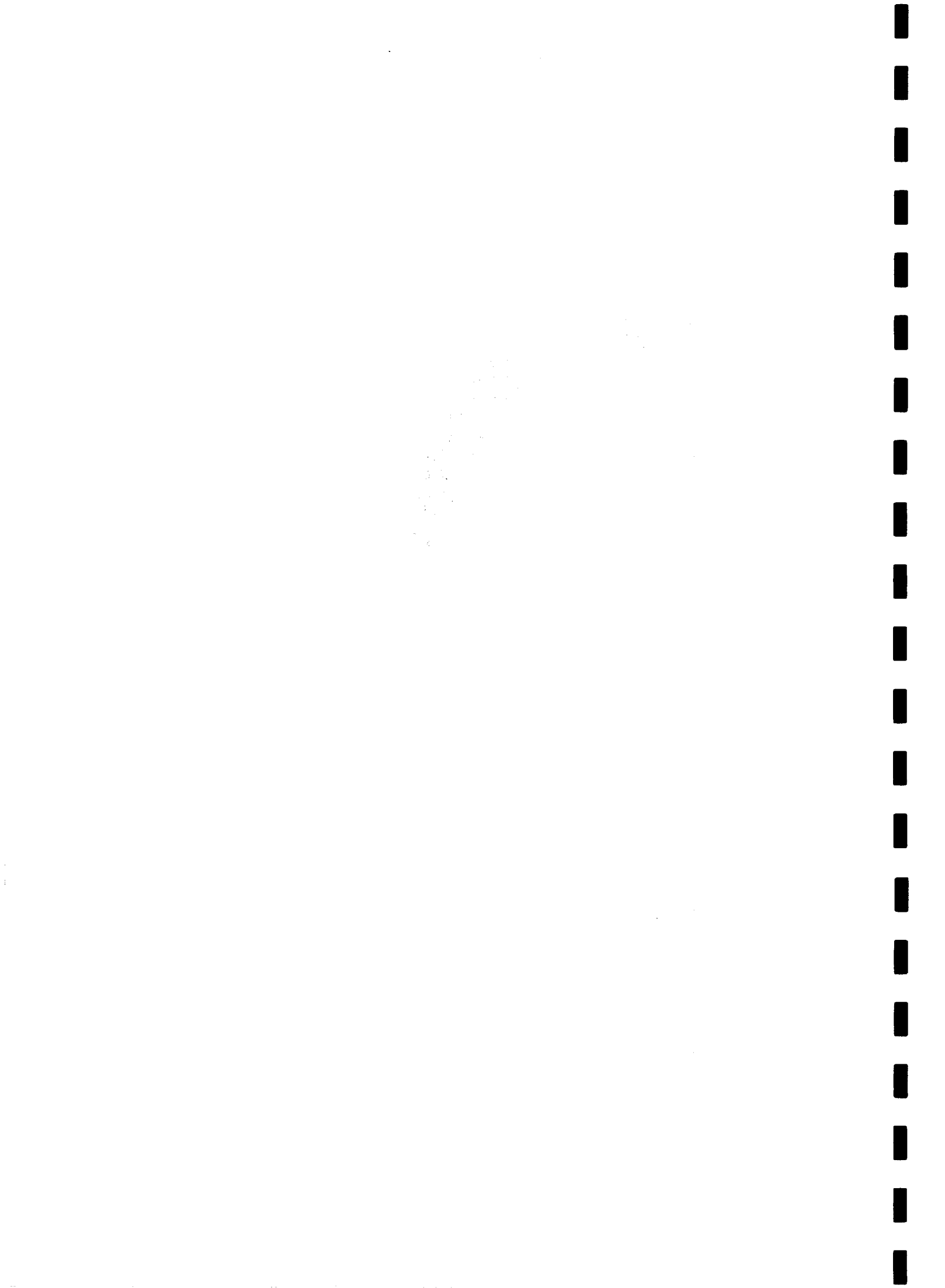
It has been raised that only the continuing efforts would be funded with the transaction support initiative split out. These core activities would require about US\$2 mil in funding (US\$2,130,000 if you start with the attachment I budget). That is a reduction from the present years \$2.4 mil funding level. Attachment III summarizes the funding levels history.

DEVELOPMENT IIA:

The splitting out of the transaction support initiative is to compete it. This has two basic problems, the time taken by the process, and the integration of another firm -should they win the proposal- into the SPA/ USAID effort. Even in the scenario that D&T wins the bid the time effect will be considerable. If D&T don't win, getting another firm up to speed and integrated will have a dramatic time component particularly for the SPA management. Two major parallel and overlapping USAID efforts run separately within the SPA by major rival firms seems to pose project management problems.

Term: If to accelerate implementation this proposal is intended to flow through the IQC, a short term vehicle, it steps a long way back from the originally identified need of mentors integrated into the SPA assisting over a longer term. Based on experience it takes an advisor about 3-6 months to get fully integrated and up to speed. On again off again support in an SPA which is already an organization subject to dramatic churning may be counterproductive. If it is funded through the IQC as a bridging effort the integration of that bridge to the longer term effort will be a difficult but doable effort.

Contractor Management: I see a significant contractor management problem for USAID and the SPA if you parallel and overlap to major rival contracting firms within the same effort. They are competing for the same pool of funds, competing for the time of SPA and USAID management. The time expenditure on positioning and directing will become very significant.



His Excellency The Ambassador of the United States of America
to the Republic of Hungary
Mr. Charles Thomas
United States Embassy
Szabadsag ter 12
H-1054, Budapest
Hungary

16 July, 1992

Dear Ambassador Thomas,

It was my pleasure to meet with you once again and to meet your Second Secretary Economic Mr. Clark in my new Ministerial Office at the Pozsonyi ut. site. I was particularly pleased that Les Nemethy, the Deputy Managing Director Privatization of the State Property Agency (SPA), could join us. Continuing the United States Government's most welcome support of his and related efforts was the core of our discussion.

I cannot overemphasize the commitment of the Government of Hungary to the establishment of a viable market economy in Hungary and the rapid and pervasive Privatization process that involves. This commitment on the Government level is echoed in my specific and personal commitment to speeding up the process. We wished to underscore ways Hungary can accelerate this process using the assistance the United States of America to support and augment our efforts.

We had discussions of area where your advice and assistance might have an immediate impact, specifically we noted:

1. The SPA has benefited from substantial institutional strengthening support from the USG. As the SPA moves into its mature phase it would now welcome a greater focus of attention on helping it speed the privatization transaction negotiation and management process. The wholly committed assistance of a team of trained investment banking skilled persons would be most welcome.

2. The SPA has had to assume the responsibility of moving some of the nation's largest insolvent enterprises along the path to privatization. We would welcome the support of insolvency privatization specialists to assist in this effort.

3. As a part of the insolvency resolution effort the SPA through my ministry has asked for your assistance in drawing to Hungary the leadership of a most capable US executive. I am eager that we follow up on that initiative.

4. The SPA is making a concerted effort to decentralize the privatization process and expand the participation of Hungarians in the process. We would welcome the support of the US to Hungary's unique self privatization program, its newly launched lease purchase program, and its continued support of our compensation note scheme.

5. The SPA working with my ministry has created a Privatization Acceleration "Think Tank" whose task it is to create and initiate new programs to speed and decentralize the privatization process. We would particularly appreciate US assistance to help us complete the staff, feasibility, and implementation plan work on the outputs of this group.

It was my proposal at the meeting that Mr. Nemethy would assume the lead role with your embassy in these five projects that are directly supportive of the SPA's efforts.

We had a discussion of the core and mutually related debt problem of the Hungarian banking and enterprise system. A major issue facing the privatization of any enterprise but particularly the major financial institutions is how to deal with this problem. This debt is the legacy of the mismanagement of the previous four decades and must be stripped out of the system if a market economy can be expected to operate effectively going forward. We would welcome your continued support of our bank privatization efforts with particular emphasis on how to deal with this core problem.

Hungary's bankruptcy laws, designed to quickly sort the economically viable from the non-viable enterprises, has -in a high interest rate economy- had a more rapid and far reaching effect than anticipated. We would welcome assistance from the US Government to systematically examine ways to deal with the many bankrupt enterprises we must cope with in the next few months.

Hungary has two state holding company concepts (both within my Ministry) that it is implementing; One is the so called AVRT an independent holding company for the intended medium to long term hold enterprises of the Government, the second is an interim holding company (the SPA) whose sole purpose is to privatize enterprises in its charge. It is my intent to privatize the holdings in the SPA in so far as possible. The long term hold enterprises will be subject to detailed scrutiny as to which of their activities the Government can divest. The short term hold organization will also be a wholesale privatization effort. I would welcome US Government support in developing techniques to support the privatization aspects of both efforts.

I look forward to continuing our dialogue. I wish to reiterate our appreciation of the US assistance we have received to date and I certainly welcome your new initiatives to support our efforts in the above areas.

Sincerely,

Szabo Tamas
Minister

BRIEFING AGENDA

Prepared For :Minister Szabo Tamas
Subject :US Government Assistance to the State Property Agency
Prepared By :USAID Project Manager, Twyman Charles
Date :12 February, 1992

BACKGROUND:

The Government of the United States of America is a strong supporter of Hungary's privatization efforts. Through the United States Agency for International Development (USAID) they have supported the development of the Hungarian privatization agency the State Property Agency (SPA) since its inception. The USAID Project Manager Charles Twyman has been at the SPA since March 17, 1990 and has been involved in many aspects of the development of the SPA.

CURRENT SITUATION:

Mr. Twyman would like to review with you the USAID activities at the SPA. He would like to ask if you would like this support to continue. He also would like to discuss with you the nature of any future needs you would foresee.

PRESENT SUPPORT:

The USAID Project office is involved in 10 basic activities currently underway at the SPA:

1. A Senior Long Term Advisor/Project Manager
2. Providing basic computer equipment and a Local Area Network (LAN)
3. Providing a Management Information System (MIS)
4. Training program, design, support and training
5. Public Relations, design and support
6. Financial Management Support
 - Technical & Accounting
 - Help implement the Financial control function at the SPA
 - Provide a Mentor to the Chief Financial Officer
7. Needs definition - Self-Privatization Program
8. Needs definition - Warrant System
9. Investment promotion and activity support
10. A Long Term Advisor to support the regulatory side of the SPA

FUTURE SUPPORT UNDER CONSIDERATION: 1992 and 1993

1. Continuation of the Long Term Advisor/Project Manager
2. Additional Equipment for the Self-Privatization effort and copiers (2 large) for the SPA.
3. Implement the Management Information System (MIS)
4. Continue support of the training program and help make available USA based training.
5. Continue some Public Relations support
6. Continue and increase Financial Management Support
 - Technical and Accounting
 - Financial and management control
 - Assistance to the Finance Director
7. Self Privatization equipment, systems, organizational and information program support.
8. Compensation note program advisory assistance and support.
9. Assistance in Hungary's investment promotion effort.
10. Long Term advisor support where you feel the need.

RECIPROCITY AGREEMENT
The State Property Agency of Hungary
&
The United States Agency For International Development
Dated: XXXXXXXX, 1992

PURPOSE: It is the intent of both the United States Agency for International Development (USAID) and the State Property Agency of Hungary (SPA) that their close working relationship be continued. In order to make clear the mutually acceptable ground rules of this relationship so that the two parties can continue to work effectively together in the circumstances of frequent changes in the personnel involved on both sides, the following is agreed.

OVERALL:

The USAID

-will continue its support of the SPA in areas that are mutually agreed so long as it is perceived as mutually beneficial and funding is available.

The SPA

-will manage USAID's support by cooperating with the USAID Budapest Representative and the USAID SPA Project Management Office so that they gain access to the appropriate level policy and operational personnel inside and outside the SPA to be able to define clearly the project's needs.

-will make available the relevant personnel to assist the USAID team in the execution of their project work while the USAID project team for its part will be most sensitive to any strain their needs will put on the SPA.

-will make available the information required by the USAID project team. Such information will be considered as being under the professional confidentiality rules governing enterprises and individuals employed by the SPA

-will make available to USAID any and all information and materials it considers releasable to any donor/lender organization actively supporting the SPA and Hungary's Privatization Program.

In addition the two parties also agree that the following is the basic understanding as concerns on-going projects. The sense of this understanding will govern them and future projects.

Project Office:

USAID will fund the staff, computer equipment, software, and a copier for a Project Office. In return the SPA will:

1. Allocate appropriate office and support equipment (desks, chairs, meeting facilities, file cabinets, storage space etc.) and provide for their maintenance and repair -to include the office computer equipment and copier.

2. Provide telephone and fax equipment, a direct Fax and telephone line and access to an international line. In addition the SPA shall fund the operating expenses of these facilities to include their consumables and repairs.

3. Provide heavy duty copying facilities for the USAID Project office when it so requires for project work.

4. Provide suitable office space for a Project Director, his secretary, staff assistant and short term consultant teams.

5. Provide the Project Office staff and consultants the access they require to carry out mutually agreed tasks.

6. Provide for the consumable day to day office needs of the USAID Project Office.

Equipment:

USAID has funded the purchase of considerable amounts of computer, software and copying equipment and is prepared to consider funding additional purchases on the understanding that the SPA will:

1. Allocate the office equipment within the guidelines agreed to at the time of purchase.

2. Will provide full time professional supervision of the Local Area Network (LAN) provided by USAID and see that the LAN is maintained and used as intended.

3. Will provide the consumables, spare parts, and repairs required for the equipment such that the equipment experiences a normal equipment life span.

Training:

USAID shall continue to support the SPA's training efforts in return for which the SPA will:

1. Assign the appropriate training staff to coordinate and direct the training program of the SPA.

2. Design the SPA staff incentives such that SPA staff are appropriately rewarded for the extra effort training deserves.

3. Design the SPA bonus and promotion scheme so that trained staff are encouraged to remain at the SPA.

4. Cooperate closely with USAID training advisors to work through the personnel policy and practice guidelines that are required to make a training program function.

5. Integrate the USAID funded training into the training provided by the SPA, the EC PHARE program, and other sources such that useless duplication is avoided.

Privatization Information System:

USAID will continue to support the expansion and refinement needs of the SPA's Privatization Information System (PIS) in return for which the SPA will:

1. Assign the appropriately trained staff to operate the system.

USAID is prepared to provide specialist training and short term advisors to assist this staff during the design and implementation phase of the project.

2. Provide for the day to day maintenance of the system and its equipment.

3. Undertake to fully train the staff of the SPA so that they can take full advantage of the PIS. A detailed implementation plan and schedule will be prepared and followed through.

4. Undertake to properly direct the staff of the SPA so that they keep the PIS system current.

5. Undertake a formal implementation program with the support of USAID.

6. Thoughtfully modify the PIS program to suit its changing needs with the assistance of the USAID.

Financial Management:

USAID will continue to support the professional development of the SPA's financial control and budgeting procedures in return for which the SPA will:

1. Assign properly trained and motivated persons to the key personnel positions needed to make the system work.
2. Implement well thought out plans in accord with the requirements of the Department of State Auditors, the Ministry of Finance's regulations and the guidelines agreed to by the SPA and its advisors.
3. Provide specialist personnel provided by the USAID team with the access to the data and personnel required so that they may properly advise the SPA.
4. Fully implement the budgeting, planning, and control apparatus proposed by the USAID team and approved by the SPA.

Investment Promotion:

USAID will continue to support the development of this effort in Hungary in return the SPA shall:

1. Work closely with the other Ministries, Agencies, and Enterprises in Hungary involved in the investment promotion area so as to create synergy and avoid duplication of effort and conflict.
2. Help develop the materials that can be used by the SPA and others to accelerate the privatization process.
3. Make available the information flow that will allow the Hungarian privatization program to go from success to success and be so perceived.
4. Try to make the SPA's role a transparent and predictable part of the investment process in former state enterprises.

Self Privatization:

USAID will continue to support the development of this innovative fast-track privatization effort in return the SPA shall:

1. Make available to the Self Privatization Program the trained personnel and budgetary resources it needs to carry out its day to day activities.
2. Make available to the Self Privatization Program the office space and communications (telephones, faxes, printing) that it requires to carry out its efforts.
3. Give access to USAID team personnel to the information they require to deliver the required support at the Self Privatization office.
4. Support the USAID team personnel's needs at the Self Privatization office with access to appropriate policy and operational level personnel.

Compensation Notes:

While USAID sees a reduced role in this area it would encourage the SPA to build on the past expenditures by:

1. Committing the required resources, personnel and systems, to getting this new market instrument fully functioning.
2. Making the appropriate linkages within and outside the SPA to underpin the activities of this operation.

Public Information:

While USAID sees a reduced direct role for itself in this area it views the importance of public information for the privatization program in Hungary as ever increasing. It is USAID's conviction that its major contribution in this field is the development of the Privatization Information System driven off of Hungary's enterprise data base which will certainly tie 1,2,and 3 below together and make them readily possible. It is hoped that the SPA will continue to expand its efforts in the areas of:

1. Developing a transparent dialogue on its transactions with the Hungarian public through the press and other media.
2. The development and distribution of detailed information on enterprises available for purchase from the SPA.
3. Systematically disseminating detailed well organized information on a routine basis on the progress of privatization in Hungary.
4. The simplification of existing means of privatization and the expansion of the information available on them so that they can be readily accessed.
5. The continuing expansion of the ways to support privatization in Hungary and making the mechanisms known. Selectively USAID can assist with developing new concepts and even more selectively implementing them.

Privatization Acceleration:

The USAID is willing to makes a major commitment of trained personnel to assist with two SPA initiatives aimed at accelerating the privatization process:

1. Placing a team of up to 5 trained investment bankers in the SPA working with assigned SPA transaction teams.
2. Placing a team of up to 4 insolvency experts on the ground at specified major stricken industrial targets with the mission of developing ways to privatize them and overseeing their execution.

USAID plans to fully fund up to nine individuals (or some lesser number plus the balance in short term specialist assistance)and their basic secretarial and translator support plus their basic computer and software needs.

It is USAID's intent that, based on visible progress in the two programs and dependent upon the availability of funding that the two efforts will be extended into a second year.

In order for the USAID to undertake the above the SPA will:

Investment Banking team:

1. Make available the required office space and office equipment to support the team's needs.
2. Make specific counterpart assignments for each team member in writing.
3. Working with the Investment Banking Team Leader and the USAID Project Office Assign specific privatization account responsibilities and time tables to each team member in writing.
4. Working with the team, identify areas requiring the commitment of SPA resources (proceeds, PHARE, World Bank or whatever) and then make them available.
5. Meet quarterly with the USAID Budapest Representative, The SPA Project Management Office, the Investment Bank Team Leader to assess the Team's progress and planned utilization for the coming quarter.
6. Meet monthly with the USAID SPA Project Office and the Investment Bank Team Leader to assess the Team's progress and continued utilization.
7. Meet at least weekly with the Investment Bank Team Leader to resolve practical working problems.
8. Provide in the ninth month of the project through the USAID Project Office a request to USAID for the extension or wind down of the project with documentation in support.

Insolvency Team:

1. Make available the required office space and office equipment to support the team's needs.
2. Working with the Insolvency Team Leader and the USAID Project Office make specific enterprise insolvency assignments and timetables for activities for each team member in writing.
3. Assign specific insolvency responsibilities to each team member in writing.
4. Working with the team identify areas requiring the commitment of Enterprise or SPA resources (enterprise budgetary funds, SPA sales proceeds, PHARE funding, World Bank or whatever) and then make them available.
5. Meet quarterly with the USAID Budapest Representative, The SPA Project Management Office, the Insolvency Team Leader to assess the Team's progress and planned utilization for the coming quarter.
6. Meet monthly with the USAID SPA Project Office and the Insolvency Team Leader to assess the Teams progress and continued utilization.
7. Meet at least weekly with the Insolvency Team Leader to resolve practical working problems.
8. Provide in the ninth month of the project through the USAID Project Office a request to USAID for the extension or wind down of the project with documentation in support.

Advisory Services to Promote Foreign
Investment in Privatizing Firms, Budapest, Hungary

Terms of Reference

I. Background

The business climate in Hungary has improved substantially in the past year. A number of investment promotion efforts are currently underway. These include the establishment of the Office for Investment Promotion in the Ministry of International Relations, the trade and investment services project operated by the International Executive Service Corps, and the activities of the American Chamber of Commerce in Hungary to encourage American and other western businesses to invest in Hungary. Much work, however, remains to be done if Hungary is to attract a significant level of foreign investment and generate growing foreign demand for Hungarian goods.

The fundamental goal of this project is to help Hungary take greater advantage of the opportunities created by international market forces. By encouraging Hungarian firms to exploit international commercial opportunities, this project aims to assist in integrating the Hungarian economy more productively into the world economy and thereby increase trade and investment. This project is closely related to the Government of Hungary's privatization program, as it will encourage foreign investment in state owned industries, as well as enterprise that were recently divested to private ownership by the State.

The U.S. Government can play a crucial role in assisting this effort by providing the services of a long-term advisor to the Investment Promotion Office in the Ministry of International Economic Relations. An advisor with broad knowledge and experience in American business operations would be able to provide valuable assistance across all the groups active in investment promotion. The Ministry would benefit substantially from the presence of an American businessman who can anticipate the needs and questions of businessmen interested in investing in Hungary.

II. Objective

The objective of this activity is to provide expert advisory services to the Government of Hungary in promoting foreign investment in state-owned enterprises that are being privatized, and to assist foreign investors in understanding the investment opportunities in Hungary.

III. Statement of Work

One long-term advisor will be assigned to the Investment

Promotion Office in the Ministry of International Economic Relations. In addition to working closely with this Office, he will coordinate closely with other Hungarian organizations promoting foreign investment. In order to provide assistance in attracting private businesses to pursue investment and trade opportunities through state-owned enterprises that are being privatized, he shall be assigned the following responsibilities:

1. Assist the government of Hungary to understand how current policies constrain trade and investment growth. Assist the Government to systematically analyze and correct policies that are detrimental to foreign investment through "policy audits" of domestic laws, regulations, policies, and procedures.
2. Provide technical assistance to ministries and regulatory agencies responsible for designing and implementing policy changes.
3. Provide technical assistance to the Investment Promotion Office in preparing sector, industry, or firm-level feasibility studies for trade or investment ventures.
4. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business.
5. Provide substantive input to the Government of Hungary in the development and production of appropriate promotional material concerning foreign investment opportunities in Hungary, as well as laws, regulations, and procedures pertaining to such investment.
6. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored.
7. Facilitate trade and investment missions from foreign nations. This involves serving as a liaison for the Government of Hungary with foreign investment missions, setting up briefings to facilitate the exchange of information regarding opportunities in Hungary, and serving as an intermediary between foreign (especially American) business interests, Hungarian ministries and officials, and Hungarian companies. This would also include facilitation, as may be necessary, of official missions of trade and investment promotion agencies of Western countries (e.g. OPIC).

IV. Reports

The long-term advisor provided by the contractor shall provide quarterly reports to the AID Project Officer in Washington and to the Office of the A.I.D. Representative in Budapest. Reports shall include information on the progress of the Office of Investment Promotion during the quarter in removing

obstacles and providing services to potential foreign investors, with an emphasis on the advisor's work with potential American investors.

V. Level of Effort

The contractor shall provide an advisor, to be resident in Budapest, for a period of up to 24 months. The contractor will be authorized to procure secretarial services in support of the long-term advisor. Initial funding will be provided for only the first 12 months of this project. After nine months this activity will be reviewed to determine if a second year will be funded.

The long-term advisor shall have at least 15 years of experience in corporate finance or marketing. Previous experience in Hungary and with divestiture of state-owned enterprises are desirable.

BRIAN J. O'CONNOR
Csaba ut 34/8
1122 Budapest, Hungary
36-1-155-1017

SUMMARY

Results oriented senior executive with over 25 year of solid career progression and experience. Proven leadership in finance, general management, business and product development, team building and meeting the challenges of growth while achieving bottom line results. In addition, extensive government experience in investment promotion, trade development and privatization.

GOVERNMENT EXPERIENCE

<u>Deloitte Touche Tohmatsu International</u>	<u>3/92 to Present</u>
Investment Advisor Ministry of International Economic Relations - Budapest, Hungary	
<u>U.S. State Department</u>	<u>2/89-2/91</u>
Assistant to the U.S. Ambassador - Budapest, Hungary	

BUSINESS EXPERIENCE

<u>IBM Corporation</u>	<u>1/68-3/92</u>
Secretary IBM - United States Resource Management Board	2/91-3/92
Director Asset Management and Controls IBM US	7/88-2/89
Vice President Finance and Planning for IBM Information Services and the Application Systems Division	4/84-7/88
Corporate Director of Accounting Systems and Controls (IBM)	9/80-4/84
Vice President International Operations Science Research Associates (IBM Subsidiary)	9/77-9/80
Corporate Director of Information Systems Measurements and Controls (IBM)	9/76-8/77
Treasurer and Chief Financial Officer Science Research Associates (IBM Subsidiary)	3/74-8/76
Resource Planning, Pricing and Budgets	1/68-3/74
<u>Continental Can Company</u>	<u>5/66-1/68</u>
Manager Industrial and General Accounting	
<u>Western Electric Company</u>	<u>4/62-5/66</u>
Price Specialist	

EDUCATION

MBA - NYU, 1965, Finance and Marketing
B.S. - Manhattan College, 1960, Management

PASSPORTS - United States
Ireland (EEC)

HONORS

Epsilon Sigma Pi, Honors
College - top 5% of Class

BRIAN J. O'CONNOR
Csaba ut 34/B
1122 Budapest, Hungary
36-1-155-1017

SUMMARY

Results oriented senior executive with over 25 year of solid career progression and experience. Proven leadership in finance, general management, business and product development, team building and meeting the challenges of growth while achieving bottom line results. In addition, extensive government experience in investment promotion, trade development and privatization.

GOVERNMENT EXPERIENCE

DELOITTE TOUCHE TOHMATSU INTERNATIONAL

3/92 to present

Investment Advisor
Ministry of International Economic Relations
Budapest, Hungary

Under a U.S.AID contract advised the Hungarian government on investment promotion and trade development, worked with U.S. companies on their investment and expansion plans and provided support and training to the Ministry.

U.S. STATE DEPARTMENT

2/89-2/91

ASSISTANT TO THE U.S.
AMBASSADOR - Budapest, Hungary

As part of the President's Commission on Executive Exchange served as assistant to Ambassador Mark Palmer and Ambassador Charles Thomas in Budapest, Hungary. Advised Hungarian ministries, banks and enterprise directors about privatization and actively worked with U.S. companies to facilitate joint ventures and direct investments.

BUSINESS EXPERIENCE

IBM CORPORATION

1/68-3/92

SECRETARY IBM - UNITED STATES
RESOURCE MANAGEMENT BOARD, Purchase, New York

2/91-3/92

The IBM U.S. Resource Management Board is responsible for controlling human resource activity across the IBM U.S. organization. The Board meets monthly and approves all hiring, unit attrition plans, special programs and resource balancing activities.

DIRECTOR ASSET MANAGEMENT AND CONTROLS
IBM UNITED STATES, Purchase, New York

7/88-2/89

Responsible for coordinating and ensuring implementation of an asset Management Strategy for IBM-U.S. focused on Accounts Receivable, Inventory, Capital Assets, Program Products and Rental Assets, as well as a disposition strategy for non-performing assets. In addition provided staff direction and support relating to business controls and the overall control posture of IBM-U.S.

VICE PRESIDENT PLANS AND CONTROLS,
GROUP DIRECTOR FINANCE AND PLANNING
DIRECTOR OF FINANCE FOR IBM
INFORMATION SERVICES AND THE APPLICATION SYSTEMS DIVISION,
Milford, Connecticut

4/84-7/88

Chief Financial Officer for IBM's Information Services Business Unit (which included software, telecommunications, and professional services) and IBM's Application Systems Division. (World Wide Business Unit revenue \$1 billion +.) Performed all financial functions associated with these major growth businesses. Reporting were the Controller, Director of Planning, Manager of Business Practices and Manager of Management Services. At various times the finance organization ranged from 100 to 400 people based on changing missions and responsibilities.

CORPORATE DIRECTOR OF
ACCOUNTING SYSTEMS AND CONTROLS (IBM)

9/80-4/84

Responsible for driving worldwide accounting systems strategy for IBM, including application requirements, project management and control and information systems development. Started 14 projects - 5 completed, 7 in development, 1 discontinued, 1 transferred. Year end '84 attained 129 worldwide installations servicing 274 user organizations.

VICE PRESIDENT INTERNATIONAL
OPERATIONS - SCIENCE RESEARCH
ASSOCIATES (IBM Subsidiary)

9/77-9/80

General Management responsibility for all international activities of SRA. Direct P&L responsibility for subsidiaries in Canada, UK, Australia, Germany and France. Negotiated contracts ranging from real estate, lease/purchase, author/product to marketing/advertising and joint ventures. Closed and sold declining business operations in Germany and domestically in Health Sciences and Consumer. Member of each subsidiary companies external Board of Directors.

CORPORATE DIRECTOR OF INFORMATION SYSTEMS
MEASUREMENTS AND CONTROLS (IBM)

9/76-8/77

Responsible for the worldwide planning and control of information systems expenditures within the IBM company. Duties included Operating and Strategic Plan reviews for the I/S function, security, education and internal equipment usage.

TREASURER AND CHIEF FINANCIAL OFFICER
SCIENCE RESEARCH ASSOCIATES (IBM Subsidiary)

3/74-8/76

Handled the full range of activities associated with the responsibilities of a CFO for a "multinational" company - Operating and Strategic Plans, Accounting and Operating Results, Pricing, Business Controls, Internal Audit. At various times had legal and business planning responsibility. Presentations to the IBM Corporate Management Committee and senior general management in IBM.

RESOURCE PLANNING, PRICING,
BUDGET ANALYST

1/68-3/74

First 4 years in IBM spent in the Office Products Division (Pricing and Manager of Revenue/Cost Planning) Corporate Budgets and the Advanced Systems Development Division (financial analysis).

CONTINENTAL CAN COMPANY5/66-1/68

SUPERVISOR INDUSTRIAL ACCOUNTING: Responsible for all cost accounting, including complex standard costing, variances, non-standard methods and inventory control. Also in charge of the Data Control and Payroll Departments.

SUPERVISOR GENERAL ACCOUNTING: Responsible for accounts payable, general ledger, billing, cashier, fixed assets, office services, budgets. Prepared profitability studies on metal consumer packaging products. Trained in sales, industrial relations and manufacturing operations.

CONTROLLERS TRAINEE: Plant sales \$45 million. Employees 1,200.

WESTERN ELECTRIC COMPANY4/62-5/66

PRICE SPECIALIST: Worked closely with the Marketing, Purchasing and Service organizations in developing prices for products, supplies and services furnished by Western Electric. Responsible for the financial aspects of a \$60 million product line.

EDUCATION

MBA - NYU, 1965, Finance and Marketing
B.S. - Manhattan College, 1960, Management

HONORS

Epsilon Sigma Pi, Honors
College - top 5% of Class

PASSPORTS

United States
Ireland (EEC)

TECHNICAL ASSISTANCE TO THE STATE
PROPERTY AGENCY OF HUNGARY
USAID CONTRACT
NO. ANE-0002-C-00-0047-00
USAID PROJECT
NO. 180-0002-3-0183107

Advisory Services to Promote
Foreign Investment in Privati-
zing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: March 16 - September 30, 1992

SUMMARY:

During the period the long term advisor set up his office, established contacts within the Ministry including the Phare unit supporting investment and trade promotion, actively engaged in investment promotion, visited Hungarian and American companies and discussed current conditions and outlooks with senior level Hungarian and American executives and government officials. In addition full support was given to the Citizens Democracy Corps' Technical Support Program, the Danube Basin Investment Conference and the A.I.D. sponsored RITE project (Reduction of Impediments to Trade Expansion). Major emphasis throughout the period centered on the 2 U.S. Investment Seminars to be held in Houston Oct 27 and Los Angeles Oct 29.

The LTA also extended activities outside of Budapest with visits to Bekes County and Tolna County.

MAIN AREA OF ACTIVITY:

Investment support and advice (including senior level management discussions) was provided during the period to the following organizations:

Pepsi Cola	A.P.Gross & Co.
Colgate	Nynex
Procter & Gamble	Mission Energy
Schwinn Bicycle	Atwood Richards
Urbitran	Baker McKenzie
Rodgers Capital	New Era Invest Ltd.
Guardian Glass	GJW
First Boston	CentEur
Gedeon Richter	MMG
Caola	Hungarian Tel. Co.
TIA	Arnold & Porter
Westbrook Associates	Frontier International
Knowhow	OKISZ
Samling	GE Tungfram
Citibank	Ernst & Young
Atalanta Corp.	Securities Data Corp.
Pratt & Whitney	Morgan Stanley
Capital Cities/ABC	Charles Bell Ltd.
U.S. West	Emery Roth & Sons
Guardian Industries	Metropolitan Life
Continental Grain	HFT Corp.
McDowell, Rice & Smith	Arch International
Contitrade	Arent, Fox
ESSO	Seward and Kissel
Atlantic Property	Burson Marstellar
Krew Inc.	Kockazat Inc.
Grey Advertising	Sanborn Capital Management
Magyar-American Communications	Bell Atlantic
M. Schulist Interests Inc.	Dow Chemical
MBA Exec. Corp.	United Technologies
Interpress	Technoimpex
77 Elektronika	Salomon Brothers
Arthur Andersen	General Motors
Securities Data	University of Indiana

Lerner Invest
 MIKI
 Zwack Unicum
 Pragma
 Riggs Nat. Bank
 Price Waterhouse
 Eastman Chemical
 Daiwa-MKB
 Boothroyd Dewhurst
 K & F Research
 Saatchi & Saatchi
 C.I. Privatization Consulting Ltd.
 Credit Suisse/First Boston
 IMC
 James Capel & Co.
 KPMG
 RCI Capital
 EDS
 State of Illinois
 HBO
 WR Grace
 Global Building Tech.
 Goldman Sachs
 Bear Stearns
 Segal, Toothy and Co.
 Pfizer International
 Drake, Beam and Morin
 Centel
 Budapest Bank
 Hungarian Industrial Association
 Citizens Democracy Corps
 Barclays Bank
 Daiwa Securities
 Foreign Trade Bank
 Inter Europa Bank

Johnson and Johnson
 PEMU
 BHG
 K & H Bank
 B'nai B'rith
 IESC
 Bechtel
 Szamado Ceh
 BSB Budapest
 Cap Snap Co.
 Int. Business & Tech. Consult
 Expo '96
 Skadden, Arps
 Coopers & Lybrand
 Hungalu
 Trade Development Ireland
 Hemingway Holding
 Palmonostora
 US Chamber of Commerce
 Invest
 Chemical Bank
 Beverage Marketing
 Riverside
 Standish, Ayer and Wood, Inc.
 Avonmore
 Ch. Bell Assoc.
 Micron System
 National Bank of Hungary
 State Property Agency
 Business Council (BCIU)
 Quaker Oats
 American Appraisal
 Videoton
 European Bank (EBRD)
 Ministry of Industry and Trade

COMPLETED TASKS:

The LTA completed the following activities during the period:

- set up and participated in the week long program of the RITE team (Reduction of Impediments to Trade Expansion)
- set up and participated in an Investment Promotion Seminar sponsored by AID for Mr. Jan Havelka, Deputy Minister of International Relations, Slovak Republic
- spoke at the International Conference on Privatization sponsored by the Ministry and Samling
- spoke at a seminar on the Investment Process sponsored by the Australian and Japanese Embassies
- conducted investment reviews in New York sponsored by the Business Council on International Understanding
- set up and participated in the Citizens Democracy Corps' Technical Support Program for Hungary
- attended and supported the Danube Basin Conference sponsored by the U.S. Embassy - Austria
- conducted investment surveys and reviews in Bekes and Tolna Counties

- met with and provided varying degrees of support and advice to many of the U.S. investments in Hungary

- played a major role in setting up the program, agenda and marketing plans associated with the U.S. Investment Seminars to be held in the U.S., October 92

WORK IN PROGRESS AND STATUS:

- Final plans and preparations in progress for the US Investment Seminars (Houston 10/27/92, Los Angeles 10/29/92).

- Continued support and advice to the proposed new Investment and Trade Promotion Agency.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction

Continued discussions relating to investment promotion, policy and direction in process.

2. Provide technical assistance to the Investment Promotion office

Technical assistance requests by the Ministry on export marketing and trade development under assessment. Working with the Hungarian American Enterprise Fund to install the Standard and Poors' Corporate Registers on CD Rom's in the Ministry.

3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business

Actively being addressed (see above).

4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored

Advice being given on the U.S. Investment Seminar as well as proactive approaches to selected American companies in key focus segments of the Hungarian economy.

5. Facilitate trade and investment missions

Actively involved with American companies in facilitating investments, finding potential partners and representing their position to Hungarian government officials.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding requested for supporting the mission of the LTA.

TECHNICAL ASSISTANCE TO THE STATE
PROPERTY AGENCY OF HUNGARY
USAID CONTRACT
NO. ANE-0002-C-00-0047-00
USAID PROJECT
NO. 180-0002-3-0183107

Advisory Services to Promote
Foreign Investment in Priva-
tizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: September 1 - September 30

SUMMARY:

During the period the long term advisor was actively involved in investment promotion, visiting Hungarian and American companies and discussing current conditions and outlooks with senior level Hungarian and American executives and government officials. Major focus was again concentrated on the Investment Seminars to be held in the U.S. this October. In addition the LTA visited TOLNA county and its Local Enterprise Agency in Szekszard and held discussions with the Mayor of Kecskemet.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Credit Suisse/First Boston
State of Illinois
HBO
WR Grace
Global Building Tech.
Seward and Kissel
Riverside
Standish, Ayer and Wood, Inc.
Salomon Brothers
Avonmore
Pfizer International
Emery Roth and Sons
Drake, Beam and Morin

Palmonostora
US Chamber of Commerce
Invest
Chemical Bank
Beverage Marketing
Goldman Sachs
Bear Stearns
HFT Corp.
Segal, Toothy and Co.
Pepsi
Citibank
Ch. Bell Assoc.
Micron System
Centel

Discussions were held with Arthur Barron, Chairman Time-Warner International, George Suter, President Eastern Europe and CIS, Pfizer Inc., Robert Sobel, President Emery Roth and Sons, Antranig Sarkissian, Vice President Citibank and Michael Bellar, President Beverage Marketing Corp. Significant emphasis was placed on finalizing brochures, initiating presentation preparation for the speakers and increasing the size, quality and reach of the conference to insure a targeted audience of medium to large American companies. Support was also given to the U.S. Dept. of Labor's proposed training support program in Hungary.

COMPLETED TASKS:

The LTA met with and obtained commitments from the following organizations to send out the Investment Seminar brochures to their applicable client list and encourage their participation - Citibank, Chemical Bank, Salomon Brothers, Business Council for International Understanding, HFT Corp., Seward and Kissel, OPIC, and Riggs National Bank. In addition, through the Commercial Attache at the U.S. Embassy, Budapest, access to the relevant data bases maintained by the East European Business Information Center - U.S.D.O.C. was obtained. These actions should enable us to attract the size and type of audience we are seeking at the seminars.

WORK IN PROGRESS AND STATUS:

Investment Seminar U.S. (Oct 1992)

With the brochures completed and mailed we are now focusing on the presentations of the speakers, supporting the Hungarian companies who are participating in the seminars and finalizing the panel discussions and seminar logistics.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction

Continued discussions relating to investment promotion, policy and direction in process.

2. Provide technical assistance to the Investment Promotion office

Technical assistance requests by the Ministry on export marketing and trade development continue under assessment. These will be coordinated with the Phare team working on investment and trade promotion. We are also trying to coordinate the set up and installation of the Standard and Poors' Corporate Registers on CD ROM's. This is being provided by the Hungarian American Enterprise Fund and will enable the Ministry to pro actively address the American business community. In addition to individual company records the data base will allow the Ministry to identify U.S. companies by industrial sectors that are important to Hungary.

3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business

Actively being addressed (see above).

4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored

Advice being given on the U.S. Investment Seminar as well as proactive approaches to selected American companies in key focus segments of the Hungarian economy.

5. Facilitate trade and investment missions

Actively involved with American companies in facilitating investments, finding potential partners and representing their position to Hungarian government officials.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding requested for supporting the mission of the LTA.

TECHNICAL ASSISTANCE TO THE STATE
PROPERTY AGENCY OF HUNGARY
USAID CONTRACT
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USAID PROJECT
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Advisory Services to Promote
Foreign Investment in Privati-
zing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: August 1 - August 31, 1992

SUMMARY:

During the period the long term advisor was actively involved in investment promotion, visiting Hungarian and American companies and discussing current conditions and outlooks with senior level Hungarian and American executives and government officials. Major focus was concentrated on the Investment Seminars to be held in the U.S. this October.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Skadden, Arps	IMC
Salomon Brothers	Interpress
Coopers & Lybrand	MBA Corp.
Price Waterhouse	Bechtel
James Capel & Co.	Expo '96
B'nai B'rith	General Motors
Hungalu	McDowell, Rice & Smith
Procter & Gamble	KPMG
Trade Development Ireland	RCI Capital
Know How	Nynex
Hemingway Holding	EDS
IESC	

Discussions were held with Peter Combrink, Managing Partner Coopers and Lybrand, Martin Middlehurst, Partner, KPMG, Zsigmond Jarai, Managing Director James Capel & Co. and George Hemingway, CEO Hemingway Holding AG. Heavy emphasis was placed on finalizing the speakers, success stories, agenda formats and panel sessions for the Fall U.S. investment seminar.

COMPLETED TASKS:

The LTA spoke at the Orientation Seminar for the new members of the MBA Corps prior to the start of their assignment in Hungary. Also completed the agenda preparation for the U.S. Investment Seminars.

WORK IN PROGRESS AND STATUS:

Investment Seminar U.S. (Fall 1992)

With the agenda now in place focus has shifted to attracting major American corporations to attend one of the seminars. Meetings will be held in September with Investment Banks, financial institutions and law firms to ask their support in notifying and encouraging their corporate clients to participate. We will also be working with ministerial representatives on their Seminar presentation as well as advising Hungarian companies on how to address the American audience. Finally we will be assembling written material relating to specific investment opportunities in Hungary which will be distributed at the Seminars.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction

Continued discussions relating to investment promotion, policy and direction in process.

2. Provide technical assistance to the Investment Promotion office

Technical assistance requests by the Ministry on export marketing and trade development under assessment. These will be coordinated with the Phare team working on investment and trade promotion.

3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business

Actively being addressed (see above).

4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored

Advice being given on the U.S. Investment Seminar as well as proactive approaches to selected American companies in key focus segments of the Hungarian economy.

5. Facilitate trade and investment missions

Actively involved with American companies in facilitating investments, finding potential partners and representing their position to Hungarian government officials.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding requested for supporting the mission of the LTA.

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Advisory Services to Promote
Foreign Investment in Priva-
tizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: July 1 - July 31, 1992

SUMMARY:

During the period the long term advisor was actively involved in investment promotion, visiting Hungarian and American companies and discussing current conditions and outlooks with senior level Hungarian and American executives and government officials. Meetings were also held with Hungarian companies interested in participating in the Citizens Democracy Corps' Technical Support Program.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Johnson and Johnson
Seward & Kissel
Zwack Unicum
Pragma
Nynex
B'nai B'rith
Price Waterhouse
Know How
Atalanta
Bechtel
Szamado Ceh
BSB Budapest
Cap Snap Co.
Int. Business & Tech. Consult
Credit Suisse/First Boston

MIKI
PEMU
BHG
K & H Bank
Riggs Nat. Bank
Sanborn Capital Management
General Motors
IESC
Eastman Chemical
Daiwa-MKB
Boothroyd Dewhurst
K & F Research
Saatchi & Saatchi
C.I. Privatization Consulting Ltd.
Expo '96

Discussions were held with Paul Dax, Resident Representative of the European Bank for Reconstruction and Development, Lajos Bokros Chairman of the Budapest Bank, Igor Mate Director of the State Property Agency, Gyorgy Lajtai Director of the Ministry of Industry and Trade and Balazs Szentklaray Director of Expo '96. In addition the LTA attended the cutover of the General Motors engine plant in St Gothard. Considerable efforts during the period were also spent on the October Investment Seminars scheduled for Houston and Los Angeles. The rescheduling of dates and local factors caused agenda problems. These are currently being worked out and should be resolved within 2 weeks.

COMPLETED TASKS:

The LTA set up additional visits for CDC's Technical Support Program.

WORK IN PROGRESS AND STATUS:

Investment Seminar U.S. (Fall 1992)

Major work effort will be required to first select Hungarian companies or projects to participate in the focused investment panels and then to assist them in preparing professional level presentations for delivery at the seminars. The key purpose of the seminars is to attract large U.S. companies to pursue investment opportunities in Hungary. It is very important for the Hungarian companies to be fully prepared to address this audience.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction

Continued discussions relating to investment promotion, policy and direction in process.

2. Provide technical assistance to the Investment Promotion office

Technical assistance requests by the Ministry on export marketing and trade development under consideration and awaiting the release of technical assistance funding.

3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business

Actively being addressed (see above).

4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored

Advice being given on the U.S. Investment Seminar as well as proactive approaches to selected American companies in key focus segments of the Hungarian economy.

5. Facilitate trade and investment missions

Actively involved with American companies in facilitating investments, finding potential partners and representing their position to Hungarian government officials.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding requested for supporting the mission of the LTA. This is urgently needed for organizing U.S. investment missions, seminars and training activities requested by the Ministry.

TECHNICAL ASSISTANCE TO THE STATE
PROPERTY AGENCY OF HUNGARY
USAID CONTRACT
NO. ANE-0002-C-00-0047-00
USAID PROJECT
NO. 180-0002-3-0183107

Advisory Services to Promote
Foreign Investment in Privati-
zizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: June 1 - June 30, 1992

SUMMARY:

During the period the long term advisor was actively involved in investment promotion, assisting the Citizens Democracy Corps' Technical Support Program, meeting with government and business leaders in Bekes County and actively supporting the Danube Basin Conference in Vienna sponsored by U.S. Embassy-Austria. In addition the LTA continued to visit with Hungarian and American Companies and discussed current conditions and outlooks with senior level Hungarian and American executives and government officials.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Arch International	Contitrade
Arent, Fox	ESSO
Seward and Kissel	Atlantic Property
Burson Marsteller	Krew Inc.
Kockazat Inc.	Grey Advertising
Magyar-American Communications	Sanborn Capital Management
M. Schulist Interests Inc.	Bell Atlantic
Dow Chemical	MBA Exec. Corp.
United Technologies	Interpress
U.S. West	Procter & Gamble
Pepsi	Technoimpex
77 Elektronika	Salomon Brothers
Arthur Andersen	General Motors
OKISZ	Securities Data
University of Indiana	Thermal Invest

The LTA visited Bekes County and the city of Bekescsaba. Meetings with the County President, the Mayor of Bekescsaba, Thermal Invest Ltd and the general managers from 7 Industrial Cooperatives (3 Textiles, 1 Furniture, 2 Plastics, 1 Oil Burners) were set up and scheduled by Mr. Csaba Sumeghy President of the Hungarian Industrial Association. TV, radio and press covered some of the events. Support was provided at the Danube Basin Conference to American firms interested in investment opportunities in Hungary as well as followon meetings in Buapest with prospective investment partners. In addition visits were held with Hungarian companies and Mr. Frank Downing of the Citizens Democracy Corps regarding participation in CDC's Technical Support Program.

Discussions were held with Arpad Bartha, Chief Executive of the Hungarian Foreign Trade Bank, Mr. Les Nemethy, Deputy Managing Director and Mr. Janos Both, Director of the State Property Agency, Gyorgy Ivanyi, Executive Chairman Inter-Europa Bank Rt, Mr. Laszlo Steiner, General Manager United Technologies Automotive, Mr. Hubertus Wiens, Partner In Charge Arthur Andersen and Ambassador Derek Fraser, Canada.

COMPLETED TASKS:

The LTA set up the visits for CDC's Technical Support Program, attended and supported the Danube Basin Investment Conference and visited Bekes County.

WORK IN PROGRESS AND STATUS:

Investment Seminar U.S. (Fall 1992)

- Seminar is now being rescheduled to Oct. 27 in Houston and Oct. 29 in Los Angeles to avoid conflicts with religious holidays. Agenda and speaker reconfirmation under way.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction

Continued discussions on investment missions and support requirements underway.

2. Provide technical assistance to the Investment Promotion office

Technical assistance requests by the Ministry on export marketing and trade development under consideration.

3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business

Actively being addressed (see above).

4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored

Advice being given on the U.S. Investment Seminar as well as proactive approaches to selected American companies in key focus segments of the Hungarian economy.

5. Facilitate trade and investment missions

Actively involved with American companies in facilitating investments, finding potential partners and representing their position to Hungarian government officials e.g. Procter and Gamble, Pepsi, Nynex etc. and smaller companies such as Krew Inc.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding (\$ 167,192) requested for supporting the mission of the LTA. This is urgently needed for organizing U.S. investment missions, seminars and training activities requested by the Ministry.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Advisory Services to Promote
Foreign Investment in Priva-
tizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report

PERIOD: May 1 - May 31, 1992

SUMMARY:

During the period the long term advisor was actively involved in investment promotion, supporting the RITE project team funded by AID and participating as a speaker in investment seminars in both Budapest and New York. In addition the LTA visited Hungarian and American companies and discussed current conditions and outlooks with senior level Hungarian and American executives and government officials.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Knowhow	OKISZ
Samling	Westbrook
General Electric	New Era Invest
Citibank	Nynex
Ernst & Young	Atalanta Corp.
Pepsi Cola	Securities Data Corp.
Procter & Gamble	Baker McKenzie
Pratt & Whitney	Morgan Stanley
Capital Cities/ABC	Charles Bell Ltd.
U.S. West	Emery Roth & Sons
Guardian Industries	Metropolitan Life
Continental Grain	HFT Corp.
McDowell, Rice & Smith	Rodgers Capital

The LTA visited the new Ford plant and the Videoton Co. in Székesfehérvár, spoke on the role and importance of U.S. investment in Hungary at the Samling International Conference on Privatisation, Capital Investment and Joint Ventures in East-Central and Eastern Europe, under the patronage of Béla Kádár, Minister of International Economic Relations, and at a seminar on the investment process, the entrepreneur and economic policy at the Budapest University of Economic Sciences, sponsored by the Australian and the Japanese Embassies.

Discussions were held with George Varga President GE/Tungsum, Robin Winchester General Manager Citibank, Stan Sauerhaft Vice Chairman Burson Marsteller, Charles Powleske President Business Council on International Understanding (BCIU), Arthur R. Skantz Vice President Quaker Oats, Richard Giesen Chairman of American Appraisal Corp. and László Báthori and Endre Rác Directors at the State Property Agency. Plans were also finalized with Mr. Csaba Sümeghy President of the Hungarian Industrial Association for a June visit to Békés County.

COMPLETED TASKS:

The LTA set up and participated in the weeklong schedule of the RITE group (Reduction of Impediments to Trade Expansion), set up and participated in the investment program of the Quaker Oats Company and conducted investment reviews in New York sponsored by the BCIU.

WORK IN PROGRESS AND STATUS:

1. Danube Basin Conference (June 1-2, Vienna)
 - Visited in Vienna with the FCS team U.S. Embassy-Austria to ensure direct contact and support can be provided to U.S. investors attending the Conference and planning follow on visits to Budapest. Faxes and telephone communications initiated on behalf of the Ministry.
2. Investment Seminar U.S. (Fall 1992)
 - Seminar now scheduled for October 6/7 in Houston, Texas and October 8/9 in Los Angeles, California. Agenda confirmed and preparation work undertaken.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction
Continued discussions on import controls and the future Investment and Trade Promotion Agency.
2. Provide technical assistance to the Investment Promotion Office
Through the Hungarian American Enterprise Fund, the Standard and Poor's corporate registers and U.S. business data bases will be provided to the Investment Promotion Agency in the Ministry.
3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business
Actively being addressed (see above).
4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored
Advice being given on the U.S. Investment Seminar as well as proactive approaches to selected American companies via the BCIU organization.
5. Facilitate trade and investment missions
Actively involved with American companies in facilitating investments, finding potential partners and representing their positions to Hungarian government officials e.g. GM, Quaker Oats, Procter & Gamble, Pepsi etc.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding (\$ 167,192) requested for supporting the mission of the LTA. This is urgently needed for organizing U.S. investment missions and seminars.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Advisory Services to Promote
Foreign Investment in Priva-
tizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report

PERIOD: March 16 - April 30, 1992

SUMMARY:

During the period the long term advisor established his presence in Budapest. An office and secretarial support were secured within the Ministry. Contacts were established with the key interface people in the Investment and Trade Promotion Agency including representatives of the Irish Development Authority, the group awarded the EEC Investment and Trade Promotion contract, and activities undertaken in support of investment promotion.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Pepsi Cola	A.P.Gross & Co.
Colgate	Nynex
Procter & Gamble	Mission Energy
Schwinn Bicycle	Atwood Richards
Urbitran	Baker McKenzie
Rodgers Capital	New Era Invest Ltd.
Guardian Glass	GJW
First Boston	CentEur
Gedeon Richter	MMG
Caola	Hungarian Tel. Co.
TIA	Arnold & Porter
Westbrook Associates	Frontier International

In addition the LTA set up and participated in an Investment Promotion Seminar sponsored by AID for Mr. Jan Havelka Deputy Minister of International Relations, Slovak Republic. Also met with Mr. Sandor Czirjak - Deputy President of the National Bank of Hungary, Janos Bartha CEO of Credit Bank/First Boston, Judit Gergely CEO Barclays Bank, Istvan Tompe CEO Daiwa Securities and Mr. Attila Tarkany Szucs, Deputy Managing Director of the State Property Agency.

Discussions were also held with the Hungarian Industrial Association (OKISZ), a group of 1800 former coops on their privatization plans, investment needs and future requirements and the Citizens Democracy Corps on their various programs in Hungary and how the Ministry can use their expertise in assisting Hungarian enterprises.

COMPLETED TASKS:

The LTA concluded meetings in the U.S. with Hungarian Ambassador Pal Tarr, Mr. Tibor Nemes Hungarian Commercial Counsellor (New York) and Mr. Charles Powleske President of the Business Council For International Understanding (BCIU). Also attended the European Bank For Reconstruction and Development (EBRD) annual meeting in Budapest.

WORK IN PROGRESS AND STATUS:

1. Danube Basin Conference (June 1-2, Vienna)
 - Continued to support the conference by actively soliciting Hungarian company participation. Next step will be to contact American companies attending the conference to schedule follow on visits in Hungary with Hungarian companies interested in direct investment or a joint venture.
2. Investment Seminar U.S. (Fall 1992)
 - Started the preparatory work to help the Ministry identify potential U.S. sites, prepare meeting agenda and identify speakers and invitee lists. Seminar on track for October 1992.

ONGOING TASKS AND PROGRAMS:

1. Assist the Government of Hungary on investment policy and direction

Dialogue initiated on issues related to devaluation/inflation, import quotas, positive media image building, and investment incentives following the elimination of tax concessions in Dec. 1993.
2. Provide technical assistance to the Investment Promotion office

Work underway in evaluating the data base requirements for profiling Hungarian companies by sector.
3. Counsel prospective traders and investors on local operating conditions, laws, regulations, and procedures for conducting business

Actively being addressed (see above).
4. Provide advice to the Government of Hungary in the conduct of marketing campaigns, ensuring that such campaigns are targeted, carefully designed and implemented, and closely monitored

Advice being given on the U.S. Investment Seminar (fall, 1992).
5. Facilitate trade and investment missions

Actively involved with American companies in facilitating investments, finding potential partners and lobbying on their behalf with Hungarian government officials e.g. Procter & Gamble, Pepsi, Nynex, etc.

FOLLOW UP REQUIREMENTS:

The approval and release of the technical assistance funding (\$ 167,192) requested for supporting the mission of the LTA. This is urgently needed for organizing U.S. investment missions and seminars.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-31 October, 1991

SUMMARY:

During October the thirteenth month of the long term contract phase of the project, and the first month of the 1 year extension, the LTA completed the preparation for the Washington DC and London briefings and executed them, initiated serious discussions on staffing pending projects and got them rolling. The projects triggered include: finding a long term advisor in the Spontaneous Privatization area, getting an advisor for the Financial Director, supporting the accounting systems side of the SPA, reinitiating work on the MIS system, getting the Public Relations activities back on track and refining the self-privatization and Warrant proposals.

MAIN AREAS OF ACTIVITY:

- The LTA delivered the core of the report for the first twelve months' activities to D&T Washington for review and comment.
- In close cooperation with USAID Washington the LTA prepared and delivered several briefings at various levels within USAID Washington on the subject of privatization in Hungary and the progress of the State Property Agency.
- At the invitation of the US Director of the European Bank for Reconstruction and Development (EBRD) the LTA made several presentations on the Privatization progress made in Hungary and the activities of the SPA.
- The MIS "walk through" with 40 members of SPA staff was completed.
- The Training Department part time support was continued.
- A funding strategy -through the core contract- for the Self Privatization Phase I and Warrant Program Phase I activities was agreed with USAID.
- A teaming strategy for the Self-Privatization Phase I (DRT Hungary to take lead) and Warrant Program Phase I (Touche Ross London to take lead) activities was agreed
- Close coordination with the USAID Representative in Budapest continued to work out the details of the next phase work with the SPA and the October DC visit.
- The contract for the next 12 months (1 October, 1991 - 30 September, 1992) was signed.
- Work in support of the next US aid request by the Government of Hungary was undertaken with the Donor Coordination Unit of the MIER.
- Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations: Donor Coordination Unit, EBRD, US Treasury Advisor to Minister Botos, Financial Services Volunteer Corp.

PROBLEMS IDENTIFIED:

- The start-up phase of the 2nd. year of the program will tax the administrative capacity of the LTA's office and will require short term support.

RECOMMENDATION/SOLUTION

- Second administrative support temporarily to the LTA.

WORK PLAN:

- Staff, launch, or continue the 9 major project activities and their subsidiary and spin-off activities at the SPA.

SPECIFIC TASKS
Progress during the period 1-31 October, 1991

1. Help Define the Operational Framework of the SPA:
The accounting system support team completed the basic work on the EC control problem and started to work on the World Bank procedures.
2. Help Prepare a Funding Strategy for the SPA's Activities:
Detailed work with the new Financial Director was begun to help him understand the various aspects of the EC relationship in particular and the overall funding sources side of the SPA's activities.
3. Help Define the Organizational Needs of the Privatization Process:
The new self-privatization program, the needs of the warrant system, and areas of organizational support were teamed.
4. Help Define the Initial and Longer Term Organizational Structure of the SPA:
The training program, financial management, and MIS activities were reactivated and the Phase I of the new self-privatization and warrant initiatives were initiated.
5. Help Define the Office and Equipment Requirements of the SPA:
The final USAID equipment component is awaited. The new initiatives will require their own equipping and systems support.
6. Help Define the Personnel Requirements of the SPA:
Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas.
7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:
The training department support was continued.
8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. The self-privatization program to accelerate the program has been announced and the compensation warrant system must be implemented such that it complements the privatization process.
9. Help Define the Critical Privatization Program Linkages in the Economy:
The MIER donor coordination unit coordination continued.
10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:
Further support was planned and work initiated as Funding is available.
11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:
The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The "100 Questions" project and data base integration directly supports this. The new self-privatization initiative is an imaginative and systematic response to this task requirement and the warrant system should provide significant capital investor support to the privatization process.
12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:
The Warrant system's definition and how to contract out the core of the Self-Privatization programs start-up are creative initiatives in this area.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-30 November, 1991

SUMMARY:

During November the fourteenth month of the long term contract phase of the project, the LTA concentrated on the implementation and initiation of the full range of SPA support projects currently planned.

MAIN AREAS OF ACTIVITY:

- The core report for the first twelve months' activities with comment was returned to the LTA.
- The EBRD made a follow-up visit to the SPA to plan assistance.
- The SPA's MIS system director attended the USDA MIS course in DC. Her Deputy will attend the same course in December.
- USAID Washington and USAID Budapest received an SPA on site briefing on the present status of all the work in progress at the SPA.

Work in Progress and Status:

- 1.-Equipment: Tried to clear procurment waiver, trying to define the self-privatization program's needs so we can include it in the order.
- 2.-MIS: Presented and had accepted by the SPA the detailed work plan. Introduced the IDOM internal on-site advisor, proceeded.
- 3.-Training: Designed a multi-agency ILI staffed course in Budapest and received Mellon funding for the teachers and their transport.
- 4.-Public Relations: Redesigned and had accepted the KRC proposal.
- 5.-Financial Management: Introduced the financial director's mentor, initiated a major planning effort. Continued accountancy support.
- 6.-Self Privatization Phase I: Well along toward December conclusion
- 7.-Warrant System Phase I: Well launched, proving interestingly complex.
- 8.-Investment Promotion Support: Promotion Brochure mock up accepted by the MIER and the SPA and moving forward to joint publication.
- 9.-Long term adviser Spontaneous Unit: Several candidates reviewed.
- 10.-Project Administration: Interim assistance now on site.

--Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations: Donor Coordination Unit, Investment Promotion Unit. EBRD. US Treasury Advisor to Minister Botos, Minister Kupa, and Budapest Bank. MBA Corp. vineyard advisers, Lehman Bros. UNIDO. Coopers & Lybrand (Ref: WB asset mgmt. project), AT Kearney (Ref: EC PMU proposal). Model City Program.

PROBLEMS IDENTIFIED:

-Several of the projects are identifying short term needs. Close cooperation with USAID will be required to meet those they feel appropriate within the required time frame.

RECOMMENDATION/SOLUTION

-Administrative support now in place close cooperation with USAID Budapest will be stepped up.

WORK PLAN:

-Continue the 9 major project activities and their subsidiary and spin-off activities at the SPA, initiate the necessary related activities and get the project administration effort up to full professional standards.

SPECIFIC TASKS
Progress during the period 1-30 November, 1991

1. Help Define the Operational Framework of the SPA:
The accounting system support team completed the basic work on the WB control problems and started to work on the proceeds control procedures.
2. Help Prepare a Funding Strategy for the SPA's Activities:
A detailed planning effort has been initiated with the Finance Director's mentor integrating the funding side of the equation with proposed uses for the first time.
3. Help Define the Organizational Needs of the Privatization Process:
The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are well underway.
4. Help Define the Initial and Longer Term Organizational Structure of the SPA:
The training program, financial management, and MIS activities are fully up to speed and the new self-privatization and warrant initiatives are underway.
5. Help Define the Office and Equipment Requirements of the SPA:
The final USAID equipment component is awaited. The new initiatives will require their own equipping and systems support.
6. Help Define the Personnel Requirements of the SPA:
Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas.
7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:
The training department support was continued.
8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. The self-privatization program to accelerate the program is now functioning and the compensation warrant system must be implemented such that it complements the privatization process.
9. Help Define the Critical Privatization Program Linkages in the Economy:
The MIER donor coordination unit coordination continued. Investment Promotion office support continued with the completion of the brochure. A clear Public Relations strategy was formulated and agreed.
10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:
Further support was fully launched as Funding is available. The new Finance Director is beginning to come to grips with his task. The EC PMU has been tendered and should bring considerable support in this area.
11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:
The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The "100 Questions" project and data base integration directly supports this. The new self-privatization initiative is an imaginative and systematic response to this task requirement and the warrant system should provide significant capital investor support to the privatization process. The new PR strategy keys on this same concept.
12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:
The Warrant system's definition and how to contract out the core of the Self-Privatization programs start-up are creative initiatives in this area.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-31 December, 1991

SUMMARY:

During December the fifteenth month of the long term contract phase of the project, the LTA concentrated on the implementation of the full range of SPA support projects currently planned and undertook on an emergency rush basis a budgetting and planning project for submission to the Government of Hungary and the World Bank.

MAIN AREAS OF ACTIVITY:

- The SPA's MIS system Deputy Director attended the USDA MIS course in DC.
- The TDW for the PR support work for the first quarter of 1992 was prepared and submitted to USAID.
- The SPA 1992 Institutional Development and Work Plan project to meet Government of Hungary Budgetary and World Bank conditionality requirements was designed and executed. It is a part of the Financial Management project.

Work in Progress and Status:

- 1.-Equipment: The self-privatization program's needs were defined. The SPA's order should move in January. The copiers are a problem.
- 2.-MIS: Acceptance testing done, program accepted. Henceforth this will be reported as the Privatization Information System (PIS).
- 3.-Training: Started annual report. Laid groundwork for arrival of EC PHARE funded specialist in January.
- 4.-Public Relations: TDW for 1st. quarter of the KRC work prepared.
- 5.-Financial Management: As part of the longer range planning effort accelerated the process for a special planning project. Continued accountancy support.
- 6.-Self Privatization Phase I: Report completed and submitted to the SPA. Final by second week in January after client acceptance.
- 7.-Warrant System Phase I: Initial reports made. SPA pleased with results to date. Final in January.
- 8.-Investment Promotion Support: A long term candidate identified.
- 9.-Long term adviser Spontaneous Unit: Changes in law have put this on hold, placing a long term adviser elsewhere may make better sense.
- 10.-Project Administration: A problem to be resolved in 1992 given the Administrative requirements of at least one additional long term and a new project office in the Investment Promotion Office.

--Representational activity: USAID Hungary, US Embassy Budapest, Ministry of International Economic Relations: Donor Coordination Unit, EC PHARE office, US Embassy Country Team meeting

PROBLEMS IDENTIFIED:

-Short term need identification and definition continues. Needs are ever more focussed in management and system areas.

RECOMMENDATION/SOLUTION

-Project work will be accelerated to support the SPA's goals.

WORK PLAN:

-Continue the 9 major project activities and their subsidiary and spin-off activities at the SPA, initiate the necessary related activities and get the project administration effort up to full professional standards.

SPECIFIC TASKS
Progress during the period 1-31 December, 1991

1. Help Define the Operational Framework of the SPA:
The accounting system work continues. Improving the SPA's operational activities is a major goal in the 1992 Plan.
2. Help Prepare a Funding Strategy for the SPA's Activities:
A detailed planning effort has been initiated with the Finance Director's mentor integrating the funding side of the equation with proposed uses for the first time.
3. Help Define the Organizational Needs of the Privatization Process:
The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are well underway. The 1992 Plan effort sets out the basic framework.
4. Help Define the Initial and Longer Term Organizational Structure of the SPA:
The training program, financial management, and MIS activities are fully up to speed and the new self-privatization and warrant initiatives are underway. The 1992 Plan sets out the SPA's structural goals.
5. Help Define the Office and Equipment Requirements of the SPA:
The final USAID equipment component is awaited. The new initiatives will require their own equipping and systems support. The self privatization offices needs have now been defined.
6. Help Define the Personnel Requirements of the SPA:
Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas. The 1992 Plan outlines the basic needs. More detail will be required.
7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:
The training department support was continued.
8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and the compensation warrant system must be implemented such that it complements the privatization process.
9. Help Define the Critical Privatization Program Linkages in the Economy:
The MIER donor coordination unit coordination continued. Investment Promotion office support continued with the identification of a long term candidate. A Public Relations plan for through March 1992 was agreed. The EC PHARE's new SPA PMU will have a direct link to the Ministry of Trade and Industry's restructuring project.
10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:
USAID's support is being managed and delivered through various projects. The new Finance Director has yet to come to grips with the Technical Assistance Requirements of his task. The EC PMU has been awarded with the LTA giving his inputs.
11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:
The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The new PR strategy keys on the same concept.
12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:
The Warrant system's definition and how to contract out the core of the Self-Privatization programs start-up are initiatives in this area.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-31 January, 1992

SUMMARY:

During January the sixteenth month of the long term contract phase of the project, the LTA concentrated on; the finalization and presentation of the Warrant Program Phase I and the Self Privatization Phase I studies, the introduction and integration of the LTA/Investment Promotion, the follow up on the Institutional Development and Work Plan.

MAIN AREAS OF ACTIVITY:

- The Warrant scheme study was completed and presented.
- The Self Privatization study was completed and presented.
- The LTA/Investment Promotion Brian Oconner was successfully introduced to his client and reintroduced to the Hungarian Marketplace.
- The core activities for the balance of the contract period and discussions on any continuation work were begun.
- The SPA 1992 Institutional Development and Work Plan as developed by the project was accepted for execution.

Work in Progress and Status:

- 1.-Equipment: The SPA's order is delayed by availability, it should move in February. The copiers must be budgetted separately. The Self Privatization programs needs should be budgetted in February.
- 2.-PIS: Defined implementation, and follow-up support needs.
- 3.-Training: Worked closely with the EC training expert to integrate his efforts with the work already begun. Bridged the departure of the SPA's training officer.
- 4.-Public Relations: Initiated first work under the work program.
- 5.-Financial Management: Continued accountancy support.
- 6.-Self Privatization Phase I: Report completed and submitted.
- 7.-Warrant System Phase I: Report completed and submitted.
- 8.-Investment Promotion Support: LTA introduced successfully.
- 9.-Long term adviser Spontaneous Unit: Awaiting absorption ability at SPA or funding reallocation.
- 10.-Project Administration: Support candidate identified.
- 11.-Model City Program: Permission was obtained from the SPA to provide some advisory assistance to the USAID model city program to the Mayor of Sekesfehervar in the areas of privatization and investment stimulation.

--Representational activity: USAID Hungary, US Embassy Budapest, Ministry of International Economic Relations: Donor Coordination Unit, EC PHARE office, US Embassy Country Team meeting, Model City Program

PROBLEMS IDENTIFIED:

- The transition of the SPA to a larger organization under a new minister with an new Chairman will be a challenge that must be addressd through management and systems areas in line with the Institutional Development Plan.

RECOMMENDATION/SOLUTION

- Project work will be accelerated to support the SPA's goals.

WORK PLAN:

- Continue the 10 major project activities and their subsidiary and spin-off activities at the SPA, initiate the necessary related activities.

SPECIFIC TASKS

Progress during the period 1-31 January, 1991

1. Help Define the Operational Framework of the SPA:

The accounting system work continues. Improving the SPA's operational activities is a major goal in the 1992 Plan. Work Plan accepted.

2. Help Prepare a Funding Strategy for the SPA's Activities:

A detailed planning effort has been initiated with the Finance Director's mentor integrating the funding side of the equation with proposed uses for the first time. This continues.

3. Help Define the Organizational Needs of the Privatization Process:

The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are well underway. The 1992 Plan effort sets out the basic framework.

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and MIS activities are fully up to speed and the new self-privatization and warrant initiatives are underway. The 1992 Plan sets out the SPA's structural goals.

5. Help Define the Office and Equipment Requirements of the SPA:

The final USAID equipment component is awaited. The new initiatives will require their own equipping and systems support. The self privatization offices needs have now been defined.

6. Help Define the Personnel Requirements of the SPA:

Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas. The 1992 Plan outlines the basic needs. More detail will be required. It has been agreed by the SPA a formalized personnel function is required with job definitions and a formalized personnel review process.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support was continued.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and the compensation warrant system must be implemented such that it complements the privatization process.

9. Help Define the Critical Privatization Program Linkages in the Economy:

The MIER donor coordination unit coordination continued. Investment Promotion office support continued with the introduction of the Long Term Advisor/Investment Promotion. A Public Relations plan for through March 1992 was agreed. The EC PHARE's new SPA PMU will have a direct link to the Ministry of Trade and Industry's restructuring project.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

USAID's support is being managed and delivered through various projects. The new Finance Director is now beginning to come to grips with the Technical Assistance Requirements of his task. The EC PMU is now expected in early February in a continuing saga.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The new PR strategy keys on the same concept.

12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:

The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-29 February, 1992

SUMMARY:

During February the seventeenth month of the long term contract phase of the project, the LTA concentrated on; introducing the new Minister of Privatization to the activities of the LTA and USAID at the SPA, transition planning at the SPA during a period of great change, preparing the SPA team for its role at the Washington D.C. World Bank negotiations, production of the annual report, a mid-project review.

MAIN AREAS OF ACTIVITY:

- Minister Szabo Tamas was briefed on the LTA's activities
- How to adapt the SPA to its period of greatest change was discussed:
 - a. The GOH approved the SPA's staff and budget request
 - b. The new EC PHARE Project Management Unit arrived
 - c. The Institutional Development Plan of the SPA was accepted by the World Bank and the GOH team.
 - d. The DMD and several long term SPA employees departed.
- The Warrant scheme follow on was approved and new items prioritized.
- The Self Privatization follow on was approved. The program's second tranche received GOH approval with resistance at the ministerial level
- Working with USAID Budapest a mid year project review was completed.

Work in Progress and Status:

- 1.-Equipment: The SPA's order has been shifted to clones due to availability. New needs identified.
- 2.-PIS: follow-up support needs agreed with client.
- 3.-Training: US training on hold pending the USAID regional training package. Continued EC liaison and bridging.
- 4.-Public Relations: Continued work under the work program.
- 5.-Financial Management: Began the work plan's execution.
- 6.-Self Privatization Phase I: Proposal accepted.
- 7.-Warrant System Phase I: Proposal accepted with additional request.
- 8.-Investment Promotion Support: New PHARE team head welcomed.
- 9.-Long term adviser Spontaneous Unit: cancelled and reallocated
- 10.-Project Administration: Support candidate hired effective 1 March.
- 11.-Model City Program: Briefed the Mayor's office in Sekesfehervar.
- 12.-100 questions brochure: printing problems resolved.

-Representational activity: USAID Hungary, US Embassy Budapest, Ministry of International Economic Relations Investment Office, US Embassy Country Team meeting, Model City Program, Bear Stearns

PROBLEMS IDENTIFIED:

- SPA transition.
- Funding needs of work identified

RECOMMENDATION/SOLUTION

- Project work will be accelerated to support the SPA's goals.

WORK PLAN:

- Continue the 10 major project activities and their subsidiary and spin-off activities at the SPA, initiate the necessary related activities.

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SPECIFIC TASKS
Progress during the period 1-29 February 1991

1. Help Define the Operational Framework of the SPA:
The accounting system work continues. Improving the SPA's operational activities is a major goal in the 1992 Plan.
2. Help Prepare a Funding Strategy for the SPA's Activities:
A detailed planning effort has been initiated with the Finance Director's mentor integrating the funding side of the equation with proposed uses for the first time. This continues.
3. Help Define the Organizational Needs of the Privatization Process:
The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are well underway. The 1992 Plan effort sets out the basic framework.
4. Help Define the Initial and Longer Term Organizational Structure of the SPA:
The training program, financial management, and MIS activities are fully up to speed and the new self-privatization and warrant initiatives require funding for their next phases.
5. Help Define the Office and Equipment Requirements of the SPA:
The final USAID equipment component is awaited. The new initiatives will require their own equipping and systems support.
6. Help Define the Personnel Requirements of the SPA:
Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas. It is hoped the EC will support the personnel office establishment.
7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:
The training department support was continued.
8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and its 2nd. tranche approved. The compensation warrant system is being implemented but faces practical problems (see the Phase I report).
9. Help Define the Critical Privatization Program Linkages in the Economy:
Investment Promotion office support continued with coordination initiated with the new EC unit head in the Investment agency. The structuring of the new Minister for Privatization's responsibilities and the overlap with the MOF of the new Chairman builds important new linkages.
10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:
USAID's support is being managed and delivered through various projects. The new Finance Director is now beginning to come to grips with the Technical Assistance Requirements of his task. The EC PMU is here effective 2 March, 1992.
11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:
The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The new PR strategy keys on the same concept.
12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:
The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. Work with the new Minister on his ESOP initiative has been initiated.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-31 March, 1992

SUMMARY:

During March the eighteenth month of the long term contract phase of the project, the LTA concentrated on; Integrating the LTA/Investment Promotion into Hungary and his job, the distribution of the "Invest Hungary" brochures, Japanese EXIM bank introductions, the completion of final current funding cycle Task Definition Worksheets (TDWs) and funding requests, the guidance of the complex Financial Management project and its related PIS project, and the final equipment order steps (which must now be integrated into a move to a new headquarters building).

MAIN AREAS OF ACTIVITY:

- Brian O'Conner the LTA Investment Promotion has arrived. He has an office, a secretary, and is successfully integrating himself into the Investment promotion agency. He will be reporting separately on his activities in a monthly report.
- The "Invest Hungary" folder is complete. It has been well received and was underprinted in terms of demand. It will be the standard information booklet available in all Hungary Embassies commercial sections and all investment information organizations. It's first broad public distribution will be at the EBRD meeting in April.
- A key Japanese EXIM bank country risk and investment opportunity assessment team was helped understand Hungary and successfully linked to the Szekesfehervar Model City project.
- The TDWs were defined outlining the work to be done with the balance of the present project funding. An outline of additional proposed funding utilization submitted as well.
- The complex financial management project was moved strongly forward with four consultants focussed on it full time. The SPA is integrating the work and it will be the core of an SPA strategy and plan seminar guided by the new minister in May.

Work in Progress and Status:

- 1.-Equipment: The order was completed and burn in commenced.
- 2.-PIS: Data conversion was completed, report refinement continues.
- 3.-Training: US training needs being defined. Support of SPA training and Personnel Department development alongside EC PHARE continues.
- 4.-Public Relations: Continued work under the work program at a reduced level.
- 5.-Financial Management: fully into detailed work plan's execution.
- 6.-Self Privatization Phase I: Awaiting mission sign off.
- 7.-Warrant System Phase I: Awaiting mission sign off.
- 8.-Investment Promotion Support: LTA in place and functioning.
- 9.-Project Administration: Linnea fully integrated into effort. Received briefings and training in Washington in March and is fully committed as planned.
- 10.-Model City Program: Introduced Japanese EXIM, briefed USC team.
- 11.-100 questions "Invest Hungary" brochure: initial distribution made, very well received. Second printing discussed.
- 12.-Slovak Republic (SR) Investment and Privatization Briefing: Coordination initiated.

-Representational activity: USAID Hungary, US Embassy Budapest, Ministry of International Economic Relations Investment Office, US Embassy Country Team meeting, Model City Program, Japanese Export Import Bank, University of Southern California team.

PROBLEMS IDENTIFIED:

- SPA transition. Getting the SPA through its new phase as a ministry with the expanded responsibility and staffing at a new office site is a challenge.
- Funding need

RECOMMENDATION/SOLUTION

- Project work will be accelerated to support the SPA's goals.
- Funding needs defined and requests submitted.

WORK PLAN:

- Continue the major project activities and their subsidiary and spin-off activities at the SPA, initiate the necessary related activities.

SPECIFIC TASKS
Progress during the period 1-31 March 1991

1. Help Define the Operational Framework of the SPA:

The accounting system work continues. Improving the SPA's operational activities is a major goal in the 1992 Plan and is the core of the Financial Management project.

2. Help Prepare a Funding Strategy for the SPA's Activities:

A detailed planning effort has been initiated with the Finance Director's mentor integrating the funding side of the equation with proposed uses for the first time. This continues.

3. Help Define the Organizational Needs of the Privatization Process:

The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are well underway. The 1992 Plan effort sets out the basic framework.

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and MIS activities are fully up to speed and the new self-privatization and warrant initiatives require funding for their next phases.

5. Help Define the Office and Equipment Requirements of the SPA:

The final USAID equipment component is awaited. The new initiatives will require their own equipping and systems support.

6. Help Define the Personnel Requirements of the SPA:

Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas. It is hoped the EC will support the personnel office establishment.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support was continued.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and its 2nd. tranche approved. The compensation warrant system is being implemented but faces practical problems (see the Phase I report).

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued with the LTA Investment Promotion now on site. The new Minister for Privatization's responsibilities and the overlap with the MOF of the new Chairman builds important new linkages.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

USAID's support is being managed and delivered through various projects. The new Finance Director is now beginning to come to grips with the Technical Assistance Requirements of his task. The EC PMU is in daily dialogue as is the Canadian advisor.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The new PR strategy keys on the same concept.

12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:

The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. We are prepared to work with the new Minister on his ESOP initiative.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report

PERIOD: 1-30 April, 1992

SUMMARY:

During April the nineteenth month of the long term contract phase of the project, the LTA concentrated on; guidance of three phases of the Financial Management project, overseeing the uploading of data into the Privatization Information System, getting the equipment underway and the delivery and clearance organized, organizing and executing an office move, defining the support needs of the new SPA Deputy Managing Director, defining TA tasks for the LTA Investment Promotion's Office, and helping coordinate a visit by a Slovak delegation to the SPA and the Trade and Investment Promotion Agency.

MAIN AREAS OF ACTIVITY:

- The Management Report and Asset Governance modules of the Financial Plan were defined pending completion and the off-site SPA new organization MANRESA (senior management seminar) was planned.
- The PIS data uploading was completed during the month, the LAN network planning for the new building was completed. The PIS will be live in May only awaiting the LAN's full installation to be fully operational on over 80 machines.
- 54 new computers and a copier were delivered at the SPA awaiting customs clearance before installation.
- The move to the new office was planned and executed smoothly into excellent very functional facilities. The old office telephone number was transferred with us.
- Work with the new SPA DMD in charge of all privatization activity was commenced
- TDW activity with the LTA Investment Promotion to reprint the Invest Hungary Brochure, schedule an update with appropriate insert reprints, and a database piece (HAEF funded) were discussed and initiated.
- A USAID Prague initiative to encourage the Slovaks to begin a dialogue with the Hungarian Investment Promotion and Privatization efforts was supported with a full day of meetings for the Slovak delegation.
- The Szekesfehervar Model City project was supported with guidance.

Work in Progress and Status:

- 1.-Equipment: The equipment is at the SPA awaiting clearance. LAN final check technician due at the end of May.
- 2.-PIS: Now approaching operational status at the new office site.
- 3.-Training: US training needs still being defined.
- 4.-Public Relations: Continued work at a reduced level.
- 5.-Financial Management: fully into detailed work plan's execution.
- 6.-Self Privatization Phase I: Awaiting mission sign off.
- 7.-Warrant System Phase I: TDW approved work commenced.
- 8.-Investment Promotion Support: LTA in place and functioning.
- 9.-Project Administration: Linnea fully integrated into effort.
Supported Slovak visit, Financial management work, training, etc.
- 10.-Model City Program: Briefed new resident long term adviser and MNS.
- 11.-"Invest Hungary" brochure: Reprint priced and planned. Await funds.
- 12.-Slovak Republic Investment and Privatization Briefing:
Completed with follow-up projected.
- 13.-Privatization Report: Designed and tentatively teamed. Await funds.

-Representational activity: USAID Hungary, US Embassy Budapest, Ministry of International Economic Relations Investment Office, US Embassy Country Team meeting, Model City Program, EBRD activities

PROBLEMS IDENTIFIED:

- SPA transition. Getting the SPA through its new phase as a ministry with expanded responsibility and staffing at a new office site is a challenge.
- Funding need

RECOMMENDATION/SOLUTION

- Project work will be accelerated to support the SPA's goals.
- Funding needs defined and requests submitted.

WORK PLAN:

- Continue the major project activities and their subsidiary and spin-off activities at the SPA, initiate the necessary related activities.

SPECIFIC TASKS
Progress during the period 1-30 April 1991

1. Help Define the Operational Framework of the SPA:

The accounting system work continues. Improving the SPA's operational activities is a major goal in the 1992 Plan and is the core of the Financial Management project.

2. Help Prepare a Funding Strategy for the SPA's Activities:

A detailed planning effort has been initiated with the Finance Director's mentor integrating the funding side of the equation with proposed uses for the first time. This continues.

3. Help Define the Organizational Needs of the Privatization Process:

The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are well underway. The 1992 Plan effort sets out the basic framework.

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and MIS activities are fully up to speed and the new self-privatization initiative requires funding for its next phases.

5. Help Define the Office and Equipment Requirements of the SPA:

The last major USAID equipment component is here. The new initiatives equipping and systems support needs have been defined and await funding.

6. Help Define the Personnel Requirements of the SPA:

Needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas. The EC and the Know How fund have supported the personnel office setup.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support was continued.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and its 2nd. tranche approved. The compensation warrant system is being implemented but faces practical problems (see the Phase I report).

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued with the LTA Investment Promotion now on site. The new Minister for Privatization's responsibilities and the overlap with the MOF of the new Chairman builds important new linkages.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

USAID's support is being managed and delivered through various projects. The new Finance Director is now beginning to come to grips with the Technical Assistance Requirements of his task. The EC PMU is in daily dialogue as is the Canadian advisor.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The new PR strategy keys on the same concept.

12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:

The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. We are prepared to work with the new Minister on his ESOP initiative.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report
PERIOD: 1-31 May, 1992

SUMMARY:

During May the twentieth month of the long term contract phase of the project, the LTA concentrated on; Launching the bidding procedures manual project, concluding the design phase of the internal management reports, completing the equipment delivery, doing the formal equipment turnover, sending an SPA lawyer to training, launching the 2nd. phase of the warrant program, helping the newly reorganized SPA integrate foreign assistance in their new office, helped the SPA organize and execute an off-site meeting.

MAIN AREAS OF ACTIVITY:

- Ambassador Thomas and David Cowles did the ceremonial turnover of the USAID equipment, LAN and PIS.
- The new computers were all networked The USAID LAN technician will check the system out in June.
- The financial reporting module of the Financial Management Project was completed.
- The off-site seminar went smoothly, was addressed by the principle donors; World Bank, EC PHARE, USAID, the new Minister for Privatization, and the new core of Directors.
- The next phase of the Warrant Program work was initiated with the London, Budapest, US team reaching agreement with the SPA client on the new scope of work.
- A new donor coordination unit was launched.
- An SPA lawyer/senior advisor was sent for legal training in the U.S.

Work in Progress and Status:

- 1.-Equipment: Equipment networked. LAN technician arrived.
- 2.-PIS: Now approaching operational status at the new office site.
- 3.-Training: Lawyer sent for course, more US training needs exist.
- 4.-Public Relations: Hill & Knowlton named PHARE funded PR consultant, we continue work at a reduced level with KRC.
- 5.-Financial Management: Reporting package complete. Live next month.
- 6.-Self Privatization Phase I: Awaiting mission sign off.
- 7.-Warrant System Phase II: Work underway.
- 8.-Investment Promotion Support: LTA in place, supporting Vienna Investment conference.
- 9.-Project Administration: Linnea fully integrated into effort. Supported the off-site seminar, developing new personnel officer and training program, assisted Financial management project, supported the trade promotion effort.
- 10.-Donor Coordination: formal initiation of a new responsible unit. Definition of needs for the next USAID fiscal year commenced.

-Representational activity: USAID Hungary, US Embassy Budapest, Ministry of International Economic Relations Investment Office, World Bank.

PROBLEMS IDENTIFIED:

- SPA transition. Transition progress being made.
- Funding needs

RECOMMENDATION/SOLUTION

- Project work will be accelerated to support the SPA's goals.
- Funding needs being clearly defined.

WORK PLAN:

- Continue major project activities and needs definition.

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SPECIFIC TASKS
Progress during the period 1-31 May, 1992

1. Help Define the Operational Framework of the SPA:
The accounting system work continues. Management Reporting System design completed. Goes live next month. Improving the SPA's operational activities is a major goal in the 1992 Plan and is the core of the Financial Management project.
2. Help Prepare a Funding Strategy for the SPA's Activities:
A new donor coordination unit within the SPA has been established at the Deputy Managing Director level. Support initiated.
3. Help Define the Organizational Needs of the Privatization Process:
The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are the focus. The USAID team prepared 1992 Plan sets out the basic framework.
4. Help Define the Initial and Longer Term Organizational Structure of the SPA:
The training program, financial management, and MIS activities are fully up to speed and the new self-privatization initiative requires funding for its next phases.
5. Help Define the Office and Equipment Requirements of the SPA:
The major USAID equipment component is installed. The new initiatives equipping and systems support needs have been defined and await funding.
6. Help Define the Personnel Requirements of the SPA:
Potential Medium and Long Term support needs have been defined in the financial management, MIS, and training programs as well as initial definitions in the new initiative areas.
7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:
The training department support was continued. A lawyer was sent to a seminar on US legal systems in Dallas.
8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and its 2nd. tranche approved. The compensation warrant system is being implemented and faces practical problems.
9. Help Define the Critical Privatization Program Linkages in the Economy:
Investment Promotion office support continued with support focussed on the regional investment promotion conference to be held in Vienna.
10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:
USAID's support is being managed and delivered through various projects. The new International Support Office of the SPA will formalize the existing informal coordination.
11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:
The focus on investment promotion "marketing" and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The new PR strategy keys on the same concept.
12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:
The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. We are prepared to work with the new Minister on his ESOP initiative.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report
PERIOD: 1-30 June, 1992

SUMMARY:

During June the twenty-first month of the long term contract phase of the project, the LTA concentrated on; designing with USAID and the SPA support for the newly reorganized SPA to enable it to accelerate the privatization process, running the trials on the new internal management reports, completing the equipment and system check out and final adjustments, sending 6 SPA personnel to a negotiation seminar on a trial basis, reviewing the draft warrant scheme manual for market professionals, staffing the 2nd. phase of the warrant program.

MAIN AREAS OF ACTIVITY:

- Working with the new Director of all privatization activity at the SPA and USAID personnel, reached a consensus on the type of support he could absorb and focus on increasing privatization throughput.
- The USAID LAN technician checked out the system and equipment, made the required adjustments, identified problems, and initiated correction.
- The PIS absorption phase was begun with some tension having to be resolved.
- The financial reporting module of the Financial Management Project was input on a trial basis, the June Report (2nd. Qtr.) will be live.
- The Warrant Program instruction manual for market professionals was completed, and the basic modelling work for warrant program asset selection undertaken.
- We arranged the training and funding of 6 SPA personnel at a negotiations skills seminar.

Work in Progress and Status:

- 1.-Equipment: Equipment checked out and corrections undertaken.
- 2.-PIS: Operational status commencing with normal tensions.
- 3.-Training: 6 SPA staff trained in negotiating skills.
- 4.-Public Relations: continue work at a reduced level with KRC.
- 5.-Financial Management: Reporting trials underway. Live next month.
- 6.-Self Privatization Phase II: Awaiting funding.
- 7.-Warrant System Phase II: Work underway.
- 8.-Investment Promotion Support: LTA in place, supporting Various.
- 9.-Project Administration: Linnea effectively managing SPA's training effort and helping set up and train the SPA personnel office. Also supported the Investment Promotion office and Warrant System project.
- 10.-Donor Coordination: Definition of needs for the next USAID fiscal year completed. Supported PHARE efforts that needed tidying.

-Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations Investment Office, Trammel Crow, Merrill Lynch, Hungarian American Enterprise Fund, AMCHAM

PROBLEMS IDENTIFIED:

- SPA transition to a high throughput organization.
- Need to now Integrate the reporting systems into the organization.

RECOMMENDATION/SOLUTION

- Give the Privatization area skilled investment bankers and liquidation specialists now that they have the required leadership and direction.
- Support systems integration with training and information.

SPECIFIC TASKS
Progress during the period 1-30 June, 1992

1. Help Define the Operational Framework of the SPA:
The accounting system work continues. Management Reporting System trials underway. Goes live next month. Improving the SPA's operational activities is a major goal in the 1992 Plan and is the core of the Financial Management project.
2. Help Prepare a Funding Strategy for the SPA's Activities:
USAID support for the next cycle defined with USAID and the SPA.
3. Help Define the Organizational Needs of the Privatization Process:
The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are the focus. The USAID team prepared 1992 Plan sets out the basic framework.
4. Help Define the Initial and Longer Term Organizational Structure of the SPA:
The training program, financial management, and MIS activities are fully up to speed and the new self-privatization initiative requires funding for its next phases and the Privatization unit needs skilled resources.
5. Help Define the Office and Equipment Requirements of the SPA:
The major USAID equipment component is installed and full operational. Now assisting in organizational absorption. Supplemental equipping needs have been identified and await funding.
6. Help Define the Personnel Requirements of the SPA:
Potential Medium and Long Term support needs have been defined in the financial management, MIS, and training programs as well as a dramatic need coupled with absorption capacity in the privatization area.
7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:
The training department support was continued. We arranged for the funding and training of 6 SPA personnel in negotiating skills.
8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The self-privatization program to accelerate the program is now functioning and its 2nd. tranche launched. The Privatization program overall requires trained resources.
9. Help Define the Critical Privatization Program Linkages in the Economy:
Investment Promotion office support continued.
10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:
USAID's support is being managed and delivered through various projects closely coordinated with USAID and the SPA.
11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:
The focus on investment promotion "marketing" and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The PR strategy keys on the same concept.
12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:
The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. We are prepared to work with the new Minister on his ESOP initiative.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report
PERIOD: 1-31 July, 1992

SUMMARY:

During July the twenty-second month of the long term contract phase of the project, the LTA concentrated on; continuing the detail of the design work with USAID and the SPA for USG support for the newly reorganized SPA to enable it to accelerate the privatization process, completing the 1st. live run of the new internal management reports, completing all the documentation and class organization for the PIS training courses, supporting the US Embassy country team on privatization issues to include bank privatization, mobilizing staff for the last phase of the warrant program, launching the SPA's internal professional training effort.

MAIN AREAS OF ACTIVITY:

-Working with the new Director of all privatization activity at the SPA and USAID personnel, defined the details of the support the SPA could absorb and the SPA's Quid Pro Quo for continued support.
-The PIS training documentation, class plans, space, spare machines instructors are ready and a implementation schedule was board approved.
-The personnel office was trained on training programs and managing same.
-Negotiation skill tender document for training were reviewed.
The financial reporting module of the Financial Management Project was completed on schedule using the June 30 (2nd. Qtr.) figures. Continuing this effort which links to the budgeting and planning cycle in September is the next step.
-The Warrant Program modeling work for the warrant program asset selection was continued. Last work to be completed by August end.
-The country team's efforts to support the Ambassador in his ministerial contacts on the subject of privatization and bank privatization was supported.

Work in Progress and Status:

- 1.-Equipment: Equipment and software replacements received.
- 2.-PIS: Board agree an implementation schedule.
- 3.-Training: Personnel Dept. being trained, negotiation skills tenders evaluated.
- 4.-Public Relations: continued work at a reduced level with KRC.
- 5.-Financial Management: The first quarterly coherent SPA wide Management report was completed.
- 6.-Self Privatization Phase II: Awaiting funding.
- 7.-Warrant System Phase II: Work underway, concludes in August.
- 8.-Investment Promotion Support: LTA in place, supporting Various. Work on the October visits to Houston and Los Angeles were stepped up.
- 9.-Project Administration: GOH and USG budget cycle requirements and the 2nd project year round down occupied the period.
- 10.-Donor Coordination: Definition of needs for the next USAID fiscal year refined including reciprocity agreement language. Supported SPA reporting effort for World Bank team visit in early August. PHARE tender for trainers evaluated.

-Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations Investment Office, Mayor of Budapest Office, Szekesfehervar Project, Blue Ribbon Commission, AMCHAM

PROBLEMS IDENTIFIED:

- SPA transition to being a larger high throughput organization.
- Need to now Integrate the reporting and planning systems into the organization.

RECOMMENDATION/SOLUTION

- Give the Privatization area skilled investment bankers and liquidation specialists now that they have the required leadership and direction.
- Support systems integration with training and information.

SPECIFIC TASKS
Progress during the period 1-31 July, 1992

1. Help Define the Operational Framework of the SPA:

The accounting system work continues at a reduced level. Management Reporting System first live report done. The next quarter's report is the core of the planning activity for the next year. Improving the SPA's operational activities is a major goal in the 1992 Plan and is the core of the Financial Management project.

2. Help Prepare a Funding Strategy for the SPA's Activities:

USAID support for the next cycle further defined with USAID and the SPA. Further GOH funding strategy assisted. Funding needs of an accelerated privatization system outlined.

3. Help Define the Organizational Needs of the Privatization Process:

The new self-privatization program, the needs of the warrant system, the management and control needs (MIS and Finance Support) are the focus. The USAID team prepared 1992 Plan sets out the basic framework.

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and MIS activities are fully up to speed and the new self-privatization initiative requires funding for its next phases and the Privatization unit needs skilled resources.

5. Help Define the Office and Equipment Requirements of the SPA:

The major USAID equipment component is installed and fully operational. Now assisting in organizational absorption. Supplemental equipping needs have been identified and await funding.

6. Help Define the Personnel Requirements of the SPA:

Potential Medium and Long Term support needs have been defined in the financial management, MIS, and training programs as well as a dramatic need coupled with absorption capacity in the privatization area.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support was continued.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The Privatization effort now requires and can absorb trained resources to get more throughput.

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued. SPA's direct marketing and information program accelerating using the Data Base.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

USAID's support is being managed and delivered through various projects closely coordinated with USAID and the SPA.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion "marketing" and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The PR strategy keys on the same concept.

12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:

The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. We are prepared to work with the new Minister on his ESOP initiative.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report
PERIOD: 1-31 August, 1992

SUMMARY:

During August the twenty-third month of the long term contract phase of the project, the LTA concentrated on; refining the design of the USAID funding support for the SPA for the next fiscal year and initiated the search for the Long Term personnel, completed the first ever. quarterly internal management report, launched the Salomon Bros. presented training seminars for the SPA privatization staff, organized the USAID support for the GOH investment promotion swing through Houston and Los Angeles, supervised the last parts of the warrant scheme work, planned export promotion training for the Trade and Investment Promotion Agency and a negotiations skills course for the SPA.

MAIN AREAS OF ACTIVITY:

- Prioritized USAID support for the next fiscal and commenced personnel identification.
- The report for the 2nd. quarter period ending June 30 shows; the SPA approaching 75% of its personnel strength target, already over the target for the year for % of govt. assets privatized (target 12%) at 23%, at 71% of its annual net revenue goals from privatization and all of its basic privatization activity targets exceeded and its pipeline full.
- The PIS training was launched on schedule.
- Salomon Bros. began a pro-bono series of "brown bag" once a week luncheon lectures on the "critical path management" of privatization transactions.
- The negotiation skills seminar has been scheduled with a US presenter.
- Support was committed for the Houston and Los Angeles Investment promotion swing by Hungary.
- The Warrant Program Public Relations module was completed, the modeling work for the warrant program asset selection was continued finalization awaiting client review during 1st. week in September. Last work to be completed by September end.

Work in Progress and Status:

- 1.-Equipment: final exchanges underway.
- 2.-PIS: Implementation training begun.
- 3.-Training: Negotiation skills seminar awarded, Export promotion course reviewed and selected, Salomon Bros. course begun.
- 4.-Public Relations: continued work at a reduced level with KRC.
- 5.-Financial Management: The quarterly report is in use.
- 6.-Self Privatization Phase II: Awaiting funding.
- 7.-Warrant System Phase II: Work virtually complete.
- 8.-Investment Promotion Support: Work on the October visits to Houston and Los Angeles was stepped up, export training identified.
- 9.-Project Administration: GOH and USG budget cycle requirements and the 2nd project year wind-down occupied the period.
- 10.-Donor Coordination: Supported SPA reporting effort for World Bank team visit in early August. PHARE tender for trainers evaluated only a US sourced trainer made the cut.

-Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations Investment Office, MBA enterprise corps, several assorted privatization researchers and country risk teams.

PROBLEMS IDENTIFIED:

- SPA transition to being a larger high throughput organization.
- Need to now Integrate the reporting and planning systems into the organization.

RECOMMENDATION/SOLUTION

- Give the Privatization area skilled investment bankers and liquidation specialists now that they have the required leadership and direction.
- Support systems integration with training and information.

SPECIFIC TASKS

Progress during the period 1-31 August, 1992

1. Help Define the Operational Framework of the SPA:

The accounting system work continues. Management Reporting System has been adopted. The planning activity for the next year to commence this in Sept. with the USAID effort heavily committed. Improving the SPA's operational activities is a major goal in the 1992 Plan and is the core of the Financial Management project and will become the center of the transaction throughput assistance.

2. Help Prepare a Funding Strategy for the SPA's Activities:

USAID support for the next cycle further defined with USAID and the SPA. Funding needs of an accelerated privatization system outlined.

3. Help Define the Organizational Needs of the Privatization Process:

The improvement of throughput volume is the focus of next fiscal's USAID effort this includes not only skilled transaction and insolvency specialists but support of the new self-privatization program, and management and control needs (MIS and Finance Support).

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and MIS activities are fully up to speed and the new self-privatization initiative requires funding for its next phases and the Privatization unit needs skilled resources.

5. Help Define the Office and Equipment Requirements of the SPA:

The major USAID equipment component is installed and fully operational. Now assisting in organizational absorption. Supplemental equipping needs have been identified and await funding.

6. Help Define the Personnel Requirements of the SPA:

Potential Medium and Long Term support needs have been defined in the financial management, MIS, and training programs as well as a need coupled with absorption capacity in the privatization and insolvency area.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support was continued at an increased level.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues. The SPA's Institutional Development and Work Plan which fits the national objectives is the core document. The Privatization effort now requires and can absorb trained resources to get more throughput.

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued. SPA's direct marketing and information program accelerating using the Data Base.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

USAID's support is being managed and delivered through various projects closely coordinated with USAID and the SPA.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion "marketing" and the privatization process being market driven rather than principally government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is a response to this task requirement and the warrant system should provide significant capital support to the privatization process. The PR strategy keys on the same concept.

12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:

The Warrant system's definition and how to contract out the core of the Self-Privatization program's start-up are initiatives in this area. We have worked with the new Minister on his ESOP and Bank Privatization initiatives.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0002-3-0183107

Long Term Advisor's Progress Report
PERIOD: 1-30 September, 1992

SUMMARY:

During September the twenty-fourth month of the long term contract phase of the project, the LTA concentrated on; redesigning the next contract year's activities in accord with apparent budget reality, short listing transaction support (investment banking and insolvency) personnel to allow rapid response should that effort go forward, routinized the monthly report adjuncts to the Quarterly reporting system, supported the GOH investment promotion swing through Houston and Los Angeles, launched a negotiations skills course for the transaction staff of the SPA.

MAIN AREAS OF ACTIVITY:

- Rebudgeted planned activities for the next year and initiated work with the surprised SPA staff to replace previously planned support.
- The PIS training was continued but an internal personnel problem prevents absorption.
- The negotiation skills seminar was launched to a very receptive staff group.
- The Houston and Los Angeles Hungary Investment promotion swing detailed work continued with organization meetings in Budapest and New York.
- The Warrant program was put on hold by the client as he wants the final seminar and deliverables in October.

Work in Progress and Status:

- 1.-Equipment: this phase completed.
- 2.-PIS: SPA instructor Implementation training continues. All other work wound down.
- 3.-Training: Negotiation skills course commenced. Export promotion course put on hold, valuation skills course given.
- 4.-Public Relations: Last work completed.
- 5.-Financial Management: This phase completed. Next phase designed.
- 6.-Self Privatization Phase II: Next phase needs analysis begun.
- 7.-Warrant System Phase II: Work awaiting client OK to complete.
- 8.-Investment Promotion Support: Work on the October visits to Houston and Los Angeles continued, more US training needs identified.
- 9.-Project Administration: Further GOH and USG budget cycle work and the 2nd project year wind-down occupied the period.
- 10.-Donor Coordination: Reviewed PHARE budget for next year with PHARE PMU, worked closely with US Treasury funded Bank Privatization advisors, addressed a Canadian Government policy team.

-Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations Investment Office, MBA enterprise corps, various investors and researchers.

PROBLEMS IDENTIFIED:

- SPA transition to being a larger high throughput organization.
- Need to Integrate the reporting and planning systems into the SPA.

RECOMMENDATION/SOLUTION

- Provide skilled transaction personnel and insolvency specialists now that the SPA have the required leadership and direction.
- Support systems integration with training and information.

SPECIFIC TASKS
Progress during the period 1-30 September, 1992

1. Help Define the Operational Framework of the SPA:

This phase of the accounting system and Management Reporting System work was completed. The planning, control, and transaction support activities were put on hold pending USAID funding decisions.

2. Help Prepare a Funding Strategy for the SPA's Activities:

USAID support for the next cycle further defined with USAID and the SPA. Cooperation with PHARE and WB continued. Their efforts are designed to dovetail with USAID's work and uncertainty has a ripple effect.

3. Help Define the Organizational Needs of the Privatization Process:

The improvement of throughput volume is the focus of next fiscal's USAID effort this includes not only skilled transaction and insolvency specialists but should include support of the self-privatization program, and management and control needs (MIS and Financial Management Support).

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and MIS activities are fully up to speed and require maintenance level support to complete them next year. The self-privatization initiative requires funding for its next phases and the Privatization unit needs skilled resources.

5. Help Define the Office and Equipment Requirements of the SPA:

The major USAID equipment component is installed and fully operational. Supplemental equipping needs identified and awaiting funding.

6. Help Define the Personnel Requirements of the SPA:

Potential Medium and Long Term support needs have been defined in the financial management, MIS, valuation area and training programs as well as transaction support in the privatization and insolvency area.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support was continued and a negotiation skills course initiated. The USAID team initiated in house "brown bag" lunch training program featured valuation techniques lectures this month.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues at the highest level and with renewed emphasis. The SPA's Institutional Development and Work Plan for 1993 will embody it. The Privatization effort now requires and can absorb trained resources to get more throughput.

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued with the Houston and Los Angeles investment promotion trips well underway. SPA's direct marketing and information program accelerating using the Data Base.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

USAID's support continues to be being managed and delivered through various projects closely coordinated with USAID and the SPA.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion "marketing" and the privatization process being market driven rather than government initiated continues to be the proper track and broadening common need recognition. The self-privatization initiative is exemplar and the warrant system is providing significant capital support to the privatization process. Leasing, bonds, and other initiatives have the same objective.

12. Help the GOH and the SPA Understand the Role of ESOPs and Specialized Tools That May Have a Suitable Role in the Privatization Program:

The Warrant System and the Self-Privatization program are initiatives in this area. We work closely with the Bank Privatization effort and have had inputs to the leasing, bond, and small business financing initiatives.

Prime Minister's Office

Republic of Hungary

The Key Factor in Building a Market Economy is the Acceleration of Privatisation

Speech by Dr. Tamás Szabó, MP

Minister without Portfolio,

In Charge of Privatisation

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1. Past and Present as regards Hungarian Privatization

The dismantling of bureaucratic state ownership and the development of private ownership is the main process now going forward in the transitional period for the economies of all young Eastern-European democracies. As a result of this, it may be hoped, companies will gain more strength, the level of private ownership will increase, the range of participants in the market will expand, and a healthy and well-balanced role for the state will develop within the economy. Privatisation means both the removal of past structures, and a committed development of the market economy. As the economic and social effects of this can be felt in almost every area of Hungarian life, implementation requires both determined and consistent conduct on the part of for which the resolution of social problems will be one of the main problems.

Since its first day in office, the Hungarian government has understood the successful implementation of privatisation to be its main task. The ambition to reduce the role of state ownership and to spread the structure of private ownership, can be found in all important documents and programmes of the government. It is clearly laid out in these documents that privatisation not only serves to change the proprietary structure within Hungary, but also the development of external relations and integration in the world economy.

In Hungary economic transition has progressed significantly over the past two years, while at the same time progress has been made in the consolidation of economic conditions.

The balance of payments showed a positive figure at the end of 1992, and there was an increased surplus. According to the projected figures, an 800 million USD surplus in balance of payments is expected by the end of the year. The net debt stock has been reduced significantly over the past 1,5 years, and currently stands at 13.5 billion USD.

Foreign exchange reserves increased significantly, and currently provide six months coverage for exports (in excess of 5 billion USD).

Exports increased gradually in 1992, and were achieved primarily in the markets of developed economies.

The rate of inflation slowed down significantly in 1992, and compared to 35% in 1991, had dropped to 22-23% by the end of the year.

The private sector has been gradually increasing over the past two years. Hungary has 160 registered companies, and almost 460 thousand licensed private entrepreneurs.

The savings of the population have gradually increased over the past few months.

The transition to a market economy has unfortunately brought about several social and economic changes for the worse, at least for many, during the same period. Hungarian GDP decreased by 10 % in 1991, and is expected to drop by a further 5 % in 1992. Based on reliable projections, a moderate increase is expected in 1993. The decline in production is worst in those industrial sectors which are obsolete and had earlier produced for the markets of COMECON countries. Unemployment is gradually increasing, currently standing at 11.1%, and it may be expected to increase to 13-14% in 1993. The commencement of bankruptcy proceedings and winding-up procedures has a negative effect on production. These proceedings are mainly due to companies losing markets and the related liquidity problems. (40 % of bankrupt companies are companies operating in the machine industry.)

In Hungary the first laws pertaining to the preparation of privatisation came into force in 1989-1990 (Law on Companies and the Law on Transformation). The privatisation process, controlled and supervised consciously by the state, began in 1990, following the change in political system. The State Property Agency, which is the government organ responsible for privatisation was founded in the same year.

According to calculations cross checked by the World Bank, between 1990 and today, the State Property Agency has transferred more than 10 % of state property into the hands of external owners (foreign and Hungarian investors, employees, etc.). More than one third of state-owned corporations were transformed into companies during this period. By the present time the privatisation of certain industrial sectors is almost complete (tobacco, distilling, sugar, etc.). Several thousand small enterprises and retail traders were able to purchase shops and facilities at discount rates. State income of 1.2 billion USD has been achieved by privatisation sales, more than 70 % of which came from foreign investments and purchases. A significant portion of revenues from privatisation were spent on the repayment of internal state debts.

The termination of state ownership is well under way. The municipalities, the educational and social institutions and the social insurance organisation shall receive state-owned property. In 1991, the partial compensation process commenced in respect of private property taken away by the communist regime.

At the end of 1991 the Government developed a proprietary and privatisation programme which specified the development of an institutional system for privatisation, the main and most desirable directions of the change in ownership, and the main privatisation concepts regarding a number of economic sectors. *In August, 1992, the legislation regulating the entire privatisation process came into effect.* This specifies the main criteria for defining the property to remain in state ownership on a permanent basis, as well as the structural framework and regulations pertaining to their operation. The holding company responsible for the management of property to remain in state ownership on a permanent basis, was established at the end of October. One quarter of the property currently owned by the state is managed by the State Property Management Co. Ltd. holding.

II. New Directions for Privatisation

In Hungary the privatisation process is based on market principles and the Hungarian Government does not wish to make any changes in this respect in the future. In contrary to the practice of other countries, state assets shall not be handed over to the population free of charge.

The aim of the privatisation process is to develop the basis of a proprietary structure characteristic of modern market economies, where a significant role shall be played by small and large investors both domestic and foreign. It is a principle task of privatisation to make progress in the modernisation of the economy, the development of market relations, to break down and terminate monopolistic positions, to enhance the development of the Hungarian entrepreneurial sector and to widen the investment opportunities of the population.

In many respects the privatisation process is closely related to the actual conditions of the economy and the changes therein. Naturally, the serious losses incurred with the collapse of the Eastern-European markets in 1991, the decline of domestic demand, and the growth of unemployment had their effects. The Hungarian government has to consider all these points and determine its privatisation policy and priorities, implementing the required measures accordingly. No privatisation policy can work that does not take into account the role of the state in the Hungarian economy, as it came into being over the course of the last 40 years, and which does not develop a realistic picture of the current situation. As a result, the introduction of market principles, and the search for market solutions do not mean the simple purchase and sale of state property.

Reviewing the results of privatisation up to the present time, and the fact that a halt in the process could endanger economic transformation, the Hungarian government has worked out concepts regarding the acceleration of the process. This naturally affects privatisation supply and demand policy, as well as the transformation of the financial environment of privatisation.

1. Restructuring of Privatisation Supply

The supply policy of the Hungarian government is determined by two main requirements: rational decentralisation, and the acceleration of company transformations.

In Hungary too, artificial company structures developed during the period of communist economy. Centralisation, concentration, and the establishment of monopoly organisations was widespread, which made the development of natural companies impossible. This was especially so in the case of small and medium size companies, which are (were) missing from the Hungarian company structure, and which are usually the engines of well-developed market economies, operating alongside large companies. Small and medium companies ensure flexible market adjustment, leaving room for innovation (think of Italy in the eighties).

Based on the above, privatisation can not be successful if the deformed company structures and monopoly positions are maintained. There is a need for rational decentralisation which can be justified by economic principles, where the ineffective and non-productive companies are wound up and viable small and medium companies are established. The so-called preliminary privatisation that has been in operation in the Hungarian retail trade since 1990, serves the aim of decentralisation and the expansion of the range of participants in the market. The government wishes to intensify this process even further in future, providing support to the strengthening of the entrepreneurial sector and the acquisition of property in Hungary.

Privatisation supply must provide sufficient information to all market participants. In order to achieve this, the State Property Agency has developed a property registration and information system, providing detailed information on companies. The detailed economic, financial, technical and employee information largely assists in the task of arousing the interest of foreign and Hungarian investors.

State-owned companies have not been transformed into artificial companies by one measure and in one step, instead we decided on the route of organic transformation. We linked transformation with the preparation of privatisation. We do not intend to make radical changes in this in the future, but at the same time we wish to accelerate company transformation, and the termination of the form of state-owned companies. The latter is not only a constraint on privatisation, but in many cases leads to loss of state property. An important privatisation objective of the Hungarian government is to accelerate transformation and to make the related bureaucratic system simpler.

2. Expansion of Privatisation Demand

In Hungary, from 1990 up until now, the role of foreign investors in privatisation demand had been significant. An especially great role has been played by US, French, German and Austrian investors. The Hungarian government feels it is very important to maintain the interest of foreign investors, and to increase their role in privatisation, and shall do its utmost to support this in the future as well. This means the involvement of significant capital, helps the establishment of market relations, the development of up-to-date organisations, and improvements in the quality of company management. The Hungarian government wishes to increase the role of foreign strategic and financial investors, and shall support this in several ways (state funds to induce investments, structural transformation of certain companies, and in some cases the financial reorganisation of companies.).

Currently the low rate of internal demand is one of the most serious constraints on privatisation, and could bring about a halt in the process. The role of Hungarian entrepreneurs and the Hungarian population is rather small, which is due to the characteristics of supply on the one hand, and the lack of privatisation institutions that could effectively support internal demand on the other.

The Hungarian government feels its main economic and social policy objective is to increase internal demand, and in order to achieve this, it has begun to develop new privatisation techniques. These could be summarised briefly as follows:

We have developed **privatisation leasing** in which in the case of less profitable companies the reorganisation of the company should take place along with its sale by sections. We shall support this method by tax benefits and other means. Our expectations are that by the introduction of this method some companies that are in a difficult situation but can be made viable in the medium term, shall begin to stand on their feet mainly with the help of the company management and external lessees.

Currently we are working on a type of credit that enables a wide range of the population to acquire property. The essence of this is to achieve a conversion between state ownership and the Hungarian national debt. I.e. the income derived by the State Property Agency from state property obtained with this type of credit, shall go to reducing state debt. The credit note thus introduced shall enable a large number of the population to obtain property as small investors or small enterprises, the financial conditions of which (interest, guarantees) are much better than those available today.

In the sale of state property we wish to apply payment by installments, with the help of the ESOP system, based on the law approved in June, 1992. Similarly, we are working on a Management Buy Out (MBO) system as well.

The new privatisation methods to be introduced and the increase of support to those currently applied could lead to growth in domestic demand.

3. Privatisation of the Privatisation Market

From 1990 to September, 1991, privatisation was carried out in Hungary under the direct control of the State Property Agency. The so-called simplified privatisation process commenced in September, 1991, in which the State Property Agency only registers the scenario of transformation and privatisation, and controls its implementation, but at the same time the process is managed by the companies and the privatisation consultants they selected. Currently more than 700 small and medium companies have entered this programme (more than one quarter of all companies).

The privatisation policy of the Hungarian government specifies the "privatisation" of the privatisation market to be its main objective. This means that the State Property Agency should privatise a small number of economically important companies directly, while the rest of privatisation should be performed by the participants. Naturally, clear procedures and control systems should be developed. The experience gained from the simplified privatisation process could also be utilised in the execution.

The requirement of tendering is essential in the privatisation market. Open tenders should be favoured, and closed tenders should only be applied if justified.

Within the market mechanisms of privatisation, the Hungarian government intends to give the stock exchange a greater role. Its intention is to rationalise the introduction

period on the stock exchange, and to offer securities which are judged to be good investments by both Hungarian and foreign investors. In Hungary investment in securities is supported by tax benefits, the range of which shall be widened even further by the government in 1993.

4. Financial Environment

It is an important prerequisite of privatisation that institutions exist which can support the development of enterprises.

The Hungarian government has taken steps in several areas in order to develop enterprises. From the beginning of 1993 a **credit guarantee institution** shall be established, supporting enterprise credit and privatisation. The financial background of this has been accomplished from the privatisation revenues of 1992. Similarly, the establishment of regional development associations supporting risk capital investment, is also financed from the revenues of privatisation. Currently we are working on the re-establishment of mortgage institutions in the Hungarian economy, and for this purpose a **land credit** organisation system might be established in 1993, which could support the preferential credit supply of the Hungarian agriculture.

It was not only inflation that decreased in 1992, but this brought along the reduction of interest rates as well. Unfortunately the reduction of credit interest rates is somewhat far away from the decrease in deposit interest rates, which is mainly due to the increasing risks of financial institutions and the bad debts that accumulated at the commercial banks. By means of its financial policy the government intends to reduce the decline in credit interest rates further, which could improve the credit application possibilities of enterprises.

5. Transfer of Property

By the end of 1994 approximately 4 billion USD worth of state property must be transferred to the social insurance organisation. In addition to the current insurance system, these assets will allow the running expenses (pension, healthcare system) to be financed even if costs exceed income. Currently the Hungarian social security system - due to the secularisation of the communist system - is not based on the accumulation of paid contributions, rather the expenses are paid from current revenues and the related state guarantees.

Property shall not be transferred directly, but in the form of drafts, vouchers that can be used for the purchase of state property. These vouchers would be given to the established asset managers, thus they could enter the privatisation process within regulated limits. It would be appropriate if the asset managers spent a large part of the vouchers on purchasing the shares of public state companies (telephone, energy, gas supply) as these are stable securities that bring a real yield even within the current economic conditions.

The transfer of property for social insurance purposes is related to the overall reform of the social insurance system, and the establishment of health and pension funds. The Laws related to this were presented to Parliament by the government in the past few weeks.

III. Management of Property in State Ownership on a Permanent Basis

The Privatisation Laws that came into force in August, 1992, specify the principles of selecting the assets to remain in state ownership on a permanent basis, and the method and organisation of asset management.

The holding responsible for the management of state property is the State Property Management Co. Ltd., which was established at the end of October, 1992. Prior to this, based on the decision of the government, a range of companies had been selected, the assets of which were transferred to the holding. The criteria of selection were the following: companies of economic-strategic importance, national public networks, financial institutions and insurance companies with state shareholdings, natural manufacturing and trading monopolies. The estimated size of the assets managed by the holding is 6-7 billion USD.

The regulations pertaining to companies apply to the State Property Management Company Ltd. The task of the holding is not only the management and utilisation of property (including reorganisation and restructuring), but also the privatisation of those assets which are specified by the government as permanent. The State Property Management Co. Ltd. has all the rights of the State Property Agency. The telephone, energy supply, gas supply, pharmaceutical and other related companies shall be privatised with the proprietary share of the State Property Management Co. Ltd.

The proprietary rights of the state at the State Property Management Co. Ltd. are exercised by the Minister without Portfolio, In-charge of Privatization issues, based on

the commission of the government. Based on the Privatisation Laws that came into force at the end of August, the Minister is also responsible for the State Property Agency.

IV. Privatisation of the Hungarian Commercial Banks and the Problem of Credit Consolidation

The privatisation of commercial banks with state shareholdings has priority within the privatisation process due to its economic significance. The operation and condition of the bank system has a significant effect on the development and improvement prospects of the economy. In Hungary this question is related to the management of bad debts cumulated at the commercial banks.

A two-tier banking system has existed in Hungary since 1987, the first within Eastern-Europe. The establishment of the two-tier banking system was based on a central decision, and a significant direct state ownership was maintained in the large commercial banks. Currently, from the six largest commercial banks, the rate of direct state ownership is 100 % at one of the banks (the largest bank considering retail deposits), while at the remaining four the proportion of state holdings is 35-45%.

The bank privatisation process could only be commenced after the Hungarian Parliament accepted the Laws pertaining to the central issuing bank and financial institutions, as well as the Law on an up-to-date accounting system.

In April, 1992, the government brought a decision pertaining to the general principles of bank privatisation. These include the following:

The aim of bank privatisation is not only privatisation itself, but the modernisation of banks, the strengthening of competitiveness, capital funding and the development of a responsible proprietary structure.

The presence of a strategic investor is required at the commercial banks in question.

In the medium term, the rate of direct state ownership shall not exceed 25 % in the affected banks (by 1997 as stipulated in the Law).

All banks to be privatised shall have an independent consultant, selected by the government and the Privatisation Minister, in cooperation with the banks.

During the privatisation of the banks the work of the Privatisation Minister shall be supported by a Bank Privatisation Committee - in a consulting role - the members of which shall include representatives from the Ministry of Finance, the National Bank of Hungary and the State Banking Supervision.

The bank privatisation principles require that, as a result of privatisation, the Hungarian banking system shall not come under the control of one financial group.

Currently the selection of the consultants of the banks to be privatised is under way, and after the selection is made, the preparations for actual privatisation could commence this year. In the bank privatisation process, the privatisation of a bank can commence without having to wait for the complete privatisation of another bank. In 1993 the process shall affect several banks at the same time.

The management of the problem of bad debts accumulated at the commercial banks is closely related to the successful implementation of bank privatisation. The portfolio of classified debts exceeds 3 billion USD, and this increases the risk of the banks significantly. A natural result of the liquidity surplus of the banks is expensive credit, and a credit policy that does not realistically count on the market and the prevailing economic conditions.

In June, 1992, the government made a decision on the acceleration of credit consolidation work. This represents a double task: managing the problem of bad debts at the banks, and the clearing of portfolios, and the restructuring of the companies in question. The following principles shall be applied in the implementation of credit consolidation:

the consolidation of bank portfolios can not be separated from restructuring, and the management of the problems of the real economy;

at the same time the solution requires the responsibility and liability of the banks and the state (and other owners);

the solution can only be made in accordance with market principles, and by the application of market methods;

state financing (taking into consideration the current financing capability of the Hungarian state budget) shall be performed over an extended period of time.

The exchange of bank portfolios with state guaranteed bonds plays an important role in the implementation of credit consolidation. The related financial conditions shall be provided by the Hungarian state budget by 1993. It is a main objective that credit consolidation - including the improvement of bank portfolios and the restructuring of companies - should start this year.

Credit consolidation and bank privatisation shall jointly assist in the development of a modern Hungarian financial system, able to support the development and strengthening of the private economy with a wider range of services, greater capital supply, and better management.

PRIVATIZATION RULES
1992

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ABSTRACT FROM THE HUNGARIAN JOURNAL

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Law LIII of 1992
on the management and utilisation of corporate
assets remaining in long term state ownership

The Hungarian Parliament hereby enacts the following law in order to provide the management and efficient operation of state-owned corporate assets remaining in long term state ownership with the overall aim of realising the fundamental goals of the Hungarian government's economic strategy.

CHAPTER I

Validity of the Law

1.§(1) This law shall be valid for all companies - with the exception of the National Bank of Hungary, the State Development Institute and the Central Office of Financial Institutions - which carry out their operations fully or partially on the basis of state-owned assets - in accordance with Article 2. of the present law - and those companies the shareholdings (shares) of which, entitling their owners to membership (shareholder's) rights, are fully or partially state owned and will continue in state ownership in the long term.

(2) In accordance with this law those companies shall be regarded as remaining fully or partially state-owned in the long term in which membership (shareholder's) rights are exercised by State Asset Management Plc. (hereafter, Asset Management Plc.) or a responsible Minister (in accordance with Paragraph (3), Article 31.

(3) Shareholdings (shares) providing ownership rights in companies described in Paragraph (2) above - with the exception of those described in Paragraph (2), Article 2 of the present law - shall be tradeable with the provision that the preliminary decision of the Hungarian government in accordance with Paragraph (4), Article 2. shall be required in order that they may be sold.

(4) For the sale of state assets remaining in long term state ownership in accordance with Paragraph (2), Article 2. of the present law provisions of Law XVI of 1991 on Concessions shall be authoritative.

(5) The present law shall not be valid in respect of the following:

- a) assets subject to Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership;
- b) treasury assets the utilisation of which for economic ('entrepreneurial') purposes is ruled out by a special law.
- (c) assets subject to Law XXXIII. of 1991 on the Transfer of State Assets to Local Council Ownership, which shall be transferred to local councils following completion of the relevant procedure as implemented by the asset transfer committee in charge.

Range of assets remaining in state
ownership in the long run

2.§(1) The range of assets remaining in state ownership in the long term and the range of assets remaining in the long term or to be transferred to the ownership of - fully or partially - state-owned companies - with the exception of assets described in Paragraph (2) - shall be determined by the Hungarian government taking into account considerations contained in paragraph (3).

(2) Those assets shall be regarded as remaining in long term state ownership which are utilised by companies with majority state shareholdings for the carrying out of activities specified in Law XVI. of 1991 on Concessions.

(3) The Hungarian government shall refer state assets and shareholdings to the range of assets described in Paragraph (1) above if.

- a) this is made necessary in the interests of the Government's economic strategy, the national economy or other important interests;
- b) the relevant assets or shareholdings serve public purposes on a national level or if their profitable operation is possible only within the framework of a certain research, production or distribution programme;
- c) if the preparation of the relevant assets and shareholdings for sale requires an especially long period of time.

(4) The government must also make provisions regarding the proportion - 100%, majority, or minority - of shareholdings (shares) to be maintained in companies subject to the validity of the present law providing membership (shareholder's) rights in these companies. If company assets remaining in long term state ownership provide minority ownership in the said company then a minimum level of state ownership in such companies must also be determined.

(5) Following the coming into force of the regulation described in Paragraph (1) the Hungarian government must scrutinise carefully the range of assets remaining in long term state ownership specified in that regulation, as well as the necessity of maintaining long term state ownership in companies subject to the present law at least once every two years.

(6) The bringing of companies operating on the basis of state-owned assets under the force of the present law and the termination of long term state ownership in such companies may be initiated, apart from by Asset Management Plc., in respect of the Hungarian Government primarily by the Minister in charge of Asset Management Plc.'s main activities, the State Property Agency - (hereafter: Property Agency) - and various interest representing bodies of employers and employees.

CHAPTER II

State Asset Management Plc.

The establishment of Asset Management Plc.

3.§(1) Asset Management Plc. is a single member public limited company, which shall be established through its registration in the Register of Companies with retrospective force from the date of the adoption of its deed of foundation. Shares in Asset Management Plc. embodying ownership rights shall be in exclusive state ownership. (Hungarian Civil Code, Article 172.)

(2) The Hungarian Government as founder is entitled to adopt and modify the deed of foundation of Asset Management Plc. which is to be prepared within 60 days of the coming into force of the present law. The modification of the deed of foundation may also be initiated by the party exercising shareholder's rights (Article 6.) in the company. The deed of foundation of Asset Management Plc. shall be countersigned by the Hungarian Minister of Justice. The operations of Asset Management Plc. may be terminated by the Hungarian Parliament upon the Government's proposal by way of a law promulgated for that purpose.

(3) If the present law does not contain provisions to the contrary, for the establishment and operation of Asset Management Plc. provisions of Law VI. of 1988 on Companies (hereafter: Law on Companies) must be applied in an appropriate manner, with the exception of Article 13, Paragraph (2) of Article 251, Article 287, Paragraphs (1)-(2) of Article 326, and Paragraph (1) of Article 329.

4.§(1) The share capital of Asset Management Plc. shall consist of shareholdings (shares) remaining in long term state ownership in companies subject to the force of the present law - following their transformation as described in Articles 27-29 - as well as financial contributions by the state of an amount to be determined in advance by the Government, sufficient for the efficient operation of Asset Management Plc. The party exercising shareholder's rights in the public limited company shall transfer 30% of the financial contribution to the company prior to the handing in of an application for official registration, while the remaining part of the aforementioned contribution shall be transferred to Asset Management Plc. within one year of its registration in the Register of Companies.

(2) When the Company's share capital shall be determined, the equity capital of companies subject to the present law, as indicated in their balance sheets prepared in accordance with Appendix 1. of Law XVIII. of 1991 on Accounting (hereafter: Law on Accounting), or a part of the assets of such companies in proportion with state shareholdings (shareholdings, shares) in them, must be accounted for as assets belonging to the aforementioned companies. Shareholdings (shares) taken into account as part of Asset Management Plc's share capital will be transferred to the ownership of the company following the transformation of the relevant companies in accordance with Articles 27-29.

(3) If the transformation of all companies in accordance with Article 30 has been completed the value of shareholdings (shares) in these companies remaining in long term state ownership must also be taken into account as part of Asset Management Plc's share capital. Taking into account the above a decision must be made within 30 days of the completion of the last transformation concerning the raising of Asset Management Plc's share capital by the value of the holding in long term state ownership.

(4) Asset holdings in long term state ownership in companies subject to this law in which the rights of Asset Management Plc. are exercised by the Minister responsible for the relevant activities in accordance with Article 31, Paragraph 3 cannot be taken into account as part of Asset Management Plc's share capital.

(5) Shareholdings (shares) exceeding long term state shareholdings specified in Paragraphs (2)-(3), Article 2, in companies subject to the present law but still owned by the state must be regarded as a part of Asset Management Plc's assets separate from the company's share capital.

(6) The Hungarian government as founder shall make decisions concerning the raising and diminution of Asset Management Plc's share capital with the exception of the contents of Paragraph (3) on the proposal of the party exercising shareholder's rights in the company.

Range of tasks pertaining to Asset Management Plc

5.§(1) It is the primary task of Asset Management Plc. to carry out the following in accordance with the relevant laws and restrictions.

(a) To transform states corporations subject to Law VI of 1977 on State Corporations into companies if the membership (shareholder's) rights of Asset Management Plc. in these companies shall be maintained in the long term following the transformation of these corporations;

(b) To exercise its proprietary rights as specified in the Law on Companies on the basis of long term membership (shareholder's) rights to be exercised in these companies in the course of which it shall enforce the economic policy decisions of the Hungarian government;

(c) To establish a company endowed with a legal personality on the basis of assets separate from its share capital in which company Asset Management Plc's membership (shareholder's) rights shall be maintained in the long term.

(2) In the case of companies remaining in long term majority state ownership or 100% state ownership Asset Management Plc. must consult the Minister responsible in respect of the following:

(a) The persons of managing directors, members of boards of directors, and members of supervisory committees proposed as candidates for the highest bodies of these companies;

(b) The determination or modification of the range of the main activities of such companies.

(3) Asset Management Plc. shall establish a system of record keeping and evaluation necessary for the legal and efficient operation of the assets entrusted to it.

Organisation of Asset Management Plc

6.§(1) Shareholder's rights in Asset Management Plc. shall be exercised personally on behalf of the Hungarian state by a Minister appointed by the Hungarian government (hereafter, party exercising shareholder's rights).

(2) In the course of Asset Management Plc.'s operations the rights of the company's General Meeting - with the exception of those reserved exclusively for the founder - shall be entrusted to the party exercising shareholder's rights in the company with the provision that the range of decision making rights belonging to the range of authority of the company's higher management cannot be taken away from it.

(3) Asset Management Plc.'s shares must be registered shares. The party exercising shareholder's rights in the company is not entitled to sell shares in the company.

7.§(1) Asset Management Plc's Board of Directors consists of eleven members. The chairman and members of the company's Board of Directors (hereafter, members of the Board of Directors) shall be appointed for a period of four years.

(2) The chairman of the Board of Directors shall submit himself to a hearing of the relevant committee of the Hungarian Parliament prior to his appointment. Members of the Board of Directors shall be appointed and dismissed by the Prime Minister of the Hungarian Republic.

(3) At least three members of the Board of Directors must be employed by Asset Management Plc.

8.§(1) Members of the Board of Directors cannot remain in employment at companies subject to the present law or the State Property Agency or in any other legal relationship with these organisations involving the carrying out of any work for them during the time that they remain members of the Board of Directors and for a further two years subsequent to the termination of their legal relationship with Asset Management Plc. Members of Asset Management Plc's Board of Directors cannot be members of supervisory committees of companies subject to the present law and can act as members of company management at such companies only as representatives of Asset Management Plc.

(2) Members of Asset Management Plc's Board of Directors or their direct relatives [Hungarian Civil Code Article 685, point (b)] are not permitted to obtain shareholdings or shares in companies in which Asset Management Plc. holds long term membership (shareholder's) rights. Relatives of members of the Board of Directors cannot act as members of management, auditors, or members of the supervisory boards of such companies.

(3) The party appointing the members of Asset Management Plc's Board of Directors may exempt its members from prohibitions and restrictions specified in Paragraph (1) of the present article following the termination of their membership of the Board of Directors should it prove necessary.

9.§(1) The operations of Asset Management Plc. shall be supervised by a board consisting of 5-7 members.

(2) The chairman of the supervisory board shall be appointed for a five year period and dismissed by the Prime Minister of the Hungarian Republic on the proposal of the chairman of the State Audit Office; one member of the board shall be proposed by the Finance Minister and another by the Minister of Justice; while the remaining members - auditors - shall be proposed by the chairman of the State Audit Office.

(3) Provisions contained in 8.§ shall be applicable to the chairman and members of the supervisory board.

10.§(1) The auditor operating at Asset Management Plc. shall be appointed by the party exercising shareholder's rights in the company on the proposal of the chairman of the State Audit Office.

CHAPTER III

*Proprietary rights of Asset Management Plc
Sale of Assets*

11.§(1) Asset Management Plc. is not entitled to sell or in any way to encumber its shareholdings (shares) in companies in 100% state ownership.

(2) If Asset Management Plc. has majority membership (shareholder's) rights in a company Asset Management Plc. must maintain this proportion in the course of its exercise of proprietary rights [raising of nominal capital (share capital) and sale of shareholdings (shares)]. Asset Management Plc. is not entitled to impose any encumbrance on its shareholdings (shares) in companies with minority state ownership and is entitled to sell assets of such companies only if they are separate from the minimum proportion of state-owned assets.

(3) In the course of the sale of shareholdings (shares) - within limitations specified in Paragraphs (1)-(2) - Asset Management Plc. shall be entitled to the same rights and obligations held by the State Property Agency in accordance with Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership.

(4) In order to encumber more than 50% of the assets of companies in 100% state ownership subject to the present law separate authorisation from the party exercising shareholder's rights in the company is required.

Formation of companies

12.§(1) Asset Management Plc. is entitled to form companies with the provision that it must not take shareholdings and/or shares constituting a part of Asset Management Plc's share capital - with the exception of cases specified in Paragraph (4) - into such companies as a contribution in kind.

(2) The proportion of state asset holdings in companies to be established by Asset Management Plc. shall be determined by the Hungarian Government.

(3) Asset Management Plc. shall not be entitled to sign or accept any company contracts (deed of foundation, constitution) prior to the taking of a government decision concerning the proportion of state holdings in the company to be formed.

(4) Asset Management Plc. shall be entitled to establish a company in its 100% ownership for the management of companies holding assets which may be operated efficiently only within the framework of a certain programme/manner of research, production and distribution, holding a significant amount of assets or majority ownership not reaching the amount specified in Article 328 of the Law on Companies in other companies in accordance with Title 7. Chapter VII. of the Law on Companies.

Asset management

13.§(1) Asset Management Plc. may entrust the rights to which it is entitled on the basis of shareholdings and/or shares constituting its share capital as described in Article 4. of the present law, as well as shareholdings and shares offered for sale, to a company established in accordance with Article 12. of the present law or, if necessary, to a non-state-owned asset management company for a fee (hereafter: giving out for asset management). The share company or asset management company to which the exercise of the aforementioned rights shall be entrusted shall not indicate these assets in their balance sheet.

(2) Asset Management Plc. shall make an agreement with the Minister entitled to sign a concession agreement concerning the criteria governing the announcement of concession tenders and the signing of concession contracts. On the basis of the above agreement the operation and utilisation of assets entrusted to Asset Management Plc. shall be carried out in accordance with Article 2. point (b) of Law XVI. of 1991 on Concession.

(3) If an asset management contract involves the utilisation of any real estate subject to protection as a listed building or a conservation area, provisions of relevant special legal regulations must be observed in the course of the relevant tenders and signing of contracts. The party undertaking the management of such assets must be informed of the contents of the aforementioned special legal regulations.

14.§(1) Companies undertaking asset management must be selected on a tender basis. Applicants shall be selected by way of open or closed circle tenders.

(2) Open tenders must be announced in two national newspapers at least 30 days prior to the first date specified for the handing in of tender applications.

(3) A tender shall be regarded as a closed circle tender if those interested are invited to make an offer directly by Asset Management Plc. which shall in that case specify an appropriate application deadline.

(4) Tender applications may prescribe that the relevant tender be carried out secretly, meaning that the names of applicants shall be handled in sealed envelopes in the course of the tender procedure.

15.§(1) Any legal person, company without legal personality, or private entrepreneur may participate in open tenders.

16.§(1) Tender applications must contain the following:

- a) aim of the tender;
- b) specification and value of the asset holding to be given out for asset management
- c) conditions concerning the relevant asset management established with the participation of the relevant authorities;
- d) the place of and the deadline for the handing in of tender applications.

17.§(1) Tender applications must be assessed by way of considering the obligations undertaken by each of the applicants concerning the future employment of the present workforce, income and social services to be provided for them, as well as investigation of the credit standing of each applicant.

(2) In the case of identical undertakings in respect of obligations involving two or more applicants priority must be given:

- a) In the case of the termination of former contracts for asset management, to the erstwhile manager of the relevant assets, provided that the contract was not terminated due to any kind of default on the part of the asset manager;
- b) To the company or cooperative to be established for the carrying out of asset management activities with the participation of at least 25% of the staff of the relevant company or those participating in the relevant company's Employees' Co-ownership Programme.

(3) Asset Management Plc. may enter into contract with the applicant winning the tender, that is, the one who has made the most favourable offer.

(4) Asset Management Plc. shall make public the result of tenders - together with the argumentation underlying the relevant decision - as well as the fact that the relevant appointment for asset management has been made in the same two national newspapers in which the tender application was published. In the case of closed circle tenders the participants of such tenders must be directly informed of the results of the relevant tender.

18.§(1) The contents of contracts for asset management may be freely determined by the parties involved within the framework of the relevant legal regulations and taking into account the contents of the relevant invitation for tender, tender applications handed in and the contents of Paragraph (2) of the previous article.

(2) The implementation of obligations undertaken in the asset management contract must be ensured by secondary contractual obligations (eg. mortgage rights, collateral, cash-paying guarantors, etc.). The aforementioned guarantees may be applied together if required.

19.§(1) The party undertaking asset management must fulfil his obligations in accordance with the general provisions of the Hungarian Civil Code. The party undertaking asset management shall be subject to the payment of compensation in respect of any breach of his obligations for which he is blame.

(2) Asset Management Plc. must monitor continuously the activities of the trustee in the course of which it may regularly request that a detailed written report be presented to it on the matter. Asset Management Plc. must also monitor continuously the credit standing of the trustee.

(3) In the case of a serious breach of contract by the trustee or if the same party hinders Asset Management Plc.'s monitoring activities as described in Paragraph (2) above Asset Management Plc. shall be entitled to terminate the asset management contract with the said party.

20.§(1) The trustee shall render the fee received from Asset Management Plc. as income in its accounts while its accepted expenses related to the carrying out of asset management activities shall be rendered as costs.

(2) A provision may be made in the asset management contract in accordance with which the trustee shall be entitled to a commission fee only in case of achievement of the profits specified in the contract. The above provision however shall not apply to the reimbursement of accepted expenses incurred by the trustee in the course of the relevant activities.

(3) Asset Management Plc. shall prepare regulations in accordance with the relevant provisions of the present law concerning the tender procedure to applied in which detailed rules concerning the procedure in question shall be specified.

*Special procedure regarding the operation
of state assets*

21.§(1) If a national public service (for example, water, energy, transport) is carried out by a 100% or majority state-owned company this company may cease to perform its activities only if the continuing provision of the same public service shall be ensured by some other means. The the Board of Directors of Asset Management Plc. is entitled to make decisions concerning the cessation of the activities of such companies. Prior to the taking of such decisions by Asset Management Plc. the Minister of the relevant activities must be consulted.

(2) On the proposal of the Minister in charge of the relevant activities the Hungarian government shall establish a 100% or majority state-owned company for the provision of national public services if the provision of the relevant public service is not ensured by other means on a national basis - either through an organisation financed from the

state budget or on the basis of a concession contract. In such cases the nominal capital (share capital) required for the carrying out of the activities of this company shall be supplied by the Hungarian government.

(3) Founders rights in respect of companies specified in Paragraphs (1)-(2) shall be exercised by Asset Management Plc. or the Minister in charge of the relevant activities depending on the decision of the Hungarian government. If the government authorises the Minister in charge of the relevant activities to exercise proprietary rights in respect of such companies then the range of authorities pertaining to Asset Management Plc. in accordance with the present law shall be exercised by the said Minister.

Chapter IV

Financial and economic management of Asset Management Plc

22.§(1) Incomes of Asset Management Plc. shall be the following:

- (a) profit sharing (dividends) due to the company on the basis of its shareholdings (shares);
- (b) income resulting from authorised sale of assets;
- (c) other income;

(2) In the course of the rendering of incomes specified in points (a)-(c) of Paragraph (1) in the accounts provisions contained in the Law on Accounting must be observed with the stipulation that Asset Management Plc. shall be subject to the payment of Company tax only in respect of its incomes as given under point (c).

(3) Asset Management Plc. shall form separate profit reserves from its after-tax profits. 10% of Asset Management Plc's annual after-tax profits must be transferred to its separated profit reserves until the value of these reserves reaches a certain percentage of Asset Management Plc's current value of its share capital on foundation; this percentage shall be determined by the Hungarian government. The separate profit reserves shall serve primarily for the reorganisation of companies under Asset Management Plc. and the coverage of their losses, [Article 326, Paragraph (3) of the Law on Companies], as well as for the satisfaction of any compensation claims.

(4) Asset Management Plc. shall pay a dividend to the state budget the amount of which is determined in the Law on the Annual State Budget from incomes specified in points (a)-(b) of Paragraph (1) and from after-tax profits remaining after the formation of separate profit reserves as specified in Paragraph (3).

23.§(1) The activities of Asset Management Plc. shall be supervised by the State Audit Office.

(2) If Asset Management Plc. proves to be insolvent or the amount of its profits (dividends) is much lower than the national average the State Audit Office must investigate the reasons underlying this state of affairs and summarise its findings in a separate report.

24.§(1) The Hungarian Parliament shall lay down what shall be the major considerations concerning the utilisation of state assets in enterprises as regards next year in its Asset Policy Guidelines (hereafter, Guidelines) including Asset Management Plc's dividend policy and the conditions underlying the sale of assets by the said company with the exception of those to be regulated by other legal provisions or by the Deed of Foundation of Asset Management Plc.

(2) The Hungarian government shall submit a proposal to Parliament concerning the Guidelines together with a bill concerning the state budget for next year.

(3) Parliament shall make a resolution concerning the Guidelines.

25.§(1) The Hungarian government must present an annual report on the activities of Asset Management Plc. to Parliament, the mode and results of utilisation of the assets of companies subject to the present law, and the implementation of the Guidelines at the same time as submitting the bill concerning implementation of the state budget in the previous year.

(2) The government shall attach to its annual report an annual report prepared by Asset Management Plc. in accordance with the Law on Accounting and the report of the chairman of the State Audit Office on the activities of Asset Management Plc.

(3) Asset Management Plc. shall inform the State Audit Office every six months concerning changes in respect of the state's entrepreneurial assets and their utilisation.

CHAPTER V

Transformation of state corporations into companies

26.§(1) Asset Management Plc. shall be entitled to make decisions concerning the transformation of state corporations subject to the present law into companies.

(2) The transformation of state corporations into companies in accordance with the present law shall not entail any special tax payment obligations or dues with the exception of so-called procedural dues.

(3) Newly formed companies shall be the overall legal successors of transformed state corporations.

Transformation of state corporations into 100% state-owned companies

27.§(1) Those state corporations in which Asset Management Plc's membership (shareholder's) rights are maintained at 100% and over the long term following their transformation into companies may be transformed into limited companies or public limited companies with the stipulation that they continue their operations from the date of the coming into force of the government decree specified in Article 31, (2) as companies under state control and that founders rights in such companies shall be exercised by Asset Management Plc.

(2) Measures necessary for the transformation of state corporations specified in Paragraph (1) of the present Article into companies shall be taken by the relevant corporations' directors. Assets of a state corporation under transformation must be taken into account as part of the equity capital of the company to be established in the company's balance sheet prepared in accordance with Appendix 1 of the Law on Accounting. If the relevant laws do not contain provisions to the contrary assets in 100% state ownership in accordance with the Hungarian Civil Code cannot be taken into account when determining the assets of a company which is a legal successor to a transformed state corporation. Asset Management Plc. shall be entitled to make decisions concerning the giving out for utilisation of such assets to other companies.

(3) The Deeds of Foundation of newly formed companies must be prepared within 60 days of the coming into force of the government decree specified in Article 31, (2). The Deeds of Foundation of newly formed companies shall be signed by Asset Management Plc.

28.§(1) The beneficiary of official permits issued before the transformation of state corporations shall be the newly formed company established as a result of the transformation while in respect of permit procedures in process the newly formed company must immediately report the fact of the transformation to the authorities issuing the relevant permits. The newly formed company must be indicated in such cases as the beneficiary of the relevant permits.

(2) The transformation of state corporations shall not make void any claims existing against the company under transformation.

(3) State corporations may repurchase at a nominal value property notes issued prior to the transformation to the debit of the relevant corporation's capital reserves and distributed free of charge or on the basis of concessions, while other property notes must be repurchased by the relevant corporation at least at their nominal value if requested to do so by the owners.

29.§(1) Local councils shall become entitled to profit sharing from urban areas under its jurisdiction as indicated in the asset balance sheets of state corporations under transformation in accordance with Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership if the 100% state ownership shall cease in the company in question established as a result of transformation in accordance with the relevant decision of the Hungarian government.

Transformation of state corporations into partially state-owned companies

30.§(1) Those state corporations in which following their transformation into companies Asset Management Plc's membership (shareholder's) rights would be only partially maintained in the long term must present their transformation plan to Asset Management Plc. within six months of the coming into force of the present law at the

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latest. Provisions contained in Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership shall be applied with regard to the transformation and protection of the assets of such companies with the exception of Title 3, Chapter IV with the stipulation that the rights of the State Property Agency shall be exercised by Asset Management Plc.

(2) If the company in question fails to present its transformation plan to Asset Management Plc. within the deadline specified in Paragraph 1 of the present Article or it is obvious that the transformation of the relevant state corporation into a company on the basis of the plan presented is not feasible Asset Management Plc. shall transform the relevant state corporation into a company in accordance with Article 27 of the present law. State corporations may themselves initiate that Asset Management Plc. take over all activities in the course of transformation in accordance with Article 27 of the present law.

(3) Article 63 of Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership shall apply in cases specified in Paragraph (2) of the present Article.

CHAPTER VI

Closing Provisions

31.§(1) The coming into force of the present law shall be regulated by a special law.

(2) The government shall determine the following in its decree to be issued in accordance with Paragraphs (1)-(2) of the present law:

- (a) The range of companies subject to the present law;
- (b) the proportion of shareholdings (shares) to be transferred to Asset Management Plc's long term ownership in respect of these companies in relation to the registered capital of the companies in question;
- (c) In the case of long term minority state-ownership the minimum amount of state assets.

(3) The government shall also in its decree select organisations for the provision of national public services from among companies operating assets subject to the present law, as well as which of these organisations in respect of which proprietary rights - transformation of state corporations into companies by the deadline specified by the government, asset management, sale of assets, and formation of companies - shall be exercised not by Asset Management Plc. but instead by the Minister responsible for provision of the relevant activities on the basis of the same terms which govern Asset Management Plc. in this respect.

(4) The government shall specify in a special decree the range of companies providing national public services in place of which, or on the basis of part of the assets of which, a state budget financed organisation or foundation

must be established; in the course of the transformation of the relevant state corporations into companies in accordance with the conditions specified by the government; within six months of the coming into force of the present law.

32.§(1) In cases in which the present law prescribes that consent be obtained from an organisation or individual, or that such an organisation or individual be consulted, and the said organisation or individual does not respond within 30 days of its/his receipt of a request to do so - if the present law does not prescribe another deadline - then consent shall be deemed to have been given or that the relevant organisation or individual does not wish to express its/his opinion on the matter.

Árpád Göncz
Pres. of the Hung. rep.

György Szabád
Pres. of the Hung. Parl.

Law LIV of 1992
on the Sale, Utilisation and Protection of Assets in
Temporary State Ownership

In order to reduce the participation of the state in the Hungarian economy and to establish proprietary relations corresponding to a social market economy Parliament shall promulgate the following law on the same utilisation, management and protection of corporate assets in state ownership.

CHAPTER I

Validity of the present law

1. § The present law shall be valid in respect of the following:

- (a) assets of state corporations, trusts, trust companies, and other state companies subject to Law VI of 1977 on State Corporations (hereafter, Law on State Corporations).
- (b) assets of affiliated companies established by state corporations in accordance with Article 74 of Law IV of 1959 on the Civil Code (hereafter, Law on Civil Code).
- (c) all shareholdings (shares), not transferred to the ownership of external entrepreneurs, of state corporations transformed into companies in accordance with Law XIII of 1989 on the Transformation of State Companies and Corporations.
- (d) assets not mentioned in point (c) of the present Article and shareholdings (shares) belonging to the State Property Agency (hereafter, Property Agency) at the time of the coming into force of the present law, as well as other rights having a pecuniary value and obligations to which the Property Agency is subject.

2. § The present law shall not apply in respect of the following:

- (a) Assets subject to Law LIII of 1992 on the Management and Utilisation of Corporate Assets Remaining in Long Term State Ownership.
- (b) Treasury assets the utilisation of which for economic ('entrepreneurial') purposes is ruled out by a special law.
- (c) Assets subject to Law XXXIII. of 1991 on the Transfer of State Assets to Local Council Ownership, which are transferred to local councils following completion of the relevant procedure as implemented by the asset transfer committee in charge.
- (d) Assets of the National Bank of Hungary, the State Development Institute, and the Central Office of Financial Institutions.

3. § The assets specified in Article 1 of the present law shall be the equity capital indicated in the balance sheet of the relevant companies prepared in accordance with Appendix 1 of Law XVIII of 1991 on Accounting (hereafter, Law on Accounting), or part of the aforementioned equity capital in proportion to the state holding in the relevant companies (shares, shareholdings).

4. § If assets specified in Article 3 of the present law include nature conservation areas and/or real estate categorised as listed buildings the sale, the giving out for management to a third party, and the encumbrance [for mortgage purposes etc.] of such assets shall be subject to the consent of the Minister of the Environment and Regional Development on the basis of a separate law.

CHAPTER II

Legal Standing of the State Property Agency

5. § The proprietary rights of the state shall be exercised by the Property Agency as a state budget financed organisation in respect of assets subject to the present law on the basis of enforcement of the government's economic policy decisions. The Property Agency shall be directed by the Hungarian government through its Minister in charge of privatisation.

6. § The Hungarian government may commission the Property Agency in a law concerning state property to carry further tasks not contradicting the aims incorporated in the present law.

Organisation of the Property Agency

7. § (1) The Property Agency's main decision making body shall be its Board of Directors consisting of 11 members the decisions of which shall be binding for the Property Agency's managing director.

(2) Prior to a decision of the Board of Directors the chairman may, at the same time as suspending the relevant decision making procedure, request that the Minister in charge of privatisation ask the government to take a standpoint in respect of a particular matter.

8. § (1) The chairman and members of the Property Agency's the Board of Directors shall be appointed, for a period of four years, and dismissed by the Prime Minister of the Hungarian Republic upon the proposal of the Minister in charge of privatisation; their remuneration in respect of their employment at the Property Agency shall be established in the same manner. The chairman of the Board of Directors shall be subject to question by the relevant Parliamentary committee in charge prior to his appointment.

(2) The chairman and members of the Board of Directors, during their term of office and for a period of two years subsequent to its termination, may not be:

(a) Employed by the State Property Agency, State Asset Management Plc. (hereafter, Asset Management Plc), and companies operating assets belonging to the Property or be in any other legal relationship with these organisations involving the carrying out of any work for them.

(b) Members of supervisory committees of companies operating assets belonging to the Property Agency, and may become members of the higher management of such companies only as representatives of the Property Agency.

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- (c) Members of higher management in companies operating as financial institutions and engaged in the trade of securities.

(3) Members of the Board of Directors or their direct relatives [Hungarian Civil Code, Article 685, point (b)] are not permitted to own shareholdings or shares in companies in partial or 100% state ownership. Relatives of members of the Board of Directors cannot act as members of management, auditors, or members of the supervisory boards of such companies.

(4) The party appointing the members of the Property Agency's Board of Directors may exempt them from prohibitions and restrictions specified in Paragraph (2) of the present article following the termination of their membership of the Board of Directors should it prove necessary.

9.§ Members of the Property Agency's Board of Directors must carry out their activities with the care and diligence which may be expected from persons holding such posts. Members of the Board of Directors must not be influenced by their employers in respect of their activities as board members.

10.§(1) The Property Agency is headed by its managing director on the basis of the relevant legal regulations, the government's Asset Policy Guidelines (hereafter, Guidelines), and the decisions of its Board of Directors.

(2) The Property Agency's managing director shall be appointed for a period of 4 years and dismissed by the Prime Minister of the Hungarian Republic on the proposal of the Minister in charge of privatisation; other employer's rights in respect of the managing director shall also be exercised by the Prime Minister.

11.§(1) The Property Agency's managing director and its staff as specified in the Operational Regulations must not carry out other pecuniary activities - with the exception of those involving the arts, and scientific and educational work - at companies in which membership (shareholder's) rights are partially or entirely in state ownership; they cannot be members of supervisory boards of such companies and may be members of their Board of Directors only as representatives of the Property Agency. They cannot enter into employment with or any other legal relationship involving the carrying out of work for such companies for two years following the termination of their employment at the Property Agency, nor can they be members of the Board of Directors or the supervisory board of companies in which membership (shareholder's) rights are partially or entirely exercised by the Property Agency, or the sale of which was carried out with their participation, for the same subsequent period.

(2) Those listed in Paragraph (1) of the present Article shall not participate in the making of decisions concerning companies in which they or their direct relatives [Hungarian Civil Code, Article 685, point (b)] have an interest. This provision shall also apply to the members of the Board of Directors.

12.§ The Property Agency's Operational Regulations shall be adopted by the Hungarian government on the submission of the Board of Directors. The Operational Regulations must determine the matters which shall belong to the exclusive range of authorities of the Board of Directors.

Economic and financial management of the Property Agency

13.§ The Property Agency must ensure the optimal utilisation of the state assets subject to the present law.

14.§ State assets belonging to the Property Agency, as well as income and expenditure related to the sale and utilisation of these assets, must be treated separately from the Property Agency's own budget. Regulations concerning the economic and financial management of state budget financed organisations must be applied to the Property Agency's own economic and financial management financed from its own budget separate from the assets belonging to it with the provision that the system dealing with the salaries of the Property Agency's staff shall be determined by the Board of Directors.

15.§(1) Sources of income related to the sale and utilisation of state assets belonging to the Property Agency shall be the following:

- (a) In the case of the sale of assets registered at the Property Agency the income corresponding to the assets' registered value, as well as sales income exceeding the registered value of the relevant assets;
- (b) Dividends and profit sharing in respect of assets registered at the Property Agency;
- (c) Income derived from the utilisation of assets registered at the Property Agency different from those contained in point (b) above.

(2) In the case of the sale of assets registered at the Property Agency the value of invested liquid assets must be reduced by a sum corresponding to the registered value of assets sold.

16.§(1) Parliament shall make provisions concerning the planned amount and utilisation of the Property Agency's incomes specified in Article 15 of the present law and especially the reduction of the national debt in the Guidelines in accordance with the relevant provisions of the Law on the Annual State Budget. Parliament shall specify the magnitude of free transfers of assets required for the implementation of the state's obligations undertaken in law which are to be financed from the income specified in Article 15 of the present law; the range of beneficiaries of such transfers; and the proportion of the said incomes which may be utilised by the Property Agency in accordance with Paragraph (2).

(2) Incomes received by the Property Agency must be spent primarily on the following in accordance with considerations specified in Paragraph (1) of the present article:

- (a) Fees to be paid to asset management companies and the coverage of expenditure related to asset management;

- (b) Costs related to reorganisation of state corporations or companies required for purposes of their preparation for sale;
- (c) Fees to be paid in respect of the sale of such companies and the coverage of related expenditure;
- (d) The payment of the equivalent value of urban areas to the relevant local council to the extent specified in the present law;
- (e) Establishment of companies;
- (f) coverage of expenditure related to job creation required in connection with the sale of assets (the formation of companies).

(3) From the income received from the sale of companies established by local councils operating assets as specified in Paragraph (1) part, which shall be determined annually in the Law on the State Budget, must be transferred to local councils with the exception of cases specified in Paragraph (4) of the present Article.

(4) If a local council is also entitled to the countervalue of assets payable on the basis of point (d), Paragraph (2) then, in the course of the determination of the relevant sum in accordance with Paragraph (3), the income received from sale of the relevant company must be reduced by the extent of profit sharing in respect of the urban area indicated in the company's property balance the amount of which is determined in Paragraph (1), Article

17.§(1) The Property Agency must obtain consent from the Finance Minister prior to any decisions resulting in the undertaking of guarantees or warranty obligations by the Property Agency.

(2) The activities of the Property Agency shall be supervised by the State Audit Office.

18.§(1) Conditions underlying the sale of state-owned assets operating in enterprises - including concessions directed towards the promotion of asset acquisition on the part of employees - and major criteria regarding the utilisation of these assets - for example the dividend policy of the Property Agency - as well as all matters not legally regulated shall be determined by Parliament in the Guidelines for the following year.

(2) The proposal concerning the Guidelines shall be submitted by the Hungarian government to Parliament at the same time as presenting the bill containing the annual State Budget for next year.

(3) Parliament shall make a resolution concerning the Guidelines.

19.§(1) The Hungarian government must submit an annual report to Parliament on the activities of the Property Agency, assets belonging to the Property Agency, the results of the utilisation of these assets, and the implementation of the Guidelines simultaneous with submission of the bill on the implementation of the annual State Budget for the previous year.

(2) A balance sheet - separate from the Property Agency's own budget - on state assets belonging to the Property Agency must be prepared which must be submitted to Parliament together with the annual report described in the previous Paragraph.

(3) A report by the chairman of the State Audit Office on the activities of the Property Agency must be attached to the above mentioned report.

CHAPTER III

Asset Protection Regulations

20.§(1) The following contracts signed by state corporations operating with assets belonging to the Property Agency, as well as their affiliated companies and other state companies (hereafter, company) shall be subject to the validity of the present Chapter.

(a) Making a contribution in kind to a company provided that the value of the said contribution shall exceed 10% of the company's equity capital as indicated in its annual report or 20 million Forints;

(b) Sale of rights having a pecuniary value belonging to corporations, or of stakes or interests belonging to companies in other companies, provided that the value of the rights (interests or stakes) which are the subject of the contract exceeds 30% of the relevant company's equity capital indicated in its annual report or 20 million Forints;

(c) Sale of real estate belonging to the relevant company including the making of rental (leasing) contracts provided that the value of the relevant real estate exceeds 20 million Forints according to the company accounts;

(d) Sale of the relevant company's other tangible assets and the renting out (leasing) of such assets on a contractual basis provided that the total contract value of the relevant assets exceeds 30% of the company's equity capital indicated in its annual report or 50 million Forints;

(e) Any other contract (rental, leasing, etc.) on the basis of which rights to utilise and collect profits on more than 50% of the relevant company's equity capital as indicated in its annual report shall be given to another party.

(2) The value of contracts (contributions) specified in points (a)-(e) of Paragraph (1) signed within 2 calendar years must be added together according to individual types of contract specified in Paragraph (1). Legal proceedings resulting from infringements of such value limits shall apply only in the case of contracts with a value of more than 1 million Forints.

(3) Companies selling real estate must commission a company or individual authorised to carry out property assessment to evaluate the real estate in question prior to sale even if the value of the relevant real estate does not reach the limit specified in point (c), Paragraph (1).

(4) In the course of application of the contents of the present chapter the value of a contract shall be whichever of the following shall be the higher: the relevant service or the counter service offered for it.

21.§ Provisions specified in Article 20 above do not apply to:

- (a) Contracts signed for activities belonging to the range of the regular and appropriate economic activities of the relevant company;
- (b) Contracts signed by a company with other companies or 100% state-owned companies, except in the case of contracts signed with an affiliate of the company in question;
- (c) Contracts signed by a company with some state budget financed organisation.

22.§(1) The signing of contracts, the value of which exceeds limits specified in Paragraphs (1)-(2) of Article 20., must be reported to the Property Agency within 15 days. Such contracts shall come into force upon the approval of the Property Agency, that is, from the date of their signing.

(2) If the subject of a contract is an asset serving welfare or social purposes, the company wishing to sell this asset may sign the relevant contract selected from those specified in Paragraph (1), Article 20. -regardless of its value- only if the interest representative bodies of the employees involved give their approval. In other cases the relevant company must consult the interest representative bodies of the employees involved prior to the signing of contracts with a value exceeding the limits specified in Paragraphs (1)-(2) of Article 20 or, although not reaching the established limits, in any case significantly affecting the interests, labour conditions, etc. of the employees involved.

(3) If the subject of the relevant contract is an asset serving the purposes of sports activities, the company may sign the relevant contract selected from those specified in Paragraph (1) of Article 20. -regardless of its value- only after having consulted the Hungarian Physical Education and Sports Office.

23.§(1) The company must commission a registered property evaluating organisation (auditing company, independent auditor or other organisation or individual authorised to carry out property evaluation) to establish the value of invested and floating assets, subject to contracts listed under Article 20. above.

(2) Provisions contained in Paragraph (1) do not apply to cases where the contract is signed for the trade of shares at an opening price.

(3) The contract, the document confirming the approval of the relevant employees' interest representing bodies specified in Paragraph (2) of Article 22. or, in the case of contracts with a value exceeding the limits specified in Paragraphs (1)-(2) of Article 20, a statement by the relevant employees' interest representing body required for the signing of contracts, as well as a statement by the

party which carried out the evaluation of the property in question a maximum of 180 days earlier; in the case of real estate a copy of the ownership document not older than three months; in the case of shareholdings a list of members and a statement concerning the value of the contract as a proportion of the relevant company's equity capital as indicated in the company's balance sheet prepared in accordance with the annual report of the company must be attached to the report made to the Property Agency.

24.§(1) If the value of an item of real estate does not reach the limit specified in Point (c) of Paragraph (1) of Article 20, but exceeds 1 million HUF, the company must state its intention to sign a contract for the sale of the real estate in question 30 days prior to the signing of the relevant contract. The draft of the said contract and the document containing the results of the property evaluation carried out max. 180 days earlier in accordance with Paragraph (1), Article 23 must be attached to the aforementioned statement. The company shall be entitled to sign the contract after the 30th day of the making of the above statement with the contents as specified in the said statement.

(2) If the company provides an item of real estate to another company as a contribution in kind, then the company must confirm in the presence of the county court in charge as court of registration (hereafter: court of registration) that the statement specified in Paragraph (1) has been made while, if the ownership rights of the said real estate shall be transferred to the new owner within the framework of a sales contract, the confirmation of the aforementioned statement must take place in the presence of the land office in charge.

25.§ The company's contract with the conditions contained in the company's statement specified in Paragraph (1) of Article 22. shall come into force within 30 days of the receipt of the said statement by the Property Agency, with the exception of cases in which the Property Agency takes measures in accordance with Article 26. within the same deadline..

26.§ The Property Agency may take the following measures in the course of the licensing of contracts:

(a) If there is some good reason to question the findings of the property evaluation carried out in respect of the relevant assets the Property Agency may prescribe another property evaluation to be carried out within 30 days of the relevant commission by a property evaluator appointed by the Property Agency. The costs of the repeated property evaluation shall be debited to the company if the value established in the course of the second evaluation procedure exceeds the originally established value by at least 30%. The company must not without the consent of the Property Agency sign the relevant contract under the value established in the above described manner or

(b) If the significance of the contract or other circumstances, especially the ensuring of free competition, requires it, then the Property Agency may prescribe that the relevant contract be signed on a tender basis; and

(c) The Property Agency may link its approval to some condition or may reject the signing of the contract if the company fails to fulfil the conditions required by the Property Agency within the deadline undertaken by the said company or if the original contracts would obviously violate the interests of the state as proprietor or it would lead to the harming of the national economy.

27.§(1) The state corporation must in cases described in Point (b) of Article 26.; while in all other cases it may if it chooses; announce a tender and make a proposal to the Property Agency concerning the relevant conditions, providing equal chances to all applicants. The proposed conditions shall be approved by the Property Agency within 15 days. If the Property Agency approves the conditions of the contract planned to be signed on the basis of the tender as part of the proposed tender conditions then no repeated approval is required from the Agency for the signing of the contract with the conditions approved earlier on.

(2) Tenders may be open or closed circle (based on invitation) in nature.

(3) Open tenders must be announced in at least two national newspapers at least 15 days before the initial date established for the handing in of tender applications. In the case of closed circle tenders (based on invitation) those interested must be directly invited to participate in the tender.

(4) Invitations for tender must indicate the name and head office of the relevant company, the subject and objectives of the tender, the place and time for handing in of applications and the announcement of the results, as well as all data concerning the desired direction, mode and other conditions in relation to the utilisation of the assets necessary for the preparation of well-founded tender offers.

(5) The company announcing the tender must at the same time, in accordance with Paragraph (3), inform its employees separately about the tender, the conditions underlying it and their possible participation.

28.§ The deadline for the handing in of tender applications must not exceed 15 days.

29.§(1) Only a well-founded tender application offering the most favourable conditions may be the winner of any tender.

(2) In the case of identical conditions being offered preference must be given to offers made by a company operating with the participation of at least 25% of the company's employees; a cooperative established with the participation of at least 25% of the company's employees or an employee of the company announcing the tender as a private entrepreneur, who undertake to continue to operate the establishment in accordance with its original function.

(3) With the exception of tenders announced for establishment or sale of membership (shareholders') rights, the results of tenders together with the relevant argumentation must be published in two national newspapers. The announcement of results in the case of open tenders must take place in the same newspapers in which the tender was announced.

CAPTER IV

Transformation of state corporations into companies

30.§ Those state corporations, trusts, trust companies and affiliated companies established by some state corporation (hereafter: corporation) operating assets subject to the present law may be transformed into limited companies or public limited companies (hereafter: companies) in accordance with provisions contained under Title 2. of the present Chapter:

(a) the transformation of which shall be decided by the Property Agency by June 30 1993. on the basis of their transformation plans; or

(b) which sign a contract with an expert specified in Article 57. by June 30, 1993 (simplified transformation procedure).

31.§(1) Those corporations which fail to commence their transformation into companies in accordance with Article 30 by June 30, 1993 shall be transformed into companies in accordance with provisions contained under Title 3. of the present Chapter.

(2) The corporation may decide to carry out its transformation in accordance with provisions contained under Title 3. of the present Chapter prior to the expiry of the above deadline; but in that case it must report it to the Property Agency.

Title 1.

General rules

32.§(1) Founders rights specified in the Law on Corporations shall be exercised by the Property Agency.

(2) In the course of the determination of the conditions underlying the transformation of corporations the Minister in charge of the relevant activities and - in respect of Point (f) of Paragraph (2), Article 35. - the Minister of the Environment and Regional Development must be consulted, who must in turn give a reply within 30 days.

33.§(1) In the case of companies operating under the general management of the company council and the general meeting of employees (delegates meeting), in accordance with the decision of the company council (general meeting, delegates meeting), the corporation's director, while in the case of corporations under state administrative control the corporation's director or the appointed corporation trustee must take all measures necessary for the transformation of the corporation into a company.

(2) The transformation of an affiliate of a corporation into a company shall be decided by the founder organisation. The founding corporation of the affiliated company must make a decision concerning the transformation of the affiliated company prior to its own transformation (liquidation).

34. § Corporations specified in Articles 30-31, cannot be transformed into companies if they are facing liquidation or final settlement.

35. § (1) The corporation under transformation must prepare

- (a) a transformation plan and
- (b) a property balance draft.

(2) The transformation plan must contain the following:

- (a) the economic aim to be achieved by way of the transformation; plans concerning the future efficient operations of the company under transformation, possible market relations, the new company's taxation potential, etc.;
- (b) an asset inventory prepared at most 180 days earlier;
- (c) a draft of the new company's company contract (deed of foundation, constitution);
- (d) a letter of intent from new members;
- (e) an employment and social plan
- (f) a plan concerning the making good of any environmental damage resulting from the operations of the company;
- (g) a plan concerning the provision of assets to the company's employees including proposals concerning the transformation of property notes into shares or the repurchase of property notes;
- (h) a plan concerning the possible separation of parts of individually separable assets and their future operation.

(3) In the course of the application of this law asset balance sheet (asset balance sheet draft) shall mean a balance sheet different from that prepared in accordance with the Law on Accounting in that it shall indicate assets and liabilities at a reassessed value validated by an auditor, while the company's equity capital shall be indicated as corrected by the reassessed difference specified in Paragraph (5). The asset balance sheet must be scrutinised by an auditor and by the company's supervisory board (control board) if there is one. The auditor who has scrutinised the corporation's asset balance sheet cannot be appointed as the permanent auditor of the company to be established.

(4) The asset balance sheet shall be supported by the asset inventory as specified in point (b), Paragraph (2) which shall indicate the total assets of the corporation under transformation - liquid assets and assets of the corporation meeting the requirements specified in Paragraph (3), Article 161 and Paragraph (1), Article 253 of Law VI of 1988 (hereafter, Law on Companies) shall be indicated separately - its short and long term liabilities, provisions, and equity capital by item at their asset balance sheet value.

(5) If the corporation under transformation carries out a reassessment of its assets (invested and current assets) and liabilities (including provisions) indicated in the balance sheet prepared in accordance with Appendix 1 of the Law on Accounting the corporation's equity capital indicated in the balance sheet must be corrected by the reassessed difference as follows:

- (a) if the reassessed difference is negative - that is, the relevant assets have been discounted 'de facto' - the corporation's provisions must be reduced to the same extent;
- (b) if the reassessed difference is positive - that is, the relevant assets have in fact been valued up - the corporation's capital reserves must be increased to the same extent.

(6) The corporation's equity capital corrected by the reassessed difference in accordance with Paragraph (5) - with the differences indicated in Paragraph (7) and Paragraph (3), Article 43 and Paragraph (2), Article 44 - indicated in the corporation's asset balance sheet draft shall be the nominal capital, share capital (registered capital) of the company established as a result of the transformation.

(7) A maximum 10% of the corporation's total equity capital from the capital reserves indicated in point (b), Paragraph (5) may be indicated in the corporation's balance sheet as part of its assets (capital reserves) above the corporation's nominal capital (share capital). The Property Agency's Board of Directors however may allow deviations from this regulation.

(8) If the corporation under transformation carries out a reassessment of its assets and liabilities indicated in its balance sheet in the corporation's asset balance sheet assets must be indicated at their market value while liabilities must be indicated with either an accepted or expected value. If the value of assets has been established by way of business assessment and investigation of the income producing potential of the relevant assets the value of individual assets - also taking into account their market value - must be determined on the basis of the sum total of its corporate asset value and liabilities. If the market value of individual assets is lower than the above sum total of the corporate asset value and liabilities the difference may be indicated alternatively in the corporation's asset balance sheet as a business or corporate value.

(9) The corporation's assets must not be determined at a value higher than the one established by the auditor.

(10) Requirements concerning the contents of the settlement plan indicated in point (f), Paragraph (2) shall be governed by a separate legal regulation.

36. § If the present law does not contain provisions to the contrary provisions of the Law on Companies concerning the formation of certain types of companies shall be applicable in the course of the transformation of corporations.

37.§ Following the making of a decision concerning the corporation's transformation the corporation must make a public announcement to that effect in two successive issues with a minimum of 15 days in between in the Cégközlöny (Company Gazette). The above announcement must contain the most important data concerning the transformation plan and the corporation's asset balance sheet draft prepared at most 180 days earlier.

38.§(1) Companies established on the basis of a transformation shall be the overall legal successors of the transformed corporations. The legal successor shall be entitled, on the basis of a collective contract signed between the said corporation and its employees, to all those rights and obligations which formerly belonged to the transformed corporation.

(2) In the course of the transformation of state corporations in accordance with the present law no special tax or payment obligations will be created with the exception of a procedural payment obligation. Tax concessions to which the legal predecessor was entitled shall be transferred to the legal successor if the conditions on the basis of which such tax concessions were originally given are still in place.

(3) The newly formed company shall become the beneficiary of any official licences or permits issued before the commencement of transformation while, in the case of issues of licences still in progress the new company must immediately report its transformation to the authorities issuing the licence. The new company must in such cases be indicated as the beneficiary of the relevant licence.

(4) State founded corporations engaged in activities subject to concession under transformation may continue to carry out the activities subject to concession as newly formed companies only if there is a majority state holding. In the mining research and production sector the Minister of Trade and Industry may allow deviations from this regulation over the transitory period while the conditions of the tender are in process of formation.

39.§ Transformation does not make void any claims which may exist against the corporation.

40.§(1) In the case of the transformation of corporations external entrepreneurs may take up holdings in the planned nominal capital (share capital) of the company to be formed exceeding corporate assets as indicated in the company's asset balance sheet. Asset contributions made by external entrepreneurs must be rendered in the accounts as part of the company's nominal capital (share capital) to the extent of the nominal value of the company's quota or shares, while in the case of contributions exceeding this contributions must be rendered in the accounts as part of the assets above the company's nominal (share) capital (as capital reserves).

(2) In cases specified in Paragraph (1) provisions of the Law on Companies concerning quota services and the underwriting of shares or the purchase of shares in accordance with Article 260 of the Law on Companies shall be applicable.

(3) The company's shareholdings (shares) shall be transferred into the ownership of external entrepreneurs in proportion to their holdings in the company.

(4) Prior to the registration of companies established by way of transformation the Property Agency shall be entitled to exercise membership (shareholder's) rights in respect of the company's assets as indicated in its asset balance sheet, and to sell these rights. On the basis of contracts signed by the Property Agency the latter may demand that the company issue a stock certificate to the Property Agency in the name of the buyer or that the company hand over the valid list of the company's members to be forwarded to the buyer.

(5) If in the course of the transformation of a state corporation no external entrepreneurs take up holdings or membership (shareholder's) rights in respect of assets indicated in the corporation's asset balance sheet remain unsold the Property Agency shall be entitled to all shareholdings (shares) of the legal successor.

(6) In the case of the transformation of an affiliated company of a corporation the organisation establishing the new company shall be entitled to the rights indicated in Paragraph (5).

(7) Compulsory legal statements to external entrepreneurs may be made only by the Property Agency; such statements issued by the corporation shall be void.

41.§ Corporations under transformation must inform the relevant regional and, in Budapest, the relevant local councils of the value of urban areas under their jurisdiction, as indicated in the corporation's balance sheet prepared in accordance with Paragraph (3), Article 35. The relevant local council may make a statement concerning the value of the area in question to the Property Agency within 30 days of receipt of the relevant information from the corporation.

42.§(1) The relevant local council under whose jurisdiction the urban area lies shall receive a share of the relevant corporation's equity capital in accordance with the proportion of the corporation's corporate assets which the value of the land represents. The above share in the corporation's equity capital must be paid out in cash following completion of the sale in accordance with Paragraph (2) of the present Article. On the basis of an agreement between the Property Agency and the local council however shareholdings (shares) or the company's other assets may also be transferred to the local council instead. If on the basis of the agreement made between the Property Agency and the local council shareholdings (shares) are transferred to the local council for the urban area in question the new company contract (deed of foundation) shall also be signed by the local council as a founding member.

(2) The source of the countervalue specified in Paragraph (1) above shall be the income of the Property Agency as specified in point (a), Paragraph (1), Article 15. The Property Agency shall pay the said countervalue within 15 days of receipt of the relevant sum in proportion to that sum and in accordance with the schedule within the framework of which receipt takes place.

(3) Budapest local councils shall be entitled to the value of urban areas indicated in the asset balance sheets of corporations under transformation in accordance with the following:

- (a) In the case of corporations established by Budapest City Council or its organs the Council shall be entitled to the aforementioned value;
- (b) In the case of corporations established Budapest local councils or their organs the relevant local council as the legal successor of the founding council shall be entitled to the value of the particular urban area;
- (c) In the case of other corporations Budapest City Council and the relevant local council under whose jurisdiction the particular urban area belongs shall both be entitled to 50% of the value of the said area.

43.§(1) Owners of property notes in corporations may request that, in the case of property notes issued either free of charge or on a concessionary basis, the bonds be replaced by shares in the company established as a result of transformation of the corporation prior to the submission of the transformation plan to who the Property Agency; while, in the case of property notes whose transfer to another party is either prohibited or restricted, they may request that they receive 'employees' shares', issued for this purpose, in the new company. The Property Agency shall make decisions in this regard at the same time as its consideration of the transformation.

(2) The corporation issuing the gratuitous or concessionary property notes described above shall have a right of purchase in respect of these bonds, lasting 30 days from the decision of the Property Agency concerning the transformation of the corporation, unless the Agency decides to issue employees' shares. The corporation, if it wishes to exercise the said right of purchase, must purchase the relevant property notes at least at their nominal value.

(3) The value of property notes issued prior to the transformation of the corporation gratuitously or on a concessionary basis, and the value of bonds the transfer of which was restricted or prohibited by the issuer, must be indicated in the assets of the new company above its nominal capital or share (registered) capital: (capital reserves). Property notes must be exchanged for shares and employees' shares at their market value at the same time as raising the registered capital of the company established as a result of the transformation. The total value of property notes exchanged for shares and employees' shares in the above described manner, as well as other employees' shares sold, cannot exceed 10% of the raised share capital of the new company.

(4) The transformation of purchased and tradeable property notes into shares must be carried out in accordance with regulations concerning non-financial deposit (contribution in kind) services.

(5) If the transformation plan of a corporation does not allow the issue of shares for property notes which have been sold and employees shares for property notes with

restricted tradeability which have been sold, the corporation under transformation must repurchase the said property notes - to the debit of its capital reserves - at least at their nominal value on the owners request.

44.§(1) Corporations being transformed into limited companies or public limited companies must indicate in their asset inventories, described in Point (b), Paragraph (2), Article 35, those assets the value of which the corporation wishes to transfer into the share capital or nominal (registered) capital of its legal successor in accordance with the ratio of the relevant equity capital and the balance sheet total as indicated in the asset balance sheet draft.

(2) The value of assets as indicated in the asset balance sheet of a corporation being transformed into a limited or public limited company - calculated as a ratio of the relevant equity capital and the balance sheet total as indicated in the asset balance sheet draft - which do not meet the requirements specified in Paragraph (3) of Article 161 and Paragraph (1) of Article 253 of the Law on Companies must be rendered in the company accounts as assets above the share capital or nominal (registered) capital of the legal successor company. In the course of the application of the present law the Property Agency's responsibility as described in Paragraph (3), Article 22 of the Law on Companies is to ensure that the total value of assets determined at the time of the signing of the relevant contract - not including the total value of assets and liquid assets given in Paragraph (2) - as indicated in the asset inventory - reduced by short and long term liabilities, provisions and capital reserves - reaches the registered capital as indicated in the transformation asset balance sheet reduced by cash reserves.

45.§(1) The contents of Article 160 of the Law on Companies shall not be applicable in respect of the transformation of corporations into limited companies.

(2) In the case of the transformation of corporations into limited companies corporation shareholdings cannot be transferred to another party while the new company's nominal capital has yet to be paid in to its full extent.

(3) Creditors of a corporation facing transformation into limited companies may be satisfied by shareholdings in the new company to the extent of their claims on the basis of an agreement with the Property Agency in accordance with regulations concerning non-financial deposit services.

(4) A supervisory board and an auditor must participate in the transformation of corporations into limited companies by the end of the first calendar year, even if the Law on Companies does not contain such provisions.

46.§(1) Provisions of the Law on Companies shall be authoritative in respect of the transformation of corporations into public limited companies with the restriction that creditors of corporations may subscribe to shares in the new company to the extent of their claims on the basis of an agreement with the Property Agency and in accordance with legal regulations concerning non-financial deposit services.

(2) The provision contained in Paragraph (2), Article 251 of the Law on Companies in accordance with which financial contributions cannot be less than 30% of the company's share capital shall not apply to the transformation of corporations into public limited companies.

(3) If a corporation is being transformed into a public limited company but the formation of the new company proves to be unsuccessful [Paragraph (1), Article 256. of the Law on Companies] the relevant corporation shall continue its activities in its original form of association.

47.§(1) Company contracts and deeds of foundation of new companies and, in the case of the establishment of public limited companies, the draft of the flotation plan shall be signed by the Property Agency.

(2) The Property Agency may reject the signing of the company contract or deed of foundation of a newly formed company presented to it as a part of the transformation plan of the said company - in the case of public limited companies the flotation draft - only if the contents of these documents do not meet requirements specified in Paragraph (1), Article 55, or if the Property Agency holds that another asset valuation is necessary.

(3) The Property Agency in respect of companies belonging to it must consult the relevant Minister concerning the following:

- (a) The persons of proposed managing directors, members of the Board of Directors and members of the supervisory board of a company.
- (b) The selection of the range of main activities of the company in question and its modification.

48.§(1) The formation of a company must be reported to the relevant Court of Registration for the purpose of registration and public announcement of its establishment within 30 days of the signing of the company contract (deed of foundation) and the adoption of the company's constitution. At the same time the deletion from the records of the former corporation must also be requested. In the case of the establishment of companies by way of transformation the date of the formation of the new company and the termination of the former corporation shall be the date of the signing of the company contract or the new company's deed of foundation; while in the case of the establishment of public limited companies the date of the company's formation shall be a date specified within a period beginning with the adoption of the company's constitution or the signing of the company contract or deed of foundation by the founding members of the company, or the date of the adoption of the company's constitution and closing with the date of the registration of the company by the Court of Registration at the latest. From the date of the establishment of the transformed company the relevant regulations concerning companies shall be applicable.

(3) If the Court of Registration rejects the registration of the transformed company or the valid ruling ordering the registration of the company is rendered void the corporation shall continue its operations on the basis of its previous form of association with the provision that, for the period

between the date of foundation of the new company and the date of the ruling rejecting the company's registration or rendering void an already existing registration a settlement balance sheet must be prepared in accordance with Paragraph (4). The state corporation shall receive a holding from the assets indicated in the settlement balance sheet in accordance with the asset ratio existing on the date of the formation of the company. If the Property Agency has by that time sold membership (shareholder's) rights established on the basis of the asset balance sheet of the corporation the purchaser of the said membership (shareholder's) rights shall make a settlement with the Property Agency in proportion to the assets indicated in the settlement balance sheet.

(4) An annual report must be prepared in accordance with the provisions of the Law on Accounting in respect of the period between the establishment of the company and the date of the ruling rejecting the registration of the company or rendering void an already existing registration. In the balance of the annual report data of the initial balance sheet of the prepared by the date of the establishment of the company - in the case of the rejection of the company's registration prepared subsequently - must be indicated as initial data. In the balance sheet of the annual report no distinction can be made between assets and liabilities indicated in the balance sheet of the annual report on a temporal basis. At the same time as the preparation of the settlement balance sheet the company must carry out the settlement of its company tax and other taxes with the tax authorities and must prepare its tax declaration in accordance with tax regulations.

(5) The newly formed company must prepare a final asset balance sheet in accordance with Paragraph (3), Article 35 as of the date of transformation as described in Paragraph (2), within 90 days of the registration of the company at the Court of Registration. Any positive difference between the equity capital indicated in the final balance sheet and the asset balance sheet draft must be rendered in the accounts as assets above the company's nominal capital or share capital (registered capital): (capital reserves). If there is a negative difference between the company's equity capital indicated in the final balance sheet and the balance sheet draft and this negative difference is not covered by the company's capital reserves as specified in Paragraph (7), Article 35 the managing director or the Board of Directors of the company must immediately summon the company's general meeting (general assembly) in order to reduce the company's nominal (share) capital.

Title 2.

Special regulations concerning transformations commenced by June 30, 1993

49.§ Following the announcement of the Property Agency's decision concerning the transformation of a corporation the said corporation must observe those regulations indicated under Title 2. - apart from those general regulations specified under Title 1. of this chapter - which apply to the method of transformation in question.

Transformation under Property Agency management

50. §(1) The Property Agency shall make its decision concerning the transformation of state corporations under state control into companies by way of consulting the relevant corporation on the matter: in the case of trusts on the basis of government approval. Corporations may also initiate their own transformation with the Property Agency.

(2) The Property Agency shall make its decisions concerning the transformation of trust companies with the relevant trust's consent.

51. § The Property Agency's Board of Directors may order the taking under state administrative control of state corporations operating state assets belonging to the Property Agency and managed by a company council, general meeting (general assembly).

52. § (1) The managing director of the Property Agency may appoint a corporate trustee for the preparation of the transformation (reorganisation) of the corporation under state administrative control.

(2) The corporate trustee shall carry out management of the corporation under the direct control of the Property Agency and in accordance with its directives. At the same time as appointing a corporate trustee the managing director of the corporation must be dismissed.

53. § (1) The Property Agency shall be entitled to withdraw from a state corporation under state administrative control its assets and, at the same time, to reduce the equity capital of the corporation corresponding to the registered value of the assets withdrawn. If assets are withdrawn from a corporation the Property Agency shall be responsible as a guarantor for any liabilities of the corporation existing on the date of the withdrawal of assets from the corporation to the extent of the assets withdrawn and in proportion to their value.

(2) The Property Agency shall be responsible for any losses incurred by creditors of the relevant corporation as a result of the withdrawal of assets. The above provisions do not apply to the provision contained in Paragraph (3), Article 27 of the Law on Corporations.

Company initiated transformation

54. § (1) In the case of state corporations operating under the general management of a company council and the general meeting of the company's employees (general assembly) the corporation's general management body shall state its intention to transform the corporation into a company with a two thirds majority of votes, which intention must be reported to the Property Agency.

(2) The report to the Property Agency must contain the corporation's transformation plan, its asset balance sheet draft, the resolution containing the decision described in Paragraph (1) above, and the verification of the fact that employees' interest representing bodies have been informed of such an intention in accordance with Paragraphs (3)-(5).

(3) The body providing the general management of the corporation must inform the interest representing bodies in writing at least 30 days prior to the making of the statement described in Paragraph (2) above on all those issues which shall have an impact in accordance with the transformation plan on the employment, wages and salaries, social services, working conditions, and training of employees, or the future utilisation of the corporation's assets serving welfare and social purposes, as well as those issues subject to the collective contract valid at that time.

(4) Employees' interest representing bodies may express their opinion on the above and, in the case of assets serving welfare and social purposes, their approval in writing within 15 days of receipt of the relevant information to the body carrying out the general management of the corporation.

(5) If employees' interest representing bodies involve experts in the formation of their opinion on the transformation of the corporation the costs incurred shall be divided between the corporation and the employees equally.

55. § (1) On the basis of a corporation's statement concerning its transformation the Property Agency shall determine the conditions and mode of the transformation (methods of the sale of the corporation, sales conditions, rules of the relevant tender, the form of association of the new company, the mode of foundation, etc.). The Property Agency shall communicate its decision to the corporation within 30 days of receipt of the corporation's statement.

(2) The deadline specified in Paragraph (1) may be prolonged by the Property Agency on one occasion by at most 30 days.

(3) If a corporation statement concerning its transformation does not correspond to the contents of Paragraph (2), Article 54 the Property Agency may order the reworking of the statement. If the Property Agency orders the reworking of the statement the 30 day deadline described in Paragraph (1) of the present article restarts from the handing in to the Property Agency of the modified statement.

56. § The Property Agency must act in accordance with the contents of Title 1 of this chapter following the communication of its decision to the corporation.

Simplified transformation procedure

57. §(1) The transformation and the full or partial sale of state corporations specified by the Board of Directors of the Property Agency shall be implemented with the involvement of expert companies (hereafter, expert) listed in the register of experts prepared as the result of a tender announced by the Property Agency in such way that the expert shall act instead of the Property Agency - in accordance with the relevant contract partly on behalf of the Property Agency and partly in its own name.

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(2) The Property Agency shall sign the contract with an expert selected from the register of experts. In the course of his activities the expert must ensure that the relevant legal regulations and provisions of the contract are observed.

58.§ (1) The expert entering into contract with the Property Agency shall be entitled to the following:

- (a) to enter into contract with the corporation in its own name and with the subsequent approval of the Property Agency for the transformation of the corporation into a company and its sale;
- (b) to exercise membership rights due to the Property Agency in the new company being the overall legal successor of the corporation with the exception of the right of sale on the commission of the Property Agency, and
- (c) to sell membership (shareholder's) rights due to the Property Agency in the company in its own name as trustee of the Property Agency.

(2) The expert shall exercise his rights described in points (b)-(c), Paragraph (1) in accordance with the legal regulations specified in Chapter 5.

(3) The Property Agency may restrict or link to certain conditions the expert's rights specified in points (1)-(2) on a contractual basis. The Property Agency shall also be entitled subsequently to scrutinise the expert's activities.

59.§(1) The expert, as experienced in the field of company transformation, must fulfil his obligations specified in the contract signed with the Property Agency to the fullest extent and with all the care and diligence which might be expected of him.

(2) The expert, on the basis of his responsibility established in respect of the above, shall be held responsible for his actions even to the extent of the payment of compensation.

(3) The expert shall be entitled to involve external assistance in respect of the implementation of his tasks.

60.§ The expert shall be entitled to a fee as specified in the relevant contract.

Title 3

Special regulations applying to transformations commenced after June 30, 1993

61.§(1) The corporation described in Article 31 must prepare the company contract or deed of foundation in accordance with Articles 157 and 260 of the Law on Companies between June 30, 1993 and December 31, 1993 or to summon its general assembly in accordance with Article 257 of the Law on Companies within the same period.

(2) Regulations of the Law on State Corporations concerning corporations under state administrative control shall be applicable to corporations specified in Paragraph (1) above following June 30, 1993 until the date of their transformation.

62.§ No transformation plan has to be prepared in the course of transformations described under the present title but nevertheless an asset inventory must be prepared described in point (b), Paragraph (2), Article 35.

63.§(1) Corporations under transformation must indicate in the asset balance sheet assets and liabilities as indicated in the balance sheet prepared in accordance with Appendix 1 of the Law on Accounting on the day of transformation.

(2) The ratio between invested assets and current assets answering requirements of Paragraph (1), Article 253 and Paragraph (3), Article 161 of the Law on Companies and indicated in the asset inventory from the company's equity capital indicated in the asset balance sheet prepared in accordance with Paragraph (1) on the one hand and the balance total on the other hand must be regarded as the company's nominal capital or share (registered) capital.

64.§ Members of the company management established by way of transformation shall be appointed by the Property Agency with the exception of the case described in article 13 of the Law on Companies.

65.§ The value of the assets of the company transformed in accordance with the present chapter must be established prior to the sale of its shareholdings (shares). In the course of the evaluation of the company's assets provisions contained in Paragraphs (3)-(9) of Article 35 shall be applicable with the stipulation that the established difference in the value of these assets shall not be transferred into the books of the said company.

Chapter 5

Temporary management of assets belonging to the Property Agency and the sale of membership rights

66.§(1) The Property Agency shall be entitled to sell state assets specified in points (c)-(d) of Article 1 (hereafter, state assets) or to give them into asset management on a temporary basis.

(2) If the sale or giving out into management of state assets involves state assets under protection as listed buildings or protected conservation areas related special legal regulations must also be observed, while the buyer or asset manager must be informed of them in advance.

Sale of assets

67.§(1) The Property Agency must sell state assets entrusted to it within the framework of the Guidelines also taking into consideration the standpoint of the relevant Minister.

(2) The Property Agency shall carry out the sale of state assets either directly or with the participation of other organisations or individuals.

(3) The Property Agency may authorise the party carrying out asset management to sell the said assets. In the course of such a sale the trustee shall act in accordance with regulations concerning the Property Agency if the contract signed by the latter does not contain provisions to the contrary.

(4) If the sale of state assets is carried out by way of the public issue of shares the provisions of Law VI of 1990 shall be regarded as authoritative.

(5) The Property Agency or the party appointed by the Property Agency to carry out asset management must inform the company employees' interest representing bodies on all issues which might have an impact as a result of the sale of the relevant state assets on the employment, wages and salary conditions, social services, working conditions and training of employees or opportunities for the obtaining of asset by employees or the utilisation of the company's assets serving welfare and social purposes and assets subject to the collective contract valid at that time at least 30 days prior to the making of the decision concerning the sale of state assets.

(6) The Property Agency or the party appointed by it to carry out asset management shall if necessary provide an opportunity for employees interest representing organisations to express their opinion prior to the making of decisions concerning the sale of the relevant assets.

(7) The Property Agency shall reply in writing to the aforementioned written opinion within 15 days of its receipt by the Property Agency. The consent of employees' interest representing bodies is required in respect of the utilisation of assets serving welfare and social services.

68.§(1) The Property Agency in order to carry out an accelerated privatisation of company holdings - shareholdings (shares) - which are difficult to sell and which shall be selected by the Property Agency shall be entitled to enter into privatisation leasing contracts for their sale. Leasing contracts may signed for the sale of state-owned holdings which had previously failed to be successfully sold by way of immediate transfer of ownership.

(2) The aim of privatisation leasing is the sale of state assets in the course of which the lessee shall transfer the leasing fee corresponding to the countervalue of management and organisational services provided to the relevant company on the basis of a separate contract by instalments during the validity of the lease to the Property Agency. On expiry of the term of the lease the relevant holding shall be transferred to the ownership of the lessee without any additional payments and agreements. Over the period of the lease the lessee shall be entitled to all membership rights in the company with the exception of the right to sell the holding but the Property Agency may restrict the exercise of these rights or bind them to certain conditions in the lease contract.

(3) Lessees can be a natural person or persons whose legal standing within the company based on the above contract shall be regulated by a separate civil law contract.

(4) The sale of state assets by way of privatisation leasing shall be implemented by way of announcing a tender to which provisions of the present chapter concerning tender procedures shall be applicable.

(5) The countervalue of management and organisational services may be rendered in the relevant company's accounts as extraordinary expenditure. If it does not provide coverage for lease instalments the lessee may provide the missing funds from its own sources.

(6) Over the term of the lease the company's book equity capital must not decrease.

(7) The maximum term for privatisation leasing shall be ten years and is to be determined by the Property Agency in the tender.

(8) In order to reduce the risk of the lessor the lessee must undertake to provide a warranty the amount of which shall be specified in the tender.

(9) If the lessee fails in any way to pay the lease instalments and, in the case of the loss of assets, the Property Agency shall be entitled to terminate the lease contract with immediate effect and to enforce its rights based on Paragraph (8). In such cases the private person in question shall not hold any claims against the Property Agency and the company in this respect.

69.§ The Property Agency shall be entitled to repurchase shareholdings (shares) in companies previously belonging to it which have been purchased by external entrepreneurs in order to carry out their resale within six months if by this means these shareholdings (shares) may be sold on more favourable terms.

Utilisation of assets

70.§(1) If the terms on which state assets can be sold are unfavourable the Property Agency shall arrange for their management. The Property Agency shall be entitled to the direct management of state assets only on an exceptional and temporary basis. The Minister in charge of the relevant activities must be consulted in order that decisions concerning management of such state assets might be made.

(2) The Property Agency shall enter into contract for the implementation of the task described in Paragraph (1) above or arrange the utilisation of the said assets by way of the establishment of a company for this purpose.

71.§(1) The Property Agency shall enter into contract for the management of state assets. The aim of asset management is the achievement of the profit (dividend, profit-sharing) specified in the relevant contract, the maintenance or achievement of an asset value or of the profits and the increase of assets specified in the same contract. In the course of the determination of the conditions of the tender announced for asset management employees' interest representing bodies must be consulted. In this regard the provisions contained in Paragraph (6)-(7), Article 67 shall be regarded as authoritative.

(2) The parties may specify the contents of such contracts without restrictions within the framework of the present law, other legal regulations, conditions of tenders announced, and terms offered.

(3) The Property Agency may transfer a part or the whole range of proprietary rights to which it is entitled on the basis of contracts for the management of state assets belonging to it to a trustee.

(4) The implementation of obligations undertaken in contracts for the management of state assets must be ensured by supplementary guaranties (eg. right of lien, guarantee, cash payment guarantee). The above guaranties may be applied all together.

72.§(1) The Property Agency shall be entitled to utilise state assets by way of taking them into companies as contribution in kind.

(2) The Property Agency may make a contribution in kind into a company in the course of the foundation of a company in accordance with Paragraph (2), Article 16.

(3) State assets may be introduced in accordance with Paragraph (1) only into public limited companies or limited companies.

(4) Provisions of the Law on Companies shall be authoritative in respect of rights and obligations of the Property Agency and companies.

Individual types of contract for asset management

73.§(1) The Property Agency shall be entitled to utilise state assets by way of renting them out prior to their sale in order to maintain the condition of these assets.

(2) The Property Agency and the lessor may agree that the trustee shall transfer a specific proportion of the profits obtained on these assets to the Property Agency.

74.§(1) The party entering into an entrepreneurial contract with the Property Agency for asset management shall exercise proprietary rights in respect of these assets - with the exception of the right to sell or to encumber the said assets - for a fee and in accordance with the contents of the relevant contract. The party carrying out property management shall undertake to guarantee a preliminarily determined profit (dividend, profit-sharing), and to maintain or reach in respect of the value of these assets a level specified in the relevant contract.

(2) The Property Agency and the entrepreneur may agree that a part of the above profits shall be transferred by the Property Agency to the entrepreneur the possibility of which must be pointed out among tender conditions.

(3) Provisions of the Hungarian Civil Code concerning entrepreneurial contracts shall be applicable to the above contracts.

75.§(1) In the case of portfolio asset management contracts the party entering into contract with the Property Agency shall undertake to exercise proprietary rights in respect of the said assets - including the right to sell - for a fee with the undertaking that he will attain a specified level of profit and/or an increase in assets. Within the framework of the above the contract may also involve the payment of a certain sum of amount of cash.

(2) The Property Agency and the party entering into contract with it may make an agreement concerning the distribution of the dividend which possibility must be pointed out among tender conditions.

(3) Provisions of the Hungarian Civil Code concerning entrepreneurial contracts shall be applicable to the above contracts.

Regulations concerning tender procedures

76.§(1) The sale, giving out into management, or renting out of state assets as well as the commissioning of entrepreneurs for the carrying out of these tasks shall take place by way of a tender procedure.

(2) A tender may be carried out by way of a tender procedure (hereafter, tender) or invitations for making tender offers (hereafter, invitation to make an offer). In the case of an invitation to make an offer - providing all those concerned offer identical terms or conditions - at least three offers are required. The Property Agency must make public the announcement of a tender or an announcement of invitations to make offers.

(3) Any foreign persons, Hungarian legal persons, companies without legal personality and private entrepreneurs may participate in tender procedures.

(4) Provisions contained in Paragraph (1) above shall not be applicable in the following cases:

(a) If the Property Agency sells state assets to employees on a concessionary basis as specified in the Guidelines and in accordance with provisions of Law XLIV of 1992 concerning the Employees Co-ownership Programme. Above the limit up to which employees are granted concessions in accordance with the Guidelines employees may obtain state assets in the same manner as external investors;

(b) In the case of public sale of shares;

(c) In the course of the sale of shareholdings in limited companies;

(d) If previously - in the course of the company's transformation - an option has been issued to external investors by the Property Agency;

(e) If a second tender announced by the Property Agency has proved to be unsuccessful because of the lack of acceptable applications;

(f) If the state assets in question have been sold by a trustee as selected on a tender basis and the said trustee has undertaken in the contract signed with the Property Agency to pay a preliminarily determined sum for the sale of membership (shareholder's) rights.

(5) Provisions contained in Paragraph (1) above shall not be applicable either if the managing director of a franchise enterprise operating on a contractual basis as specified in Article (2) of Law LXXIV of 1990 announces his intention to the Property Agency to purchase the said enterprise at its market value within 45 days from the coming into force

of the present law. The right to make such an announcement shall be available to those managing directors too who have previously consented to the privatisation of the franchise enterprise but who had held not tender negotiations before the coming into force of the present law. The market value of franchise enterprises shall be determined in accordance with Article 5 of Law LXXIV of 1990.

77.§(1) Tenders may be announced and invitations to make tender offers may be issued by the Property Agency or some other official body on its commission.

(2) Invitations for tender and invitations to make tender offers must contain the following:

- (a) The objective of the tender or invitation to make tender offers;
- (b) The type of holdings offered for sale or asset management and their value, if necessary;
- (c) Conditions underlying the sale and giving out into management of assets and the system of requirements concerning business, employment and development policies in respect of these assets;
- (d) The place and deadline for handing in tender applications and offers.

(3) If the tender or the invitation to make tender offers is directed towards the partial or full sale of a business the relevant tender invitation or invitation to make a tender offer must also contain the most important balance sheet data of the said business. In the course of the sale of securities provisions concerning the relevant regulations must also be taken into consideration.

(4) The value of assets put out to tender must be established by a registered expert on the commission of the Property Agency.

78.§(1) Tenders may be public or closed circle (hereafter, tender based on invitation).

(2) A tender shall be regarded as public if:

- (a) The range of those making tender offers cannot be preliminarily determined;
- (b) The number of those constituting a specific range of applicants making tender offers.

(3) If the Property Agency makes a direct invitation to those interested to make their tender offers - specifying an appropriate deadline - the tender shall be regarded as based on invitation.

(4) Public tenders must be announced in two national newspapers at least 15 days prior to the initial date established for the handing of tender applications.

(5) Tenders may be carried out either in a confidential manner - with the names of applicants in sealed envelopes - or in an open manner, with the names of applicants clearly marked.

79.§ The Property Agency shall work out a regulation concerning tender procedures within the framework of the provisions of the present law in which it shall specify detailed rules concerning tender procedures and the making of invitations for tender offers.

80.§(1) In the course of the assessment of tender applications obligations undertaken by the applicant in respect of employment, income, and social services for employees of the business subject to the tender, as well as the diminution of environmental damage and burdening of the environment, must be taken into consideration.

(2) In the case of identical conditions being offered preference must be given to the following in descending order of importance:

- (a) offers made by a company or cooperative established for asset management operating with the participation of at least 25% of the company's employees;
- (b) participants in the Employee's Co-ownership Programme;
- (c) employees of the company as private entrepreneurs;
- (d) the trustee;
- (e) in the case of the termination of an asset management contract the said trustee provided the contract was not terminated due to his fault.

(3) The Property Agency may enter into contract only with the winner of the tender, that is, the party offering the most favourable terms.

(4) The Property Agency shall immediately publish the results of the tender or the invitation to make offers and also whether the relevant assets have been given out into management, rented out, or sold, or a commission has been given for the sale of the assets in the same two national newspapers in which the tender was published originally together with the argumentation of the decision. In the case of closed circle tenders (based on invitation) the above data must be communicated to the applicants of the relevant tender directly.

Legal standing of trustees

81.§(1) The range of responsibilities of a trustee shall be identical to those of experts as specified in Article 59.

(2) The Property Agency must in the case of the transfer of proprietary rights in respect of state assets continuously monitor the activities of the trustee. Within the framework of the above the Property Agency may request that a written report or settlement be presented to it at periods which it shall specify in respect of every contract the value of which shall exceed the value of assets under management by a certain percentage specified in the asset management contract; the Property Agency is also entitled to investigate the credit standing of the trustee and must be given access to the trustee's documents, etc.

82.§(1) The trustee shall render the fee received from the Property Agency as income in its accounts while its expenditure related to the carrying out of asset management activities shall be rendered as costs (the fee paid by the trustee to the Property Agency).

(2) A provision may be made in the asset management contract in accordance with which the trustee shall be entitled to a commission fee only in case of achievement of the profits specified in the contract. The above provision however shall not apply to the reimbursement of accepted expenses incurred by the trustee in the course of the relevant activities.

(3) The trustee may initiate the purchase of the holdings entrusted to him from the Property Agency during the period of his legal relationship as a trustee.

does not prescribe another deadline - consent shall be deemed to have been given or that the relevant organisation or individual does not wish to express its/his opinion on the matter.

(2) In the course of implementation of the present law 'interest representing bodies of employees' shall be understood to mean organisations (or individuals), specified in Article 42 of Law XXII of 1992 on the Labour Code, exercising the participation rights of employees.

Árpád Göncz
Pres. of the Hung. rep.

György Szabad
Pres of the Hung. Parl.

CHAPTER VI

Closing Regulations

83.§(1) The coming into force of the present law shall be regulated by a separate law.

(2) If the transformation of a state corporation into a company commenced prior to the coming into force of the present law it may be completed in accordance with legal regulations valid at that time provided that the transformation of the corporation was accepted by the Property Agency or at least 30 days elapsed from the handing in of the transformation plan and the coming into force of the present law.

(3) If the assets of the state corporation described in Paragraph (2) above will be transferred to Asset Management Plc., or the Minister in charge of the corporation's activities, following the coming into force of the present law Asset Management Plc. or the Minister shall carry out the implementation of the transformation in the place of the Property Agency.

84.§(1) Beginning from the date of the establishment of Asset Management Plc. shares providing their owners with membership rights in financial institutions specified in Law LXIX of 1991 on Financial Institutions and their Activities which shares form part of the assets of companies subject to Law LIII of 1992 on the Management and Utilisation of Long Term State-Owned Corporate Assets - that is, companies operating in accordance with the Law on State Corporation or the present law - shall be transferred to the ownership of Asset Management Plc.

(2) Asset Management Plc. shall be responsible as a guarantor for liabilities of the above described companies existing at the time of the withdrawal of their assets to the extent of their value and in accordance with the proportion of the assets withdrawn in relation to the whole company.

85.§(1) In cases in which the present law prescribes that consent be obtained from an organisation or individual, or that such an organisation or individual be consulted, and the said organisation or individual does not respond within 30 days of receipt of a request to do so - if the present law

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*on the modification of laws concerning
state-owned corporate assets*

CHAPTER I.

on the modification of Law VI. of 1988 on Companies

1.§(1) Law VI. of 1988 on Companies (hereafter, Law on Companies) shall be supplemented by Paragraph (3) as follows:

'(3) If a third of the members of the supervisory board of a company are elected from among themselves by the employees of the said company, a regulation must be worked out governing issues related to the election of members of the supervisory board (eg. proposal of candidates, election procedures, recall of candidates) taking care to harmonise it with the relevant employees interest representing bodies; these regulations shall then be duly adopted by the board of directors of the relevant company.'

(2) Article 14 of the Law on Companies shall be supplemented by the following sentence, taking its place as the first sentence of the Article:

'The issue of securities providing membership rights - except in the case of public limited companies - is prohibited.'

(3) Article 298 of the Law on Companies shall be replaced by the following provision:

'298.§(1) Public limited companies may also be established with the founder as the only shareholder in the said company.'

(2) A single member public limited company shall also be formed in cases in which the ownership rights to all shares in the company are in the possession of a single shareholder."

(4) Article 300 of the Law on Companies shall be replaced by the following provision:

'300.+ Provisions of the present law on public limited companies shall - with the exception of Articles 279-284 - be applicable to single member public limited companies in the appropriate manner with the stipulation that the rights of the General Meeting of the public limited company shall be exercised by the founder in the case of the state of affairs described in Paragraph (1), Article 298; while in the case of the state of affairs described in Paragraph (2) of the same article, by the shareholder."

(5) The Law on Companies shall be supplemented by Chapter VIII. as follows, the enumeration of Articles 331-339 thereby being altered to 370-378.

CHAPTER VIII.

Transformation of companies

Title 1.

General Rules Applying to the Transformation of Companies

331.§(1) Companies may carry out their transformation into companies with another form of association in accordance with the provisions contained in the present Chapter. Provisions of the present chapter shall not be applicable to companies facing liquidation or final financial settlement.

(2) If the present Chapter does not contain provisions to the contrary provisions concerning the formation (merger or separation) of certain types of companies shall be applicable in the course of the transformation of companies.

332.§ Companies under transformation must prepare a transformation plan and a merger (or separation) contract, as well as an asset balance sheet draft.

333.§ The transformation plan must contain the following:

- (a) the economic objective sought to be achieved by the transformation;
- (b) a letter of intention signed by new members of the company;
- (c) draft of the new company's company contract (deed of foundation);
- (d) every other document and statement prescribed by the present chapter concerning the transformation of (state) companies into companies depending on the relevant form of association.

334.§(1) In the course of the application of the present law the asset balance sheet (asset balance sheet draft) differs from the balance sheet prepared in accordance with Law XVIII. of 1991 on Accounting (hereafter, Law on Accounting) in that it indicates the assets and liabilities of the company at a reassessed value accepted by an auditor, while the company's equity capital is indicated as corrected by the reassessed difference described in Paragraph (1), Article 335.

(2) Where the present law talks about nominal (share) capital, it must be understood as referring to registered capital as used in the Law on Accounting.

(3) The asset balance sheet draft must be supervised by an auditor and the company's supervisory board - if there is one. The regular auditor of the company in question shall not be entitled to perform the above task. The auditor who signed the transformation asset balance sheet of the company cannot be appointed to be the auditor of the new company to be established as the result of the transformation.

335.§(1) Companies under transformation may carry out the reassessment of their assets (invested and current) and liabilities (including provisions) indicated in the company's

balance sheet prepared in accordance with Appendix 1. of the Law on Accounting. If such a reassessment of assets and liabilities be carried out the company's equity capital indicated in the balance sheet must be modified by the reassessed difference in accordance with the following. If:

- (a) there is a negative reassessment difference, that is, if the company's assets have been in total devalued, the company's profit reserves must be reduced by the reassessed difference;
- (b) if there is a positive reassessment difference, that is, if the value of the company's assets has been in total increased, the company's corporate tax base shall be increased by the reassessed difference, while the reassessment difference reduced by corporate tax shall increase the company's capital reserves.

(2) In the asset balance sheet draft the company's equity capital corrected by the reassessed difference described in Paragraph (1) above - with the differences indicated in Paragraph (5), Article 343 and Paragraph (2), Article 350 - shall be indicated as the nominal (share) capital of the company established as the result of transformation provided that the company contract (constitution or deed of foundation) of the legal successor company does not contain provisions to the contrary.

(3) If the corporation under transformation carries out a reassessment of its assets and liabilities indicated in its balance sheet in the corporation's asset balance sheet assets must be indicated at their market value while liabilities must be indicated with either an accepted or expected value. If the value of assets has been established by way of business assessment and investigation of the income producing potential of the relevant assets the value of individual assets - also taking into account their market value - must be determined on the basis of the sum total of its corporate asset value and liabilities. If the market value of individual assets is lower than the above sum total of the corporate asset value and liabilities the difference may be indicated alternatively in the corporation's asset balance sheet as a business or corporate value.

(4) The corporation's assets must not be determined at a value higher than the one established by the auditor.

(5) If the company under transformation chooses not to take advantage of the opportunity to have its assets revalued as indicated in Paragraph (1) it must indicate its equity capital in its asset balance sheet draft, prepared in accordance with Appendix 1 of the Law on Accounting, as the value of its assets. The nominal (share) capital of the company established as a result of the transformation shall be the equity capital as indicated in the company's asset balance sheet draft - with the differences indicated in Paragraph (5), Article 343 and Paragraph (2), Article 350 - if the company contract (constitution or deed of foundation) of the legal successor company does not contain provisions to the contrary.

336.§(1) The making of decisions concerning a company's transformation, the adoption of the transformation relevant plan and asset balance sheet shall belong to the range of authorities of the highest management body of the relevant company, which shall make its decisions on a three-quarters majority basis, while in the case of unlimited partnerships and deposit partnerships a unanimous decision is required.

(2) Interest representing bodies of the company's employees must be informed about the making of a decision concerning the company's transformation of the company.

337.§ Following the making of a decision concerning the corporation's transformation the corporation must make a public announcement to that effect in two successive issues with a minimum of 15 days in between in the Cégközlöny (Company Gazette). The above announcement must contain the most important data concerning the transformation plan and the corporation's asset balance sheet draft prepared at most 90 days earlier.

338.§(1) Companies established on the basis of a transformation shall be the overall legal successors of the transformed corporations. The legal successor shall be entitled, on the basis of a collective contract signed between the said corporation and its employees, to all those rights and obligations which formerly belonged to the transformed corporation.

(2) Companies established as a result of transformation in accordance with the present law shall not be subject to special tax or payment obligations - with the exception of the corporate tax payment obligation indicated in Paragraph (1) of Article 335. Tax concessions to which the legal predecessor was entitled shall be transferred to the legal successor if the conditions on the basis of which such tax concessions were originally given are still in place.

339.§(1) The newly formed company shall become the beneficiary of any official licences or permits issued before the commencement of transformation while, in the case of issues of licences still in progress the new company must immediately report its transformation to the authorities issuing the licence. The new company must in such cases be indicated as the beneficiary of the relevant licence.

(2) State or local council founded companies under transformation and engaged in activities subject to Law XVI. of 1991 on concession may continue to carry out their activities subject to concession as newly formed companies only if there remains a majority state or local council holding in the company. In the mining research and production sector the Minister of Trade and Industry may allow deviations from this regulation over the transitory period while the conditions of the tender are in process of formation.

340.§(1) Transformation does not make void any claims which may exist against the corporation.

(2) In the case of transformation of unlimited partnerships and deposit partnerships into limited companies or public limited companies creditors having claims against the company under transformation which came into being prior to the first announcement of the decision to undertake transformation may require a warranty to the extent of the claim within 30 days of the second announcement in accordance with the relevant provisions of the Hungarian Civil Code. The failure of the creditor to observe this deadline shall bring about his loss of rights concerning the warranty.

341.§ Settlement with members of the company under transformation who do not wish to participate in the company to be established thereby shall be carried out in accordance with the provisions of the present law concerning settlement with members leaving a company. In respect of such settlements provisions of the present law restricting payments for company members and the acquisition of shareholdings (shares) from them on the part of the company shall not be applicable.

Title 2

Transformation into a limited company

342.§(1) The transformation plan must contain - apart from what has been listed in Article 333 above - the following:

- (a) The company's nominal capital and quotas due to individual members of the company;
- (b) Proposal concerning the person of the first managing director of the company;
- (c) Asset inventory not older than 90 days;
- (d) Everything else thought necessary by the owners in connection with the transformation. (For example in the case of the transformation of unlimited partnerships the procedure for the making of occasional supplementary payments).

(2) The asset inventory indicated under point C, Paragraph (1) above shall indicate total assets of the company under transformation - liquid assets and assets answering meeting the criteria specified in Paragraph 3 Article 161 of the Law on Companies must be indicated separately - as well as short and long term liabilities and equity capital in an itemised manner at their asset balance sheet value.

343.§(1) When a public limited company is being transformed into a limited company sight shares must be replaced by registered shares prior to the decision concerning the transformation. Registered shares to not have to be issued; instead the names of those exercising shareholder's rights must be entered into the Share Register. Shares issued by the public limited company must be withdrawn from circulation within 30 days of receipt of the court decision ordering the registration of the new company in accordance with provisions contained in Article 314.

(2) Shares of those who do not wish to participate in the limited company to be formed shall be repurchased by the public limited company to the debit of its assets above its share capital. The maximum amount of money available for this purpose shall be determined by the ratio of its equity capital and registered capital. If assets above the share capital of the public limited company are insufficient for this purpose the share capital of the public limited company must be first decreased to the necessary extent, prior to the carrying out of the above.

(3) In the course of the transformation regulations contained in Article 160 concerning the ratio of cash deposits to the public limited company's total assets and their value shall be applicable.

(4) Assets of the company transformed into a limited company which are to be deposited in the nominal capital of the legal successor company in proportion to the balance sheet total of the asset balance sheet draft and the equity capital must be indicated in the asset inventory described in point (c), Paragraph (1), Article 342.

(5) The value of assets of the company transformed into a limited company calculated on the basis of the ratio of the equity capital and the balance sheet total of the asset balance sheet draft meeting criteria described in Paragraph (3), Article 161 must be regarded as assets above the nominal capital of the legal successor company.

344.§ In the case of the transformation of an unlimited partnership or a deposit partnership into a limited company members of the partnership under transformation - with the exception of external members - shall be financially responsible for the outstanding debts of the partnership under transformation having come into being prior to the making of the decision for transformation over a period of 5 years without limitation, with the exception of cases in which a shorter period of obsolescence is prescribed by law in respect of a particular claim.

Title 3

Transformation into a public limited company

345.§(1) The transformation plan must contain - apart from what has been listed in Article 333 above - the following:

- (a) The company's share capital;
- (b) The type, serial number, nominal value and designation of individual types of share;
- (c) Asset holdings of individual members of the company under transformation from the assets indicated in the asset balance sheet draft, the share-countervalue of these, and the individual entitlements to shares of company members;
- (d) The date of issue of the foundation plan and its contents if the company is not founded on the basis of a closed-circle;
- (e) Asset inventory not older than 90 days;

(f) Everything else thought necessary by the owners in connection with the transformation. (Forexample in the case of the transformation of unlimited partnerships the procedure for the making of occasional supplementary payments).

(2) The asset inventory described in point (e), Paragraph (1) above shall indicate total assets of the company under transformation - liquid assets and assets answering meeting the criteria specified in Paragraph (1), Article 253 of the Law on Companies must be indicated separately - as well as short and long term liabilities and equity capital in an itemised manner at their asset balance sheet value.

346.§ In the course of the transformation provisions concerning financial contributions described in Paragraph (2), Article 251 shall not be applicable here.

347.§(1) If a foundation plan is issued point (c) of Paragraph (2), Article 254, Paragraph (3), Article 257 and Paragraph (2), Article 262 shall be applicable only in the case of shares which

(a) belong to members of the company under transformation the value of which exceeds their holding in the said company;

(b) belong to new shareholders.

(2) Only that part of underwriting by members of the company under transformation may be rejected which shall exceed the share capital specified in the foundation plan.

348.§ In the case of transformation of unlimited partnerships and deposit partnerships into public limited companies members of the company under transformation - with the exception of external members - shall be financially responsible for the outstanding debts of the company which originated prior to the making of the decision for transformation over a period of 5 years without limitation, with the exception of cases in which a legal regulation prescribes a shorter period of obsolescence in respect of a claim.

349.§ In the case of the transformation of limited companies into public limited companies shareholdings of members who do not wish to participate in the public limited company to be formed shall be repurchased by the public limited company to the debit of its assets above its share capital. The maximum amount of money available for this purpose shall be determined by the ratio of its equity capital and registered capital. If assets above the share capital of the public limited company are insufficient for this purpose the share capital of the public limited company must be first decreased to the necessary extent, prior to the carrying out of the above.

350.§(1) Assets of the company to be transformed into a public limited company to be deposited in the share capital of the legal successor company in accordance with the ratio of the equity capital and the balance sheet total of the asset balance sheet draft shall be indicated in the asset inventory described in (e), Paragraph (1), Article 345.

(2) The value of assets of the company transformed into a limited company calculated on the basis of the ratio of the equity capital and the balance sheet total of the asset balance sheet draft meeting criteria described in Paragraph (1), Article 253 must be regarded as assets above the share capital of the legal successor company.

Title 4

Transformation into an unlimited or deposit partnership

351.§ The transformation plan must contain - apart from the contents of Article 333 - the value and form of asset contributions made by members of the company.

352.§ If a limited company or public limited company is transformed into an unlimited or deposit partnership members (shareholders) of the company under transformation - including members (shareholders) leaving the company in the course of the transformation - shall be financially responsible for outstanding debts of the company which originated prior to the making of the decision for transformation of the company over a period of 5 years and to the extent of their former quotas (shares) with the exception of cases when a shorter period of obsolescence is prescribed by law in respect of a claim.

353.§ When a public limited company is being transformed into a unlimited partnership or deposit partnership sight shares must be replaced by registered shares prior to the decision concerning the transformation. Registered shares to not have to be issued; instead the names of those exercising shareholder's rights must be entered into the Share Register. Shares issued by the public limited company must be withdrawn from circulation within 30 days of receipt of the court decision ordering the registration of the new company in accordance with provisions contained in Article 314.

354.§ If an unlimited partnership (workteam association operating with the responsibilities of a legal entity) is transformed into a deposit partnership, or a deposit partnership is transformed into an unlimited partnership, and the number of members having unlimited responsibility remains unchanged, no transformation plan has to be prepared and no announcement has to be made concerning the transformation. A transformation asset balance sheet must be prepared only if a revaluation of assets is to take place.

Title 5

Merger of companies

355.§(1) Companies with the following forms of association may merge with each other in accordance with the present law:

- (a) companies with the same form of association;
- (b) unlimited partnerships with deposit partnerships;
- (c) limited companies with public limited companies.

(2) Workteam associations and workteam associations operating with the responsibilities of a legal entity in accordance with point (a), Paragraph (1) may not merge with companies having other forms of association.

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356.§(1) The merger may take the form either of an acquisition or a merger.

(2) In the case of acquisition the whole of the assets of one of the companies (the company being acquired) shall be transferred to the other company as an overall legal successor (company making the acquisition) on termination of the operations of the acquired company.

(3) In the case of mergers both companies shall be liquidated and the whole of their assets shall be transferred to the new company as their legal successor. If particular rights (for example, the right to issue shares) pertained to only one of the companies prior to the merger only that company to whom these rights formerly pertained may be regarded as the legal predecessor of the legal successor company.

(4) Members of the companies affected by the merger must be informed by the management of their company, within 30 days of the making of the relevant decision, concerning all issues related to the state of affairs of the other company in respect of all information to which these members are entitled in accordance with the present law.

357.§ In the course of the transformation provisions of the Law on the Prohibition of Dishonest Market Behaviour concerning the regulation and control of company mergers shall be applicable.

358.§ A limited company may merge with a public limited company if the whole nominal (share) capital has been deposited with the new company by its members (shareholders).

359.§(1) If the nominal or share capital of the company making the acquisition must be increased in order that the merger be effected the relevant provisions of the present law shall be applicable with the stipulation that Article 219, the second sentence of Article 221, Paragraphs (1)-(3) of Article 303 and Paragraph (2) of Article 305 shall not apply.

(2) In the case of mergers on unequal terms the nominal capital of the limited company or public limited company making the acquisition must not be increased by

- (a) the value of the shareholdings (shares) of the acquired company now owned by the company making the acquisition;
- (b) that part of the assets of the acquired company which is constituted by shareholdings (shares) of the company making the acquisition;
- (c) the value of acquired company's own shareholdings (shares).

(3) In the case of mergers the value of the company's own shareholdings (shares) and the value of their mutual holdings cannot be taken into account in the course of the determination of the nominal (share) capital of the company to be formed.

360.§(1) A merger contract is required in the case of mergers.

(2) The following must be specified in the merger contract:

- (a) the name and head office of the companies to be merged together and of the new company to be formed;
- (b) assets of the companies merging together and of the new company to be formed as indicated in their respective asset balance sheets;
- (c) assets of the new company (nominal capital, share capital);
- (d) the mode and date of the merger;
- (e) the contents of the company contract of the new company (deed of foundation, constitution) and modifications to be carried out in the company contract of the company carrying out the acquisition (deed of foundation, constitution);
- (f) names and addresses of members of the board of directors, the supervisory board, and the auditor of the new company to be established as a result of the merger.

(3) Special rights or privileges formerly exercised by members of these companies (shareholders) must henceforth be transferred into the company contract (deed of foundation, constitution) of the new company to be formed without modification unless the relevant member renounces his rights in writing.

(4) Merger contracts not governed by the contents of Paragraphs (2)-(3) above shall be void.

361.§(1) The merger contract shall be adopted by the respective highest management bodies (general meeting, general assembly, board of directors) of the merging companies. Provisions of the present law shall be applicable to the proportion of votes required.

(2) Members voting against the merger contract shall be entitled to leave the company in which case provisions of Article 341 shall be applicable.

362.§ The announcement of the decision concerning the merger shall be regulated by Article 337. The announcement must indicate the mode and the date of the merger.

363.§ Creditors may require warranties from companies in the process of merging in accordance with provisions contained in Paragraph (2) of Article 340 if they can verify that the merger endangers the repayment of their claim.

364.§ Members of the company to be acquired shall become members of the company making the acquisition, while members of companies merging on equal terms shall become members of the new company.

365.§(1) The shareholders of the public limited company to be acquired (merged) hand over their shares to the public limited company making the acquisition (the new public limited company) and the new public limited company must provide the shareholders of the company which has terminated its operations (acquired) with its own shares in exchange to the extent to which they are entitled on the basis of the merger contract.

(2) In order to carry out the exchange of shares described in Paragraph (1) above the public limited company making the acquisition (new public limited company) may make a decision for the raising of its share capital with certain conditions attached.

Title 6

Separation of companies

366.§(1) The board of directors of a company may make a decision to divide the company into two or more companies, in which case two General Meetings (General Assemblies) must be held beforehand.

(2) At the first General Meeting (General Assembly) members of the company shall make a statement as to whether they are in agreement with the decision to divide the company and, if they do so agree, they must make a declaration concerning which of the legal successor companies they would like to become members. Members of the company's board of directors or other highest management body shall prepare the contract of separation which must contain the asset balance sheet draft of the present company, a proposal for the distribution of the said assets, and a further proposal concerning the distribution of rights and obligations of the company which proposals must be scrutinised by an auditor.

(3) The second General Meeting (General Assembly) shall make the relevant decision regarding division on the basis of the asset balance sheet and the proposal concerning the distribution of these assets, as well as the proposal in respect of the distribution of rights and obligations.

(4) The separated company shall henceforth cease its operations, its rights and obligations thereby being transferred to the new companies as its legal successors. Legal successors of the company to be divided shall be responsible for the implementation of obligations (liabilities) incurred prior to separation in proportion to the above distribution. If an obligation (liability) has been incurred following distribution the legal successor companies shall be responsible as a single entity.

Title 7

Procedure in respect of the formation of a legal successor company

367.§ In the case of company transformation the date of the formation of the new company and the liquidation of the former company shall be the date of the signing of the company contract or deed of foundation of the new company; while in the case of the foundation of public limited companies this date shall be the date of the adoption of the constitution of the company and, in the case of mergers, the date specified in the merger contract; or, another date specified by the founders of the new company up until the date of the registration of the new company by the Court of Registration.

368.§(1) The formation of new company must be reported to the Court of Registration responsible within 30 days of the making of the decision concerning transformation; or,

if the two dates do not coincide, the signing of the company contract (deed of foundation); or, the adoption of the merger contract; or, the adoption of the company constitution; in order that they be duly registered and announced. At the same time the termination or liquidation of the former company must also be requested.

(2) In the case of mergers on unequal terms the new company (companies) shall be entered into the Register of Companies by the Court of Registration under the jurisdiction of which the head office of the company making the acquisition lies; while, in the case of company transformation, separation or merger on *equal* terms, registration shall be carried out by the Court of Registration under the jurisdiction of which the head office of the new company (companies) lies. The abovementioned Court of Registration shall then inform the Court of Registration under the jurisdiction of which the head office of the acquired company or of the individual companies merging on equal terms which shall in turn enter in the Register of Companies the liquidation of these companies.

(3) The company must within 30 days of its official registration prepare a final asset balance sheet in accordance with Paragraph (1), Article 334 as of the date of transformation described in Paragraph (1). If there is a positive difference between the equity capital as given in the asset balance sheet and the asset balance sheet draft it shall be regarded as assets above the nominal or share capital. If there is a negative difference between the equity capital as given in the asset balance sheet and the asset balance sheet draft, and the capital reserves specified in Paragraph (3), Article 335 are not sufficient to cover the said difference, the managing director or the board of directors of the company must summon an extraordinary General Meeting (General Assembly) in order to decrease the nominal (share) capital.

369.§(1) If the Court of Registration refuses to register the transformation (merger) of a firm or the legally binding court order for the registration of the firm is invalidated, then the company seeking transformation should continue to operate in its original form with the stipulation that for the interval between the company's formation and the refusal of its registration or invalidation - as described in Paragraph (2) - a balance sheet should be drawn up. The company wishing to carry out transformation shall be entitled to a holding in accordance with the distribution of assets at the time of the formation of the legal successor company.

(2) An annual report should be prepared in accordance with the Law on Accounting for the interval between the formation of the company and the refusal of registration or invalidation. The first item in the balance sheet of the annual report should be the same as the first item in the annual report made at the time of the formation of the company - if the transformation is rejected, the balance sheet should be drawn up subsequently. Assets and liabilities cannot be separated on a temporal basis in the balance sheet of the annual report. All relevant taxes should be paid to the tax authorities at the time of the preparation of the balance sheet. A tax return should be made in accordance with the relevant tax regulations.

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*The modification of Law V of 1990 on
Private Enterprises*

2.§ Law V of 1990 concerning Private Enterprises shall be supplemented by Article 15/A as follows:

"15/A Private Enterprises can be transformed into single-member limited liability companies or single-member public limited companies in accordance with Articles 331-350 of Law VI of 1988 on Companies.

*The modification of Law VI of 1977
on State Corporations*

3.§(1) A new Law shall come into effect in place of the many-times modified Law VI of 1977 on State Corporations:

"7.§(1) The managing director of the organisational unit separated from the corporation or two-thirds of the employees of the separated unit or the managing director of a trust company or two-thirds of the employees of a trust company may initiate the establishment of the relevant organisational unit or trust company as a separate company at the body or organisational unit exercising founder's rights."

(2) A separate company may be formed (hereafter, separated) primarily if such a separation would assist the transformation of the separated organisational unit or the corporation from which the unit has been separated into a company.

(3) The body exercising founder's rights should inform the initiator of its decision in writing; refusals should be given with argumentation enclosed.

4.§ The following provision shall come into effect in place of Article 10/C. of the Law on State Corporations:

"10/C. (1) The decision to form a company shall be made by the body exercising founder's rights.

(2) The following should be stated in the decision to form a corporation:

- (a) name and place of residence
- b) range of activities
- c) assets at the formation of the corporation (registered capital)
- d) body carrying out the general management of the corporation
- e) body exercising founder's rights
- f) all other data and circumstances prescribed by the law.

(3) The name of the corporation should also be stated in decisions from which the separation is derived.

(4) The following should be stated in the deed of foundation:

- a) the distribution of the corporation's equity capital as well as assets and liabilities related to it between the corporation and the separated organisational unit;

b) settlement of issues related to working conditions of the employees at the separated organisational unit;

c) all questions regarding legal succession, including creditors' claims.

(5) All initiatives towards corporation formation should be reported to the Court of Registration within 30 days of the foundation and making of the relevant decision. The corporation shall be deemed formed from the date of the corporation's registration in the Register of Companies, but on the date of the Court of Registration's resolution enabling the foundation of the corporation. Registration may only be rejected if the said resolution to form a new corporation is not legal.

(6) All data should be included in the report forwarded to the Court of Registration prescribed by legal provisions concerning the keeping of court records on companies. The above report to the Court of Registration, should be made by the body that made the decision for the formation of the corporation in question or any other alteration subject to compulsory registration."

Modifications of laws concerning local councils

5.§(1) Paragraph (4), Article 9 of Law LXV of 1990 on Local Councils shall be supplemented with the following sentence:

"After December 31, 1993 state corporations cannot be founded. Companies may be formed or established by representative bodies for entrepreneurial purposes; such bodies may also initiate the formation of cooperatives.

(2) A new Paragraph (2) shall be added to Article 47 of Law XXXIII of 1991 concerning the Transfer of certain State-owned Assets to Local Councils:

"(2) From among companies founded by councils for public purposes and under council control pharmaceutical centres are not to become the property of local councils."

*Modification of Law XC of 1991 on Personal Income Tax
and Law LXXXVI of 1991 on Company Tax*

6.§(1) A new Article 6/A shall be added to Law XC of 1991 on Personal Income Tax :

"6/A. (1) The nominal value of privatised corporate holdings leased by the company (asset value registered by the Court of Registration at the signing of the lease contract) must be regarded as revenue and earnings up to 100% from the point of taxation in cases bringing about a tax obligation described in Paragraph (3) in connection with holdings (shares, and shareholdings) obtained on the basis of privatisation lease contract specified in Article 68 of Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership; or, if the nominal value of such privatised assets is the higher then the countervalue of the aforementioned holding should be regarded as revenue. In cases described in Paragraph (4) the actual countervalue must also be regarded 100% as revenue and earnings from the point of view of taxation, even if it is less than the nominal value.

- (2) The amount paid by a private person from private taxed sources as leasing fees in order to acquire the holding mentioned in Paragraph (1) shall not be regarded as part of the nominal value or countervalue. In the case of the partial sale of the holding the nominal value of a proportionate part of the countervalue and the leasing fee paid from private after-tax sources shall be taken into consideration.
- (3) Private persons' obligations in respect of record keeping shall come into force on signing a lease contract in respect of income as described in Paragraphs (1) and (2). The records should truly reflect sums charged by the leased company for organisational and management services rendered in the accounts as extraordinary expenses and transferred to the State Property Agency, sums transferred to the State Property Agency from his own taxed sources as a leasing fee and income paid by the company directly to the private individual for his services and subject to Article 12. The private person's tax obligation comes into effect in the tax year when the holding - or part of it - transferred to his ownership by the State Property Agency is sold; or, if he fails to verify within 15 days upon the request of the tax authorities that the relevant assets are still in ownership or that he has ownership rights in respect of the said assets.
- (4) The same obligations apply to private persons if the leased company ceases to exist without a legal successor.
- (5) Income described in the present Article shall be subject to taxation in accordance with Paragraph (3), Article 37, while the payment of the said tax shall be regulated by Paragraph (2) in Article 43. The private person receiving this income - regardless of other conditions - is obliged to make a tax return.
- (6) Taking into consideration the contents of Paragraphs (1)-(5) sums rendered in the accounts of the private individual as extraordinary expenses for organisational and management services provided by the company within the framework of a privatisation lease specified in Article 68 of Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership shall not be regarded as income from the point of view of taxation and sums rendered in the company's accounts as a fee for the provision of management and organisational services as extraordinary expenses and transferred as a leasing cannot be claimed as expenses by the private individual."
- (2) The following provision replaces Paragraph (6), Article 5 of the Law LXXXVI of 1991 on Company Tax (hereafter, Law on Company Tax):
- "(6) Benefits, working clothes, uniform, protective clothes, catering allowances in the form of money or food, domestic holiday allowances, vehicles for

personal use provided for employees, company members and pensioners employed by the tax-payer; costs incurred by social welfare institutions; sums transferred to employee's pension funds specified in a separate law (see Appendix 3.); insurance paid on employees; PR costs and sums rendered in the accounts as extraordinary expenses for organisational and management services provided by the leased company within the framework of a privatisation leasing contract specified in Article 68 of Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership; shall be regarded as expenses."

- (3) Article 6 in the Law on Company Tax shall be supplemented by Paragraph (6) as follows:

"(6) If a company loses some of its assets during the term of the privatisation leasing contract, or fails to pay the due instalments and the State Property Agency nevertheless does not terminate the contract at once, the company shall not be entitled to carry out separation of these losses in its accounts as specified in Paragraph (1) for the year in which the aforementioned took place."

- 7.§(1) Article 10 of the Law on Company Tax shall be supplemented by point(c) as follows:

(No taxes should be paid)

"(c) only under conditions related to the public limited company engaged in undertaking cash payment guarantees as indicated in Appendix 7."

- (2) Appendix 7 shall supplement the Law on Company Tax as follows :

"Appendix 7. of Law LXXXVI of 1991

Immunity from tax in the case of public limited companies engaged exclusively in the provision of cash payment guarantees.

No tax must be paid by a public limited company which

- has signed a special counter-warranty contract with the Small-Enterprise Guarantee Fund, governed by special legal regulations;
- includes the Government among - with other legal entities - the founders , and
- never pays dividends to shareholders, all profits being reinvested in its basic activities, and
- carries out only guarantee providing activities, all liquid assets being deposited in bank accounts, or in government securities, and
- if the public limited company ceases without a legal successor, or if any of (a)-(d) do not hold (hereafter, termination) the difference between the company's total assets and the founder's contribution remaining after having fulfilled all payment obligations shall be subject to company tax in the year of the termination of the company's activities."

*The modification of Law I of 1992
on Cooperatives*

8.§(1) Article 75 of Law I of 1992 on Cooperatives shall be replaced by the following:

"75. Articles 7-9 of the present law, Article 356 of Law VI on Companies of 1988 (hereafter, Law on Companies) and Articles 360-364 of the same law shall be applicable for mergers."

(2) Article 86 of the Law on Cooperatives shall be replaced by the following provision:

"86. (1) If the cooperative is transformed into a limited liability company contributions in kind must be made before the registration procedure.

(2) In the case of Paragraph (1), Article 160 of the Law on Companies does not apply.

(3) If the cooperative is transformed into a public limited company Paragraph (2) of Article 251, and Paragraph (1) of Article 301 of the Law on Companies do not apply."

(3) Article 88 of the Law on Cooperatives shall be replaced by the following:

"88.+ Otherwise Articles 331-340 of the Law on Companies and Articles 367-369 of the same law shall apply in the case of mergers."

(4) The following provision shall replace the second sentence of Paragraph (1) of Article 90 of the Law on Cooperatives:

"In the course of this provisions contained in Chapter IV of Law II on Bankruptcy and Liquidation procedures, and Final Settlement - with the exception of Paragraph (2) - shall be applicable.

*The modification of Law LV of 1990 on the legal status of
Members of Parliament*

9.§ Article 6 of Law LV of 1990 on the legal status of Members of Parliament shall be supplemented by point (d) as follows:

[The member of parliament may not - beyond the cases described in Paragraph (5), Article 20 of the Constitution]

"(d) be a top executive or member of the board of directors or of the supervisory board of the State Property Agency."

Chapter II

*Rules concerning the transformation of corporations
established by certain legal entities and of affiliated
companies established by private companies*

10.§(1) The transformation of corporations established by certain legal entities (point 9 of Chapter VI of the Civil Code: hereafter, corporation) into companies shall be decided by the founding organisation of the corporation. The transformation can also be initiated with the corporation at the forming organisation. All the provisions of the Law on Companies must be taken into consideration by the founding organisation when undertaking transformation.

(2) When transforming a corporation into a company the various rules and regulations - with the exception of those stated in Articles 41-42 of Title 1, Chapter 4 of Law LIV of 1992 on the Sale, Utilisation, and Protection of Assets in Temporary State Ownership shall be applicable, with the stipulation that the State Property Agency shall exercise the rights of the founding organisation.

(3) A company under transformation formed by local councils - engaged in activities subject to Law XVI of 1991 on Concessions - shall be entitled to engage in its activities subject to concession only if the local council's majority holding in the new company is maintained.

(4) The founding organisation shall be responsible as a guarantor for 5 years after the transformation for outstanding debts which originated prior to the first announcement of the decision concerning the corporation's transformation, with the exception of cases in respect of which a shorter period of obsolescence is prescribed by legal regulations with regard to a claim. .

(5) The corporations founding organisation shall transform into companies the corporations which fall under Paragraph (1) before 31 December, 1996. Following December 31, 1993 no such corporations may be established.

(6) No extra taxes and dues should be paid - with the exception of procedural dues - if the transformation is executed in accordance with this law.

11.§ All the rules and regulations of Article 10 shall apply to the transformation of affiliated companies established by private corporations into companies. The organisation establishing the affiliate must make a decision concerning the liquidation of the affiliate prior to its transformation.

Chapter III

Miscellaneous and closing regulations

12.§(1) The present law, Law LIII of 1992 on the Management and Utilisation of Corporate Assets in Long Term State Ownership and Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership shall come into force on the 30th day following the announcement of the present law.

(2) If the transformation of the company is under way at the time of the Law coming into effect the transformation procedure may be completed in accordance with the provisions applying formerly.

(3) If the transformation procedure of a company into another company has already started before this law comes into effect, then it should be completed in accordance with the provisions applying formerly.

13.§(1) Where the present law mentions Law XIII of 1989 on the Transformation of Businesses and Companies, or Law VII of 1990 on the State Property Agency and the Management and Utilisation of its Assets, or Law VIII of 1990 on the Protection of Assets entrusted to State-owned

corporations are mentioned, in fact Law LIV of 1992 on the Sale, Utilisation and Protection of Assets in Temporary State Ownership shall be understood; in respect of assets in long term state ownership Law LIII of 1992 on the Management and Utilisation of Corporate Assets in Long Term State Ownership shall be understood; while in places where the present law mentions the State Property Agency, State Asset Management Plc. shall also be understood.

(2) Provisions of Law VIII of 1990 on the Protection of State Assets entrusted to Corporations shall be applicable in the case of transactions carried out with the participation of asset transfer committees on a county level (Budapest) on the basis of Law XXXIII of 1991 on the Transfer of Certain State-owned Assets into Local Council Ownership.

(3) The phrase "people's economy" should be changed to "national economy" in the Law on Corporations. "Management and Control of Corporations by Supervisory Bodies" shall be changed to "Inspection of companies under state administrative control" in Chapter V. The word "Government" shall be changed to "Organisation exercising founder's rights" in Paragraph (2), Article 26, in Article 28, in Paragraph (1) of Article 36 and in Article 46/A.

(4) Simultaneously with this law coming into effect the following shall be invalidated:

- Law XIII of 1989 on the Transformation of Businesses and Companies and Law XVIII of 1990 modifying it, Articles 1-7 of Law LXXII of 1990, Paragraphs (1)-(2) of Article 8 of the same law, point (d) of Paragraph (2) of Article 67 of Law LXXXVI of 1990, Paragraph (5) of Article 29 of Law XVI of 1991 and Article 56 of Law XXXIII of 1991;
- Law VII of 1990 on the State Property Agency and the Management and Utilisation of its Assets, Law LIII of 1990 modifying it, Paragraphs (3)-(5) of Article 8 of Law LXXII of 1990 and point (d) of Article 84 of Law IL of 1991;
- Law VIII of 1990 on the Protection of State Assets entrusted to Corporations and Articles 2-3 of Law LXXI of 1990 modifying it;
- Paragraph (2) of Article 59 of Law XX of 1991 on the range of Tasks and Authorities of Local Councils and their Organs, as well as government trustees and certain centralised bodies;
- from Paragraph (1) of Article 38 of Law XXXIII of 1991 on the Transfer of Certain Assets into Local Council Ownership text: "in accordance with legal regulations concerning state corporations";
- point 12 of Paragraph (1) of Article 62 of Law II of 1992 on the Coming into Force of Law I of 1992 on Cooperatives and Temporary Provisions;
- Paragraph (1) of Article 97 of the Law on Companies, from Paragraph (2) of Article 210, text: "on the basis of point (c) of Paragraph (2) of Article 208", Paragraph (3) of Article 299 and Article 339;

- first Paragraph of the Preamble of the Law on Corporations, text: "considering the above said", text: "to establish and" from Article 1, Articles 8-10, Article 10/A, Article 11, text: "in accordance with the principles of a socialist economy" from Paragraph (4) of Article 22, text: "establishment of affiliated companies" from point (g) of Article 23, the title of Chapter V and subtitles of the same chapter: "Forms of State Supervision and Control", "Sectoral and Functional Management and Supervision, Activities of Market Supervisory Authorities", points (d)-(f) of Paragraph (1) of Article 30/A, point (a) of Article 30/B, Articles 32-33, Articles 37-39, point (a) of Paragraph (1) of Article 42, text: "may transform the corporation into a company in accordance with regulations concerning corporations under state administrative control, or "from Paragraph (1) of Article 42/A, Paragraph (2) of Article 42/A, Paragraphs (2) and (4) of Article 43, Paragraph (2) of Article 46, the first sentence of Paragraph (1) of Article 47, and Paragraphs (3)-(4) of the same Article, the last part of the sentence following the semi-colon from Paragraph (2) of Article 53, Articles 2-3 of Law XIV of 1989 modifying the Law on Corporations, point (a) of Article 30/B of the Law on Corporations referred to in Article 10 of the aforementioned Law, Articles 14-15, Article 62 of Law XXII of 1990, point (c) of Paragraph (2) of Article 67 of Law LXXXVI of 1990, Articles 3 and 13, and Paragraph (2) of Article 18 of 'Decree having the force of a law' No. 22 of 1984, and Article 19 of the same Decree;
- Law XXXVII of 1920 on Financial Institutions and Article 12 of Law XXXII of 1923 modifying it, and Law XIII of 1926.

Árpád Göncz
Pres. of the Hung. rep.

György Szabad
Pres. of the Hung. Parl.

Prime Minister's Office

Dr. Tamás Szabó
Minister without Portfolio

P R E S E N T A T I O N

for the Government

Concept of Breakthrough and Governmental
Programme regarding the Hungarian Privatization

October, 1992

Introduction

Para. 8 of the governmental decision No. 3271/1992, which specifies the main short-range tasks aimed at laying the foundations for economic growth, prescribes the elaboration of measures promoting the acceleration of the privatization process. As a part of this, new privatization techniques were introduced, supply was increased and its structure was transformed, and the decentralization of selling was strengthened.

From July 1992 on, a working team consisting of experts in various fields worked on the determination of the new trends of the privatization process. The necessary measures were determined together with the managers of the State Property Agency. The Acts on Privatization accepted by the Parliament in June served as the basis for the works.

On October 8, 1992 the Government accepted the document about the tasks of economic policy for 1993 and 1994, which words the tasks of privatization as follows:

"The purpose of the acceleration and development of privatization is not the maximization of the cash incomes of the state, but the establishment of a wide and strong domestic stratum of owners and, through this, an efficiently operating economy. This is supported by the preparation of the laws, which are still missing today, as well as the means intensifying the privatization demand (credit note, leasing, Employees' Part-Ownership Programme, guarantee institutions), the formation of the privatization supply (decentralization, the establishment of the portfolios of privatization), and the development of the system of the institutions of the privatization market (stock exchange, consultancy). The Government intends to promote privatization by the elaboration of the concepts of professional policy and by the preparation of the sectoral laws as well."

I. Achievements of the domestic privatization so far and the necessity of changing trends

1. Characteristics of the privatization process from the spring of 1990 to August 1992

The preparation of the Hungarian privatization began in the late eighties - by the Corporation Law and the Conversion Law - but we can speak about centrally directed and controlled privatization only since the State Property Agency has been set up. After the free elections in the spring of 1990 and the establishment of the Government a

purposefully directed and properly controlled stage of the privatization process began (Act on the Protection on Property, Act on Preliminary Privatization, etc.).

Until August 31, 1992, 445 state-owned companies transformed into economic associations, 401 companies of which transformed in the framework of self-privatization or at the companies' or investors' initiative. (Calculated at book value, this state property means HUF 577 billion.) The receipts from the selling of state property exceed HUF 80 billion, more than 70 per cent of which came from selling for foreign exchange. (In 1991 privatization receipts in the amount of HUF 31 billion were realized, and HUF 70 billion are expectable in 1992.) So far more than HUF 51 billion from the receipts from privatization served for the repayment of state debts. In the framework of the Act on Preliminary Privatization 4950 shops were sold until the end of August. (The programme will expectably be completed this year.)

Connected to the privatization process, during buy out and contribution in kind, as well as transformation and cases of the protection of property, foreign capital invested approximately HUF 88 billion in the Hungarian economy until 31st August, 1992.

In numerous fields of the economy the privatization process has made a considerable progress, and most of the companies of the individual sectors have been privatized (e.g. the tobacco-, the distilling-, the confectionery-, the sugar- and the building material industries), the privatization of the food industry and agriculture has begun, and the process has commenced similarly in the branches of the infrastructure (telecommunications, transport) and in the case of the commercial banks.

2. Privatization at the crossroads

In spite of its achievements made so far, the privatization process has come to crossroads. In the present privatization policy and practice changes are required. The reasons are as follows:

2.1 The low share of domestic ownership

In the course of privatization so far the share of foreign purchases has been decisive and domestic participation has been rather restricted. An explanation is that the domestic investors' cash reserves, which can be mobilized for this purpose, are limited. The preferential credit constructions

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(e.g. Subsistence credit) and purchase allowances introduced earlier have not brought a spectacular breakthrough, to which the risk and low yield of privatization investments have contributed at all events.

Due to the low share of the domestic property acquisition, privatization does not promote the development of a wide domestic stratum of owners (including the small owners and large-scale entrepreneurs, too) - according to the expectations. As a result, however, the possibly most important social group - "supporting pillar" - of the social market economy cannot strengthen.

Regarding the aspects of both economic- and social policy, it is important to promote a change in this field.

2.2 Change in the privatization supply

In accordance with privatization that took place in the past two years and the decisions made meanwhile, the magnitude and composition of the privatization supply has changed considerably:

- a/ numerous companies, that could be sold well, have been sold partly or fully;
- b/ a specific part of the state-owned property - 25 or 50 per cent of the capital of about 160 companies - have been appointed for "permanent" state ownership, with effect as from 28th August, 1992;
- c/ the circle of state property, which can be privatized, is limited by commitments specified in other laws (handing over of property to social insurance, compensation, property share to be handed over to the municipalities);
- d/ the financial situation of most of the state-owned companies to be privatized has changed considerably in a year - several hundreds have got to bankruptcy- and liquidation proceedings -, and the devaluation of property is remarkable.

Although the privatization supply has not decreased regarding its magnitude, moreover, in a certain respect, the chances of its mobilization have improved, taking into

account its structure and financial-economic connections, the present supply is only partly suitable for inducing the demand, since most of the entrepreneurial property of the state has been transferred to the SPA and to the ÅV Rt. (State Property Management Co. Ltd.). The possibilities of selling for cash are narrowed down.

2.3 Problems of the demand side

A continuous narrowing down of the cash demand for the present privatization supply - in an unchanged form - has to be reckoned with. (All this is manifested parallelly with a weakening of the interest of foreign capital.) In the interest of maintaining the pace of the change of owners as well as its acceleration, this phenomenon renders the introduction of cash-substituting and -supplementing ways of demand inevitable. All these are especially important from the viewpoint of intensifying the domestic investors' activity. New means have to be elaborated and introduced, parallelly with the further improvement of the financial conditions of the already existing demand techniques (Subsistence credit, Employees' Part-Ownership Programme).

Naturally, the increase of the domestic privatization demand depends on all such measures of economic- and financial policy, which are aimed at the improvement of the situation of the domestic enterprises as well as at the development of enterprises (e.g. system of credit guarantee, credit granting on the basis of mortgage).

2.4 Termination of decision-making centred on income

A decisive element of the domestic privatization process so far has been the intention of increasing the incomes. This was supported by the economic-political expectations regarding the privatization practice of the SPA. All this was necessarily accompanied by other economic- and sectoral political aspects being pushed into the background (e.g. policy of structure, policy of competition, employment policy). The possibility of change was closely connected to the fact when the concepts of structural development policy and professional privatization would be elaborated. In cooperation with the ministries concerned, more than half a year ago the SPA began elaborating these concepts and modifying the practice of privatization accordingly.

The governmental decision of economic policy, which does not regard the increase of incomes as a primary and exclusive aspect, requires the transformation of the order of decision-making and the preferences of decision in the future. As a part of this, the conditions for the presentation of the requirements of structural policy, competition policy and employment policy have to be established, simultaneously with the enforcement of the income aspect. All these render the rewording of the target system of privatization necessary.

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2.5 Lack of information and social distrust

Nowadays the target system of privatization is not unambiguous for wide strata of the Hungarian society, and the possibilities and chances of personal participation are not clear either. In many cases, one can only see that the situation of companies keeps worsening continuously, the "rescue of property" is not rare, the old organizational structure and management are inherited, the long-range intentions of the foreign owner are unknown and, frequently, there are dismissals before or after privatization, etc. As a consequence, the strata of society are distrustful of privatization, which results from personal experience regarding the practice pursued so far as well as from the lack of proper information.

The domestic participation in privatization can be intensified only if the pieces of information regarding supply are widely available, and if its formation is realized as a consequence of deliberate policy, if the investors know and can apply the various demand techniques, and the market mechanisms promote the spread of competition and the acquisition of property.

1.8 The change of the domestic and international environment of privatization

In the past two years the system of external and internal conditions of privatization has changed basically. Meanwhile the state-owned industry collapsed with spectacular rapidity, the domestic private enterprises have perceivably strengthened. As opposed to the initial years of privatization, the potential internal, domestic demand keeps increasing.

Simultaneously, the Central-Eastern European privatization market has also changed to a remarkable extent. With the entering of new target countries the market rapidly extends, therefore, in the foreign investors' eyes the Hungarian privatization has not only lost its charm resulting from its role as a first attempt, but it has also got within the framework of intensifying competition. Moreover, some of the foreign investors sit through, waiting for a cheap close-down sale. Maintaining the present methods, this situation anticipates the danger of a further slowing down and retardation of privatization.

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To sum up, by the autumn of 1992 the domestic privatization has come to the crossroads. On the one hand, the continuation of privatization in its unchanged form conflicts with the process of building the economy and society aiming at the establishment of up-to-date social market economy, and - both on the supply and demand side - the signs of exhaustion and becoming impossible are manifested more and more, on the other. Therefore, a radical renewal of the privatization policy is necessary as soon as possible - for which the experience and changes of the past two years provide a sufficient basis.

II. The target system of the new privatization strategy

Taking into account the economic- and social-political connections of privatization, it has to be stated clearly that

a/ privatization is not an end in itself, but a means of structural change in the economy and of transition into market economy. As a means, however, it is of a key importance, the characteristics and consequences of which can basically influence the success of transition.

b/ In no respect whatever can privatization be identified with a "simple" process of selling, but it is much more than that: privatization is the change of economic systems itself. Privatization is the process of demolishing the (inherited) state property, a decisive element of which is the handing over (passing) of state property into private ownership. Therefore, it can be regarded as privatization if the former state property gets to municipalities, foundations, or insurance funds and, similarly, if it gets into foreign and domestic investors' and the population's private ownership. From among the many ways of the change in owners, nowadays the handing over and operation of property for economic purposes has become decisive, with respect to the establishment of the conditions of market economy and the necessary transformation of the ownership structure of the economy.

c/ Efficient and successful privatization can be interpreted only if it is fitted into a system of connections broader than the present one - i.e. in the development process of the private proprietary economy, in the efforts aiming at the structural change in the economy, as well as in the macro-economic processes. In the field of the transformation of the domestic ownership relations privatization must result in a radical change within a short time, so to say,

realizing and rendering irreversible the decisive economic importance of the private ownership relations.

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1. New priority of the privatization policy: increasing the chance of the domestic property acquisition

The purpose of the acceleration and development of the process of privatization is not the maximization of the cash incomes of the state, but the establishment of a wide and strong domestic stratum of owners and, through this, an efficiently operating economy. This can render the economic transformation irreversible and privatization aiming at such purposes can establish the economic and social bases of a modern market economy.

The new privatization policy, which promotes the establishment of a wide and strong stratum of domestic owners also by increasing the chance of property acquisition, and which improves the capacity of operation of the economy at the same time, is based on the following elements:

a/ the strengthening of the domestic privatization demand (including the possibility of artificially establishing demand);

b/ the purposeful establishment of a wide supply of property, as well as reasonable decentralization, which is justified in terms of economics;

c/ the extension of the market mechanisms of privatization (selling for cash, stock exchange, investment funds, the "privatization" of the privatization market, etc.);

d/ the use of the receipts from privatization for productive purposes promoting the development of enterprises, and the acceleration of the related economic-political decisions.

2. Unchanged and new emphases

The participation of foreign capital in the privatization process is still important for the Hungarian economy. We are basically interested in maintaining, moreover, increasing foreign investors' interest. First of all, because capital investment - which is indispensable for most of the Hungarian companies -, the establishment and strengthening of market relations, technical modernization and up-to-date management can be expected through this. In numerous fields of the economy the presence of a foreign strategic investor is the basic condition for progress (e.g. telecommunication, the pharmaceutical industry, banks, air transport). By a

purposeful privatization policy we have to avoid and prevent such undesirable cases when foreign presence is accompanied

by the preservation of the monopolistic situation and by the elimination of the domestic competitor, etc.

Some characteristics of the present privatization policy, however, will change, as a result of which the following factors will cease (or weaken) in the practice of privatization and the SPA:

a/ the handling of privatization as a "simple" act of selling;

b/ the focus on incomes;

c/ the exceptional situation of certain participants of the privatization process (cash owners, those having a relationship with consulting firms);

d/ the high cash demand, which can be interpreted as an obstacle to the participation in privatization, and

e/ the lack of information, which renders the joining of wider strata (circle of investors) difficult.

The consequences of the privatization policy:

- The remarkable improvement of the chances of domestic property acquisition. The elaboration of a new supply policy (disintegration, separation, etc.) and demand techniques serves for the widening and strengthening of the stratum of domestic owners.

- An increased consideration of the connections of economic- and social policy (sectoral policy) when wording the general criteria of decision-making concerning privatization (e.g. employment, regional policy, technological development, etc.). Naturally, this does not mean that privatization would be subordinated to the individual partial policies. We must not define such expectations which call the privatization policy to account for the establishment of a modern industrial policy and infrastructural policy, and the fulfilment of the tasks of employment policy. At the same time, the rules and criteria, which promote the realization of the individual partial policies, have to be built into the concrete privatization practice, subordinated to the general goals.

- In the interest of widening the degree of social support and domestic demand, marketing, as well as information- and educational activity more efficient than at present, in the questions concerning privatization.

To sum up, starting from the requirements of the establishment of the change in the economic system and of social market economy, the purpose of the new privatization policy is to promote a wide and strong stratum of domestic owners, to help the development of an up-to-date ownership structure and, through these, to establish an efficiently operating economy. To achieve this goal, the focus of the further course of privatization has to be shifted - from income-oriented selling - to the improvement of the chances of domestic property acquisition. All these require absolutely new solutions and means in the formation of the both the demand- and supply policy.

III. Renewal of the demand- and supply policy

1. Basic principles of the demand- and supply policy

On the side of the privatization demand the following requirements have to be fulfilled:

a/ in the privatization process the chance of property acquisition has to be ensured both for small- and large-scale, as well as domestic and foreign investors;

b/ the various ways (techniques) of property acquisition compete with each other;

c/ the procedures and rules of privatization are clear for, and can be known to all parties concerned, and the information on supply and demand are accessible.

At the same time, for the presentation of the requirements of the structural change in the economy and those of the transition into market economy, deliberate decisions and purposeful steps are desirable in the supply policy in the following fields:

a/ the concrete and precise definition of state property which can be privatized (which circle of it and for what purpose is withdrawn from privatization, e.g. the circle of "permanent" state property, social insurance, handing over of property to foundations, compensation, etc.);

b/ the enforcement of the aspects of structural policy (i.e. in which sectors and at which companies the maintenance of the present production structure (and organizational system) is necessary, and where change is unavoidable);

c/ action against market monopolies, the prevention of their transmittance by heredity, and the prevention of their coming into existence;

d/ the putting of small-scale investors', the management's or the strategic investor's participation into the foreground, and the appointment of the preferred circle of investors.

The target system of the new privatization strategy - and, first of all, the increase of the chances of domestic property acquisition - require the conscious transformation of the supply side, and the strategic direction of the establishment of supply, adjusting to the widening domestic demand. Naturally, all this does not mean the strengthening of the direct role of the state. On the supply side actual execution will take place in an absolutely decentralized way.

2. Transformation of the demand policy: the chance of domestic ownership

2.1 Main trends of establishing the domestic demand

The essence of the new demand policy is the widening of the domestic demand by applying new privatization techniques. During this it has to be taken into account that the coming into being of the domestic proprietary bourgeoisie and the development of a healthy economic and social structure simultaneously assume the presence of the large- and medium entrepreneurial stratum as well as a wide stratum of small-scale owners (small-scale investors).

Such a change of trends and the elaboration of such new means are necessary, which provide a realistic chance for

a/ the domestic entrepreneurs to buy, take over and operate a remarkable property, furthermore,

b/ for the increased participation of small-scale owners (small-scale investors) who wish to join privatization.

In the future the privatization policy and practice have to aim at these two strata simultaneously, completing - and not opposing - each other. (Not denying that some of the entrepreneurs do not want to become owners of the former state property, but they rather settle near state property, furthermore, that the circle of small-scale investors is also restricted, i.e. considerable strata cannot, or do not

want to, become owners.) Taking into account all these, in the field of establishing the domestic demand

- The entrepreneurs' property acquisition aiming at the taking over of a remarkable property has to be promoted by the introduction of special constructions, properly surveying that their participation in the process exclusively for cash and on a market basis can be restricted. (They can compete with foreign investors only to a limited extent.)

- The domestic small-scale investors' privatization activity can be increased by the techniques that have developed by now (see: Employees' Part-Ownership Programme, Subsistence credit) only within certain limits, as a result of their construction. Therefore, such new techniques are necessary which can continue activating the circle of domestic small-scale investors and the applicability of the established techniques has to be considered repeatedly in the function of this.

2.2 Main characteristics of the new techniques promoting the establishment of demand

The new concrete techniques, which increase the demand, have to be established in such a way that they may promote the involvement of the population's savings (the partial mobilization of the internal cash savings) in the privatization process. In the interest of this,

- none of the means aiming at the widening of the domestic privatization demand may be "free of charge";

- in the case of the techniques, which promote the wide property acquisition of the population, the cash-substituting solutions have to be pushed into the foreground;

- the intention of the domestic entrepreneurial stratum regarding privatization has to be promoted by cash-supplementing techniques - over a given property value (also requiring the mobilization of remarkable own resources).

Taking into account the above basic principles, in the interest of increasing the domestic demand, we recommend the elaboration and introduction of the following privatization techniques:

a/ **Credit note** (a technique which establishes the chance of property acquisition for the widest strata of the population).

A warrant, which can be used for all citizens against a minimum charge (costs of distribution and printing), and which can be spent on the purchase of property. Up to a maximized value the warrant can be converted into property without any restrictions. It embodies a credit construction,

the interest of which is variable in time, reaching 100 per cent of the NBH's refinancing credit from 40 per cent within a six- to eight-year cycle, and its repayment is spent on the repayment of state debts. (Its construction is similar to that of the Subsistence credit, but its interest conditions are much more favourable, there is no personal property guarantee and the "own part" is also minimum. Its term is 15 years at the most, with several years' period of grace.) The credit notes are distributed through a nationwide network, such as the "distribution" of the supply.

b/ **Privatization leasing:** a means for the reorganization and buying out of economic organizations, which operate with an efficiency lower than average (or which show a deficit), by domestic private individuals, where the organization and management service performed by the lessee can be included in the repayment of the leasing fee, and can be charged as costs of operation. (Its conditions are regulated by Act LIV of 1992.)

c/ **Payment by instalments:** in the case of a competing tender - the preparation of a proper business plan is a basic condition -, the SPA may permit payment by instalments with an interest of 9.5 per cent, up to the limit of HUF 5 million per person, with a minimum own guarantee. The maximum term would be 10 years. (This would be executed by an association founded by the SPA.)

d/ **Letter of credit** (a technique to promote the process of becoming a large-scale investor or large-scale entrepreneur). Its financial construction is the same as that of the credit note with the difference that it has no upper limit, and it requires an own property- and bank guarantee, which gradually (and considerably) increases, depending on the amount used.

By the elaboration and introduction of the new techniques, on the one hand, the process of the domestic property acquisition will accelerate, and the importance of some of the already existing techniques will expectably lessen (the Subsistence credit), and the expectations in connection with the application of the Employees'-Ownership Programme will become more moderate, on the other.

From among the techniques promoting the domestic property acquisition, first of all, the system of conditions of the Employees' Part-Ownership Programme has to be further improved. The importance of the EPOP is underlined not only because its system of rules is laid down in a separate law, but also because it is such a special property acquisition- and social technique, which finally leads to private ownership as a consequence of collective property

acquisition (repayment and the practising of proprietary rights, etc.). The conditions of the EPOP can be improved mainly by the wide application of the practice of payment by instalments.

3. Purposeful dencetralization at the focus of the supply policy

The basic principles of the supply policy adjusting to the widening domestic demand are that

a/ regarding its magnitude and structure, the supply be adjusted to the demand characteristics;

b/ it should promote the modernization of the system of company organization;

c/ it should terminate undesirable concentrations;

d/ it should promote the coming into being of new enterprises;

e/ the change of owners should contribute to successful accommodation to the economic environment in the case of the already existing, and the newly established economic units.

The main pledge of the enforcement of the above basic principles is reasonable decentralization according to the economic aspects, i.e. the breaking up of state property into units of a magnitude adjusting to the structure of the widening domestic demand, which units can be privatized. During privatization, decentralization is necessary and possible in the following cases:

a/ the monopolistic situation based on organizational centralization, i.e. the case of companies of the type of "a mass of plants", when the large company concerned consists of several plants working in the same profile;

b/ autarkic company structure, by the organizational integration of the cooperation and service activity (production of parts, maintenance, transportation, building);

c/ regional-market monopoly through the establishment of the organizational framework based on the regional principle (see: the trade in consumer goods and food).

From among the above listed cases,

- in the case of items a/ and c/, it is advisable to initiate organizational decentralization in the administrative way (with the participation of the SPA),

since the market is incapable of establishing the conditions of competition in itself, while

- in the case of item b/, all these can be achieved without central influence, by the hardening of the budgetary limit of the companies and by the development of market conditions.

At the same time, the limitations of decentralization have to be seen clearly. Decentralization cannot be an end in itself, because it does not achieve the effect hoped for, moreover, it can also worsen the output of the national economy. A campaign-like decentralization can result in a break in a technological chain, which is strictly determined in every respect by the manufacture of end products, and can render impossible such a form of economic management in the case of which the company's "standing on several bases" serves for the purposes of compensating boom, etc.

The execution of decentralization is possible in several ways:

a/ by the disintegration of the state-owned company before transformation (when the organization, which practices the proprietary rights, decides on it);

b/ during transformation, when the organization practising the proprietary rights establishes associations, which are legal persons, from the units of the former company;

c/ by privatization type buying out after transformation, at the investor's initiative.

In the latter case, decentralization is closely connected to the appearance of the new owners.

During decentralization the manifestation of the aspects of business management, such as optimum capacity, technological unit, the demolishing of superfluous cost carriers, etc., is important. In more detail:

a/ During privatization it is advisable to hand over the social- and welfare institutions of the companies - in case their further operation for similar purposes is uncertain - to the municipalities (e.g. in return for their share in the association) or, free of charge, to social- and welfare foundations established by the employees.

b/ Decentralization may not lead to the upsetting of the foreign market positions of certain companies - which are "large" only in domestic terms -, and may not result in the

buying out of the economic organization of a whole production process, which is in a key position.

c/ Where foreign technology, capital injection and market relationships are necessary, the organizational decisions may be executed only with respect to this.

d/ In certain cases, decentralization is inconceivable without the financial disburdening of certain productive units (e.g. in the agrarian sectors). In the opposite case, the chance for the operation of viable private enterprises is minimum.

The execution of decentralization and its becoming a programme determining the privatization policy faces numerous difficulties. Some factors of uncertainty are as follows: the banks granting credits to companies fear the allocated credits and their guarantees of decentralization, the investors' decentralization privatization is impeded by the lack of buying force (demand), and there is no purposeful forming of information to promote this.

To sum up, the main characteristic of the demand policy of the new privatization strategy is the artificial establishment of demand by means of the preferential techniques offered to the domestic large-scale investors and to the small-scale investors of the population (credit note, leasing, payment by instalments, letter of credit). The supply policy focusses on reasonable and purposeful decentralization and the establishment of units, whose size corresponds to the requirements of the widening domestic demand, and which can be privatized, where both the market mechanisms and central direction play a role in it.

4. Preconditions for the realization of the new demand- and supply policy - the necessity of immediate steps

The new privatization strategy requires rapid and definite steps in the formation of both the demand and the supply side. However, while mainly the elaboration of the necessary rules of law, the establishment of the system of financial conditions, and the detailed elaboration of the constructions are the main tasks on the demand side, and, as opposed to this, immediate decisions are necessary in the supply policy in the following fields:

1. Self-privatization

Since mainly the property of companies taking part in self-privatization embodies a realistic supply for the domestic property acquisition, therefore, in the present system of self-privatization a radical change is necessary (by the

modification of the valid general contract). The one-sided motivation of selling, and decentralization's and reorganization's being pushed into the background have to be released. Such a modification of the system of conditions is necessary which renders the various ways of preferential property acquisition (e.g. leasing, credit note) applicable. Nowadays self-privatization concerns about 700 companies (with a property value below HUF 1 billion, and a staff number less than 1000 persons). The SPA has taken steps at the modification of the general contract.

2. The exact definition of the circle of state property that can be privatized

At present we have no comprehensive and updated information on state property. No monitoring suitable for this has been developed in the past two years. The companies under the former ministerial supervision, the property at the SPA and the treasury property utilizable for entrepreneurial purposes are not fitted into a uniform system. At present state property appears as follows, with respect to the possible ways of privatization:

- state-owned company (under the direction of the municipality);
- state-owned company (under the direction of state administration);
- economic association (joint stock company, limited liability company);
- part property in associations (joint stock company, property shares in ltd-s);
- real estate;
- occasionally, physical property (e.g. machines).

Taking into account all these, the circle of state property, which can be privatized can be segmented in several ways, notably, state property facing transformation, state property that can be privatized in its physical quality, association that can be sold immediately (share in associations), state property that can be sold after reorganization, company in bankruptcy proceedings, association by privatization to one single strategic investor, property asset that can be passed to employees' majority ownership, etc. The possible criteria of segmentation are:

- a/ the form of appearance of the property to be privatized,
- b/ the possibility of actual privatization or liquidation,
- c/ the temporal character of privatization (whether it can be executed immediately or not),

d/ the necessity of structural transformation and reorganization,

e/ the forcing back of the proprietary role of the state (whether it sells fully or partly),

f/ the characteristics of the circle of investors aimed at.

Act LIV of 1992 regards corporate property (partial property) as the subject of privatization, which restricts the scope of the privatizers compared to the earlier period on the one hand, and definitely urges the transformation of state-owned companies into associations, on the other. Therefore, on the side of the new supply policy the form of the appearance of state property is not all the same, because decentralization can be realized with absolutely different means in the case of a state-owned company, or in the case of an economic association. (For example the possibility and scope of the "SPA's influence".) Similarly, the exact surveying of state property, the preparation of a catalogue is necessary on the basis of the possible speed and extent of the possibility of privatization.

The preparation of an exact and detailed property inventory and the elaboration of information "packages" meeting the investors' demands have begun at the SPA.

3. Reorganization and disencumbrance of the state property to be privatized

The supply policy promoting the establishment of a wide and strong domestic bourgeoisie raises, to an increasing extent, the question of reorganization and disencumbrance and the capacity of assuming burdens. (The development of domestic enterprises, which is also hoped of the establishment of decentralized supply will be successful only if the starting enterprises are not strangled by the burdens inherited with privatization.)

Knowing the present privatization supply, the necessity and importance of reorganization are not questioned. The reorganization of state property requires the elaboration of a comprehensive programme, where it can be clarified what is worth being reorganized, why and under what conditions. And what kind of a role by the state is possible and necessary. Reorganization can be performed by the state itself, or it can entrust organizations operating on a business basis (investment funds, property management holdings) with the task, or it is performed by the prospective owner by ensuring preferences (e.g. leasing). In the forthcoming

years a considerable part of the receipts from privatization has to be spent on the reorganization of state property.

Disencumbrance can be applied in a narrower circle than reorganization. In the case of the necessity of disencumbrance an unambiguous standpoint is required in the following questions:

a/ in what well-defined cases and in what interest of the national economy should the owner undertake partial disencumbrance regarding a given economic association (in the interest of successful privatization);

b/ which circle of the state property assets should be concerned by full disencumbrance (e.g. in the formation of supply against compensation ticket or credit note);

c/ in which fields does the state support disencumbrance performed by non-state means (e.g. credit-capital conversion, leasing);

d/ where and under what conditions can the proprietary structure of state property assume guarantees related to privatization (see e.g.: general guarantee).

3. Exact definition of state property outside the scope of privatization

Nowadays the circle of property, which is "outside" the scope of (the regulation of) privatization, is not unambiguous. In connection with this question two segments of state property have to be mentioned, notably,

- the property to be handed over to the social insurance branches;
- the property to be handed over to certain (public) foundations and other non-profit organizations.

For the time being the rules regulating the handing over of property to social insurance and to the non-profit organizations have not been established yet. (The draft of the Guiding Principles of Property Policy of 1992 do not settle this question properly.) In this field a concrete definition of the task is required as soon as possible, because all these concern the supply.

To clarify the problems the following guiding principles can be worded:

a/ In the case of the handing over of property to social insurance, it is necessary that, similar to the supply against compensation, 10 to 20 per cent of the transforming companies be separated automatically for social insurance from the outset;

- social insurance may acquire a property share in an association exceeding 25 per cent - except for a precisely defined circle of companies

- only in the form of preferred dividend (without the right to vote);

- the extent of the handing over of property to social insurance should be regulated annually by law;

- to cover its current expenses - except for the necessary portfolio name - social insurance may use exclusively the yield of property;

- the circle of companies where social insurance can get a share in associations exceeding 25 % + 1 or 50 % + 1 vote during the handing over of property has to be regulated in a governmental order.

b/ In the case of the handing over of property concerning non-profit institutions

- during the handing over of property the foundations serving for national cultural, artistical, sports and scientific purposes, which promote the domestic higher education, the operation of hospitals and other health establishments as well as social, educational and scientific institutions of the church, should be given a priority;

- the favoured object of the handing over of property is the real estate used by them at present (or previously possessed by them);

- as the main rule, the yield of the state property handed over may not exceed, at the time of handing over, 50 per cent of the annual costs of operation and maintenance of the non-profit organization concerned;

- a governmental decision is necessary in the case of the handing over of each such property, where the annual yield of the property handed over exceeds 50 per cent of the annual costs of operation and maintenance of the non-profit organization concerned.

4. The transformation of state-owned companies

The central idea of the new policy of privatization supply - reasonable decentralization - can be realized consistently only if the obsolescent forms of company self-government (company council, meeting of delegates, etc.) are terminated without delay - within the shortest time possible. In the case of the companies directed by self-government, the enforcement of the aspects of decentralization cannot be ensured, and this is where the

"loss" of state property is the most typical. At the same time, the laws that came into force at the end of August, 1992 make the transformation into associations compulsory only until the end of 1993.

In this situation - keeping the provisions of the Acts on Privatization and enforcing the aspects of decentralization corresponding to the establishment of artificial demand - the most advisable solution is to draw the companies in question under administrative supervision, accelerated by the decision of the Board of Directors of the SPA (or by a governmental decision), in which case decentralization and the soonest possible transformation into associations have to be achieved through the activity of an appointed company commissioner. The governmental decision would mean a simpler solution, in the case of which the Government would determine in an order the rights and obligations of the SPA for the purpose of establishing a suitable company structure with special regard to the separation of the individual organizational units, the regrouping of the means of production, and the practising of the power of property abstraction. In the case of the circle of companies concerned, the dismissal of the directors and the appointment of the company commissioners are the rights of the SPA, which would lay down the requirements in connection with the decentralization of the companies in the labour contracts concluded with the commissioners.

Nowadays the transformation of state-owned companies into economic associations considerably depends on the capacity of the courts of registration. Since in this field a specific bottleneck is experienced, some of the most important tasks of the forthcoming period will be the extension of this capacity of the courts of registration, the improvement of cooperation between the SPA and the Court of Registration, as well as the simplification of the necessary procedures.

5. Renewal of the management of the companies

An important precondition of the realization of the new privatization strategy is that the management of the state-owned companies and associations perform their activity in the spirit of this strategy. An unambiguous system of requirements has to be set for the company management and the company commissioners appointed by the organizations practising the proprietary rights, which includes a "diagnostic study" of the company, the examination of the system of market- and economic relationships, the company's successful preparation for privatization and the preparation for its successful selling. All these mean a valid system of tasks related to bankruptcy management, too. In connection with this, the realization of a proper preparation and efficient control are also indispensable tasks.

To sum up, the demand policy promoting the widening of domestic demand, and the supply policy aiming at decentralization can be successful only if the obstacles hindering the processes are eliminated within a short time, and if final decisions, which can be interpreted and followed, are made in connection with the obstacles. Mainly the exact definition of state property which can be privatized and which is withdrawn from privatization, respectively, as well as the correction of self-privatization, the transformation of self-governing companies, the problem of reorganization and disencumbrance as well as the consideration of the possible organizational system require rapid and definite decisions.

V. The connection of demand and supply: the strengthening of the market mechanisms and institutions of privatization

The introduction of the techniques aimed at the increase of the domestic demand and the decentralized supply policy can lead to the establishment of a new privatization practice only if the connection between demand and supply is ensured by suitable institutions. The establishment of a wide and strong domestic proprietor bourgeoisie can be realized only if

- realistic pieces of information, which satisfy the expectable demand, are available on the property supply;
- the property acquisition by small-scale investors is promoted by institutions (investment funds);
- the conditions of non-immediate (and non-cash type) property acquisition are ensured by suitable ways of

property management, which maintain the possibility of the decentralization of property;

- the role of such market forms connecting demand and supply strengthens, which provide an opportunity wider than at present for the domestic investors (e.g. the increasing significance of the stock exchange).

1. Supply information

The role of information is unambiguously increased by the application of money-substituting (cash-supplementing), demand-creating techniques, since the bottleneck character of solvency weakens by this. For this reason, a key element of the new privatization policy is information (the establishment and operation of an efficient information system).

- a/ A critical question of the compilation of the pieces of information on natural supply is the exploration and publication of such characteristics of the marketable units behind the present (large) company organizational framework, which are important in business respects (distribution by premises, product structure, cooperation relations within the company, suppliers' and selling relationships, etc.);

- b/ In addition to the natural type privatization supply, the establishment and continuous ensuring of the proper supply of securities is at least as important. (The significance of the latter is also supported by the fact that as from 31st December, 1992 the state-owned company form will be terminated.) The ensuring of the supply of securities - with special regard to the stimulation of the domestic small-scale investors' participation - can be promoted in two ways, notably, by accelerating the process of making the economic associations public (connected with a wide distribution of shares and business shares), and by a considerable increase of listing on the stock exchange.

The supply of securities contributes remarkably to the acceleration of privatization if

- there are "good" securities on the market - under proper external financial conditions - it is worth investing e.g. in shares;

- in addition to the shares, the market of the business shares of limited liability companies also comes into being;

- the potential investor gets regular information on the securities, and he can monitor the investment opportunities continuously, he has access to stock exchange information,

and can easily establish contacts with the firms distributing the securities.

2. Investment Funds

So far the investment funds have played a relatively little role in the domestic privatization. (In 1992, for the purpose of creating supply against the compensation tickets, the SPA established a real estate investment fund and preparations for the establishment of a portfolio investment fund are being made.)

The new privatization policy intends to attribute a much greater importance than before to the investment funds, for the following reasons:

a/ they are a still suitable way of creating supply against the compensation tickets;

b/ with a good construction (and efficient propaganda) mainly the further real estate investment funds can promote the involvement of the funds of such strata of the population into privatization, who do not want to take part in privatization in any other way (e.g. as entrepreneurs), in addition to their cash investments;

c/ the portfolio investment funds enable the utilization for privatization and the property management of the state proprietary organization's valuable shares in associations, which do not involve the rights of direction (e.g. 5 to 10 per cent blocks of shares), which can be advantageous for the other shareholders as well;

d/ the investment funds can give a new stimulus to the appearance of the financial investors in the privatization process (this is especially true if it is also accompanied by an intensive foreign participation).

At the same time, the operation of the investment funds would not enable the participation of cash-substituting privatization techniques - besides the compensation ticket.

In the interest of the above-mentioned objectives, in the future the SPA will have to stimulate the coming into being of the investment funds and their establishment has to be continued.

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3. Property management

The new privatization policy distinguishes between the question of the management of provisional and permanent state property. (The latter question falls within the concept of operation of the State Holding Company.)

Nowadays property management is necessary mainly because a remarkable part of state property cannot be sold immediately under advantageous conditions due to the loss of markets and recession, as well as because the company requires restructuring and improvement, the management needs to be renewed, the company's liquidity situation has been upset, etc. The purpose of property management - which has to be emphasized separately - is the preparation of advantageous privatization. In this case, "property management" is a means of privatization and not a goal.

As a consequence of all these, the various procedures of property management have to be elaborated in such a way that they may correspond to the system of the new privatization policy and the expectations in connection with the supply side. For example, the property management constructions have to devote special attention to decentralization, and to creating supply against the cash-substituting (and cash-supplementing) demand techniques.

All such ways of property management have to be refused which lead to the institutional "freezing" of state property that can be privatized. (Usually, the so-called holding type property management should not be encouraged.) Similarly, it is also a problem if a given method of property management artificially narrows down the circle of the possible ways of privatization just by the applied property management construction.

Taking into account the above described requirements, the new property management procedures have to be elaborated, including in what respect property management can be distinguished from the privatization procedures, what concrete techniques have to be introduced (e.g. leasing, consultant type property management, entrepreneurial type property management), how proprietary control can be ensured during property management (e.g. by keeping a certain circle of the proprietary rights, by persons).

4. Market mechanisms

The new privatization policy offers two ways for "connecting" supply and demand, notably, a/ centralized, and b/ decentralized privatization.

a/ For reasons of economic strategy, some of the companies have to be privatized in a centralized way, by an individual procedure.

The Government selects the limited number of units in the case of which such considerations of economic strategy are necessary (infrastructural networks). The companies, which have got into this circle, are privatized directly by the state's organization practising the proprietary rights, by involving outside experts and specialized ministries. In the case of these privatizations, all procedures are allowed, such as the closed tender based on invitations, the application of special stipulations, etc.

In the case of centralized privatization, the SPA's Board of Directors determines those priorities which offer a clear direction, e.g. for the handling of the following alternatives:

- a higher selling price versus a lower price and a greater volume of investment promised by the buyer (retraining, development, etc.);
- a higher selling price versus the development (transmittance by heritage) of a monopolistic situation;
- a higher price versus the protection of domestic brand;
- the extent of the assumption of guarantee by the state (general guarantee, guarantee of the extent that can be determined clearly, partial or full disencumbrance, etc.);
- privatization versus liquidation (in the case of companies facing bankruptcy);
- the role of professional and/or financial investors, the desirable property structure.

During the determination of the priorities it has to be emphasized at all events that the new privatization policy is not "income-oriented" at all costs, this is why immediate selling for cash is not given a preferred role.

b/ The privatization of all other state property takes place without the direct participation of the state's organization practising the proprietary rights - but with control aimed at the keeping of legality and the formal rules - in a decentralized manner.

In the case of the decentralized privatization procedure, the seller cannot determine the identity of the buyer at the outset (such a procedure is e.g. selling on the stock

exchange, public tender, auction), and the procedure has to be completed until a given date.

In the decentralized case, privatization is prepared and executed by the privatizer selected by the SPA on the basis of a tender.

The role of the state's proprietary organization (SPA) covers the following tasks:

- it decides which companies are included in the decentralized circle;
- in certain cases, it decentralizes in its own scope;
- during a tender it selects the privatizer;
- it controls whether privatization took place by the permitted means;
- it has an anti-monopolistic right of veto, which means that it can invalidate certain privatization deals if they seriously endanger the market by establishing monopolies (in this question only, the SPA also has the right of individual consideration);

It is a peculiarity of the Hungarian privatization process that in its first phase the presence of professional investors is necessary and cannot be substituted by anything else. (Most companies require capital injection, new market relations, technical modernization and a renewed management.) The presence of the professional investors is not favourable for distribution on the stock exchange, and subordinates it to the appearance of the previous one. The new privatization policy attributes an importance greater than before to the development of the domestic stock exchange. Starting from the fact that

- distribution on the stock exchange enables the state's proprietary organization to sell a certain part of the shares "having stuck in" due to privatization;
- it is still important to create supply against the compensation tickets;
- selling on the stock exchange ensures the presence of passive, institutional or small-scale investors at the associations concerned.

In the interest of increasing the role of the stock exchange, the following steps have to be taken:

- a/ attractive public issues;
- b/ the determination of a low price of issue;
- c/ the introduction of various financial incentives (e.g. tax allowances, price reduction and payment by instalments for small-scale investors).

5. The financial environment of privatization

The successful realization of the new concept of privatization greatly depends on the financial conditions and on the financial-political environment in which the above described changes take place, the means of creating demand appear and the supply policy is formed. In this field the following questions are important:

- a/ the interest conditions of the various privatization techniques and the formation of credit interests in general;
- b/ the assumption of guarantee accompanying the acquisition of property and the guarantee conditions of the enterprise in general;
- c/ the stimulation of risk capital assumption;
- d/ the establishment of such a portfolio supply which meets the yield-, liquidity- and risk preferences of the circle of savers investing (or willing to invest) their savings in the economy;
- e/ the modernization of the banking system, the conformity of the financial credit- and capital market services and the initiatives promoting their diversification;
- f/ the stimulation of taking to the stock exchange and that of investment through the stock exchange;
- g/ bankruptcy management and portfolio cleaning.

In details:

a/ Regarding the interest conditions, both the credit note and the payment by instalments, which is planned for a wide application, will be much more favourable than the Subsistence credit (and, in certain cases, the present one). The reduction of deposit interests has begun this year - accompanied by a decreasing inflation and the expectable handling of the problem of doubtful debts - which will also result in credits to entrepreneurs becoming cheaper.

b/ The considerable decrease and termination of the guarantee requirements (their being encumbered on state property) is a peculiarity of leasing, of the credit note and of payment by instalments alike. At the same time, the expectation for other kinds of security keeps increasing parallelly (e.g. the elaboration of a proper business plan).

In the field of the assumption of entrepreneurial guarantees, on the way of "disburdening" the enterprise (the entrepreneur), the establishment of the Credit Guarantee Co. Ltd. and the launching of its activity of guarantee assumption are considerable steps forward.

c/ The coming into being of risk capital assumption is directly connected to the widening of the circle of the domestic investors (small-scale investors). The establishment of the legal background and the operation of risk capital associations are more and more urgent questions.

d/ The domestic investors' (small-scale investors') confidence can be aroused for the shares (and the stock exchange) if a suitable, "good" portfolio is offered to them (e.g. Pick Salami, MATÁV). The corresponding "supply packages" have to be established.

e/ In the field of the modernization of the banking system one of the most important tasks is the establishment of the activity of up-to-date investment banks.

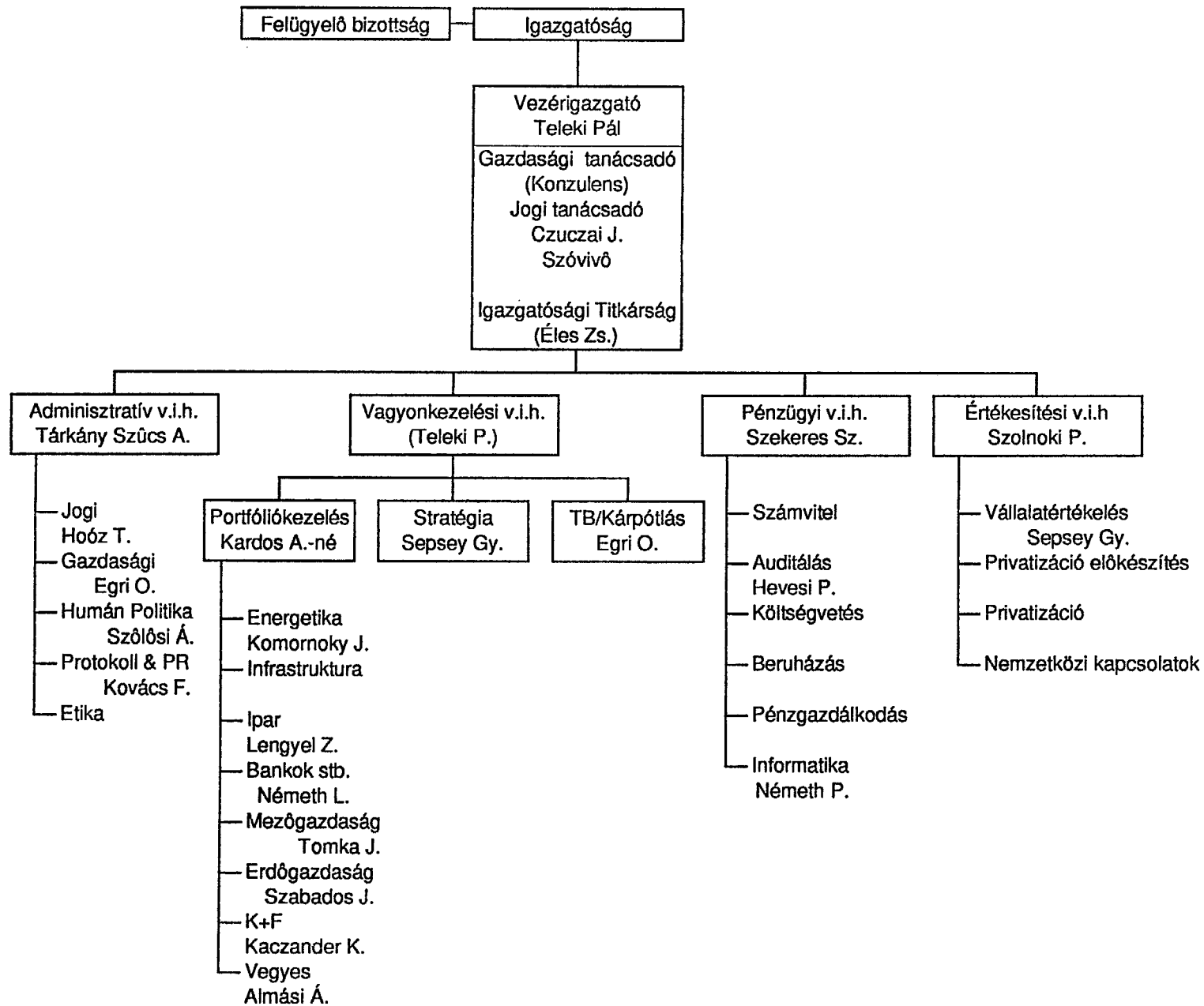
f/ The measures recommended in the interest of the development of the domestic capital market are as follows: the development of the legal and institutional framework of the protection of investors; the establishment of regional centres of capital market information; the development of the infrastructure of the Stock Exchange of Budapest; steps of taxation policy stimulating the demand and supply of the market of shares (e.g. the reduction or release of the dividend tax of the shares distributed on the stock exchange, the reduction of the domestic investors' tax payable on profit taking, the reduction of the issuers' corporation tax), and the offsetting of the receipts, which result from the above and which concern the state budget, by the receipts from privatization.

g/ Bankruptcy management and portfolio cleaning are processes connected to each other. The establishment of the system of credit consolidation institutions serves for the improvement of the portfolio of the banks. All these assume, on the one hand, the rapid liquidation of some of the companies concerned as well as successful bankruptcy management and reorganization, on the other. So far the state's proprietary organization (SPA) has performed

activity in the field of bankruptcy management and company reorganization only now and then. The situation of the companies, which have got to the SPA, and the increase of the number of bankruptcies makes it unavoidable for the SPA to assume a much greater role than before both in the formation of the processes (professional management) and in financing. The personnel-, institutional- and financial background for this has to be established as soon as possible. (Its financing has to be ensured from the privatization receipts.)

To sum up, in the field of market mechanisms connecting demand and supply attempts have to be made at the establishment of the most diverse possible means. In the recommended system the main emphasis is laid on ensuring supply information, establishing investment funds and efficient ways of property management, as well as on improving the conditions of selling on the stock exchange and extending the circle of financial solutions.

AV Rt szervezete



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225,000 tonnes of wheat was used as seed, while 1.981m tonnes was for human consumption.

By the end of the year wheat stock in state ownership amounted to 589,000 tonnes, 150,000 tonnes of which were set aside as reserves. Trading stock amounted to 571,000 tonnes, and producers' stocks were 827,000 tonnes. +++

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Number of businesses increase

Budapest, February 16, 1993 (MTI-ECONEWS) - The number of businesses in Hungary increased significantly in 1992, in line with trends for 1991, the latest figures from the Central Statistical Office (CSO) show.

There were 69,386 incorporated companies by the end of 1992, 70,597 unincorporated companies, 15,091 state budget financed and social security organizations, 33,891 non-profit organizations and 595,976 individually owned private companies.

In 1992 the number of incorporated companies increased by 31.5 pc. 82.5 pc of the total were limited liability companies, or Kfts. 78.3 pc of the incorporated companies and 86.4 pc of the Kfts employed less than 20 staff.

A total of 18,052 incorporated companies were established in 1992, 16,492 of them Kfts. Last year 1,422 incorporated companies ceased operating. Of these, 606 were state companies, 433 were Kfts and 302 were cooperatives.

The number of unincorporated companies grew by 35.4 pc. 58.4 pc of all these companies were private unlimited partnerships. The number of private unlimited partnerships grew by 79.3 pc in 1992.

The number of state budget financed and social security organizations fell by 5.2 pc in 1992. The number of non-profit organizations increased by 23.7 pc.

16.02.1993.

The number of individually owned private companies grew by 20 pc last year and made up 32.6 pc of all enterprises in November, 1992.

Of the individually owned private companies, 27.5 pc were freelancers, 39.3 pc were tradesmen, 32.6 pc were retail traders, and 0.6 pc were farmers. +++

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Limited turnover in money market forint transactions

Budapest, February 16, 1993 (MTI-ECONESWS) - Since the new rules governing money market forint transactions were introduced on January 18, total turnover has amounted to HUF 5bn, Ms Eva Ladanyi, senior official of the National Bank of Hungary, told Econews today.

Transactions have been confined to the active side, that is commercial banks' selling securities to the central bank, with a repurchase obligation at a pre-stated interest rate.

Passive transactions are where the NBH sells securities to the commercial banks, with a repurchase obligation at a pre-stated interest rates.

Limits have to be interpreted on a daily and per partner basis, such that with each partner the central bank undertakes a maximum of 5 deals up to HUF 2bn. The interest rates are published continually in Reuter's NBH page.

Ms Ladanyi said that the reasons for the heavy dominance of active transactions include the problem that banks are pressed for money at the beginning of the year, and the high volume of state securities issues in January and February. +++

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INTERVIEW

Market Reform in Hungary

Building a legislative framework

Janos Palotas, President of the National Association of Entrepreneurs (VOSZ), and a Member of Parliament, shares his views on economic reform in his native Hungary. VOSZ was a participant in the round table negotiations that brought an end to communism in Hungary.

ERT: A recent poll by Szonda Ipsos indicates that 66 percent of Hungarians think it is not necessary to privatize the state-owned industry in which they work in the near future. How can the government and private sector convince labor of the merits of privatization?

PALOTAS: In recent decades, the general attitude that state- or government-owned enterprises offered more secure jobs, though sometimes at a lower income, was widespread. It was considered especially valuable in Hungary to find

employment in a state-owned enterprise such as the post or railways, as such jobs were viewed as having good retirement possibilities. A job in such an enterprise offered workers a fixed income up to retirement. However, the situation has drastically changed. In 1990, the public sector lost 260,000 jobs, but unemployment increased by only 60,000, indicating that the new private economy - though of relatively modest size - was able to create 200,000 new jobs, absorbing 80% of the lost public sector jobs. In 1991, several hundred thousand public sector jobs were liquidated, but more than 50% of these jobs were absorbed by the private sector, without any special assistance.

There is growing awareness that working in the private sector is more desirable than public sector employment. The average income for private sector workers is nearly double that of workers employed in the public sector, and the private sector has achieved an essentially positive record in the aspect that is the most important for workers—job security.

According to the recent poll, there is still a large percentage of public employees who think the privatization of their own company is not at all important—sometimes they are even afraid of it—but this share is decreasing month by month. The more positive view of privatization is countered by the negative attitude of the government, which attributes its own failures to the successful development of the private economy. Mass bankruptcy, insolvency, social security and tax debts are common among medium and large public companies in Hungary. The government, however, acts as if the participants in the new private economy fail to meet their financial commitments, causing hardships that the government, because of the unmet obligations, cannot remedy. In all likelihood the new private sector would be able to play a greater role in creating jobs for those lost in the public sector if restrictive economic policies were replaced by growth-oriented ones. For example, the government has created an artificial capital shortage in the banking sector by trying to restrict

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funding for public enterprises on the verge of bankruptcy. This situation harms the private sector, which must already operate with scarce resources.

ERT: What, in your mind, should be the government's top priority for facilitating economic reform?

PALOTAS: The current government endeavors to control the economic revolution, and the change that comes with it. It is understandable that the government wants to offer social assistance during the change, and this is extremely important, but it should not strangle the process. Economic legislation must be presented as a positive step, through which we will create a legal framework for an economy based on the western model. However, the regulatory framework is shaped by a "principle of non-confidence" among government officials, and as a result economic players have to reckon with over-regulation, a swelling bureaucracy and constant indirect or even direct intervention. This process may greatly retard our economic potential. As the European economy expands eastward, the Hungarian economy is a potentially attractive focal point. This is an historic opportunity for Hungary, one which we cannot afford to miss by unduly restricting domestic and foreign private capital.

ERT: Do you believe privatization in Hungary is proceeding too slowly? Should the process be more intensive?

PALOTAS: There has been more privatization and more foreign investment in Hungary in recent years than in the rest of the ex-Socialist countries combined. However, the Hungarian privatization system is based on legal judgments, rather on market conditions. Today in Hungary the privatization of individual companies can be initiated by the government, by private investors or even by the management or workers of the company. In principle, the system makes the start of a full-scale privatization program possible. Yet, the state, as owner, may refuse any initiative without explanation if it considers the privatization of a given



Hungarian privatization is supported legally and financially by market-based principles, but, in reality, the state as owner clings to its property and bars possibilities for dynamic development.

property as untimely. Thus, it is not the absence of legal rules, lack of interest by investors or a shortage of financial resources that impedes Hungarian privatization. It is the state itself that vetoes concrete privatization initiatives.

The major political parties in the governing coalition and in the opposition claim that large-scale privatization in general is a top priority, but at the same time they raise doubts about every state company to be privatized. As a consequence of this approach, there is only a single large privatization package proposed by legislation that has the support of the Parliament: leasing rights for retail shops. However, this approach does not unleash the full economic growth possibilities of privatization. I am convinced that thousands of retail shops ought not to be sold directly through contractual negotiations by a central organization, as such companies can be quickly and easily privatized to local businessmen on strictly economic criteria.

Thus, Hungarian privatization is supported legally and financially by market-based principles, but, in reality, the state as owner clings to its property and bars possibilities for dynamic development.

ERT: What has been learned by the Hungarian privatization experience so far? What are your reactions to the reorganization of the State Privatization Agency (SPA) to include a State Privatization Institute to supervise state-owned industry?

PALOTAS: The activity of the SPA is very positive, even though it sometimes displays bureaucratic slowness. I am convinced that the SPA is not to blame for the lack of progress in privatization, because of the factors I described earlier. The legal rules governing the operation of the SPA authorize it to assist in the privatization of only those companies sold willingly by the state.

The SPA ought to have 15-20 important privatization programs that correspond to the major distribution channels of the economy. These channels would comprise large-scale industries, such as the chemical industry, the financial infrastructure, insurance, trade infrastructure, international transport, education, health, and telecommunications. The privatization of these high-priority programs can be realized within two years, the proceeds from which will reduce the Hungarian state debt to a considerable extent, together with its inflationary pressure and interest burdens. Public support for these privatizations can be obtained as long as the process is implemented fairly and appropriately. Successful privatization in Hungary would give an unequivocal push toward the realization of economic potential. Moreover, I dare say the Hungarian economy could surprise many within a short period of time.

The Hungarian state debt per capita is today the largest in the world. Yet, from the point of view of creditors, it is of favorable composition, since the total amount of state-owned property in the economy that can be mobilized or sold is more than twice the total internal and external state debt. With a large-scale privatization program, the state would be able to liquidate this debt in 1-3 years. Again, a precondition of successful privatization is that the state as owner must adopt a realistic approach and

obtain support from all important political forces in Hungary.

ERT: Hungary has attracted approximately one half of all foreign direct investment going to the new Central & Eastern European democracies. What political and economic danger, if any, accompanies the infusion of foreign capital?

PALOTAS: In Hungary there is the least resistance to direct investments of foreign capital. As the president of the National Association of Entrepreneurs, I am involved with private investment on a daily basis, and I can assure you that there is absolutely no substantial resistance to the foreign capital that will play a decisive role in our economic development. Of course, in professional circles in Hungary, just like in any other country, the debate on how to protect national capital has been carried on for decades. For the majority of Hungarians, this debate is over in Europe as of 1992. In the unified Europe, the country of origin is not important, either from the perspective of the owner, the investor, the user of the premises or the employee. We are convinced that Hungary will become a regular member of the European Community by 1994 at the latest, so in this short transitional period it makes no sense to torment ourselves about erecting barriers to the influx of foreign capital.

ERT: What measures can help promote entrepreneurship?

PALOTAS: The data in recent years show that there is no slackening of entrepreneurial initiative: the number of private entrepreneurs has increased to 400,000, while the number of independent private companies is above 50,000, with several hundred thousand employees working for them. If we compare this with the 8,000 economic organizations that existed in Hungary ten years ago, we cannot be dissatisfied with the progress. This does not mean, however, that several risk factors cannot and ought not to be moderated. In terms of measures designed to reduce entrepreneurial risks, the

Hungarian state is rather backward. There are no guarantee funds, no credits at favorable interest rates, no financial resources for help in obtaining the most developed technology, no information centers or help with access to trade infrastructure. However, the biggest barrier is the government's lack of confidence in both entrepreneurs and citizens in general. This factor explains why laws and legal rules are extraordinarily bureaucratic, increasing risks and restricting economic activity. Increased

*There is no
slackening of
entrepreneurial
initiative: the
number of
private
entrepreneurs
has increased
to 400,000.*


professionalism in government management would create greater clarity in economic and social processes, which would help our society realize its potential. Entrepreneurs are not willing to take risks without clear signals about the intentions and ability of their government to reform.

ERT: As privatization in Hungary progresses and large state firms pass to private hands, there will be a need to educate shareholders, managers and boards of directors about their responsibilities in governing the new entities. What can be done in the private sector to ensure sound and ethical corporate governance?

PALOTAS: As the leader of the largest private business organization and founder and owner of several Hungarian private ventures, I dare say that Hungarian society has the readiness and knowledge to accept and expand private ownership without problems. Negative examples, of course, can be presented, but I am convinced that the Hungarian private sector is directed by strong and ethical company management, even when compared with European standards. This does not mean that we do not have to do our utmost regarding education and training. I merely wish to point out that the task is not more or less daunting than in any country of Western Europe.

ERT: What is your outlook for the Hungarian economy in the short-, medium-, and long-term?

PALOTAS: In the short-, medium-, and long-term the possibilities of Hungarian economic growth are extraordinary. Hungary has emerged as a new economic focal point of the expanding European economy. From this role Hungary stands to gain in commerce, finance, infrastructure, transport, telecommunications, health, education and tourism.

Increased domestic and foreign direct investment, unique in the region, demonstrate that the long-term strategic possibilities are also short-term opportunities. The Hungarian economy has several grave problems, but these can be reduced in the short term, and then eliminated completely. I have referred to privatization, a successful implementation of which would solve not only the problem of creating a system property rights, but the extraordinary inflationary pressure and the burdens of high interest payments. On the other hand, high taxes slow down the realization of economic potential by creating a shortage of private capital. Another opportunity exists in the World Exhibition in 1996, which will be held in Budapest and impact on the entire country. This event should provide an economic stimulus and will offer us the opportunity to present our social, economic and cultural life to the world. 

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HUNGARY

The Due Diligence Investigation In An Acquisition

by Gary Schweitzer

(Editor's Note: Gary Schweitzer is in charge of the Accounting and Business Advisory Division in the Budapest office of Arthur Andersen.)

Most foreign companies considering investments in Hungary are sophisticated businesses that have a basic understanding of the purchase investigation or the "due-diligence process." However, virtually all of these would-be investors are based in the West and are unaccustomed to the differences in the due diligence process that are required by Hungary's unique business, legal and regulatory environments. This article explains some of these differences and assists potential investors in understanding the performance of meaningful, cost-effective due diligence in Hungary.

Preliminary investment decisions are usually made based partly on financial and accounting data prepared by the target company. There are two problems with financial and accounting data provided by Hungarian entities:

- the accounting principles used, and
- the timeliness of financial information.

Financial information provided by Hungarian companies is usually prepared in accordance with Hungarian accounting regulations. These regulations were thoroughly revised, effective January 1, 1992, so that financial information prepared relating to periods after 1991 will use a very different basis of accounting.

In most cases, financial information prepared in accordance with the "old Accountancy Law" differs materially from generally accepted accounting principles applied in the United States and the European Community. It will also differ materially from International Accounting Standards ("IAS").

The old Accountancy Law required the preparation of tax-basis financial information. Its purpose was not to present fairly the results of operations or the financial position of a company. Financial statements prepared in accordance with these regulations may include several asset accounts which are materially overstated and liabilities which may be materially understated. Some of the more important differences between IAS and the previous accounting regulations that could influence a purchase decision are:

- Fixed assets: Depreciation rates are set by regulation and may be lower than IAS which require that rates be set based on expected useful lives and residual values. Also, fixed asset carrying amounts may not reflect necessary write downs to net realizable value.
- Investments: Investments are carried at cost. No allowance for impairment of value is permitted. Consolidated financial statements are not normally prepared.

- Inventory: Inventory is carried at cost with no provision for write down to net realizable value.
- Accounts receivable: No provision is made for doubtful accounts.
- Accruals and contingent liabilities: Accruals are generally made only for invoices received prior to February 1 of the following year. No provisions are recorded for contingent liabilities.
- Taxes: Deferred taxes are not recorded.

There are several other differences from IAS, including the format of the presentation of the financial information. Investment decisions usually should not be made based solely on financial information prepared in accordance with the old Hungarian accounting regulations.

Transforming Data to International Accounting Standards

In order to be meaningful, financial information prepared by the company should first be "transformed" to a format and basis consistent with IAS. This accounting service can be provided by an international accounting firm. The difficulty in preparing these IAS historical financial statements and time required to prepare them will depend on the information available, the sophistication of management and the number of years of financial statements to be transformed, as well as the materiality scope of the investor. The transformed financial statements are usually prepared based on information received from management, the application of analytical review procedures and the business knowledge of the accounting firm.

The investor should analyze the IAS financial information and make a preliminary decision whether to proceed with the investment before incurring the cost of having additional audit procedures performed. Often, the financial picture presented by IAS financial statements is so different from that presented by Hungarian financial statements that the investor will decide to abandon the acquisition after this stage.

The new Accountancy Law that will be effective for 1992 financial statements goes a long way towards conforming

Continued on page 13

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HUNGARY

Due Diligence (From page 12)

Hungarian financial statements to IAS.

However, the investor should keep the following points in mind:

- There will still be several differences between Hungarian accounting regulations and IAS. For full comparability, the investor may still wish to have the Hungarian financial statements transformed to IAS.
- The accounting profession in Hungary has several questions concerning the application of the new Accountancy Law. The first-time preparation of financial statements in accordance with the new regulations may take longer than expected since many of these questions are still to be resolved.

Both the old and new accounting laws require the preparation of annual financial statements. Hungarian businesses are generally not accustomed to preparing interim financial statements. Therefore, the investor should not assume that monthly or quarterly financial information is readily available. Even if management has "closed their accounts" at an interim period, the financial information may not include all normal closing and adjusting entries. For example, many Hungarian companies can only calculate the values of inventory and cost of sales after taking a full physical inventory, which normally only takes place once or twice a year.

Investors in the U.S. and the E.C. are accustomed to receiving audited financial statements of target companies. Many companies in Hungary have never had their financial statements audited other than by a Hungarian statutory auditor. Auditing standards are not very well developed in Hungary and statutory audits differ in many respects from audits performed in accordance with International Standards on Auditing ("ISA"). Investors should not place the same reliance on a statutory audit as on an "international audit."

Since the target company's financial statements will usually not have been audited in accordance with ISA, the investor may want a certain amount of due diligence performed by its accounting firm. Full audits are usually not practicable except for relatively large investments in sophisticated companies due to the cost involved. The scope of due diligence will usually be less than a full audit and should be performed in a phased approach in order to provide the investor with enough information and the flexibility to decide whether to proceed with the investment or not. A typical purchase investigation might proceed as follows:

Phase I

- Transform Hungarian financial statements to IAS
- Gather selected financial, accounting and business data
- Assist in the preparation of projections

Frequently, the transformation and information gathering phase will reveal serious problems with the target company such as:

- Uncertainty over legal title of land or other assets
- Negative book value (in accordance with IAS)
- Poor earnings history (in accordance with IAS)
- Significant unrecorded liabilities or commitments
- Redundant workforce

On the other hand, the information gathering phase may reveal an undervalued company with great potential. For example, many Hungarian companies have received land at no cost, and in accordance with Hungarian accounting regulations, carry the land at no value on the balance sheet.

Phase II

- Perform a "business person's review" of the financial and accounting data.

This review would consist of inquiries of management and analytical review procedures to determine the existence of uncertainties, contingencies or the need for further adjustment to the financial statements. Often the completion of Phase II will be sufficient to provide enough information to terminate negotiations or complete the transaction.

Phase III

- Extensive substantive audit procedures applied to material account balances such as accounts receivable or inventory.
- Preparation of a valuation advisory report using an asset based and/or business value approach.

Even though the investor may intend to operate the target company as a going concern, the investor may want a "worst-case" analysis, i.e. a liquidation basis valuation to provide him an idea of how much of the investment is at risk.

Additional Considerations

The purchase investigation may be complicated by the number of parties involved and their different objectives. If the sale of a government-owned company is being initiated by the State Property Agency ("SPA"), local management may try to delay the sale in order to preserve jobs (sometimes their own). Although the investor is being asked to bid by the SPA, the process might resemble a hostile takeover.

The investor will frequently be competing with other potential investors. The SPA or company management might require that the investor present a bid before any due diligence can be performed. Sometimes only after submitting the highest bid (and/or best business plan) will the investor's representatives or accountants be allowed into the company.

Most investments have significant domestic and international tax and legal implications. These should be analyzed by appropriate professional advisors.

There are many investment opportunities in Hungary. Foreign investors need to be familiar with how the due diligence process works and its impact on the timing of the acquisition.

TASK DEFINITION WORKSHEET

Task Title: Privatization Transaction Support - Agriculture

Time Budget: 205 person days

Assigned Leader: Twyman, C. Sched. Start: 31 August, 1992 End: 31 Dec. 92

Assigned To: DRT Washington on: 3 August, 1992

TASK OBJECTIVES AND SCOPE

The privatization area in the SPA has a heavy back-log of transactions and insufficient skilled manpower to process and negotiate the transactions. The head of the privatization area has called for assistance in the form of trained specialists to work alongside his transaction team leaders to process and negotiate sales. The objective of this task is to make available immediately an agriculture industry specialist to assist the largest and most important SPA sector group the Agriculture Directorate. It is foreseen that this short term funded person will, following a successful 90 day trial period, be put on a longer term basis. This short-term funded person is expected to be the agriculture team member in the Privatization Transaction Support Scope of Work.

APPROACH AND METHODS

Working with the Deputy Managing Director, Privatization of the SPA, resumes of potential candidates will be reviewed, interviews conducted and references checked. The chosen personnel will then be made available to the SPA under the direction of the SPA Project Office (in the absence of a Team Leader) in accord with the attached Scope of Work. Responsiveness to the needs of the SPA are key at this point. A candidate for this position has been through the selection process and been found acceptable. His counterpart has been named, his initial industry sector (meat processing) selected and his enterprise workload identified. The candidate's performance will be closely gauged for long term suitability during the initial period.

TASK OUTPUT REQUIREMENTS

1. Present pre-screened candidate resumes to the SPA.
2. Conduct interviews.
3. Establish precise assignment for candidate.
4. Bring in each selected candidate for an initial trial period.

TASK CHECKPOINTS

Description	Date Due
1. <u>Resumes to SPA</u>	<u>10 Aug.</u>
2. <u>Interviews</u>	<u>20 Aug.</u>
3. <u>Personnel on ground</u>	<u>1 Sept.</u>
4. <u>Convert satisfactory personnel to long term basis</u>	<u>31 Dec. 1992</u>

MEMORANDUM

TO :USAID Budapest Representative Office
Attn: Mr. David Cowles

FROM :Project Manager's Office
Technical Assistance to the State Property Agency of Hungary
ANE-002-C-00-0047-00
Charles G. Twyman

REF :Investment Banking Specialist Team, Team member,
Agriculture

DATE :17 August, 1992

BACKGROUND:

We have discussed making available to the SPA an investment banking specialist team with a variety of skills. We have likewise discussed mobilizing quickly in order to be responsive to the pressing needs of the SPA. We are undertaking all the steps in this process working closely with the DMD SPA Les Nemethy, and for each individual being reviewed, with the Director of the operating unit to which the candidate would be mentor.

I attach the Investment Banking Specialist Team Scope of Work which has been reviewed and agreed with the SPA and expanded to incorporate reciprocity language at the suggestion of USAID -this reciprocity language has been reviewed and found acceptable by the SPA.

I draw your attention to the Team Member, Agriculture's job description, and the broad scope of the deliverables expected of the team.

CURRENT SITUATION AT USAID:

David, I am not willing to put the project at risk because of a USAID perception of one of our proposed consultants. However in this case in particular I want to have the air clear that there is no bait and switch or less than transparent process underway. I think Charlie Stamm is an excellent fit, is immediately available, can be vouched for, and is very controllable. I feel very comfortable both hiring him and if the need be firing him.

Christine is quite firm in her perception that Charlie isn't the right man. Perhaps her distance gives her superior objectivity.

I would request that you discuss this further with her. Clearly Charlie is not coming in unless we put this to bed.

For your assistance I attach the relevant documents and some text to bring you up to date.

I recommend you give Les Nemethy (tel. 149-4935) and Racz Erno (118-1614) a call to get their understanding first hand.

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ANALYSIS

-The Washington D.C. based USAID Project Officer has noted that the proposed Investment Banking Team Member, Agriculture is not a closing specialist.

Response: The proposed team member has strong industry, pipeline development and refining, mentoring, and deal support skills of immediate use to the SPA. He is recognized as not being the maximal closer. He is viewed as part of a team to bring deals to the table. The SPA has a great need for getting transactions negotiation ready (both from the viewpoint of short-listing buyers, and packaging the seller) and the need to be able to manage sales teams (external consultant teams like CSFB/PW/BM etc.) He can very much support the SPA transaction process as part of a team. Les feels that he can only absorb 1-2 pure negotiation specialists at one time. He estimates that one "killer" can be working on about 10 transactions at a time if he has support. Les feels he may have about 20 transactions on average at point of sale at one time with the balance of the assistance required being support and follow-up. Les is building a team with up to 5 from USAID and 3 from Know How. Charlie is the first in.

-The USAID Project Officer has observed the candidate in a more administrative role in Czechoslovakia and feels that those skills are not what is needed here.

Response: Charlie will not be in a project administrative role at the SPA, his strong industry skills and deal packaging skills will be what is most used. He will work for, Racz Erno and Les Nemethy and the Investment Banking team leader with Project Management support report to me. Please review the reciprocity agreement for a feeling for the control structure.

CURRENT SITUATION AT THE SPA:

Economic and Political Environment: Hungary is largely an Agricultural country. Hungary's agriculture is the largest single industry and its largest employer hard hit by the dissolution of Hungary's traditional COMECON market. The financial position of almost all of Hungary's agricultural producers is in jeopardy. This is a politically volatile issue for the current Government as the rural vote is an important constituency that currently aligns itself waiveringly with the significant minority Smallholder's party which has farm roots.

SPA Organization in the Agricultural Area: The SPA has just organized itself sectorially. The SPA has committed its most experienced line director (Racz Erno) to the Agricultural sector. This directorate of the SPA is its largest and has the most troubled enterprises of any directorate.

SPA Request: The SPA has requested mobilization as quickly as possible of the investment banking team. They have indicated particular urgency in the agricultural team member.

AG team Requirement: The SPA is anticipating two specialist in the AG group, one provided by USAID and one by the Know How Fund. Their specialities will complement each other not conflict. In addition the Ag group will probably be a focus of some effort by USAID's insolvency team. Given its sector size the AG group is still building its pipeline and doing its enterprise reviews and potential market definitions however in the food processing area it has identified and has listed 10 transformed companies for immediate sale with 15 more in the self-privatization track and it is currently in negotiation and as closed on several deals.

SELECTION PROCESS:

Given the time urgency and the stage the SPA was in its processes and the needs of the position the D&T team identified an AG specialist with transaction experience in Eastern Europe (Czechoslovakia). The individual was identified as having strong industry skills, strong organizational and evaluative skills, strong mentoring skills, and strong deal positioning skills. The candidate did not have strongly focused closing skills although he has had considerable experience in various aspects of it. The candidate is an independent consultant currently and had previous relevant, verifiable, experience with a big six firm D&T.

1. In the mind of the D&T team at various levels the candidate Charles Stamm can contribute strongly as an investment banking team member in the SPA environment. The Project Manager in particular endorses Charlie's mentoring and team player skills for the role he will be asked to play with the most senior and high pressure SPA team.

2. In the mind of the head of privatization at the SPA Mr. Les Nemethy Charlie Stamm is a good team resource for his investment banking team. This is based on two interviews and a review of qualifications and discussions with his Agric. Team. It is clearly and up front recognized that Charlie is not a focussed closer but a strong pipeline developer and negotiation supporter. Les feels if he can get the quality support for transactions that he can focus closing skills on them. He for instance views that he only has a specialized closing skill need for one or two of his team members but needs a stronger mix of deal preparation and management among the others.

3. In the mind of the Agricultural Sector Director Racz Erno he wants Charlie's skills available now. This is based on several hours interviewing with Racz and his team members. His immediate assignment is with the meat sector director.

4. The Budapest Rep. USAID has reviewed the candidate as well and was positively impressed.

INVESTMENT BANKING SPECIALIST TEAM

III Scope of Work

The State Property Agency of Hungary (SPA) is requesting specialized assistance to accelerate the privatization of state owned enterprises in Hungary. The skills will be focussed particularly on transactions both existing and forthcoming. The SPA feels that it must commit highly skilled resources directly to the closing of privatization transactions or the process in Hungary may become excessively bureaucratized.

The SPA wants to embed a specialist individual -acting as part of a team- in each sectorial operating unit of the SPA's privatization directorate with the specific intent of placing major transaction on the individual's desk so, that working closely with Hungarian counterparts, he can trigger the actions necessary to move toward and complete closures on privatization transactions.

The team will, working with and for the Deputy Managing Director Privatization within the SPA, help identify and break down internal and external bottlenecks in the privatization process. The team will have both line and staff responsibilities as it will not only "deal" but help the SPA systematize the development of dealing skills so that it can accelerate its privatization activities.

Summary of Responsibilities

The Investment Banking Specialist Team will report directly to the Deputy Managing Director in charge of all SPA privatization activities. The specialists will be put in charge of key transactions. S/he will work alongside, mentor and provide quality control for Hungarian counterparts.

The Investment Banking Specialist will have three main tasks:

- 1) to help the SPA accelerate its privatization activity and reduce its case backlog by closing transactions
- 2) to help the privatization transaction case managers acquire experience. In carrying out this work, s/he will be expected to work harmoniously with counterparts and other specialists in the Privatization Department, as well as with responsible managers in the enterprises and affiliated companies.
- 3) to assist the Deputy Managing Director in overseeing the formulation and implementation of the SPA's privatization programs; they will be responsible for assisting the Deputy Managing Director in:
 - a. developing privatization policies and programs; establishing privatization guidelines confirming to established policy;
 - c. formulating transparent privatization procedures;
 - d. monitoring and evaluating implementation of the privatization program and of specific transactions;

Team Components

Team Leader: (1) An investment banker or equivalent with senior management experience in an investment banking environment as well as experience in dealing with national economic policy issues at the Ministerial level. This person should be an experienced negotiator as well as an experienced manager. This person would be directly responsible to the SPA's DMD privatization, do major transactions in support of the DMD and coordinate the teams activities.

While the following 4 positions are all portrayed as full time it is anticipated that three will be full time and the fourth funded position would actually be utilized by a combination of short term specialists as rapid response specialists supporting the long term positions.

Team Member: (2) An investment banker or equivalent with team leading experience. This individual should be experienced in the organizing, negotiation, documentation, and closing of deals in the industrial production and service industries. The team member must be able to work with and train counterparts and work in a rapidly evolving environment with a minimum of supervision. These two team members will each be directly responsible to the Director of one of the two Industrial Privatization sectorial directorates.

Team Member, Agriculture: (1) An investment banker or equivalent with team leading experience, this individual should have particular experience in the agricultural and food processing industry. This individual should be experienced in the organizing, negotiation, documentation, and closing of deals in the agricultural environment. The team member must be able to work with and train counterparts and work in a rapidly evolving environment with a minimum of supervision. This team member will be directly responsible to the Director of the Food Industry, Agriculture and Welfare Services Directorate.

Team Member, Infrastructure: (1) An investment banker or equivalent with team leading experience, this individual should have particular experience in dealing with the sale of major industrial and service industry infrastructures. This individual should be experienced in the organizing, negotiation, documentation, and closing of deals in the large infrastructural asset environment. The team member must be able to work with and train counterparts and work in a rapidly evolving environment with a minimum of supervision. This team member will be directly responsible to the Director of the Privatization of Industrial Infrastructure Directorate.

Deliverables

A) The team will help develop and refine guidelines and instructions for transactions to ensure consistency of approach throughout the process.

The team will be expected to:

- 1) review privatization cases and make recommendations on the appropriate privatization means;
- 2) test and refine reviewing procedures;
- 3) develop standardized financial and narrative summaries of all projects to ensure conformity of review;
- 4) assist in the evaluation/valuation of transactions, leading to a determined number of privatizations.
- 5) produce a coherent set of documents and software that may be used as guides and checklists in evaluating and monitoring future privatization projects;
- 6) undertake a review to inventory, evaluate, and rank enterprises as candidates for privatization, prepare a target list of enterprises for privatization, and recommend candidates for privatization
- 7) analyze policy, regulatory, organizational and institutional issues and constraints to the development and implementation of the privatization program and recommend solutions.
- 8) assist in developing negotiation strategies for the SPA and for specific transactions.

In addition the Investment Banking Specialist Team, upon request from the Enterprises and under the direction of the SPA will be responsible for:

- 9) advising the enterprises on developing privatization strategies and action programs for themselves and portfolios of affiliated companies;
- 10) advising the enterprises on how to organize themselves so that they can deal effectively with the issues that need to be addressed during the preparatory work for privatization;
- 11) helping the enterprises and their affiliates to design a detailed action plan for each privatization transaction and identifying tasks and target completion dates according to realistic timetables;
- 12) assessing the preparatory work required of the enterprises and affiliated operations for privatization and recommending measures for improvement;
- 13) preparing model terms of reference for tasks to be performed, and assisting in the recruitment of experts and consultants to deal with enterprise preparation, valuation, labor redeployment, marketing, financing, financial packaging, and such other problems and issues as may arise in the context of a privatization transaction, utilizing the various sources of technical assistance available for this purpose.

14) advising on the selection of the optimum method of privatization for each transaction, be it a sale, lease, contracting out, concession, etc. and reviewing as requested, the various strategies of divestiture proposed by the enterprise and/or affiliated companies, or by consultants under contract;

15) reviewing business plans and public tender procedures and documents in order to inform and attract the widest possible interest among suitable prospective investors. The specialist will also advise on measures to present the enterprises in ways to appeal to the most desirable investors from the Government's point of view, not necessarily only those offering the highest price. In this context, s/he will advise the SPA and enterprises on alternative valuation methodologies and sales strategies.

Reciprocity Agreement

In consideration of the USAID making available a trained investment banking team with appropriate secretarial, translation, technical and equipment support, with the intent of making the team rapidly and fully effective the SPA undertakes:

1. To make available the required office space and office equipment to support the team's needs.
2. Make specific counterpart assignments for each team member in writing.
3. Working with the Investment Banking Team Leader and the USAID Project Office Assign specific privatization account responsibilities and time tables to each team member in writing.
4. To work with the team to identify areas requiring the commitment of Enterprise or SPA resources (enterprise budgetary funds, SPA sales proceeds, PHARE funding, World Bank or whatever) and then make them available.
5. To meet quarterly with the USAID Budapest Representative, The SPA Project Management Office, the Investment Banking Team Leader to assess the Team's progress and planned utilization for the coming quarter.
6. To meet monthly with the USAID SPA Project Office and the Insolvency Team Leader to assess the Teams progress and continued utilization.
7. To meet at least weekly with the Insolvency Team Leader to resolve practical working problems.
8. To provide in the ninth month of the project through the USAID SPA Project Office a request to USAID for the extension or wind down of the project with documentation in support.

MEMORANDUM

To :Csepi Lajos
From :Twyman Charles
Date :13 November, 1991

REF :Work Plan project

Background: You asked that I design a set of instructions for the SPA's Directors so that they could generate the material required by the SPA for its next year's activities.

Current Situation:

1. The SPA has matured. It has had over a years experience, has a core staff in place, and has several programs well underway.
2. The SPA is being asked to do more of what it has done, accelerate the process, and add new responsibilities.
3. The SPA needs more resources.
4. The SPA needs to manage its current and future resources.

Efforts to Date:

Dr. Vamos and Pecsí Eva have assisted you in putting together some initial requests for personnel and financial support to the MOF and the Government. From what I have seen of that work it is a good starting point but lacks the substantial underpinning that will enable you to fully justify your requests or systematically manage them should you receive them.

You also have Lukacs Erzsebet working on a related institutional development plan which has the same basic core data need.

My efforts so far:

1. I started with the question "Why does the SPA need a work plan?" The answer is to justify more resources to accomplish its mission and to manage its current and future resources.
 - a. The first step is that the people doing the work have to agree what they are doing, why, and state their anticipated objectives and define what they need to reach that output.
 - b. The second step is that the senior management and the Board must agree with what are the organizations objectives and commit themselves to getting the resources to accomplish them.
2. I have made a first step at designing a bottom up planning process for the SPA built around the individual operating units definitions of what they are going to do and what they need to do it.
3. I attach my initial design steps. The last component, the design of the actual format of the information required from each unit I am now working on. This last component will incorporate many of the information items outlined in the World Bank's Work Program outline

REQUEST:

1. Please review what I have done so far to see if it fits in with what you, Dr. Vamos, and others are moving toward.
2. Please note that I have a long term advisor -Mr. Peter Kurz- arriving to support Dr. Vamos in his finance function starting on 15 November. He should be able to bring strong technical support to drawing together a planning and budgeting process for the SPA.
3. May we meet to discuss this briefly?

RECOMMENDATION:

1. A "Work Plan" that the SPA can use to justify and manage its resources cannot be drawn together because of the need to use the process of preparing the work plan as an important first step in managing people towards its achievement.
2. If I am not on the wrong track in terms of what you need I suggest that my and other planning efforts in the SPA be consolidated into a major planning effort under your direction with the Finance Director's office doing the consolidating.
3. There is a considerable risk in putting out the summary form objectives of the SPA in the form of a Work Plan without the underlying institutional commitment and homework.

MEMORANDUM

FROM :Csepi Lajos
TO :SPA DMD's and Directors
DATE :xxxxxx

REFERENCE:Planning cycle 1992

BACKGROUND:

Since its inception the State Property Agency (SPA) has been in a reactive mode as it tried to grow into and learn the tasks given to it. This period is now over and the SPA must assume responsibility for its own growth and development.

CURRENT SITUATION:

- The SPA now has more experience in the realities of privatization in Hungary than any other organization.
- The SPA will lose its ability to operate effectively if the SPA does not systematically apply this knowledge to achieving the enterprise privatization goals of Hungary's privatization program.
- Each of the SPA's functional areas must now clearly define what it is going to do in the coming period and what resources it needs to accomplish them.
- If the SPA does not take the initiative it will lose much of its ability to effect its own direction and be unable to command the resources it requires to be successful.
- To meet this challenge we are initiating the SPA's first formal bottom up planning effort. We must work together to make it a success as much depends on it.

REQUEST:

- A. Each Director must involve himself in this budgeting and planning process or he and the SPA will lose its required initiative.
- B. To do this each Director must prepare a Work Program in the attached format for each of his major functional activities for the 1992 year (in detail) and beyond (in aggregates). -I note separately individual Director's responsibilities in this regard-
- C. Please consider this effort seriously as it effects:
 1. The Government of Hungary's goals that it will undertake to its citizens and the world. In the later case specifically in the IMF and World Bank Conditionality language.
 2. The ability of the SPA to define and then accomplish its part of the overall privatization effort in Hungary.
 3. The reward structure for the individual directors and their staffs.

PROCEDURE:

1. Each director must make sure that all the members of his team understand this planning process in being undertaken and its importance.
2. Each Director must be sure that his team understands what his directorate is doing and a consensus is reached on what his directorate wants to accomplish in the coming period. Note that the individual Directorate's activities are already operating under certain set objectives. Those already agreed objectives are the starting point for this process .
3. Each Director must involve his key directorate personnel in the detail of the planning process particularly in the setting of concrete goals as he and these individuals are responsible for their achievement.
4. Certain Director's activities are highly dependent on the activities of others, for instance the legal directorate must plan much of what it does based on the needs of the Active and Investor led units, the valuation unit's work is highly dependent on the work of the Active and Spontaneous units etc. It is important that each director understands and defines those linkages and ties them specifically and by mention into his plan.
5. Each Director will present his plan for review to his other directors and all of the directors will discuss with myself and the Deputy Managing Directors the SPA's overall objectives and consolidated needs. As the SPA does not have unlimited resources there will obviously have to be prioritization and selection.
6. It will be the responsibility of the Director of Finance to pull this information together and consolidate it for the SPA as a whole.

FORMAT:

Attached you will find an outline of the basic format to be used by each Director with some explanations and examples. This format will add uniformity to our efforts so that we can readily consolidate the information into an overall planning document.

The goal by the end of the process is that each of the functional areas within the SPA must have a created two basic documents:

1. A by unit strategic definition of the functional parts of the SPA. We are now experienced enough that this is relatively simple for A - D below. For the purposes of this plan and future planning cycles each unit should summarize (drawing on past materials):
 - A. The Need for the units activities
 - B. The Mission of the unit
 - C. The Client of the unit
 - D. The Products of the unit
 - E. The Objectives of the unit in the coming period. While the objectives must be defined in very well chosen words it must include specific aggregate goals by product of the unit. These numerical goals are the result of the core document of the planning cycle, the statistical output, discussed below.
 - F. The Resource Requirements of the unit. The statistical analysis at the unit level will result in a summary figure

of the units needs in terms of man-power, equipment, space
and technical assistance.

2. The core product of the planning cycle is a statistical analysis as quantifiable as possible of the historic activity of the unit, its present work load, and projected workload. These facts are matched against manpower, equipment, space, external consultancy requirements, etc. past-present-and future. The result is a justification, by unit and product in accord with past experience and considering future planned activity, of the SPA's man-power, equipment, space and other needs. Without this justification the SPA will get nothing near its requirements.

NOTE The Financial Director's office will consolidate the directorates inputs and convert the various inputs into financial form. In many cases the line Directors have the best idea of the cost element of their various activities so the Financial Director will be dependent on their inputs for his financial consolidations.

SCHEDULE:

1. The individual Directors should submit their first draft of their:
 1. Strategic definition which summarizes:
 - a. Why there is a need for their unit
 - b. Their units mission
 - c. Their units Client
 - d. The products of their unit
 - e. A summary of the objectives of the unit in 1992
 - f. A summary of the 1992 resource requirements of the unit

This should not exceed two pages. It should be reviewed with each Director's DMD prior to submission to me.

It should be submitted to my office by _____.

2. I will review these submissions, review them with the individual directors and then circulate them as revised to all directors for a joint discussion on _____. As the summary of objectives - 1992 and resource requirement sections of this submission contains the final numbers derived from core statistical analysis planning document (the part 2 above) it is essential that the Directors be prepared to discuss with me their assumptions and requirements to achieve these goals (man-power, space, equipment, external consultants, etc.).
3. Based on our joint discussions individual directors will refine their submissions and submit them with the detailed attachments to my office by _____ for passage -after an initial review and approval by myself and the Deputy Managing Directors- to the office of the Financial Director for consolidation.
4. The office of the Financial Director will consolidate the submissions and working with the individual Directors derive an overall financial plan. This will be completed by:_____.
5. The consolidated plan will be reviewed by the Directors and then will be submitted to our Board for review by _____.

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REMINDER

The SPA and its individual Directors have most significant responsibilities. The SPA is responsible for designing and executing a significant part of the process of the economic transformation of Hungary. The SPA and its Directors will be held to the Plan we make by the Hungarian people, the Hungarian Government, various participants in the Hungarian economy and Hungary's observers. This is a serious exercise!

DIRECTOR RESPONSIBILITIES IN THE 1992 PLANNING PROCESS

Managing Director:Csepi Lajos

1. Will oversee the entire planning process
2. Will, working with his Deputy Managing Directors, reconcile the various priorities and resource allocations within the plan.
3. Will, working with his Deputy Managing Directors and the individual Directors establish agreement as to each individual objective of the SPA.
4. Will be responsible for the presentation of the SPA's plan at the Board level and elsewhere as required.
5. Will be responsible, working with the staff of the SPA and its Board for defining the SPA's overall strategy and articulating the need for the SPA, its Mission, Client, Products, and Objectives. This will be a end product of the planning process.
6. Will be responsible for working with his direct report Directorate (Kulso Kapcsolatok Igazgatosag) on the preparation of his work plan
6. Will be responsible for the planning for his office and staffing needs to include the Titkarsag and the Ikato and for the allocation of existing foreign technical advisors.

Deputy Managing Director:Szabo Karoly

1. Will work with the other DMD and the MD to reconcile the various priorities and resource allocations within the plan.
2. Will work with his direct report directors to define their individual unit plans and coordinate their efforts.
3. Will be responsible for initial consolidation of his direct report Directors' and their Deputies' efforts as they include the core of the transaction activities of the SPA. Those Directors are:
 1. Jogi Igazgatosag -
 2. Privatizacios Program Igazgatosag
 3. Privatizacios Igazgatosag
 4. Befektetoi Privatizacios Iroda
 5. Eloprivatizacios programigazgatosag
4. Will be responsible for the planning for his office and staffing needs.

Deputy Managing Director:Slosar Gabor

1. Will work with the other DMD and the MD to reconcile the various priorities and resource allocations within the plan.
2. Will work with his direct report directors to define their individual unit plans and coordinate their efforts.
3. Will be responsible for initial consolidation of his direct report Directors' and their Deputies' efforts with particular emphasis on the Asset Management role of the SPA. These Directors are:
 1. Penzugyi es Gazdasagi Igazgatosag
 2. Tulajdonpolitikai es Vagyonkezelesi Igazgatosag
4. Will be responsible for the planning for his office and staffing needs.

Penzugyi es Gazdasagi Igazgatosag: Vamos Ferenc

1. Working with the Managing Director he will be responsible for the final consolidation of the Work Plans and the preparation -working with the individual Directors- of their financial needs components.
2. Will work with his individual operating units to prepare their inputs into the plan. Those units include:
 - Gazdasagi Iroda
 - Allami Vagyonnyilvantartas
 - Nemzetkozi Pensugyek Irodaja
 - USAID Irodaja
 - Informacios Iroda
3. Will work with the informacios Iroda to help them make available to the individual directors the historic transaction data they require to complete their planning work.
4. Will be responsible for the preparation of the overall financial plan of the SPA
4. Will be responsible for the planning for his office and staffing needs.

Tulajdonpolitikai es Vagyonkezelesi Igazgatosag: Timar Andras

1. Will work with his individual operating units to prepare their inputs into the plan. Those units include:
 - Vagyonkezelillesi Iroda
 - Vagyonertekelesi Iroda
 - Tokepiaci Iroda
 - Asset Management Unit
2. Will assist the MD and the DMDs in properly defining the policy directions of the SPA for the coming year.
3. Will be responsible for the planning for his office and staffing needs.

Jogi Igazgatosag: Vargedo Lajos

1. Will be responsible for preparing the plan for his operating unit with particular attention to establishing the service requirements of the other operating units for his unit's skills.
2. Will assist the MD and his DMDs in the planning process to be sure that the SPA's legal obligations in terms of responsibilities are properly noted and provided for in the Plan.
3. Will be responsible for the planning for his office and staffing needs.

Kulso Kapcsolatok Igazgatosag: Gelenyi Csaba

1. Will be responsible for preparing the plan for his operating unit with particular attention to the distinct budgetary needs of both his training and Public Information activities. He will pay particular attention to establishing the service requirements of the other operating units for his training unit's and public affairs unit's skills.
2. Will be responsible for the planning for his office and staffing needs.

Privatizacios Program Igazgatosag:

1. Will be responsible with the assistance of his Deputies for preparing the plan for his operating unit with particular and detailed attention to the needs of the various Active Privatization Programs that are the responsibility of the Unit (1st. Privatization Program, 2nd. Privatization Program, etc.)
2. Will be responsible for the planning for his office and staffing needs.

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Privatizacios Igazgatosag:Szucs Endre

1. Will be responsible with the assistance of his Deputies for preparing the plan for his operating unit with particular and detailed attention to the needs of the various programs that are the responsibility of the Unit e.g. asset protection cases, transformations etc..
2. Will be responsible for the planning for his office and staffing needs.

Befektetoi Privatizacios Iroda:Bathory Laszlo

1. Will be responsible for preparing the plan for his operating unit and detailing the SPA's buyer initiated privatization workload.
2. Will be responsible for the planning for his office and staffing needs.

Eloprivatizacios programigazgatosag:Racz Erno

1. Will be responsible for preparing the plan for his operating unit and detailing the objectives, accomplishments, and future needs of the pre-privatization program, the self-privatization program, and the SPA's role in the Compensation Law initiated warrant program.
2. Will be responsible for the planning for his office and staffing needs.

FORMAT GUIDELINES
1992 WORK PROGRAM

STARTING POINT -THE SPA

Starting Point: We all begin with the same premise: the Role of the SPA. All of the operating Directorates derive their individual Directorate's need, mission, client, and products from the SPA's role. The SPA's objectives and resource requirements for a given year are derived from the individual objectives set at the Director level

NEED: Hungary needs to increase its economic efficiency. The private sector's management of Hungary's principal productive assets is essential to this process. The passing of those assets from the hands of Government into the private sector must be done responsibly and expeditiously.

MISSION: The role of the SPA is to stimulate, encourage and guide the reduction of the role of the state in the ownership and management of state assets to the minimum level consistent with the need to govern.

CLIENT: The principal client the SPA must serve is the transparent and impartial processes that it must administer to achieve its mission.

PRODUCTS:

1. Privatization processes -design, execute, stimulate-
2. Regulation of the privatization process to the extent it adds value and doesn't slow it.
3. Deal with the assets of the state housed in the SPA with privatization being the principal objective.

OBJECTIVES:

To help reduce the percent of Government management of the productive assets of Hungary to below 50% by year end 1993.

To achieve this in 1992 the SPA will:

1. Initiate major privatizations
2. Support major investor driven privatizations
3. Regulate transformations
4. Regulate Asset sale transactions
5. Regulate Spontaneous privatizations
6. Initiate and administer a self privatization program encompassing enterprises.
7. Administer the sale of enterprises under the preprivatization program.

RESOURCE REQUIREMENTS:

Personnel :

Space :

HUF Funding: *

- * This number is the HUF budget number needed from the Government of Hungary to cover the projected personnel and space requirements of the SPA. Privatization transaction costs are handled separately and this number is net of the support anticipated from the donor agencies' grant resources for such things as training and special project work.

FORMAT GUIDELINES

General Instructions

1. Each Director preparing a work plan must agree with his superior (MD, DMD) and each operating unit under a Director preparing a work plan must agree with his Director, the need for, mission of, client of, products of, objectives of and resource requirements of his unit.

2. The common aggregate number outputs for each work plan must be in similar format specifically: Requirement for Hungarian Staff, Office requirements by Sq. meters and number of rooms, and requirement for PC, Fax, telephone, copier.

3. However all operating units have different need mission and client definitions and they don't have the same type numerically definable product, objectives and resource requirement. The individual units heads must work with their respective directors to carefully define all of these but particularly their measurable products, objectives and resource requirements. (it is assumed all products, objectives and resource requirements can be quantified as they must be)

As this is the first formal planning process at the SPA these initial efforts will be the guideline for future years and, barring dramatic changes will have the same starting point planning cycle after planning cycle.

4. The Office of the Financial Director can assign cost to such items as personnel, computers, copiers, etc so the individual units only have to give unit descriptions. In the case of personnel it might be 1 economist, 1 bilingual secretary, etc.. with a total.

There are specialized items that have costs that the operating units only know for instance the active privatization unit knows in detail the cost in terms of outside consultants of funding a privatization in terms of currency, man days, time, expenses etc. they will have to provide that data, the Public relations unit is best able to define the estimated costs -printing etc.- of their various efforts particularly where outside services are used. They must quantify those to the degree possible. While the suggested format for each unit will give guidelines individual unit heads must add to the product and other categories suggested to fully describe their activities.