Deloitte & Touche

Technical Assistance to the State Property Agency of Hungary
Annual Report, FY 1993

Contract No. ANE-0002-C-00-0047-00
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Amendment 5

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Report for the Contract Period Ending
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DELOITTE & TOUCHE
TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY

ANNUAL REPORT FOR THE PERIOD 30 SEPT. 1992 - 28 FEB. 1994
TABLE OF CONTENTS

I. Summary 1

II. Background 2

III. Objectives 4

A. Hungarian Government Policy and Objectives 4

B. State Property Agency Objectives 5

C. USAID Technical Assistance Objectives 5

IV. Achievement of the Scope of Work 6

1. LTA/Privatization & Project Office Management 7

2. LTA/Investment Promotion 8

3. Advisor/Agricultural Privatization 8

4. Self Privatization Program 10

5. Financial Management 12

6. Training 13

7. Equipment 14

V. Recommendations for Future USAID Support 15

VI. Appendix Directory 16

USAID Contract No. ANE-0002-C-00-0047-00
Project No. 180-0014-3-1183482
Amendment 5

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TECHNICAL ASSISTANCE TO THE
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ANNUAL REPORT FOR THE PERIOD 30 SEPT. 1992 - 28 FEB. 1994

I. Summary

The United States Government, through the US Agency for International Development (USAID), has supported the Government of Hungary's privatization program since 1989 -- at the very birth of the concept of a separate privatization agency. This assistance has been primarily channeled through a team from Deloitte & Touche which has focused its efforts on supporting the development of the Government's chosen privatization vehicle, the State Property Agency (SPA).

In an effort that has been coordinated with and leveraged by a broad range of other donors and lenders -- both bilateral and multilateral -- USAID has delivered a targeted technical assistance program that has made a major contribution to the privatization effort in Hungary. USAID's assistance is seen as rapid, responsive, effective, useful and non-threatening. The main reasons for USAID's success have been the following:

- Continuity -- Since early 1990, the SPA technical assistance effort has been led by the same company (Deloitte & Touche) with the same Long Term Advisor (Mr. Charles Twyman). The institutional knowledge gained in each task has not been lost from year to year and the SPA has been able to become comfortable with the Deloitte & Touche team. Continuity has allowed the project team to build relationships with SPA staff that ensure that their work will be absorbed and used both during and after the project.

- Client Knowledge -- The Deloitte & Touche team understands, on the one hand, how USAID procurement and contracting procedures work and, on the other hand, what the SPA needs. This has allowed us quickly and accurately to identify particular needs within the SPA and work with USAID to meet those needs. It has also prevented the team from building false (or too high) expectations within the SPA of what USAID technical assistance can deliver.

- Contract Flexibility -- Implementing a flexible, broadly-based scope of work in an environment of trust and credibility has allowed this project to truly meet the needs of the SPA. USAID has been able and willing to refocus and redirect its contract efforts to areas within the SPA where the needs were greatest. This has been made possible by the active interest and participation of the USAID office in Budapest, without whose oversight and stewardship this project would not have succeeded.

This report covers the Deloitte & Touche USAID-funded technical assistance to the SPA during fiscal year 1993 (October 1, 1992 - September 30, 1993, and during its unfunded extension to 28 February 1994, Contract No. ANE-0002-C-00-0047-00, Project No. 180-002-3-0183107). This assistance, as detailed below, consisted of a long-term advisor resident in the SPA, another long-term advisor in the Ministry of International Economic Relations, an on-site training specialist at the SPA, numerous short and medium-term technical specialists, and equipment procurement. (See Appendix 1 for official project documents.)

II. Background

Privatization in Hungary

For the Hungarian Government, privatization means more than just selling off the largest number of State-Owned Enterprises (SOEs) in the shortest period. For Hungary, privatization is a broad "Hungarian-owned" undertaking to shift the production of GDP from State to private hands. Although foreign investment is very important to the revitalization of the Hungarian economy, domestic participation in privatization has been underlined, especially this year, in the Government's privatization policy statements. Indeed, in the last two years, the Hungarian Government has taken several specific steps to improve domestic access to and participation in privatization. These have included the establishment of a self-privatization program, the issuance and use of compensation notes (or Warrants) which can be used to purchase formerly state owned property, enterprise loans, and other vehicles.

In September of 1990 the State's ownership of the production of GDP was close to 90%. By the end of calendar 1992, the private sector contributed to about 40% of the total GDP. By October of 1993, the figure was up to about 55% according to Minister Tamas Szabo. One of the most important government players in this reduction has been the State Property Agency, the Ministerial-level entity charged with selling the majority of SOEs in Hungary. As of November 1993, of the 1,232 corporations belonging to the SPA, 347 had been 100% sold, 65 had been transferred to other state asset management agencies, 27 were in liquidation and 793 remained to be sold.

The State Property Agency and USAID

Although the Hungarian privatization program is considered a "top down" approach with the Government selecting companies for privatization, organizing tenders, and selecting buyers; the firm objective of the government has been to avoid over bureaucratization of the process. The overall size of the State Property Agency has been strictly constrained and the SPA management has continually relied on a large team of outside consultants and advisors to increase operating efficiency. In 1992, the SPA doubled in size to around 300 full-time employees. During 1993, it grew more slowly to its currently level of about 370 employees including some 40 staff supporting the Minister. Technical assistance is very important to the SPA given the Government's desire to limit its size and prevent its entrenchment in the federal bureaucracy. It is intended to "go out of business" when its privatization mandate is fulfilled.

As mentioned above, USAID has been involved in supporting the mandate of the State Property Agency since 1990, even before the institution existed as such. In January 1990, two USAID-funded advisors, Alexander Tomlinson and John Schermerhorn, participated in the planning phase of the Government of Hungary's official privatization vehicle -- originally called the National Property Agency (NPA). They gave conceptual guidance, outlined a recommended organization framework, and set out the required steps to make the NPA quickly operational. One of their recommendations, to which the Government agreed, was that the NPA should procure the services of a privatization specialist to advise its directors during its organization and implementation phases.

Deloitte & Touche provided this specialist, Mr. Charles Twyman, who was seconded to the NPA, since renamed the State Property Agency (SPA). When Mr. Twyman arrived, the SPA consisted of two people: Mr. Karoly Szabo (subsequently the Deputy Managing Director) and a translator. In the three and one-half years since, USAID has been providing the SPA a continuous stream of assistance through contracts with Deloitte & Touche. USAID's assistance has grown from an initial contract for $849,000 to a current total of $5 million under this contract and an additional $4 million under a separate successor contract to provide transaction support to the privatization directorates.

USAID-funded assistance provided by Deloitte & Touche has been instrumental in the growth and smooth functioning of the SPA. It has allowed the staff of the SPA to develop professionally, has helped to instill an environment of transparency, and has helped to minimize the political nature of the privatization process. The assistance has included training, financial management, long term institutional strengthening, privatization transactions assistance, foreign investment assistance and equipment. Among many other things, the Deloitte & Touche team has been able to accomplish the following:

- Mobilized and/or funded training courses with total attendance of almost 2,000 between 1989 and present. USAID-funding has fully paid for more than 800 of the participants, with the remainder being funded by the European Community's Phare program and the World Bank.

- Developed the SPA's information systems which control and monitor all of the SPA's privatization activities.

- Developed the SPA's quarterly management reporting system and format. This quarterly report is used by the World Bank to evaluate the SPA's adherence to its conditionality agreements.

- Helped the SPA develop, monitor, and evaluate its innovative Self Privatization Program which has sold more than 242 enterprises since its inception (almost 50% of the SPA's total sales to date, excluding the more than 10,000 small retail shops that were sold via auctions).

- Helped to design and develop the Compensation Notes which were provided to citizens whose property had been seized by previous national actions. These notes have become one of Hungary's first money market instruments and the only one that is widely traded.

- Assisted the SPA in identifying and mobilizing more than $40 million in additional funding from donors other than USAID (including the EC Phare and the World Bank).

- Presented trade and investment opportunities in Hungary to more than 400 US companies at seminars in Atlanta, Georgia; New Brunswick, New Jersey; Houston, Texas; and Los Angeles, California.

- Provided information and assistance to hundreds of US firms wishing to gain entree

into the Hungarian market -- both for export trade and for investment.

- Provided direct outreach assistance for the US Department of Agriculture to US food companies interested in potential investment in and trade with Hungary.

- Installed a team of investment bankers to act as advisors to the SPA staff undertaking privatization transactions.[1] The team's explicit mandate is to provide the SPA with totally objective, unbiased support in the sale of Hungarian enterprises. The contract for this project was signed on September 15, 1993 and the team is fully mobilized, in residence, and has begun to have the following impact:
  - Reopening numerous negotiations with interested buyers that had been stalled or cancelled due to process gridlock or inexperience within the SPA staff.
  - Contributing to a more transparent and effective process that will result in higher levels of competition and fewer cancelled tenders.
  - Bringing more information more quickly to all perspective buyers.
  - Providing information and analysis to the Hungarian decision makers that will facilitate and accelerate the decision-making process for privatization.

III. Objectives

It is the stated objective of the Government of Hungary to use privatization to build a strong, irreversible market economy. As outlined above, the SPA is a primary vehicle for achieving this overarching objective and the SPA's own operational objectives must consciously and consistently support this. In its task of supporting the SPA, USAID technical assistance objectives must, just as consciously, support the operating objectives of the SPA. The three: USAID technical assistance, SPA operations, and Government of Hungary policy must be, and have been, mutually reinforcing, closely coordinated, and politically supported.

A. **Hungarian Government Policy and Objectives.** Dr. Tamas Szabo, the Minister without portfolio in charge of Privatization, laid out the following privatization policy:

"The purpose of the acceleration and development of the privatization process is not the maximization of the cash income of the state, but the establishment of a wide and strong domestic stratum of owners, and though this, an efficiently operating economy. This will render the economic transformation irreversible and privatization aimed in this direction can establish the economic and social bases of a modern market

[1] The SPA Transactions Support Team project being implemented by Deloitte & Touche is being funded by USAID via another contract mechanism -- the Eastern European Enterprise Restructuring and Privatization IQC (Contract No. EUR-0014-I-00-1056-00). However, the Long Term Advisor/Privatization has been instrumental in laying the groundwork for the team's work in the SPA and has continued to act as an on-site resource for the team as they begin the project.

economy."[2]

B. **State Property Agency Objectives.** The SPA is the main actor in the Hungarian privatization process, and, based on the policy laid out by the Parliament and presented by Minister Szabo, it defined its specific objectives for 1993 as the following:[3]

1. Accelerate the pace of privatization by increasing demand as well as supply of assets and improving the mechanisms for matching the two.

   On the demand side, the SPA intends to implement this objective by encouraging domestic ownership, developing a privatization facility for small investors, allowing leasing of state-owned assets, promoting Employee Share Ownership Programs (ESOPs), and allowing payments in installments and other credit purchase options.

   On the supply side, the SPA intends to decentralize some monopoly SOEs, and improve information systems to provide investors with timely and accurate information on the characteristics of companies to be privatized.

2. Improve the overall value of the portfolio of SOEs by further strengthening corporate governance and creating the ability to intervene effectively in the management of companies. In addition, improve the current information system to allow transaction case officers to follow the operational performance of their companies and determine when serious economic problems are arising.

3. Improve the long-term viability of SOEs that are not immediately saleable through the SPA privatization process. This may include selling off non-viable units to make the core business more attractive or breaking up a monopoly SOE.

C. **USAID Technical Assistance Objectives.** Within the SPA, USAID technical assistance has been crucial to the development of the Agency and has helped it achieve its objectives over the past three years. The objectives of the USAID technical assistance program, now in its fourth year of implementation by Deloitte & Touche, are supportive of the Hungarian government's overall goal and the SPA's operational objectives. This program is intended to accelerate the privatization process and provide a means to overcome barriers within and without the SPA which may inhibit the process -- in particular it focuses on instilling professional processes and skills in the SPA staff which will allow the organization to achieve its mandate. In this

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[2] pp. 7-8, "Concept of Breakthrough and the Government Privatization Program," Dr. Tamas Szabo, Minister without Portfolio in charge of Privatization, October 1992. For full text, please see Appendix 2.e.

[3] "State Property Agency Work Program, 1993," Confidential document prepared as part of the reporting requirements of the terms of the World Bank's Enterprise Reform Loan Agreement.

program year, the specific objectives of USAID technical assistance via Deloitte & Touche to the SPA include the following:

1. To continue to provide a long-term privatization advisor to serve as the senior policy advisor to the SPA.

2. To improve the overall financial management, record keeping, and reporting functions within the SPA and to make information concerning the status of privatization more clear and accessible to SPA staff, Government officials, and the general public.

3. To redirect the focus of US assistance to the direct support of the SPA's privatization transaction process in order to accelerate the overall privatization effort and reduce the backlog of unprocessed transactions concerning medium-sized businesses.

4. To continue and conclude assistance in several efforts that have already been successfully initiated (e.g., foreign investment promotion, training, warrant compensation program assistance, equipment procurement).

IV. Achievement of the Scope of Work:

A. Summary:

In this program year, the scope of work was less specifically defined than in previous years which allowed the team to adapt its assistance to the rapidly changing needs of the SPA. The team undertook activities in the following seven discrete areas:

1. Long-term Advisor/Privatization and Project Office Management

2. Long-Term Advisor/Investment Promotion

3. Advisor - Agricultural Privatization

4. Self Privatization Program

5. Financial Management

6. Training

7. Equipment

Detailed descriptions of the activities and accomplishments in each of these areas is provided in the following section. The contract, amendments, and task definition worksheets are included in Appendix 1.

The budget utilized by the project during FY 1993, was approximately $1.3 million for professional fees, expenses, and equipment procurement. Since the beginning of

the overall project in early 1990, USAID has provided approximately $5.1 million in funding for this project. Detailed information concerning budget utilization is attached in Appendix 1.

B. Detailed Area Descriptions

1. Long-term Advisor/Privatization and Project Office Management (LTA/Privatization)

Since early 1990, Mr. Charles (Chick) Twyman has been a full-time, resident long-term advisor for the SPA. Neither his mandate, nor his tasks are as specifically defined as those of the other technical assistance resources available within the context of this project and do not lend themselves easily to a line-by-line description. In essence, he has a dual role, as a technical resource for the SPA senior management and as the overall project manager for all the other technical assistance activities. He is available to high-level SPA staff on a full-time basis to respond to questions of a technical nature concerning the structure, strategy, and function of the SPA and the Hungarian privatization program. In terms of project management, this means that he can act as a lightning rod for the technical assistance needs of the SPA -- hearing the needs directly from SPA staff, communicating those needs to USAID, and mobilizing the Deloitte & Touche team of specialists to respond quickly and appropriately. During FY 1993 he was involved in virtually every part of the Deloitte & Touche project within the SPA. A sample of his activities is as follows:

- Assisted the management of the SPA to prioritize its needs and develop its policy with respect to the US and other donors. This work was particularly relevant to the visit of Ambassador Hutchings and other high-level US Government officials during October 1992 and Minister Szabo's visit to his counterparts in the US during January 1993.

- Assisted the SPA to prepare its strategy for 1993 and present its financial and management information to the World Bank to demonstrate that the SPA was meeting its conditionality requirements.

- Worked with the SPA Privatization Division to prepare for the arrival of the USAID sponsored privatization transactions support team. This included defining equipment and space needs, planning for project management and control systems, preparing training and information materials to speed absorption of the team, and interviewing support staff.

- Supervised the activities of the Long Term Advisor/Investment Promotion and also prepared for and supervised the orderly conclusion of his involvement in June 1993.

- Worked with the Financial Management Specialist to update the donor control and budgeting system for the SPA which meets the SPA's needs and the needs of the Department of State Auditors.

In addition to these activities, the LTA/Privatization worked closely with the SPA management to identify and mobilize more than $40 million in additional funding from donors other than USAID (including the EC Phare and the World Bank). Detailed description of his activities is available in his monthly reports (Appendix 2).

2. **Long-Term Advisor/Investment Promotion (LTA/Investment Promotion)**

   Early in the SPA's history, its directors (primarily Janos Martonyi, first Vice Chairman) realized that the selling activities of the SPA would benefit from complimentary investment and trade promotion activities. Mr. Martonyi directed the formation of the Hungarian Investment and Trade Promotion Agency (HITPA) within the Hungarian Ministry for International Economic Relations (MIER) and mobilized donor assistance for the new agency from the European Community's Phare program and from USAID. In FY 1992, USAID, aware of the US position as the preeminent foreign investor in Hungary, felt that it should supplement the efforts of the US commercial office with a resident long-term advisor within the HITPA. This advisor, Mr. Brian O'Connor, took up his position in March 1992. His contract concluded in June 1993. The full report of his activity is attached here (Appendix 3), however, it is worthwhile to highlight several elements of his assistance.

   As one of his many tasks, the LTA/Investment Promotion was involved with the study team that was planning a long-term successor organization to the HITPA. The HITPA completed the institutional preparation work during this fiscal year and founded a successor organization called the ITD Rt. in August 1993. This is an independent investment and trade promotion agency funded by the Government of Hungary but operating outside of it. The new agency is closely modeled on the successful Irish, Welsh, and Austrian investment agencies. The goal is to make the ITD Rt. a pro-active, professional agency with highly qualified staff and functioning as a competitive private sector company.

   In addition, the LTA participated in the discussions and planning within the MIER concerning the development of an investment promotion incentive strategy to replace tax incentives which were planned to expire in December 1993. Such a strategy and framework of incentives is essential to continue to offer a positive investment climate in Hungary after 1993.

   Finally, the LTA assisted literally hundreds of major US and multinational corporations interested in trade with and investment in Hungary. These contacts are detailed in the attached Monthly Progress Reports.

3. **Advisor - Agricultural Privatization**

   During this fiscal year, the SPA clearly moved from institution building to implementation. Formalized planning and reporting procedures, completed or at least operational information systems, policy direction from the Government, Ministerial-level attention, and the like made it possible for the SPA to turn its attention more fully to its original purpose: concluding privatization transactions

involving SOEs. However, due to inexperience and continued manpower shortages, the SPA began to have difficulty in clearing its backlog of privatization transactions which needed to be negotiated and brought to closure. In June 1993, the Director of the Privatization Department of the SPA called for assistance in the form of trained specialists to work alongside his transaction team leaders to negotiate and otherwise process privatization transactions.

As USAID in Budapest and Washington prepared to meet this need with a comprehensive technical assistance program, an interim advisor specialized in agricultural business was nominated to assist the largest and most important SPA privatization sector group -- the Agricultural Directorate. The Advisor was absorbed into the daily workings of the Agricultural Directorate, even attending weekly Director meetings (with the Deputy Managing Director) to review progress, new targets, and problems. The Advisor worked closely with the Division Director, fielding questions and issues related to his case load. The Advisor handled issues such as sector policy and strategy, technical support, intergovernmental communications, investor outreach and information, access to international information and facilities, and alternate contract and investment approaches. By assisting to resolve issues that were distracting attention from actually closing deals, the Advisor's presence helped to bring an atmosphere of closure to the Directorate.

In the course of his engagement the Advisor undertook a number of varied individual tasks, including the following (about which detailed information is presented in Appendix 4):

- Prepared summaries of about 40 individual company profiles and status reports. This allowed the prioritization of privatization transactions and was a document that could be shared with prospective investors and partners.

- Prepared studies and provided recommendations for the following:
  - Meat Slaughter and Processing Industry
  - Milk and Dairy Products Industry
  - Grain Milling and Animal Feed Industry (seed processing is a separate industry)
  - Privatization of State Farms
  - Fruit and Vegetable Preserving and Marketing
  - Poultry Slaughter and Processing Industry

- Assisted the Division Director to mobilize EC Phare support for particularly difficult food entity privatizations. Working with the Director and the case officers, the Advisor assisted in choosing the targeted companies and establishing the level of consultative assistance needed for each one. This resulted in the widespread use of Phare-funded consultants in the Agricultural Division.

- Supported and coordinated the SPA's involvement in a US Department of Agriculture outreach program designed to locate and match American food

businesses and Hungarian companies. The Advisor assisted in coordination of two separate month-long visits from US companies and expert advisors to more than 50 different Hungarian companies. There are 8 US companies from the first delegation still actively in contact with Hungarian interests.

In addition to project-specific tasks, the Advisor worked with the SPA and USAID to use his "prototype" experience as a transactions advisor to plan and prepare for the arrival of a team of transactions advisors in the Fall of 1993. He designed a reporting and tracking system for the transactions team, introduced the transactions support concept to the SPA, and helped design and prepare briefing materials for the incoming team. The lessons of his experience as an advisor and his assistance in preparation allowed USAID to target the technical assistance more appropriately and allowed the SPA to absorb the team of advisors more quickly.

4. **Self Privatization Program**

In order to accelerate privatization of small and medium sized enterprises (that would have mostly domestic purchasers) the SPA initiated the Self Privatization Program (SPP) in the fall of 1991. The Self Privatization Program "privatizes privatization" by utilizing private consulting firms to transform and then privatize (for a profit) individual SOEs. The SPP is administered by PriMan Kft., (a wholly-owned limited liability company belonging to the SPA and reporting the Self Privatization Division within the SPA) who is responsible for hiring and evaluating the consulting firms, excersizing day-to-day administrative support, supervising dealmaking, concluding sales agreements, and reporting on progress to the SPA. The SPP concluded its activities at the end of 1993 and the outstanding companies and remaining activities of PriMan were reintegrated into the SPA.

The mechanics of the process are based on a short-list of private sector consulting firms that are available to be engaged to carry out the entire privatization process for an individual SOE without the SPA's assistance. Their activity is regulated by a framework agreement which allows them considerable freedom. Consulting firms and the SOEs select and contract one another independently of the SPA. The consulting firms then transform the SOEs into private companies, act as owners representing the SPA during the period between transformation and sale, market the companies, tender the sale, and select the new owners. For the transformation, the consulting firms receive fees directly from their SOEs, while for the successful sale of the companies, they are rewarded by the SPA itself.

Since the private consulting firms are able to exercise a great deal of freedom once they have contracted with an SOE, PriMan can only maintain accountability and oversight by carefully selecting them and then systematically evaluating their performance in deals with individual SOEs. It is in this area, and in improving the communications link between PriMan Kft and the SPA, that Deloitte & Touche technical assistance has been focused. Over the last year, the Deloitte & Touche team has carried out the following projects in connection with the Self Privatization Program (See Appendix 5 for additional information):

- The development of an evaluation scheme to monitor the performance of the private sector advisors utilized in the first phase of the Self Privatization Program, and the implementation of that measurement scheme;

- The modification of the evaluation scheme to suit the requirements of the second phase of the SPP and the development of a separate monitoring system, and the implementation of the evaluation scheme;

- The creation of a manual for use by the private consulting firms.

- the design of a plan for a compatible information system to ensure the smooth flow of information between PriMan and the SPA and evaluation of a closer integration of the two information systems; and

- An overall evaluation of the Self Privatization Program and recommendations concerning the future of Self Privatization.

Overall, the Deloitte & Touche team found that the Self Privatization Program has led to the following:

- A high number of sales, few liquidations, and the involvement of domestic capital (e.g., As of September 1993, of the 433 transformed companies assigned to the Self Privatization Program, 242 had been sold, 45 were in bankruptcy and 95 had been liquidated. Domestic capital accounted for 87% of the total capital invested in the Self Privatization Program);

- A reduction in the SPA's workload;

- Accumulation by the consulting firms of wide-ranging experience which may by utilized in other areas of privatization or the economy;

- Integration of company interests in the privatization process; and

- Jobs saved through successful privatization and a high rate of employee ownership.

In summary, the Deloitte & Touche team has made a number of recommendations for the future, of which the most important are the following:

- Continuity should be maintained in the privatization of companies involved in the SPP following closure of the SPP program by retaining successful SPP advisors and PriMan staff;

- For those companies whose privatization has not been completed before the end of 1993, new contracts should be drawn up to allow the advisors to finish the sales; and

- Certain features of Self Privatization should be incorporated into the general

privatization efforts of the SPA, including:

- Developing a separate and specific framework for the privatization of different categories of companies with the involvement of selected advisors;
- Allowing market forces to work within each framework;
- Allowing advisors in the decision-making process a high level of freedom; and
- Supporting the highest level of integration of company interests in privatization.

5. **Financial Management**

Within the framework of the overall Deloitte & Touche assistance to the SPA, USAID funded a Financial Advisor to assist the Chief Financial Officer (CFO) of the SPA to implement the budgeting, financial control and accounting work necessary for the SPA. The level and focus of the assistance varied in direct response to specific needs.

The Advisor, Mr. Peter Kurz, increased the level of his involvement in October 1992, as a result of an internal reorganization which led to the appointment of a new CFO for the SPA. New, increased responsibilities were assigned to the CFO and since the new CFO came from outside the SPA, the Financial Advisor provided important continuity as well as much appreciated assistance.

During the period from November, 1992, through April, 1993, the financial advisor undertook numerous projects at the request of the new CFO, including the following:

- A review of the SPA's in-house control of contracts and other important documentation, with recommendations for improvement;

- A review of how the SPA monitors obligations and responsibilities agreed-upon in contracts with the SPA; checklists were developed, a follow-up methodology was introduced, and a "contract/documentation" library was set up;

- Help was provided in the preparation of budgets, forecasts and the evaluation of variance analyses.

The financial advisor's role changed again as a result of yet another internal reorganization at the end of April, 1993. This time an experienced SPA director, the former head of one of the SPA's successful subsidiaries (PriMan Kft.), was given additional responsibility for the SPA's reorganized financial department, becoming the SPA's Director for Administration, Finance, and Information Services.

Among the projects in which the financial advisor participated since May are the following:

- Inventorying and valuation of the SPA companies left to be privatized; this was

done in conjunction with representatives from the SPA and Germany's Treuhandanstalt assigned to the SPA; and

- Development and introduction of a "Privatization Monitor" which reports on the progress of privatization through the SPA in a simplified and clear monthly format published in both Hungarian and English.

An on-going project attempts to summarize a potential methodology for tracking the overall progress of privatization in Hungary (rather than only that which is privatized through the SPA). The project involves the following steps:

- A review of reports that currently track and provide information on the progress of privatization in Hungary;

- A review of needs within and outside Hungary for information on the progress of privatization in Hungary;

- Based on the above two points, the development of a tracking and monitoring format (report) which would clearly and regularly show the status and progress of privatization in Hungary; and

- The recommendation of ways in which the data needed to complete (3) could be obtained, assembled, presented and disseminated both within and outside Hungary.

Additional information is attached to this report in Appendix 6.

6. **Training**

Given the short time-frame for privatization and the small staff of the SPA, carefully targeted training activities take on added importance. There is neither enough time nor enough people to send individuals to long, unfocused training sessions, internships or seminars. In recognition of this, USAID funded an on-site, full-time Training Specialist (Ms. Linnea Corwin) during this contract year who was resident in the office of the Long Term Advisor/Privatization. The Training Specialist worked with the SPA and the MIER from November 1992 to June 1993 to organize specific training programs, set up training strategies, and select and prepare candidates for training programs in Hungary and abroad. Her activities included the following:

- Setting up individual workshops on subjects of special interest to the SPA staff. These workshops included a **Negotiations Skills Seminar** given to about 60 SPA staff in October 1992 which covered the basic theory and practice of negotiation. The SPA staff found this course extremely helpful in their day-to-day task of negotiating privatization transactions on behalf of the Government. Another workshop covered **Environmental Liability** questions in the sale of companies -- a topic of vital importance for many of Hungary's larger SOEs. This course, given in May 1993 by specialists from the University of

Minnesota, covered topics such as calculating the costs of environmental damage, valuing contaminated land, incorporating warranties and other incentives offered in the sale of contaminated land, and complying with environmental rules and regulations.

- Providing ongoing support to the personnel director of the SPA and the training unit of the MIER. In both cases, the Training Specialist worked with senior staff to identify training needs, organize training programs, and strategize on implementation of both entities' EC Phare training funds.

- Selecting, nominating, and preparing individuals for participant training programs separately funded by USAID. This included working closely with Partners in International Education and Training (PIET) to ensure appropriate placement and follow up.

Overall, the long-term presence of a Training Specialist within the SPA was highly beneficial and allowed the SPA and the MIER to leverage their USAID training funds with funds from other donors. Additional detail concerning the impact of the Training Specialist is included in Appendix 7.

7. **Equipment**

In the course of this project, momentum to accomplish more intangible change (such as increased transparency in the transaction process) has often been maintained by occasional quantitative, easy to see assistance such as computers, software, copiers, training programs, and the like. It is very important for the project, and USAID, not to jeopardize its credibility through inordinate delays in equipment procurement.

Initially, in the 1993 contract extension, USAID support for equipment purchase was directed towards providing high volume copiers for the SPA in general and specialized computers and printers for the Warrant Compensation Program and for the Self Privatization Program. As time went on, circumstances changed within the SPA and the computer support needs of the above two programs diminished as alternate arrangements were made. However, the need for high-volume copiers remained as urgent as ever and new computer equipment needs arose as the SPA began to increase the throughput of privatization transactions in its Privatization Division. [4]

Prior to the equipment request, the SPA did not have the capacity to do high volume copying in house. Virtually all copying jobs, including those of a confidential nature, were sent to outside copying firms, thereby incurring additional delay, cost, and risk of disclosure of sensitive information. By January 1993, the Deloitte & Touche team had identified the SPA's copying equipment needs, identified the type and source of the required machines and initiated the

[4]See footnote no. 1.

procurement process. Copiers which meet the correct electrical specifications to function properly in Hungary (220V/50HZ) are not manufactured in the United States. In addition, there is only one US-headquartered copier manufacturer (Xerox) which has servicing facilities in Hungary. Based on these two facts, the team realized that it would have to request two waivers from USAID in order to proceed with procurement: a Source/Origin waiver (allowing the copiers to be non-US in origin) and a Sole Source Procurement waiver (allowing the team to purchase the copiers from Xerox without undergoing a competitive procurement). In spite of strong support from USAID/Budapest, the waivers had not been processed as of the date of publication of this report. This has caused serious problems at the SPA as the volume of copying increased in tandem with an increased pace of privatization transactions.

The Deloitte & Touche team in Hungary completed identification of the computer and other support equipment needs for supporting increased privatization transactions. These needs included 8 dockable computer packages, 6 workstation packages and software, a HP Laserjet III with network printer interface and other draft and portable printers, and additional supporting hardware and software to support the individual computers. The required additional computer equipment must be compatible with the SPA's currently existing network and equipment, the team requested a waiver of USAID regulations with respect to Single Source Negotiated Procurement on October 7, 1993. As of this writing, USAID/Washington has not prepared the necessary documentation to proceed with the waiver.

The correspondence related to this area of activity is presented in Appendix 8.

V. Recommendations for Future USAID Support

This project will come to its final conclusion on February 28, 1994. As noted above, USAID started "on the ground floor" in 1990 with assistance to the SPA through Deloitte & Touche and, although the current project is coming to a close, USAID's and Deloitte & Touche's involvement with the SPA are not. The major new program within the SPA -- the Transactions Support Team -- represents a smooth, almost seamless, transition from one technical assistance effort to the next. This demonstrates how the technical assistance provided has smoothly shifted focus as the SPA has grown and Hungary has moved further along in the transition to an open-market economy with a small state sector. What began as assistance to help in policymaking and planning evolved to become assistance with institution building and training, and then evolved again into more and more assistance with actual transactions. It is here that USAID technical assistance is now focused and it is our firm recommendation that continuing along this path is the appropriate strategy for USAID support. More specifically, we recommend the following:

- Continue and expand the current program to provide financial specialists to assist the privatization directorates to process and close privatization transactions. Given the case load in each of the six privatization directorates, more than one USAID-funded advisor is needed. This would further accelerate the privatization process and provide

more on-the-job training for Hungarians.

- Begin to focus technical assistance planning on the problems of restructuring or liquidating companies that are not sold in the privatization process. As the SPA gets closer to "the bottom of the barrel" there will be more companies that do not find buyers which will increase pressure on the SPA and the Av Rt. to deal with the issues this will raise.

- Continue to provide assistance to the SPA in monitoring overall privatization activity, tracking and publicizing not only SPA privatizations, but privatizations by the several other entities also undertaking to divest the state of assets.

VI. Appendix Directory

1. **Official Project Documents**
   a. Contract with USAID/Washington and Amendments
   b. Task Definition Worksheets for additional tasks
   c. Project Budget information

2. **LTA/Privatization and Project Management Reports and other Supporting Documents**
   a. Quarterly Reports and Monthly Progress Reports
   b. Statement of work for Transactions Support Team
   c. Documentation from high-level US Government meetings in Hungary - October 1992.
   d. Country Strategy Paper for Hungary prepared by USAID.
   e. Privatization Strategy 1992-1993, prepared by the Government of Hungary
   f. Employee Stock Ownership Plan information
   g. Privatization Leasing information
   h. Privatization Facility for Small Investors information
   i. State Property Agency Work Program for 1993
   j. Planned income and expenditures 1992-1993 for the SPA
   k. Sectoral distribution of activities among privatization directorates
   l. SPA timetable for privatization activities

3. **LTA/Investment Promotion Reports and other Supporting Documents**
   a. Investment Promotion Task Terms of Reference
   b. Final Report project summary and background
   c. LTA's monthly progress reports

4. **Advisor - Agricultural Privatization Reports and other Supporting Documents**
   a. Report to USAID/Budapest concerning activates. Includes information on privatization project status, advise on sector policy, participation in privatization transactions, and coordination with outside agencies.
   b. Excerpt from first Monthly Report of Transactions Support Team

5. **Self Privatization Program Reports and other Supporting Documents**
   a. Report on the "Place and Significance of Self Privatization in Hungarian

Privatization"

b. Summary of "Evaluation Scheme for the Performance of Privatization Advisors in Phase I"
c. Summary of "Evaluation Scheme for the Performance of Privatization Advisors in Phase II"
d. Summary of "Integration of the Information Systems of the SPA and Pri-Man

6. **Financial Management Reports and other Supporting Documents**
   a. Sample copy of "Privatization Monitor" for November 93
   b. Summary of problem definition and recommendations for the design of a privatization reporting system for the Minister
   c. Summary of contract tracking system developed for the SPA

7. **Training Reports and other Supporting Documents**
   a. Summary memoranda on project status
   b. SPA training policy paper
   c. SPA human resources strategy memorandum
   d. Summary of Environmental Liability Workshop
   e. Summary of Negotiation Skills Workshop

8. **Equipment Supporting Documents**
   a. Task Definition Worksheet signed by USAID/Budapest
   b. Equipment needs definition, Transactions Support
   c. Source Origin Waiver request for photocopiers
   d. Single Source Waiver request for photocopiers
   e. Single Source Waiver request for personal computer equipment and LAN peripherals

1. Official Project Documents

SECTION C - STATEMENT OF WORK

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY

I. BACKGROUND

In January, 1990, two A.I.D. funded advisors, Alexander Tomlinson and John Schermerhorn, participated in the planning phase of the Government of Hungary's (GOH) soon to be launched official privatization vehicle, the National Property Agency (NPA). They gave conceptual guidance, outlined a recommended organizational framework and set out the steps which the proposed NPA should take to make itself quickly and professionally functional. One of the recommendations, to which the GOH agreed, was that the NPA should procure the services of a privatization specialist to advise the Director of the NPA during the organization and implementation phase.

Beginning in March 1990, Mr. Chick Twyman of Deloitte & Touche was hired through PRE's contract with the Center for Privatization to be the Privatization Advisor. Mr. Twyman is now working with the Director of the NPA, since renamed the State Property Agency (SPA) to help structure an organization that will achieve the objectives of the Hungarian privatization process. Throughout his tenure as the Privatization Advisor, Mr. Twyman has been instrumental in helping the SPA to determine and refine its policies in a timely manner thereby enabling the privatization process to move along quickly.

The SPA is now in the critical organization stage of its development and the services of a privatization advisor are crucial to ensure that the SPA is properly structured and staffed and that appropriate policies are adopted. Because of the exemplary job Mr. Twyman has done and the strong preference to maintain continuity, the GOH has formally requested (letter attached) that the United States Government (U.S.G.) continue to fund the services of Mr. Twyman through a contract with his employer, Deloitte & Touche. As one of the "Big Six" accounting and consulting firms, Deloitte & Touche has demonstrated capacity to field short-term technical assistance and training in the area of privatization quickly and effectively.

In order to maintain the momentum that the SPA has gathered over the past few months, the decision has been made to waive full and open competition (see attached justification) and to enter into a direct contract with Deloitte & Touche. Because of the important role Mr. Twyman has played in the privatization process, he has been designated as key personnel to the contract.

II. OBJECTIVE

The objective of the institutional contract is twofold: 1) to provide one long term advisor to the State Property Agency who will serve as the senior Advisor on the privatization process and in restructuring and privatizing individual enterprises and 2) to provide short-term assistance to facilitate the privatization process.

III. SCOPE OF SERVICES FOR TECHNICAL ASSISTANCE

A. Level of Effort

The contractor will provide (a) a Long-Term Advisor (LTA) for 12 months and (b) short-term consultants and or short-term training of up to 24 person months to be provided over a 12 month period.

B. Coordination and Reporting Requirements

The Long-Term Advisor will work with the Director of the State Property Agency and have reporting responsibilities to ANE/EUR. The Long Term Advisor will be required to provide monthly progress reports and a final report encompassing the specific areas mentioned below. The LTA will also arrange for the institutional contractor to provide short term advisors and trainers to assist with specific problems related to the restructuring and privatization process.

C. Specific Tasks:

Long-Term Advisor

1. Help Define the Operational Framework of the SPA:

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.

-Deliverable: A part of the final report will outline the parameters of the SPA and define areas that require clarification or appear to be problems.

2. Help Prepare a Funding Strategy for the SPA's Activities:

Work with the GOH and the Director of the SPA to prepare an execution oriented workplan 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.

-Deliverable: Part of the final report will outline contact activities initiated and the most likely components of the GOH's funding strategy with appropriate recommendations.

3. Help Define the Organizational Needs of the Privatization Process:

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

-Deliverable: The final report will outline the policy and decision making apparatus that is envolving to support the privatization process with appropriate recommendations.

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

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 institutionalizing a bureaucratic barrier to market activity.

-Deliverable: Part of the final report will consist of an outline of the structural framework that is evolving for the SPA with appropriate recommendations.

5. Help Define the Office and Equipment Requirements of the SPA:

Work with the GOH and the Director if 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.

-Deliverable: Part of the final report will incorporate a basic equipment and facilities needs list.

6. Help Define the Personnel Requirements of the SPA:

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.

-Deliverable: Part of the final report will outline the basic recruitment strategy to be followed by the SPA.

7. Help Define the Training Needs of the NPA and Help Initiate an Appropriate Training Program:

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.

-Deliverable: Part of the final report will address the projected training needs of the privatization process.

8. Help Define the Prioritization of Privatization Activities:

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 objectives of creating prioritization lists that will be the objectives of the initial SPA activities.

-Deliverable: Part of the final report will detail the progress made in defining candidates for immediate privatization activity.

9. Help Define the Critical Privatization Program Linkages in the Economy:

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 EC and the rest of the world.

-Deliverable: Part of the final report will detail the linkages viewed as critical at the outset of the program.

10. Help Establish a Plan to Define and Manage the Technical Assistance Requirements of the Privatization Program:

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

-Deliverable: Immediate assistance will be given to help prepare terms of reference for technical assistance in the areas of: Legal and regulatory matters, and training needs in accounting/valuation assistance, systems assistance, legal assistance, Merchant banking assistance, consultancy and other team assistance. Part of the final report will detail efforts undertaken in these areas.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization 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.

-Deliverable: The final report will outline progress in this area.

12. Help the GOH and the NPA Understand the Role of ESOP's and Specialized Tools That May Have a Suitable Role in the Privatization Program:

-Deliverable: The final report will outline the status of such issues as ESOP's and will make recommendations as to the required followup.

D. Short-Term Technical Asistance and Training

The contractor will provide on a timely basis short-term technical assistance and training as requested by the SPA. The TA will be provided in such areas as legal and regulatory matters, accounting, valuation assistance, and assistance in merchant banking and systems. Training will most likely be in such areas as systems,

E. Key Personnel

Because of the exemplary job Mr. Twyman has done and the strong preference to maintain continuity, the GOH has formally requested that the United States Government (U.S.G.) continue to fund the services of Mr. Twyman through a contract with his employer, Deloitte & Touche. Mr. Twyman's academic credentials, practical experience, credibility and the fact that he is a "proven product", make him the ideal candidate to provide the requested services. He is in a unique position to quickly and effectively continue the work he has begun. As it is clear that, without Mr. Twyman, the SPA would lose much of the critical momentum it has gathered over the past few months, Mr. Twyman is being designated as "key personnel" under this contract.

End of Section C

SECTION D PACKAGING AND MARKING

D.1. Reports

Pursuant to the clause of this contract entitled "Reports" (AIDAR 752.7026), the cover page of all reports prepared by the Contractor (see Section F of this contract) shall include the project name, the project number, and the contract number.

End of Section D

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)

25

- 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;

27

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.

28

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 provided 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

32

. 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

34

- 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 Liasion 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

35

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.

36

- 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.

ATTACHMENT 1

ATTACHMENT 1
Amendment 4
ANE-0002-C-00-0047-00

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.

Scope of Work: Attachment Number 1

Technical Assistance to the
State Property Agency of Hungary

I. Background

The Government of the Republic of Hungary (GOH) has underway the longest existing, most comprehensive privatization program in Central Europe. Two institutions, the State Property Agency (SPA) and the newly established Investment and Trade Promotion Agency (ITPA) are the principal vehicles for the GOH's privatization and private sector development efforts. The SPA, an independent agency reporting to the Minister for Privatization, is charged with regulation and stimulation of the operational aspects of major parts of the Hungarian privatization process. The ITPA, an independent agency reporting to the Minister for International Economic Relations (MIER), is undertaking the broader proactive task of encouraging investment, principally foreign, in Hungary's effort to privatize its economy.

The GOH has requested and received assistance from the United States Government (USG) under the SEED legislation and through its Agency for International Development (USAID) since the conception of a formalized GOH privatization program. This assistance has encompassed a broad range of efforts, such as the Hungarian American Enterprise Fund, and various forms of investment promotion support. The longest running project, the SPA project, has encompassed training; two long term advisors, one in the SPA and one in the ITPA; equipment; and technical assistance in a broad range of areas. The efforts of USAID have been closely coordinated with the efforts of the World Bank, the European Community's (EC) PHARE program and other donor/lenders.

The privatization program is a repeatedly-stated Hungarian national priority. At meetings held recently between USAID officials and SPA directors and US Embassy Ambassadorial contacts at the Ministerial level, Hungary's continued commitment to privatization, the government's specific desire to accelerate the process, and its endorsement of the type assistance proposed by the US country team were reconfirmed. The objectives of the Hungarian privatization program are to reduce GOH ownership of the competitive sector of the economy from over 90% in September 1990 to under 50% by the end of 1994. To date, in accord with the more stringent measurement criteria agreed with the World Bank, over 6% of the total of state owned enterprises have been privatized under the guidance of the SPA. The objective is to reach 12% by the end of 1992. GOH estimates, at the end of 1st quarter 1992, are that over 30% of the GNP is now being produced under private sector control, up from 10% in 1989.

While the political will and commitment exists, Hungary lacks the practical technical skills to simultaneously undertake the many tasks that the government must accomplish to achieve its privatization goals within the time frame it has set. Hungarians are quick learners and eager to modify and adapt market economy experiences to suit the country's needs. At this point, however, they do not have the experience and skill, nor the financing, to achieve what they desire, and they are looking to the industrialized market economies to fill that gap.

A focus of the current USAID program in Hungary is to support Hungary's desire to privatize and fill the knowledge gap until Hungary is self-sustaining in the many needed market economy, privatization-related disciplines.

Initiating Request

The GOH's requests for privatization assistance were detailed in reporting cable Budapest 8593 of July 21, 1992. Since then the USAID Representative's office has worked closely with its counterparts in the SPA and has developed the following proposal.

II. Objectives

The objective of the increased level of effort in the Contract is to:

1. Redirect the focus of US assistance to direct support of the SPA's transaction process in order to accelerate Hungary's privatization effort, and clear the transaction backlog with regard to medium sized businesses, and instill professional processes and skills within the SPA.
2. Complete the continuation and conclusion phase of several efforts that have already been successfully undertaken within the SPA at a reduced maintenance funding level.

By activity area, the objectives are the following:

Area 1. Project Office: The SPA-based project office will continue to manage and monitor all USAID funded activities at the SPA and the ITPA. Specifically, it will manage USAID and related training activity in both operations and support the activities of the various tasks in both areas, including management of technical assistance personnel and quality control of deliverables.

Area 2. Self Privatization: The tasks in this area support the development of this already-successful mass privatization program. The objective will be to put in place the program's operating computerized control and tracking system, structure the organization appropriately, and provide key advice to keep the program on track.

Area 3. Financial Management: The objective of additional funding for this task will be to conclude the accounting and systems design phase of the project, taking the SPA fully through its implementation. The advisor will mentor the Chief Financial Officer and SPA staff in different operating units on budgeting and the management of the SPA through its information systems.

Area 4. Training: Funding for training will continue to support the US based training needs of the SPA, supplementing the European PHARE funded training.

Area 5. Equipment: The equipment will serve to:

Provide specialized computer and copier related support for certain

functions in the SPA, for example rapid high-memory stand-alone machines in the Warrant Administration Unit, a high-speed printer and copier capacity in the Self Privatization Office.

III. Scope of Work

Overview:

The contractor will quickly mobilize the skills required to analyze and undertake the five areas outlined above. The contractor will be expected to commit skills that include the following:

a. Knowledge of USAID and its mechanism;
b. USAID procurement procedures;
c. Computer systems design and office equipment definition;
d. Organization management;
e. Personnel procedures and practices;
f. Consultant control and management procedures;
g. Financial management, budgeting, planning and accounting;
h. US investor support, US industry knowledge, knowledge of the Hungarian market for investor and US goods;
i. Detailed knowledge of the Hungarian operating environment;
j. Detailed knowledge of the Hungarian privatization program and its needs;
k. Detailed knowledge of the Hungarian investment and trade environment; and
l. Knowledge of the investment banking and loan work-out skills needs of the SPA and the Hungarian market and the ability to satisfactorily staff those functional specialty needs of the SPA.

The contractor will:

1. Review the current thinking of the SPA and the Investment and Trade Promotion Agency on each of the tasks being undertaken.

2. Identify the skills required for each task.

3. Develop an action plan identifying steps required to implement each task.

The specific areas where tasks are to be undertaken by the consultants are the following:

Area 1

Project Office: Level of Effort - 12 offshore professional person months.

a. Long Term Advisor, Privatization: This represents the final phase of the Long Term Advisor's (LTA) office as an in-house privatization advisory for the SPA under the existing Terms of Reference (TOR) and as the USAID project manager and supervisor/coordinator of the LTA Investment

Promotion. In addition, it will manage the technical assistance funding to be made available to the LTA Investment Promotion.

b. Project Support Specialist plus Secretarial Support: Level of Effort 12 person months. The Project Support Specialist will continue in a four-part role as:

1. The SPA's training and personnel systems advisor and specialist including administering and delivering SPA's USAID - funded training budget.

2. The LTA Investment Promotion's direct line support staff for his project needs (seminars, training).

3. A line resource for various TA projects within the SPA as a provider of continuity and seamless absorption of the project work such as financial management and assistance to the information department.

4. Administrative coordinator for both the LTA Privatization and the LTA Investment Promotion Advisors.

Area 2

Self Privatization: Total Level of Effort - 11.5. professional person months

Technical assistance to the Self-Privatization Program will include the following specific tasks:

a. Systems: The self privatization office will require a small Local Area Network utilizing a slightly modified version of the SPA's present PIS package in order to track an estimated 200 consulting firms and 1,000 enterprises. This office will require professional systems design and implementation, user training, and manuals.

b. Medium Term Advisor: The Self Privatization Program will need technical assistance to refine existing review procedures developed for small businesses so they can become applicable for medium-sized businesses. The adviser should have privatization transactions experience to apply to streamlining the process and be able to advise on how to handle unique situations. Technical assistance in this task will include defining a basic strategy of approach, and assisting with the resolution of varied types of constraints which are often unforeseen. The person must be a pragmatic financial and business problem solver.

Area 3

Financial Management: Total Level of Effort - 4.61 Professional person months

This represents the final phase of this on-going effort to develop the financial planning, budgeting, control, and reporting apparatus of the SPA. It has become the core of the institutional development effort at the SPA. The SPA and its various lenders and donors are relying upon the output to be the operational and reporting center of the SPA. The financial management development task links with the Privatization Information Systems's (PIS) development in that the financial management tasks's efforts define the requirements and outputs of the PIS.

Financial Planner: This is a continuation and completion effort of several related institution building activities within the SPA. The sophisticated needs of the SPA in its budgeting, control and accounting areas are such that the interface of these areas requires hands-on mentoring and operating assistance until the implementation, training, and break-in phase of the various components are complete. In addition, all of the operating units need training in budgeting and control. A Hungarian/English speaking financial and planning specialist is required to enable the SPA to more clearly understand its systems needs.

Area 4

Training: Person Days supported by Project Office

The privatization program is in a constant state of change which necessitates training. Hungarians have a preference for learning US methods and lessons, several of which are the most appropriate for what Hungary wants to do. To date, the SPA's only systematic access to training support has been the EC PHARE program which is European-sourced. Access to US-based training has been absolutely vital for the proper development of the SPA. Training programs will be continued, particularly for key transaction personnel, in negotiating skills, legal aspects of M&A activities, valuation techniques, systems management, and management skills. The training has been budgeted at an estimated $60,000. Actual budgets for specific training programs will be developed as specific training needs and individuals to be trained are identified.

Area 5

Equipment: Total Level of Effort - .32 Professional person months.

a. Copiers: In the course of the core equipment task for the SPA it was identified that the SPA has a need for a high volume reproduction center. However, no funding was available to meet this need. The SPA currently relies on an external center that uses 1 older, low capacity machine that is working beyond its design capacity with high breakdown rates. The present

45

needs (250,000 - 300,000 copies per month) justify two heavy duty copiers with basic consumables. The Self Privatization effort which communicates regularly with over 200 consulting firms and over 500 enterprises and provides information to investors, has no volume copying capacity. The unit needs a high volume copier that can collate and staple.

In this task, the contractor will clearly define equipment needs and procure and deliver the equipment, subject to the review and written approval of the A.I.D. Contracting Officer.

b. Computers: The Self Privatization Program Assistance Phase I, and Warrant Program Phase I studies undertaken under the Contract with USAID funding identified specialized computer equipment needs in these two organizations. The Self Privatization program requires a high speed printer and some specialized supplemental equipment for its Local Area Network. The Warrant Program requires up to 5 specialized high capacity PCs for tasks such as tracking 900,000 warrants.

In this task, the contractor will clearly define equipment needs and procure and deliver the equipment.

IV. Level of Effort

The contractor will provide North American, U.S., local Hungarian, and European regionally based consultants who have the specialized technical and industry specific expertise to fulfill the required tasks.

V. Deliverables

Area 1: Project Office

1. Monthly reports
2. Annual report
3. Interim reports as requested by SPA and USAID.
4. Successful management of the timeliness, quality and absorption of the work. undertaken in the other areas.
5. Continue to address the Terms of Reference of the contract
6. Final project report at the conclusion of the contract.

Area 2: Self Privatization:

1. System:
   a. Clear definition of system needs.
   b. Modification and installation of the PIS.
   c. Training documentation for users.
   d. System manuals.

2. Medium term advisor:
   a. Methodology for evaluation of consultants' work.
   b. Terms of Reference for independent evaluators.
   c. Methodology for choosing evaluators.
   d. Report on design of ways to support enterprises in the program.

Area 3: Financial Management:

1. Complete the accounting and management information systems and their related manuals.
2. Complete the job description and training program in the accounting, financial management, and planning and budgeting areas.
3. Help the SPA successfully complete the first year full operational budget and operating year budget with the new accounting, MIS, and PIS systems.
4. Identify and put in place an appropriate financial planner/advisor to accomplish the required tasks.

Area 4: Training:

1. Continue to support the U.S. sourced training needs of the SPA.
2. Identify and organize the training of SPA staff in:
   negotiating skills
   legal aspects of M&A activities
   valuation techniques
   systems management

47

management skills

3. Identify and fund U.S. sourced on-the-job training opportunities for SPA staff e.g. at law firms, investment banks, etc.

Area 5: Equipment:

1. Clear definition of the equipment needs.
2. Procurement and delivery of the equipment.

VI. Roles and Responsibilities

The consulting teams will be acting under the day-to-day guidance and direction of the State Property Agency. However, the Long Term Investment Promotion Advisor will be guided by the Hungarian Investment and Trade Promotion Agency. Each Task will be directed by a Project Director and all will be directly responsible to the Long Term Privatization Advisor/USAID-SPA Project Manager who will, in-turn, be guided by the Deloitte & Touche Project Partner.

The USAID Budapest Representative and the USAID enterprise development project officer will be in constant liaison contact with the Project Partner, and the USAID SPA Long Term Advisor/Privatization and the USAID Long Term Advisor/Investment Promotion, the SPA, and the ITPA. The USAID officials will be responsible for providing general guidance and direction to the contractor on this task.

VII. Special Provisions

A. Duty posts: Republic of Hungary, Washington, D.C.

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 logistical support from the USG or any of its agencies.

VII. Performance Period

1. The work on this contract shall commence as early as the time of contract signature by the Office of Procurement and continue for 12 months.

2. The consultant will be expected to have finished these activities by about 30 September, 1993 in the case of the SPA.

3. The consultant shall provide monthly progress reports, quarterly reports and a final report concerning the accomplishments of each sub component, as well as lessons learned: to be submitted no later than 30 days after the termination of the performance period.

   a. Quarterly reports shall be filed with the Project Manager and the AID/Representative.

   b. Six copies of the final report with deliverables attached as annexes shall be submitted to the Hungarian State Property Agency (3 copies in Hungarian and 3 in English).

   c. Six copies of the final report with deliverables attached as annexes shall be submitted to USAID/Budapest (3 in Hungarian and 3 in English).

   d. Three copies of the final report with deliverables attached as annexes shall be submitted in English to RME/ER/ED.

TASK DEFINITION WORKSHEET

Task Title: Equipment, Computers, Scope of Work Modification
Time Budget: 7 days
Assigned Leader: Twyman C. Sched Start: 1 Sept. 1993 End: 1 Nov. 1993
Assigned To: Deloitte & Touche on: 1 Sept.1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to modify paragraph III Scope of Work, Area 5, Equipment: b. Computers component of the November, 1992 extension of Contract ANE-0002-C-00-0047-00 Technical Assistance to the State Property Agency of Hungary to permit its application in the present changed circumstances. The objective continues to be to provide specialized additional computer equipment support to the SPA. However due to the passage of time, neither of the contract identified users continue to have the identified specialized need. However the Privatization Department of the SPA urgently requires computer work stations and other equipment to support The about-to-arrive USAID funded Transaction Support Team and its Secretariat. This task will identify the equipment needed, order it, deliver it, and help install it.

APPROACH AND METHODS

The LTA working with the SPA, D&T, AMEG, and DRT Hungary equipment and systems persons will; define the need, identify the required equipment, procure it in accord with AID regulations, deliver and install it at the SPA in time for the arrival of the Transaction support team.

TASK OUTPUT REQUIREMENTS

1. Identify the equipment needed.
2. Tender, order, and deliver the equipment.
3. Install the required equipment and software.

TASK CHECKPOINTS

Description	Date Due
1. Identify equipment	15 Spt.
2. Tender for equipment	30 Spt.
3. Ship equipment	15 Oct.
4. Install equipment	25 Oct.

TASK DEFINITION WORKSHEET

Task Title: Foreign Investment Promotion Task Extension
Time Budget: 55 days
Assigned Leader: Twyman C. Sched Start: 1 March, 1993 End: 30 April 1993
Assigned To: Deloitte & Touche, Brian Oconner on: 1 March, 1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to expand the level of effort in the Advisory Services to Promote Foreign Investment in Privatizating Firms component of Contract ANE-0002-C-00-0047-00 Technical Assistance to the State Property Agency of Hungary. This is an extension of up to 90 days for the present Long Term Advisor (LTA), Investment Promotion at the Hungarion Investment and Trade Promotion (HITP) Office at the Ministry of International Economic Relation of the Government of Hungary. The objective of this extension is to allow the LTA to position his efforts so that a change in the focus of US assistance in the area of investment promotion into another area in Hungary can be accompolished with minimal disruption. Also it should become clear during the extension period whether the underlying task should be extended to its originally planned 24 months (or longer) in its present form or with modified Terms of Reference. The original terms of reference and contract terms are valid for this extension

APPROACH AND METHODS

The LTA working with the D&T Project Partner, Project Manager, and the US Embassy country team will help design the stategy for continued appropriate support of foreign, -particular US - direct investment and trade promotion for the Government of Hungary. In addition as that strategy becomes clear he will work with the HITP to either make his gradual withdrawal acceptable or the change in his scope of work appropriate to them.

TASK OUTPUT REQUIREMENTS

1. Help develop an appropriate country strategy for the support of US Investment and trade interests in Hungary.
2. Execute either the smooth withdrawal of assistance to the HITP or, should it be seen as appropriate, the modification of the present scope of work within the HITP to accomodate present circumstances.

TASK CHECKPOINTS

Description	Date Due
1. Help develop country strategy	5 April
2. Execute strategy	15 April
3. Completed withdrawal or extension	30 April

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 Team Leader) in accord with the attached Scope of Work. Responsiveness 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 industury sector (meat processing) selected and his enterprise workload identified. The candidate's performance will be closely gauged for long turn 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. Resumes to SPA	10 Aug.
2. Interviews	20 Aug.
3. Personnel on ground	1 Sept.
4. Convert satisfactory personnel to long term basis	31 Dec. 1992

TASK DEFINITION WORKSHEET

Task Title: SPA Long Term Advisor Extension Time Budget: 176 days
Assigned Leader: Twyman, C. Sched: Start: 1 July, 1993 End: 28 Feb. 94
Assigned To: D&T Washington on 30 August, 1993

TASK OBJECTIVES AND SCOPE

The objectives of this no cost extension of the term of the Contract and revision of the itemized budget are to:

i Complete the conclusion phase of several efforts that have already been successfully begun within the SPA.
ii Design and put in place for the Minister for Privatization and the SPA the donor control and budgeting system initiated earlier in the project but not fully adopted.

The SPA-based project office will continue to manage and monitor this contract's activities at the Ministerial level, the SPA, the HITPA and the AV Rt.. The Project office Long Term Advisor (LTA) will be the major resources for the donor control and budgeting system. In addition the Project Office will support the seamless absorption of the separate USAID funded Transaction Support Project.

APPROACH AND METHODS

Working with the appropriate officers at the Ministerial level, in the SPA, at the AV Rt. and the HITPA the LTA will see to the satisfactory conclusion of present activities under the contract, the implementation of the system to monitor the activities of various donors and lenders at the SPA, and the absorption of the Transaction Support Team. In addition the LTA will complete the Projects final reporting requirements.

TASK OUTPUT REQUIREMENTS

1. Monthly, annual, and final Reports
3. Interim reports as requested by SPA and USAID.
4. Manage the timeliness, quality, and absorption of contract work.
5. Continue to address the Terms of Reference of the contract.

Absorption Support Transaction Support Team:
1. Prepare briefing books for the incoming personnel.
2. Prioritize with each SPA sector Director to make the account assignments for the incoming team members.
3. Translate the relevant rules, regulations, and documentation.
4. Assist in making advisory assignments and making introductions.

Donor Control and budgeting system for the Minister and the SPA:
1. Complete update of current systems.
2. Update donor and lender utilization plan.
3. Create a tracking and control system for the SPA that meets the needs of the SPA and the Department of State Auditors.

TASK CHECKPOINTS

Description	Date Due
1. Deliverables	In accord with project TDWs
2. Donor/Lender System	15 Jan. 1994
3. Transaction Team works	15 Jan. 1994
4. Final Reports	15 Mar. 1994

TASK DEFINITION WORKSHEET

Task Title: Final Equipment Purchase for SPA Time Budget: 7 days
Assigned Leader: Twyman, C. Sched: Start: 1 July, 1993 End: 28 Feb. 94
Assigned To: D&T Washington/AMEG on 30 August, 1993

TASK OBJECTIVES AND SCOPE

The objectives of this equipment budget is to:

1. Complete the specialized computer needs of the SPA for the Transaction support team.
2. Meet the high volume copier needs of the SPA deliver them, and help install them.

APPROACH AND METHODS

Computers: The LTA working with the SPA, D&T, AMEG, and DRT Hungary equipment and systems persons will; define the need, identify the required equipment, procure it in accord with AID regulations, deliver and install it at the SPA in time for the arrival of the Transaction support team.
Copiers: The high volume copier needs will be confirmed and appropriate equipment ordered.

TASK OUTPUT REQUIREMENTS

1. Identify the equipment needed.
2. Tender, order, and deliver the equipment.
3. Install the required equipment and software.

TASK CHECKPOINTS

Description	Date Due
1. Identify equipment	15 September
2. Tender for equipment	30 September
3. Ship equipment	15 October
4. Install equipment	25 October

TASK DEFINITION WORKSHEET

TASK TITLE: Self Privatization Program Conclusion TIME BUDGET: 87 days
ASSIGNED LEADER: Twyman, C. START: 1 July, 1993 END: February 28, 1994
ASSIGNED TO: DT&T Washington, DRT Hungary

TASK OBJECTIVES AND SCOPE

The objectives of this task continue to be to accelerate the pace of activity of the State Property Agency's (SPA) Self Privatization Unit (SPU) -which operates as a separate legal entity PRI-MAN kft.- increase its transparency and improve public access to and interest in the self privatization program. This PHASE II of the USAID SPU support program has built on the PHASE I activity and supported those efforts identified as appropriate by the SPU in its Self Privatization Program (SPP) and the consulting team and concured in by the OAR Budapest. The four areas of support in order of priority have been:

1. Development of a methodology to evaluate the performance of the consulting firms involved in the SPP and thus of the SPP itself with recommendation for progam improvement and modification.
2. Development of manuals for the consulting firms executing the program outlining their role, tasks, responsibilities, procedures, anticipated results and the measurement of their success.
3. Development of criteria for the selection, management, and evaluation of the consulting firms by the SPU.
4. Support developing a public information program aimed at: candidate and participating enterprises, candidate and participating consultants, investors foreign and domestic.

APPROACH AND METHODS

The Managing Director of the SPU, working with the LTA Privatization at the SPA will continue to direct several skilled teams to undertake discreet tasks within the SPU. The SPU continues to need assistance to fully professionalize its activity. The team has, following needs assessment cycles, moved into the execution of its several identified tasks. Those tasks have concentrated in the areas of: 1. progam measurement and modification 2. management, direction, and control of participating consultants and enterprises 3. systems, accounting, control, and internal communication 4. ways to achieve the expansion and popularization of the program. 5. The implementation of the above work.

TASK OUTPUT REQUIREMENTS

1. A detailed analysis of the present position of the program.
2. Help implement the measurement system for consultant's activities in Tranche II of the program.
3. Up date instruction manuals in line with Tranche I and II extensions.
4. Public information program analysis.
5. Based on 1-4 an action plan and needs analysis for further support.

TASK DEFINITION WORKSHEET

Task Title: Financial Management Task Conclusion Time Budget: 50 days

Assigned Leader: Twyman C. Sched Start: 1 July, 1993 End: 28 Feb.1994
Assigned To: Deloitte & Touche, DRT Hungary on: 30 Aug., 1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to oversee, in the position of mentor of the Financial Director of the SPA, the succesful implementation of the budgeting, financial control, and accounting work undertaken in the first phases of this task. The now matured and expanding role of the Financial Director's function has been recognized within the SPA and has become fully operational. The addition of a new and more highly qualified person in the Financial Director position will expand the range of useful support the financial management mentor can give. The mentor with the Financial Director will take each operating unit through the processes he helps them develop which is a longer term process requiring patience and considerable technical skill. The task proposes to make available a skilled Financial Management mentor on a part time basis. In addition short term technical assistance in accounting, financial control and related areas will be available as required to assist the mentor. The mentor will have the specific task of bringing the planning, recording, and tracking of the privatization activities of the SPA up to world class shape and timeliness standards.

APPROACH AND METHODS

The Financial Director's mentor, working at the direction of the Financial Director, will continue the implementation of the quarterly reporting cycle, help initiate and execute a reporting system to track the progress of privatization in Hungary, help design and introduce a methodology to track the SPA's contractual and warranty responsibilities, support the creation of a management reporting system to be used by enterprises subject to SPA control, complete the implementation of the SPA's management reporting system, and support the preparation of a SPA "asset map".

TASK OUTPUT REQUIREMENTS

1. Fine tune the design of a privatization reporting system for the SPA.
2. Develop the outline of the nationwide privatization reporting system for the Minister.
3. Quality check the contract tracking system.
4. Refine the implementation of the Qtrly. Mgmt. Reporting system.
5. As appropriate help with the prioritization and asset mapping exercise which supports the Transaction Support effort.

TASK CHECKPOINTS

Description	Date Due
1. Check contract tracking system	15 Nov.
2. Refine SPA monthly privatization Report	Continuous
3. Outline nationwide privatization Reporting requirement guidelines	30 Spt.
4. Qtrly. Management Report, Review	Continuous
5. Progress on asset mapping	When called for

TASK DEFINITION WORKSHEET

Task Title: Project Management in Conclusion Phase Time Budget: 15 days

Assigned Leader: Twyman C. Sched Start: 1 July, 1993 End: 28 Feb.1994
Assigned To: Deloitte & Touche on: 30 Aug., 1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to conclude the special oversight and control activities undertaken under this contract.

APPROACH AND METHODS

The Project Partner working with the Project Manager will allocate resources in line with the special needs of this project.

TASK OUTPUT REQUIREMENTS

1. See to the smooth and controlled conclusion of the project.
2. Control the quality of the final products of the project and its smooth transition into the Transaction Support Team.
3. Meet special requirements of USAID as required.

TASK CHECKPOINTS

Description	Date Due
1. Completion of Deliverables under all project components	15 Feb.
2. Annual and Final Report	15 Mar.
3. Financial Reconciliation	30 Mar.

TASK DEFINITION WORKSHEET

Task Title: Training, Conclusion Activities Time Budget: 10 days

Assigned Leader: Twyman C. Sched Start: 1 July, 1993 End: 28 Feb.1994
Assigned To: Deloitte & Touche, DRT Hungary on: 30 Aug., 1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to continue to support the U.S. sourced training needs of the SPA, HITPA, and the AV Rt. and to send the head of the legal department to the U.S. for specialized legal training guided by the ABA.

APPROACH AND METHODS

The Project Manager will call on the training resource available at DRT Hungary to complete any followup activities required.

TASK OUTPUT REQUIREMENTS

1. Conclude the training support activities at the SPA, HITPA, and the AV Rt.
2. Identify training followup activities for USG and other programs.
3. Provide US based legal training for the SPA's Legal Department Director in conjunction with the ABA.

TASK CHECKPOINTS

Description	Date Due
1. Introduce the SPA, AV Rt., HITPA directly to the USAID and other training resources.	30 Jan.
2. Legal Director training	31 Dec. (?)

TASK DEFINITION WORKSHEET

Task Title: Transaction Support Agriculture, Conclusion Activities
Time Budget: 44 days
Assigned Leader: Twyman C. Sched Start: 1 July, 1993 End: 31 Aug.1993
Assigned To: DRT Hungary on: 1 July, 1993

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 has been to make available 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 be put on a longer term basis. This short-term funded person is expected to be the Project Manager/backup agriculture team member in the Privatization Transaction Support Scope of Work.

APPROACH AND METHODS

Working with the Deputy Managing Director a person was chosen and has been in place since fall of 1992. The candidate's performance has been made him suitable for a long term post at the SPA in the Transaction support project.

TASK OUTPUT REQUIREMENTS

1. Prototype the Transaction Support Job.
2. Design the reporting and tracking system for Transaction Support specialists.
3. Help the introduction of the transaction support concept.
4. Assist in Transaction.
5. Help design and prepare materials for the Transaction Support Team.

TASK CHECKPOINTS

Description	Date Due
1. Sample Reports	31 Aug.
2. Reporting System	31 Aug.
3. Briefing Materials	31 Aug.
4. Convert to long term	1 Spt.

TASK DEFINITION WORKSHEET

Task Title: Foreign Investment Promotion Task Conclusion
Time Budget: 30 days
Assigned Leader: Twyman C. Sched Start: 1 May, 1993 End: 11 June, 1993
Assigned To: Deloitte & Touche, Brian Oconner on: 1 May, 1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to increase the level of effort in the Advisory Services to Promote Foreign Investment in Privatizating Firms component of Contract ANE-0002-C-00-0047-00 Technical Assistance to the State Property Agency of Hungary to permit its smooth conclusion. This is an extension of up to 30 days for the present Long Term Advisor (LTA), Investment Promotion at the Hungarion Investment and Trade Promotion (HITP) Office at the Ministry of International Economic Relation of the Government of Hungary. The objective of this extension is to allow the LTA to wind down his efforts at the HITP, pass his ongoing work to other HITP officers, make his scheduled platform presentations at an Atlanta, Georgia Hungarian investment and trade conference and a similar New Brunswick New Jersey conference on 2, 3, and 4 June, complete the necessary conference followup and complete his final reports prior to his departure. The original terms of reference and contract terms are valid for this extension.

APPROACH AND METHODS

The LTA working with the D&T Project Partner, Project Manager, and the US Embassy country team will help execute the LTA's withdrawal strategy. The objective is a smooth effort that transitions the LTA's work smoothly to elsewhere in the country team effort.

TASK OUTPUT REQUIREMENTS

1. Design and execute the appropriate withdrawal strategy coordinating closely with USAID and the country team.
2. Execute the withdrawal of assistance to the HITP so that the LTA's initiatives are built upon.
3. Participate successfully and make sure the appropriate followup is being undertaken on the Atlanta and New Brunswick conferences.
4. Complete final reports.

TASK CHECKPOINTS

Description	Date Due
1. Agree withdrawal strategy	14 May
2. Execute strategy	26 May
3. Participate in conferences	2, 3, 4 June
4. Complete Reports and followup	11 June

TASK DEFINITION WORKSHEET

TASK TITLE: Negotiation Skills Training for SPA TIME BUDGET: 30 days
ASSIGNED LEADER: Corwin, L. START: September 18, 1992 END: October 5, 1992
ASSIGNED TO: DT&T Washington

TASK OBJECTIVES AND SCOPE

The State Property Agency of Hungary directs the major privatization efforts of the Hungarian government. Staff at all levels of the agency are actively involved in the process of negotiating the disposal of state owned assets. The primary purpose of this task is to provide the SPA staff with a better understanding of the negotiation process in a way that they can apply it directly to their practical day-to-day responsibilities and more competently and expeditiously get on with their task.

APPROACH AND METHODS

The Deputy Managing Director who is responsible for the Privatization Transactions Department and the Director of Personnel, working together with the USAID Training Advisor, have identified a US negotiation skills training expert who will present workshops exactly tailored to the needs of the SPA. The workshops will offer an integrated balance of principles that are universal and cross-cultural, as well as practical applications. The emphasis is on getting SPA personnel to look at each situation and each individual within its unique context and adapt their behavior to that situation without ignoring or violating the underlying principle(s).

Sixty members of the SPA will be divided into two groups of thirty members each. Group A will consist of those members with good English language comprehension. Group B will consist of those members with less English language comprehension ability and will involve an interpreter. Each group will receive four days of training broken into two phases of two days each. To minimize on-the-job time loss training will be done either Friday and Saturday or Sunday and Monday.

TASK OUTPUT REQUIREMENTS

1. Successful completion of the seminar.
2. Provision of a complete set of course materials, translated into Hungarian to the 60 participating staff, as well as rights to copy and/or distribute beyond the direct workshop participants to other staff of the SPA, including one English and one Hungarian copy to the Personnel & Training Department and one English copy to the USAID Project Office.
3. A brief written and oral course evaluation made by the participants regarding the relevance of the training to their own individual work and the work of their department.

TASK CHECKPOINTS

Description	Date Due
1. Notify & coordinate attending personnel	Aug 31
2. Translate workbook into Hungarian	Early Sept
3. Meetings between trainer and selected participants prior to the workshops	Sept 20-24
4. Arrange training room space, two flip charts for each class and refreshments	August 31
5. Present workshops	Sept 25 -28, Oct 2-5
6. Workshop evaluation	Oct 3 & 5

TASK DEFINITION WORKSHEET

Task Title: SPA marketing support Time Budget: 22 days
Assigned Leader: Twyman, C. Sched: Start: 5 August, 1992 End: 30 Nov. 92
Assigned To: D&T Houston, AMEG. SPA Project Office on 3 August, 1992

TASK OBJECTIVES AND SCOPE

The Ministry of International Economic Relation is organizing two investment conferences in the United States during October, one in Houston (October 27) and the other in Los Angeles (October 29). Hungary's ambassador to the US, the US Ambassador to Hungary, the Managing Director of the SPA and the Director of the Investment Promotion Office of the MIER will be present. It is being coordinated through the U.S. Department of Commerce in Houston and the Greater Houston Partnership (Local Chamber of Commerce). This is the 1st. showcase investment promotion trip to the US by Hungary's investment promotion Agency, the presence of the Long term adviser investment promotion is required along with the presence of Local knowledgible Houston based support for meeting preparation, support at the conference of the SPA team and followup with potential investors. The task will:

a. Fund the trip of the Long Term Advisor Investment Promotion for the US organizational visit to New York in September, 1992 and the trip with the Ministerial team Budapest, Houston, Los Angeles, Budapest.

b. Create a short-list of companies based in the Southwestern US that have an interest in trading with of investing in Hungary. The target list will be for the October meeting and subsequent followup.

c. Attract the targeted companies to the 27 October Houston program.

d. Fund the SPA's meeting support for the Houston and Los Angeles meetings.

TASK OUTPUT REQUIREMENTS

1. Prepare for the Houston meeting (Los Angeles is being taken care of separately) at least a 250 company target business list in the chosen sectors in the primary and secondary geographic target areas.
2. Coordinate the mailing of initial and follow-up packets to the selected firms and do follow up phone calls to at least 100 and be ready to meet with at least 25 interested candidates and the local chamber and other organization.
3. Support the SPA team at the conference in Houston and Los Angeles.
4. Provide post conference followup for the Houston area.

TASK CHECKPOINTS

Description	Date Due
1. Identify companies	10 Aug.
2. Initial mailings	10 Spt.
3. Sept. Organization trip	15 Spt.
4. Follow up calls	30 Spt.
5. Conferences	24 Oct.
4. Conference support	27 Oct.
5. Conference Followup	30 Nov.

MEMORANDUM

DATE: 29 January, 1993
TO : Office of the AID Representative, Budapest Office
FROM: Deloitte & Touche, SPA Project Office

REFERENCE: Modification of Contract Objectives, Scope of Work and Deliverables in Area 2: Self Privatization and Area 3: Financial Management, USAID Contract Number ANE-0002-C-00-0047-00 extension dated 23 November, 1992.

BACKGROUND: In June of 1992, based on the then defined needs of the SPA, certain project extensions were planned as part of the amendment of referenced contract. Two activity areas for planned assistance were identified as the Self Privatization Program, and support of the Financial Management and reporting functions of the SPA.

CURRENT SITUATION: The SPA and the underlying programs specific needs have evolved since the project tasks were initially defined. Following the 23 November, 1992 execution of the contract amendment the contractor undertook a review with the SPA client of his needs in the various areas to be supported by the amendment and has identified the need for modifications of the initial project task definitions in two cases; The Self Privatization task and the Financial Management task.

REQUESTS:

1. That the OAR Budapest review the attached Task Definition Worksheets for the Self Privatization task and the Financial Management task and their related proposed budgets. (Note while there is some reallocation of budget line items there is no change in the budgeted amounts for each project.)

2. That the OAR Budapest based on his review and discussions with the Project Manager at the Deloitte and Touche Project Office and the SPA approve a modification of the original contract in line with the current needs of the SPA client by approving appropriate Task Definition Worksheets.

3. That the OAR Budapest provide guidance to the SPA Project Office on how future reallocations among task might be done. For example there are funds available from <u>past</u> project years as a result of a charge recalculation. While some of these funds would appear to be expendable under continuation of TDWs approved during those periods, some funds would appropriatly be reallocateable to 1993 tasks.

NOTE: The contract is run on a by-project basis. Each project has an underlying indicative budget. The contract amendment itself only incorporates a total of the combined project work by category of effort (contract Attachment 2). The above noted TDW modifications will reallocate previously planned expenditures as noted in that attachment most notably from the salaries, fringe, overhead lines (D&T US time) to the subcontrator line (DRT Hungary & AMEG time). The principal cause of this being that the level of effort under the self-privatization effort is far more Hungarian language and Hungarian market skill base driven than originally estimated. I attach the original by-project build up control sheet to help you understand this better.

TASK DEFINITION WORKSHEET

Task Title: Financial Management Task Extension Time Budget: 118 days

Assigned Leader: Twyman C. Sched Start: 10 December, 92 End: 31 Jly. 1993
Assigned To: Deloitte & Touche, DRT Hungary, AMEG on: 1 Dec., 1992

TASK OBJECTIVES AND SCOPE

The objectives of this task is to oversee, in the position of mentor of the Financial Director of the SPA, the succesful implementation of the budgeting, financial control, and accounting work undertaken in the first phases of this task. The now matured and expanding role of the Financial Director's function has been recognized within the SPA and has become fully operational. The addition of a new and more highly qualified person in the Financial Director position will expand the range of useful support the financial management mentor can give. The mentor with the Financial Director will take each operating unit through the processes he helps them develop which is a longer term process requiring patience and considerable technical skill. The task proposes to make available a skilled Financial Management mentor on a part time basis. In addition short term technical assistance in accounting, financial control and related areas will be available as required to assist the mentor. The mentor will have the specific task of bringing the planning, recording, and tracking of the privatization activities of the SPA up to world class shape and timeliness standards.

APPROACH AND METHODS

The Financial Director's mentor, working at the direction of the Financial Director, will continue the implementation of the quarterly reporting cycle, help initiate and execute a reporting system to track the progress of privatization in Hungary, help design and design and introduce a methodology to track the SPA's contractual and warranty responsibilities, support the creation of a management reporting system to be used by enterprises subject to SPA control, complete the implementation fo the SPA's management reporting system, and support the preparation of a SPA "asset map".

TASK OUTPUT REQUIREMENTS

1. The design of a privatization reporting system for the Minister for Privatization and the SPA.
2. The design of a method to identify and track the SPA's responsibilities under its sales contracts.
3. Assist the Treuhand advisors in implementing a management reporting system for SPA enterprises.
4. Refine the implementation of the Qtrly. Mgmt. Reporting system.
5. As time allows assist with the asset mapping exercise.

TASK CHECKPOINTS

Description	Date Due
1. Design contract tracking system	28 Feb.
2. Contract Reporting system	15 April
3. Enterprise Reporting System	30 May
4. Qtrly. Management Report	Continuous
5. Progress on asset mapping	By 31 July

2. **LTA/Privatization and Project Management**

Reports and other Supporting Documents

USAID TECHNICAL ASSISTANCE TO THE HUNGARIAN STATE PROPERTY AGENCY

QUARTERLY REPORTS

FY 1993

Deloitte & Touche
Contract No. ANE-0002-C-00-00457-00
Project No. 180-0002-3-0183107

66

USAID Technical Assistance to the Hungarian State Property Agency
Deloitte & Touche
Contract No. ANE-0002-C-00-00457-00
Project No. 180-0002-3-0183107

First Quarter Report **October - December 1992**

Summary:

During the First Quarter of FY 1993 (October - December 1992) the level of activity on the part of the Long Term Advisor/Privatization was not as high as in previous quarters. This was mainly due to the fact that USAID was in the process of completing the Advisor's new contract for the coming year. The previous contract expired on September 30, 1992 and the new contract was not finalized until the end of November. However, several important activities did take place with the assistance and participation of the Long Term Advisor/Privatization, the Long Term Advisor/Foreign Investment, and other Short Term Technical Assistance resources.

At the close of the quarter, the project had received a new contract from USAID that would carry through until September 30, 1993. This new contract continued to support much of the previously initiated work and also included a new line item -- a full-time, on-site training specialist.

Significant Events:

- **Training:** A Negotiation Skills workshop was conducted in September and October for about 60 State Property Agency executives. The workshop was conducted by Mr. Edward E. Morler, Ph.D., an American negotiation expert and was intended to provide SPA transaction staff a better understanding of the negotiation process which forms a core portion of their daily task of selling Hungarian state-owned property. The workshop received high ratings on all counts and many participants expressed a strong desire to attend a more advanced version of the course in the future.

- **Investment Promotion:** The major feature of the investment promotion activity during the quarter was the involvement of the Long Term Advisor/Investment Promotion and the USAID funded financial management advisor in two investment seminars for interested American companies held in Houston and Los Angeles. In total, there were more than 220 registrants. Follow-up activities continued during the rest of the quarter including follow-up questionnaires, direct contact and provision of information to particularly interested firms.

  In addition, the project team focused on dealing with investor transaction problems and complaints. In particular, the Long Term Advisor/ Privatization and the Long Term Advisor/Investment Promotion both worked to mobilize ministerial action to resolve complaints brought by Cargill, Conagra, and

Marriot with respect to the privatization transaction process.

- **Institutional Support:** The Long Term Advisor/Privatization assisted the management of the State Property Agency to prioritize its needs and develop its policy with respect to US and other donor assistance. This work was particularly relevant to the visit of Ambassador Hutchings and other high-level US Government officials during the period.

- **Warrant Compensation Program:** During this quarter, the final briefing seminar was held for the Warrant Compensation project. The bulk of the technical work under this project was completed during the previous year and in this year the team is concluding reports and presenting findings to the client and to USAID.

- **New Work:** Work commenced on the Self Privatization Project and the Financial Management Project with a series of kick-off meetings to identify priorities and parameters for the projects.

  The Self Privatization Project is intended to accelerate the pace of activity of the SPA's Self Privatization Unit, increase the transparency of its actions, and improve public access to and interest in self privatization.

  The Financial Management Project is intended to continue to support the Financial Director of the SPA. Specifically, technical assistance is to be provided to implement a quarterly reporting cycle for privatization, to improve the tracking of contractual and warranty obligations, and to develop a management reporting system to be used by enterprises subject to SPA control.

Attachments:

For additional information, attached here are the detailed monthly reports for the quarterly reporting period.

QUARTER 1

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, 1992

SUMMARY:
During October the twenty-fifth month of the long term contract phase of the project, the LTA concentrated on; supporting the GOH/USG 1993 policy discussions, concluding the 1992 contract activities, positioning for 1993's activities pending contract completion, supporting the GOH investment promotions trip to Los Angeles and Houston and concluding the negotiations skills course.

MAIN AREAS OF ACTIVITY:
-Supported the GOH in its prioritization analysis and its policy derivation as regards its requests for US assistance during the visit of Ambassador Hutchings team. Supported USAID Budapest and the Embassy country team on the occasion of the visit of the Director of USAID. Support the USAID Budapest team in the bilateral treaty discussions.
-Placed all project work (except as noted) on hold pending contract completion.
-The negotiation skills seminar was concluded, the follow up questionnaire and interviews confirm it as a success and the next level program was designed.
-The Houston and Los Angeles Hungary Investment promotion trip was a significant success with far more meaningful turnout than anticipated.
-The Warrant program conclusion was continued on hold.

Work in Progress and Status:

1.-Equipment: the 1993 budget not yet approved.

2.-PIS: needs definition for continuing work in 1993 begun. Systems sub-contractor continues to work with the SPA on a direct contract basis until funding for system expansion/modification can be found. A pleasing increase in utilization has been noted.

3.-Training: Negotiation skills seminars went well, second phase recommended. All other USAID training activity on hold pending budget completion however continuing support of training activities funded by others (EC PHARE, Treuhand, etc.) continues.

4.-Financial Management: Maintenance level support in control systems continued pending contract completion.

5.-Self Privatization Phase II: Next Phase awaits funding.

7.-Warrant System Phase II: Work still awaiting client OK to complete.

8.-Investment Promotion Support: The October visits to Houston and Los Angeles went far better than expected. The potential investor follow-up is the next stage.

9.-Project Administration: Further GOH and USG budget cycle work and the 2nd project year wind-down occupied the period.

10.-Donor Coordination: Worked with USG, US treasury -particularly the Bank Privatization effort- and others to try to dovetail their desired programs with activities underway with the EC PHARE and WB. Assisted a USAID case study and program team, a WB case study effort, and an EBRD privatization method study.

-Representational activity: USAID Hungary, USAID Washington, US Embassy Budapest, Ministry of International Economic Relations Investment Office, WB, EBRD, PHARE, International Law Institute, 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 investment bankers and liquidation specialists.
-Support systems integration with training and information.

SPECIFIC TASKS

Progress during the period 1-31 October, 1992

1. Help Define the Operational Framework of the SPA:
Pending contract completion only a low level of support was continued and that in management reporting. Internal advisory efforts on reorganization for greater throughput was continued.

2. Help Prepare a Funding Strategy for the SPA's Activities:
Supported the GOH team in their negotiations with the US team led by ambassador Hutchings. USAID support for the next cycle further defined with USAID and the SPA. Accelerating privatization emphasized.

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). The Bilateral Treaty needs of Long Term Advisors was outlined for the US Country Team.

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:
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 with the negotiation skills seminar completed and support of the continuing PHARE funded training programs continued.

8. Help Define the Prioritization of Privatization Activities:
The national prioritization exercise continues. Accelerating the privatization effort now requires and can absorb trained resources.

9. Help Define the Critical Privatization Program Linkages in the Economy:
Investment Promotion office support continued. SPA's information effort (PRIVINFO etc.) was expanded and the new information office is launched. Dialoguing at the line level in the agriculture area commenced.

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 in concert with other donors and lenders.

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. The self-privatization initiative is a response to this task requirement the warrant system is providing significant capital support to the privatization process and the new leasing and credit note instruments are further significant efforts.

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 work, the Self Privatization support, the new leasing initiative and the new credit note concepts are all new initiatives in this area. We have worked with the 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. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-30 November, 1992

SUMMARY:
During November the twenty-sixth month of the long term contract phase of the project, the LTA concentrated on; supporting the US country team on US investor transaction problems, reviewing the Roland Berger report on the SPA with the SPA Managing Director, delivering the final client seminar under the Compensation note task, positioning for 1993's activities pending contract completion to include initiating Financial Management support, follow-up on the GOH investment promotions trip to Los Angeles and Houston.

MAIN AREAS OF ACTIVITY:
-Initiated with the USG Country Team a proactive strategy to deal with US investor complaints about Hungary's processing problems for possible investments.
-Placed all project work (except as noted) on hold pending contract completion.
-Expanded discussions with USAID, EC PHARE and others on training funding for the SPA during 1993.
-The Houston and Los Angeles Hungary Investment promotion trip follow-up was continued.
-The Warrant program final seminar was given successfully. The summary paper is the final deliverable.

Work in Progress and Status:

1.-Equipment: the 1993 budget not yet approved.

2.-PIS: needs definition for continuing work in 1993 continued. Systems sub-contractor continues to work with the SPA on a direct contract basis until funding for system expansion/modification can be found.

3.-Training: All other USAID SPA core contract training activity on hold pending budget completion however discussion on the accessing USAID's counterpart training program and the continuing support of training activities funded by others (EC PHARE, Treuhand, etc.) continues.

4.-Financial Management: Maintenance level support in control systems continued pending contract completion. The planning advisor was introduced and attended the SPA's off-site organization seminar.

5.-Self Privatization Phase II: Next Phase awaits funding.

6.-Warrant System Phase II: Seminar completed. Final paper in preparation. Program success and USAID's role report designed.

7.-Investment Promotion Support: The potential investor follow-up on the Houston and Los Angeles continues. US investor complaints are being dealt with constructively with the US country team and as appropriate directly with the investor.

9.-Project Administration: Further USG budget cycle 2nd project year wind-down a third project year mobilization occupied the period.

10.-Donor Coordination: Continued support of USAID and WB project work. Expanded training support efforts with EC PHARE.

-Representational activity: USAID Hungary, US Embassy Budapest, US Commercial Attache, Ministry of International Economic Relations Investment Office, WB, PHARE, various investors and researchers.

72

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization.
-Need to Integrate the reporting and planning systems into the SPA.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

SPECIFIC TASKS

Progress during the period 1-30 November, 1992

1. Help Define the Operational Framework of the SPA:

Contract signed late in November so mobilization for the major support work in the financial management and self-privatization program areas will begin in December. During the month a low level of support was continued and that in management reporting. Internal advisory efforts on reorganization was continued.

2. Help Prepare a Funding Strategy for the SPA's Activities:

USAID support for the next cycle further defined with USAID in the core contract and work on the transaction support effort with the SPA continued. Accelerating privatization emphasized.

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 (PIS and Finance Support).

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and PIS activities are fully defined and the new self-privatization initiative is now funded for its next phases and the Privatization unit still needs skilled resources.

5. Help Define the Office and Equipment Requirements of the SPA:

Supplemental equipping needs have been identified and funding was just approved. EC funding is now picking up the heavy PC needs.

6. Help Define the Personnel Requirements of the SPA:

Potential Medium and Long Term support needs have been defined in the financial management and self-privattization areas and funded, additional needs in the PIS, and training programs as well as a need coupled with absorption capacity in the privatization and insolvency area continue.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

The training department support continued principally by program needs definitions commenced through USAID's counterpart training program and the continuing PHARE funded training programs support.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues. Accelerating the privatization effort requires and can absorb trained resources.

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued. SPA's information effort (PRIVINFO etc.) was expanded and the new information office is launched. Dialoguing at the line level in the agriculture area commenced. Other areas to follow as skilled professionals are available.

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 in concert with other donors and lenders.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on investment promotion "marketing" and the process being market driven rather than government initiated continues to be correct. The self-privatization initiative is a response to this task, the warrant system is providing significant capital support to the process and the new leasing and credit note instruments are further significant efforts. New efforts to make the process more user friendly are required and are being discussed.

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 work, the Self Privatization support, the leasing and credit note concepts are new initiatives in this area. We have worked with the 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. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-31 December, 1992

SUMMARY:
During December the twenty-seventh month of the long term contract phase of the project, the LTA concentrated on; continuing to support the US country team on US investor transaction problems, completing a report on the Hungarian Compensation Note Program for USAID, began the 1993 Self Privatization task, began the 1993 Financial Management task.

MAIN AREAS OF ACTIVITY:
-Dealt systematically with three major US investor complaints; Conagra, Mariott, Cargill, brought appropriate Ministerial support to bear.
-Commenced the 1993 Self Privatization Project with a series of meetings with Pri Man and the SPA to define the Project priorities and parameters.
-Commenced the 1993 Financial Management Project with a week of project discussion and definition work to make the new Financial Director comfortable with the project and get her agreement for appropriate tasks under the reduced scope of work.
-Followed up on training for the SPA, MIER, and AV Rt. particularly under the USAOD Participant Training Program.

Work in Progress and Status:

1.-Equipment: 1993 budget approved. Need redefinition to commence.

2.-PIS: needs definition for continuing work in 1993 continued. Systems sub-contractor continues to work with the SPA on a direct contract basis until funding for system expansion/modification can be found.

3.-Training: Utilization of USAID's participant training program begun and the continuing support of training activities funded by others (EC PHARE, Treuhand, etc.) continues.

4.-Financial Management: Program needs for the 1993 Project were defined. Work to commence in February with the major concentration to be on the national reporting system for privatization.

5.-Self Privatization Phase II: Commenced.

6.-Warrant System Phase II: Project paper prepared for USAID.

7.-Investment Promotion Support: The potential investor follow-up on the Houston and Los Angeles continues. US investor complaints are being dealt with constructively with the US country team jointly by the LTA Investment Promotion, the LTA Privatization, directly with the investor, and the appropriate level within the GOH..

9.-Project Administration: Third project year mobilization occupied the period.

10.-Donor Coordination: Initiated closer coordination with the new Treuhand advisors, continued support of USAID and WB project work. Continued training support efforts with EC PHARE. Worked closely with USAID during the transition period before the departure of the present DMD in charge of the SPA's Privatization activities.

-Representational activity: USAID Hungary, US Embassy Budapest, US Commercial Attache, Ministry of International Economic Relations Investment Office, WB, PHARE, various investors and researchers.

75

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization.
-Need to Integrate the reporting and planning systems into the SPA.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

SPECIFIC TASKS

Progress during the period 1-31 December, 1992

1. Help Define the Operational Framework of the SPA:

The 1993 Financial Management effort to focus first on systematizing the public reporting of Privatization progress. The first task in the Self-Privatization Project is a mid program review for the Board of the SPA to define how to make the program more effective.

2. Help Prepare a Funding Strategy for the SPA's Activities:

Work on USAID's transaction support effort with the SPA continued. The new Treuhand team's efforts were blended with USAID's and the Medium Term advisor in the Agriculture Sector initiated utilization of a significant portion of the PHARE transaction support funding.

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 (PIS and Finance Support).

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and PIS activities are fully defined and the new self-privatization initiative is now funded for its next phases and the Privatization unit still needs skilled resources.

5. Help Define the Office and Equipment Requirements of the SPA:

Supplemental equipping needs have been identified and funding was just approved ordering will commence.

6. Help Define the Personnel Requirements of the SPA:

Potential Medium and Long Term advisory support needs have been defined in the financial management and self-privatization areas, additional needs in the PIS, and training programs have been identified 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:

Training support continued at the MIER, the SPA, and as reasonable with the AVRt. Candidates were identified for the USAID participant training program. Legal training program needs being analyzed.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues with the AVRt. launch spinning off a significant set of problematic assets from SPA's portfolio. The SPA's privatization effort requires and can absorb trained resources.

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued. SPA's information effort will be supported thgout the financial management program. The dialog at the Ministry of Agriculture was continued. Other areas to follow as skilled professionals are available.

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 informally but effectively in concert with other donors and lenders.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on privatization being market driven rather than government initiated continues to be correct. The self-privatization initiative is a response to this, the warrant system is providing significant capital support to the process and the new leasing and credit note instruments are further significant efforts. New efforts are being discussed.

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 work, the Self Privatization support, the leasing and credit note concepts are new initiatives in this area.

USAID Technical Assistance to the Hungarian State Property Agency
Deloitte & Touche
Contract No. ANE-0002-C-00-00457-00
Project No. 180-0002-3-0183107

Second Quarter Report **January - March 1993**

Summary:

Following the holiday season and with a new one-year contract in place, the Long Term Advisor/Privatization and the other technical assistance resources available under this contract began to work with much greater intensity than during the previous quarter. In particular, activity was focused on implementation of the financial management and self privatization program components of the newly-signed contract.

With the exception of the equipment procurement, all tasks under the contract proceeded satisfactorily during the reporting period. The presence of a full-time training specialist has had a very beneficial impact on participation by the SPA staff in USAID's participant training programs and has improved staff access to other training programs, both in Hungary and abroad. In addition, the training specialists has assisted both the SPA and the MIER to plan implementation of their EC Phare training budgets.

Significant Events:

- **Training**: The training specialist who became a formal part of the SPA project team during this quarter, selected, evaluated and prepared candidates for the USAID-funded participant training program. At the close of the quarter, the candidates were dispatched to various training programs in the US. The training specialist also helped to implelment a serios of in-house training programs funded by the EC Phare program which focused on financial topics such as Cost Benefit Analyses and Discounted Cash Flows.

- **Institutional Support**: The Long Term Advisor/Privatization assisted Minister Szabo to prepare for his high-level visit to the US. The LTA/Privatization provided Minister Szabo with extensive briefings on the potential content and issues that might arise during Minister Szabo's discussions with USAID and other government officials in the US on the subject of donor assistance to Hungary. Minister Szabo's trip was intended to follow up on Ambassador Hutchings' trip to Hungary in the previous quarter. In addition, the LTA/Privatization assisted the SPA to prepare its strategy and other information to demonstrate to the World Bank that the Agency was meeting its conditionality requirements.

- **Self Privatization**: The Hungarian Self Privatization Program intends to "privatize privatization" by allowing outside consultants to work with certain

companies owned by the SPA. Under the program, consultants and the SPA-owned companies work together to transform the company into a commercial company and then develop and implement a privatization program. During this quarter, the Deloitte & Touche team provided assistance to the Program directors in evaluating the performance and capability of the outside consultants and evaluated the overall progress of the program. The Team developed a methodology, instructed the directors on its use, and assisted them in the evaluation and analysis process.

- **Financial Management**: This task is focused on successfully implementing budgeting, financial controls, and accounting procedures in the office of the Financial Director of the SPA. During this quarter, consultants assisted in the design of a control system for the SPA's sales contracts. This system is in implementation. In addition, the development of a privatization reporting system (the Privatization Monitor) which presents information on privatization in a clear and comprehensible manner for use internally by the SPA, by the Minister in charge of privatization, and externally by the general public has been agreed to.

- **Equipment**: The Long Term Advisor/Privatization and others in the SPA worked to define the equipment needs to be funded under this contract. The team determined that two large capacity Xerox copiers would be required along with additional equipment. Since a specific type of copier was selected, the team prepared and submitted a waiver request to USAID to waive the normal competitive procurement process. Unfortunately, the procurement was stalled during this quarter as the team awaited the waiver from USAID/Washington.

Attachments:

For additional information, attached here are the detailed monthly reports for the quarterly reporting period.

QUARTER 2

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-31 January, 1993

SUMMARY:
During January the twenty-eighth month of the long term contract phase of the project, the LTA concentrated on; the first phase work of the 1993 Self Privatization task, continuing support to the US country team on US investor transaction problems, detailed follow-up on training available through the participant training program, support of the planning effort for a visit by Minister Szabo Tamas to Washington D.C. and project management issues.

MAIN AREAS OF ACTIVITY:
-Helped move with three major US investor problems out of that category; Conagra -now in active negotiation-, Mariott -has found money and goes forward to the SPA Board in Feb, Cargill -has accepted if reluctantly that they must bit piecemeal for what they want-.
-The 1993 Self Privatization Project core interviews and surveys were done during the month with the 1st. deliverable -a consultant ranking system and an evaluation of the program to date- due in mid February.
-Identified and documented over 30 possible participants in the Participant Training Program from the SPA, the MIER and the AVRt.
-Helped the US and Hungarian teams coordinate Minister Szabo's trip to the US with specific assistance on briefing packets for the key State and USAID visits.
-Initiated project management discussions with the OAR Budapest for the 1993 budget.

Work in Progress and Status:

1.-Equipment: Copier need confirmed, models identified and priced. Procurement commencing.

2.-PIS: needs definition for continuing work in 1993 continued. Systems sub-contractor continues to work with the SPA on a direct contract basis until funding for system expansion/modification can be found.

3.-Training: Participant Training Program candidates identified and documented. Continuing support of training activities funded by others (EC PHARE, Treuhand, etc.).

4.-Financial Management: Detailed work plan approved. Work to commence in February with the major concentration to be on the national reporting system for privatization.

5.-Self Privatization Phase II: Initial surveys completed.

6.-Warrant System Phase II: Project paper submitted to USAID. Final deliverable being translated.

7.-Investment Promotion Support: Investor follow-up on the Houston and Los Angeles continues. Danube Basin efforts supported. US investor problems being systematically dealt with in concert with the US country team and the appropriate level within the GOH..

9.-Project Administration: Third project year strategy outlined.

10.-Donor Coordination: Continued close coordination with PHARE in training and transaction support. Assisted USAID transition to work with the new DMD in charge of the SPA's Privatization activities.

-Representational activity: USAID Hungary, US Embassy Budapest, US Commercial Attache, Ministry of International Economic Relations Investment Office, WB, PHARE, Blue Ribbon Commission, 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.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

SPECIFIC TASKS

Progress during the period 1-31 January, 1993

1. Help Define the Operational Framework of the SPA:

The 1993 Financial Management effort to focus first on systematizing the public reporting of Privatization progress. The first task in the Self-Privatization Project is a mid program review for the Board of the SPA to define how to make the program more effective.

2. Help Prepare a Funding Strategy for the SPA's Activities:

Work on USAID's transaction support effort with the SPA continued. Minister Szabo's Washington visit strategy was coordinated with past meetings. PHARE funding support for transactions and training encouraged.

3. Help Define the Organizational Needs of the Privatization Process:

The improvement of throughput volume is now the confirmed focus of next USAID effort working with the new DMD Privatization. This includes not only skilled transaction specialists but their required support.

4. Help Define the Initial and Longer Term Organizational Structure of the SPA:

The training program, financial management, and PIS activities are fully defined and the new self-privatization initiative is under way and the Privatization unit still needs skilled resources.

5. Help Define the Office and Equipment Requirements of the SPA:

Supplemental equipping needs have been identified and are being dealt with.

6. Help Define the Personnel Requirements of the SPA:

Medium and Long Term advisory support needs defined and being provided in the financial management and self-privatization areas, additional needs in the PIS, and training programs have been identified as well as a need coupled with absorption capacity in the privatization unit.

7. Help Define the Training Needs of the SPA and Help Initiate an Appropriate Training Program:

Training support continued at the MIER, the SPA, and as reasonable with the AVRt. Candidates were identified for the USAID participant training program. Legal training program needs being analyzed.

8. Help Define the Prioritization of Privatization Activities:

The national prioritization exercise continues with the AVRt. launch spinning off a significant set of problematic assets from SPA's portfolio. The SPA's privatization effort requires and can absorb trained resources.

9. Help Define the Critical Privatization Program Linkages in the Economy:

Investment Promotion office support continued. SPA's information effort will be supported through the financial management program. New credit instrument development identified as a need.

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 informally but effectively in concert with other donors and lenders.

11. Help Integrate Spontaneous Privatization, the SPA and the GOH's Privatization Program:

The focus on privatization being market driven rather than government initiated continues to be correct. The self-privatization initiative is a response to this, the warrant system is providing significant capital support to the process and the new leasing and credit note instruments are further significant efforts. New efforts are being discussed.

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 work, the Self Privatization support, the leasing and credit note concepts are new 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. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-28 February, 1993

SUMMARY:
During February the twenty-ninth month of the long term contract phase of the project, the LTA concentrated on; the first of the 5 tasks identified under the financial management support project, completing the phase one work of the 1993 Self Privatization task, beginning the 1993 equipment procurement, detailed follow-up on training issues, identifying follow up to Minister Szabo Tamas's Washington D.C. trip and project management issues to particularly include the status of the Long Term Advisor Investment Promotion. Also supported the Methodologies Department's efforts to identify and coordinate multi-sourcing foreign donor assistance particularly for the new "mass privatization" schemes.

MAIN AREAS OF ACTIVITY:
-Helped take the SPA, with the support of a Treuhand advisor, design the the control system for the SPA's sales agreement obligations and rights.
-The 1993 Self Privatization Project 1st. deliverable -a consultant ranking system and an evaluation of the program to date- is in its 3rd draft and the design work for supporting documentation for consultants and enterprises as regards the program has begun.
-Equipment: Reaffirmed the precise copier need, identified the appropriate models, requested a procurement waiver letter from USAID.
-Moved participants in the Participant Training Program from the SPA, the MIER and the AVRt through language testing and physicals.
-Helped the Hungarian team evaluate Minister Szabo's trip to the US to identify followup requirements.
-Expanded project management discussions with the OAR Budapest for the 1993 budget particularly the extension of the LTA Investment Promotion.
-Supported the Methodologies Department effort to pursue USAID support for several of its product developments in the "mass privatization" area.

Work in Progress and Status:

1.-Equipment: await waiver letter request response.

2.-PIS: needs definition and direct contracting work continues.

3.-Training: Participant Training Program candidates tested. Design of training program for the EC PHARE funds advanced.

4.-Financial Management: The short design task for the SPA sales contract responsibilities monitoring and control system undertaken and completed with support from the Treuhand and the external PIS programers.

5.-Self Privatization Phase II: 1st. task -a consultant evaluation system- Draft prepared and submitted, documentation design commenced.

6.-Warrant System Phase II: Project paper submitted to USAID. Final deliverable submitted.

7.-Investment Promotion Support: Investor follow-up on the Houston and Los Angeles visits continue. Extension under discussion.

9.-Project Administration: Third project year strategy being confirmed and resources reallocation needs identified. Project partner and Regional Manager visits supported this effort.

10.-Donor Coordination: Continued close coordination with PHARE in training and transaction support. Supported USAID efforts with the Methodologies Department in conjunction with the Know How Fund effort being launched to support the Credit Note concept.

-Representational activity: USAID Hungary, US Embassy Budapest, US Commercial Attache, Ministry of International Economic Relations Investment Office, PHARE.

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization.
-Need to Integrate the reporting and planning systems into the SPA.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-31 March, 1993

SUMMARY:
During March the thirtieth month of the long term contract phase of the project, the LTA concentrated on; completing the first Self Privatization deliverable, completing the first Financial Management deliverable and planning the second, moving the training program forward, following up on the equipment purchases, completing the final Compensation Note program deliverable and taking a short home leave. The country team strategy deliberations on how to support US investor interests in Hungary whether through the present type assistance through this contract at the MIER or some other way was supported. Also the LTA helped prepare and review the SPA's strategy and other deliverables due the World Bank under the World Bank's conditionality agreements with the Government of Hungary..

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project 1st. deliverable -a consultant ranking system and an evaluation of the program to date- was submitted, approved, utilized, reviewed with our consultants and used as the base from which new operating guidelines for consultants and enterprises will be derived (these guidelines are our next deliverables).
-The Financial Management Project's 1st. task to design the control system for the SPA's sales agreement obligations and rights was completed and accepted and is being implemented. The second task, to design and implement a standarized privatization reporting system both within the SPA and for the Minister for Privatization's office was agreed to.
-Equipment: Copier Procurement waiver letter urgently required from USAID Washington. Procurement is stalled pending its receipt.
-Training: Training Program review -attached- identified areas for concentration of effort particularly in the US market. Began to send out participant training program trainees. Continued other programs.
-The Warrant Program (Compensation Note): final deliverable was completed. Its findings have already been acted on based on the initial presentations and working documents.

Work in Progress and Status:

1.-Equipment: await waiver letter request response.
2.-PIS: direct contracting work continues. The program has been made a director level effort which should increase its momentum.
3.-Training: Participant Training Program candidates dispatched. See attached report.
4.-Financial Management: Control system design accepted, the privatization report standarization concept accepted, work to commence in mid April.
5.-Self Privatization Phase II: 1st. task -accepted, utilized (it works) documentation design (task 2) commencing.
6.-Warrant System Phase II: Final deliverable approved.
7.-Investment Promotion Support: Extension under discussion.
8.-Project Administration: Routine reporting and contacts.
9.-Donor Coordination: Continued close coordination with PHARE in training and transaction support. Supported the SPA in their report preparation for their World Bank conditionality requirements. Attended OECD Advisory Group on Privatization meeting in Budapest in support of SPA.

-Representational activity: USAID Hungary, US Embassy Budapest, US Commercial Attache, Ministry of International Economic Relations Investment Office, PHARE, World Bank, OECD.

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization.
-Need to Integrate the reporting and planning systems into the SPA.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

USAID Technical Assistance to the Hungarian State Property Agency
Deloitte & Touche
Contract No. ANE-0002-C-00-00457-00
Project No. 180-0002-3-0183107

Third Quarter Report **April - June 1993**

Summary:

While many tasks continued according to plan, the activity of the Financial Management Project team consumed a majority of time and attention during this quarter. The team worked closely with the SPA staff to improve the quantity, quality, and delivery of information concerning privatization to the SPA staff, other governmental participants and the general public. This effort is of major importance to Hungary since under-reporting of successes in privatization can lead to negative effects on foreign investment, international aid, and public support and participation in the process.

During this quarter, preparation for the Transaction Support Team went into high-gear and it became evident that there would be a very smooth transition between the SPA Long-term Advisor/Privatization and this new project. This positive development reflects the changing needs of the SPA as it matures -- from institutional support to policy implementation support.

Unfortunately, the equipment procurement continues to be stalled as the project awaits a waiver letter from USAID/Washington.

Significant Events:

- **Training**: Organized a workshop on environmental liabilities inherent in property sales for 20 SPA staff. Continued to provide candidates for the participant training program and mobilized several SPA staff for other training overseas. At the end of the quarter, the full-time training specialist concluded her engagement in accordance with the available financing under the project.

- **Institutional Support**: The Long Term Advisor/Privatization spent much of this quarter preparing his SPA counterparts for the implementation of the SPA Privatization Transaction Support project which is upcoming in the USAID pipeline. This assistance included defining equipment and space needs, discussing project management, designing the project control system, preparing training and information materials to speed absorption of the team into the SPA, and interviewing support staff. In addition, the LTA/Privatization worked closely with USAID to ensure the smooth withdrawal of the LTA/Investment Promotion who had reached the end of his contract.

- **Self Privatization**: Work continued in this quarter on developing an instruction manual for consultants and enterprises participating in the Self Privatization

Program. The Self Privatization Program utilized the results of the team's evaluation of the first group of participating consultants to change the form of its contract with consultants and to narrow the list of participating consultants by almost half. The team began to refine and revise the consultant evaluation methodology for use by the Self Privatization Program in evaluating consultants who will participate in the second phase of the Program's activity.

- **Financial Management:** The financial management assistance team continued to develop the requirements and format for a privatization reporting system for the SPA and the Minister responsible for privatization. The team worked to develop a report that would include not only the SPA's activities, but also those of the Municipalities, greenfield investors, liquidations, etc. This proposed publication received the support of the Minister and will begin publishing at the end of the summer.

- **Warrant Compensation Program:** The final deliverable for this project, the "Compensation Warrant Scheme, Phase II Report" was submitted to USAID. The report was a compilation of several separate pieces of work on the compensation note program requested by the SPA. These included the market guide to the program, an analysis of various options (like asset management companies and mutual funds), and documentation of a workshop for the major program participants.

Attachments:

For additional information, attached here are the detailed monthly reports for the quarterly reporting period.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-30 April, 1993

SUMMARY:
During April the thirty first month of the long term contract phase of the project, the LTA concentrated on; initiating the privatization measurement task under the Financial Management Project, supporting the conclusion of the Transaction Support tender and assisting in initiating the pre-planning for the introduction of transaction specialists to the SPA, sending trainees to the US and moving the training program forward, following up on the equipment purchases, and awaiting the country team's investment support strategy. Also the LTA assisted the SPA for its World Bank materials, and the OECD and CEEPN meetings.

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project The 1st. deliverable -a consultant ranking system and an evaluation of the program to date- in April resulted in the program changing the form of its contract with consultants, and significantly redefining its consultant list. The 2nd. phase, consultant and enterprise manuals, commences in the 2nd week of May.
-The 1993 Financial Management Project's second task, to design and implement a standarized privatization reporting system both within the SPA and for the Minister for Privatization's office, was initiated and the internal reporting requirements outlined. The external user's and external data provider interviews were initiated..
-Equipment: Procurement is stalled pending waiver letter receipt.
-Training: Sent two more trainees to the US, one SPA one MIER. Continued mentoring support of the personnel/training office and other programs.

Work in Progress and Status:

1.-Equipment: await waiver letter.

2.-PIS: The program is now director level. The strong endorsement of the PIS's effectiveness by the GOH Department of State Audit has helped. The data it is now generating is becoming the core of the Privatization reporting task and the privatization officer management system which the transaction support personnel are part of.

3.-Training: Participant Training Program candidates dispatched. Training program effort support continued.

4.-Financial Management: The new Director of the information task accepted the task outline. The first component recommendation, standarizing the SPA's reporting system along intelligible lines, was accepted and goes to a Board presentation the first week in May. Work on defining the external users' needs continues as does information source linkage definition and implementation.

5.-Self Privatization Phase II: The first task redid the mechanics of the program, the underlying consultant's contracts and the short-list of consultants. The documentation design (task 2) commences first week of May once the re-contracting is concluded.

6.-Investment Promotion Support: Extension under discussion.

7.-Project Administration: Routine reporting and contacts.

8.-Donor Coordination: Continued close coordination with PHARE in training and transaction support. Continue to Supported the SPA in their report preparation for their World Bank conditionality requirements. Support SPA's OECD and CEEPN privatization program work.

-Representational activity: USAID Washington (labor and unemployment mission and regional strategy), USAID Hungary, US Embassy Budapest (Economic Section), US Commercial Attache, Ministry of International Economic Relations Investment Office, PHARE, World Bank, OECD, CEEPN, Digital Equipment, Russian Embassy.

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization is moving ahead well. Needs encouragement and support.
-Reporting and planning systems integration is commencing, needs more support.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-31 May, 1993

SUMMARY:
During May the thirty-second month of the long term contract phase of the project, the LTA concentrated on; completing the SPA component of the privatization measurement task under the Financial Management Project, supporting and assisting in the pre-planning for the introduction of transaction specialists to the SPA, sent more trainees to the US, followed up on equipment purchases, and prepared the withdrawal of the Investment and Trade Promotion Agency long term advisor

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project The 2nd. deliverable -initiating the consultant ranking system for the II Trance consultants and preparing an instruction manual for consultants and enterprises was begun.
-The 1993 Financial Management Project's second task, to design and implement a standardized privatization reporting system both within the SPA and for the Minister for Privatization's office, was initiated. The SPA's reporting format was finalized and approved by the SPA's Board. A proposal was made outlining a "Privatization Reporter" not only of the SPA's activities but also the activities of the Municipalities, direct "greenfield" investors, liquidations, etc. If endorsed by the Minister it will be fleshed out.
-Equipment: Copier procurement is stalled pending waiver letter receipt. A TDW outlining the revised need for computer and other office equipment to support the Privatization activities of the SPA's new transaction support personnel was submitted to USAID.
-Training: Sent two more trainees to the US. Continued mentoring support of the personnel/training office and other programs.
-Transaction Support Team: Assisted the designated Project Manager initiate project mobilization.

Work in Progress and Status:

1.-Equipment: Await waiver letter. Await TDW approval.

2.-PIS: The system is being utilized to prioritize the new Transaction Support Advisors' activities and to manage the individual directorates.

3.-Training: Two more Participant Training Program candidates dispatched. Training program effort support continued.

4.-Financial Management: The SPA Board approved the new "Privatization Monitor" SPA privatization reporting system. A recommendation defining the external users' needs and outlining a basic proposal to create a nationwide "Privatization Watch" report was drafted.

5.-Self Privatization Phase II: The consult evaluation matrix was used and worked well on the 1st. tranche consultants. It is being revised to include the 2nd. tranche consultants. The policy guide book for the consultants and the enterprises is being undertaken.

6.-Investment Promotion Support: Conclusion phase launched.

7.-Project Administration: Routine reporting and contacts.

8.-Donor Coordination: Continued close coordination with PHARE in training and transaction support.

9.-Transaction Support Project: Working with the Project Manager arranging training materials, advisor's rooms and assignments, secretariat facilities (rooms, furniture, telephones, fax), prioritizing account assignments, interviewing directors, translating materials.

-Representational activity: USAID Hungary, US Embassy Budapest (Economic Section), Ministry of international Economic Relations Investment Office, PHARE (SPA, MIER, MOF Mission).

PROBLEMS IDENTIFIED:
-SPA transition to b g a larger high throughput organization is moving ahead well. Needs e ouragement and support.
-Reporting and plann g systems integration is commencing, needs more support.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-30 June, 1993

SUMMARY:
During June the thirty-third month of the long term contract phase of the project, the LTA concentrated on: supporting and assisting in the pre-planning and mobilization for the introduction of transaction specialists to the SPA, sent more trainees to the US, received some back, followed up on equipment purchases, executed the withdrawal of the Investment and Trade Promotion Agency long term advisor, moved forward on the self-privatization program assistance, planned the timing on the next phase of the financial management project.

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project The 2nd. deliverable -initiating the consultant ranking system for the II Tranche consultants and preparing an instruction manual for consultants and enterprises was advanced.
-The 1993 Financial Management Project's the second task "Privatization Watch" will go live in July, 1993 with its 1st. publishing. The overall report design project was scheduled for August.
-1993 Equipment: Copier procurement is stalled pending waiver letter receipt. A TDW outlining the revised need for computer and other office equipment to support the Privatization activities of the SPA's new transaction support personnel awaits USAID approval/comment.
-Training: Sent four more trainees to the US. Received three back. Ended the 100% dedicated training resource person's activities at the SPA converting that function to part time.
-Transaction Support Team: Assisted the designated Project Manager initiate project mobilization by concluding the initial prioritization task to pick accounts for the incoming personnel, designed the project control system and put it in place, prepared the training materials for the incoming personnel, located and equipped the office for the project. Initiated interviews with secretaries and translator personnel.

Work in Progress and Status:

1.-Equipment: Await waiver letter. Await TDW approval.
2.-PIS: The system is being utilized to prioritize the new Transaction Support Advisors' activities and to manage the individual directorates.
3.-Training: Four more Participant Training Program candidates dispatched. Full time training support discontinued.
4.-Financial Management: The "Privatization Watch" report will be published in July. The nationwide report design starts in August.
5.-Self Privatization Phase II: The consult evaluation matrix for the 2nd. tranche consultants is almost complete. The policy guide book for the consultants and the enterprises is being undertaken.
6.-Investment Promotion Support: Concluded with followup scheduled.
7.-Project Administration: Routine reporting and contacts.
8.-Donor Coordination: Continued close coordination with PHARE in training and transaction support, worked with Know How Fund on their new credit note project.
9.-Transaction Support Project: Working with the Project Manager arranging training materials, advisor's rooms and assignments, secretariat facilities (rooms, furniture, telephones, fax), prioritizing account assignments, interviewing directors, translating materials. Have taken in a University of Texas intern to assist.

-Representational activity: USAID Hungary, US Embassy Budapest (Economic Section), Ministry of international Economic Relations OECD Donor Coordination Office, PHARE (SPA, Mission), AVrt., SPA Press Conference

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization is moving ahead well. Needs encouragement and support.
-Reporting and planning systems integration is commencing, needs more support.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

USAID Technical Assistance to the Hungarian State Property Agency
Deloitte & Touche
Contract No. ANE-0002-C-00-00457-00
Project No. 180-0002-3-0183107

Fourth Quarter Report **July - September 1993**

Summary:

The Long Term Advisor/Privatization continued to work with the SPA and USAID to prepare for the arrival of the Transaction Support Team (7 investment bankers and a project manager). These activities included preparation of a training manual, introduction of the team leader, and briefings for the first arriving team members. The training activities proceeded according to schedule with the Training Specialist available on a part-time basis. Great progress was made both on the Financial Management task and on the Self Privatization Program task.

The procurement of necessary photocopying and computer equipment has not moved forward at all since the last quarter. USAID/Budapest resubmitted a waiver request to USAID/Washington, however no action had occurred by the end of the quarter.

Significant Events:

- **Self Privatization**: The team completed the revision of the consultant evaluation system for the second phase of the Self Privatization Program and also concluded an instruction manual for consultants and enterprises. The new Managing Director of Pri-Man (the independent entity managing the Self Privatization Program) outlined her expectations for the next phase -- in particular the completion of an evaluation of the overall program.

- **Financial Management**: The first "Privatization Monitor" was published. Statistical and other problems were ironed out in subsequent issues and work continued to develop a nationwide privatization report.

Attachments:

For additional information, attached here are the detailed monthly reports for the quarterly reporting period.

95

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-31 July, 1993

SUMMARY:
During July the thirty-forth month of the long term contract phase of the project, the LTA concentrated on: supporting the introduction of transaction specialists to the SPA, received trainees back from the U.S., met with the Hungarian Investment and Trade Promotion Agency to identify support requirements following the withdrawal of the long term advisor, moved forward the manual preparation (3rd. phase) of the Self-Privatization program assistance, did follow-up on the 2nd. phase report under the financial management project and initiated phase 3.

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project The 2nd. deliverable -initiating the consultant ranking system for the II Tranche consultants was completed. Preparing an instruction manual for consultants and enterprises was well advanced in accord with the scheduling requirements of the SPA.
-The 1993 Financial Management Project's the second task "Privatization Watch" did publish in June in Hungarian and English but there are data inconsistencies that must be ironed out. The overall report design project commenced in August. The consultant is on the ground and working.
-1993 Equipment: Copier procurement is stalled pending waiver letter receipt. A TDW outlining the revised need for computer and other office equipment to support the Privatization activities of the SPA's new transaction support personnel awaits USAID approval/comment.
-Training: Received four trainees back. Training resource did follow up work on training returnee debriefings and continued follow-up on tasks initiated in the training and personnel departments at the SPA and MIER/HITPA.
-Transaction Support Team: Assisted the designated Project Manager initiate project mobilization by helping complete the training materials for the incoming personnel.

Work in Progress and Status:

1.-Equipment: Await waiver letter. Await TDW approval.
2.-PIS: The system is being utilized. It just produced a revised "Companies for Sale" directory.
3.-Training: Four more Participant Training Program candidates returned, follow-up continues.
4.-Financial Management: The "Privatization Watch" report was produced in June -ahead of schedule- with statistical problems to iron out. The nationwide report design has started in August.
5.-Self Privatization Phase II: The consultant evaluation for the 2nd. tranche completed. The manual for the consultants and the enterprises is nearly complete, next work pieces are being discussed with the new PRIMAN head.
6.-Investment Promotion Support: Follow-up meetings initiated.
7.-Project Administration: Routine reporting and contacts. Final quarter's financial planning initiated.
8.-Donor Coordination: Continued close coordination with PHARE in training and transaction support.
9.-Transaction Support Project: Working with the Project Manager arranging training materials which are now virtually complete thanks in good part to our University of Texas summer intern.

-Representational activity: USAID Hungary, US Embassy Budapest (Economic Section), Ministry of international Economic Relations HITPA, PHARE (SPA, Mission)

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization needs encouragement and support.
-Reporting and planning systems integration needs continued support.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-31 August, 1993

SUMMARY:
During August the thirty-fifth month of the long term contract phase of the project, the LTA concentrated on: supporting the introduction of transaction specialists to the SPA, completed the manual preparation (3rd. phase) of the Self-Privatization program assistance and did the terms of reference for the next phase, edited the production of the 2nd. phase report "Privatization Monitor" under the financial management project and initiated phase 3 work. Inititated donor/lender analysis/control task.

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project The instruction manual for consultants and enterprises was completed, delivered, and accepted. The new PRI MAN Managing Director outlined her expectations for the next phase of work namely completion of a measurement system for the whole program dovetailing with the reporting system of the SPA.
-The 1993 Financial Management Project's "Privatization Monitor" in July has responded to our suggestions and is getting to be more consistent. The nationwide privatization report design project commenced.
-1993 Equipment: Copier procurement is stalled pending waiver letter receipt. A TDW outlining the revised need for computer and other office equipment to support the Privatization activities of the SPA's new transaction support personnel awaits USAID approval/comment.
-Training: Planned offshore training continues.
-Transaction Support Team: Assisted the designated Project Manager initiate project mobilization by helping complete the training materials for the incoming personnel, introducing the proposed team leader, doing prioritization.

Work in Progress and Status:

1.-Equipment: Await waiver letter. Await TDW approval.
2.-PIS: The system is being utilized.
3.-Training: Overseas training continues.
4.-Financial Management: The July "Privatization Monitor" is now a marked improvement over previous efforts. The nationwide report design has started slowly due to the holiday period.
5.-Self Privatization Phase II: The manual for the consultants and the enterprises completed. Next phase work -a full program evaluation system- discussed with the new PRI MAN MD.
6.-Investment Promotion Support: no activity.
7.-Project Administration: Supported visit by USAID Hungary desk officer, routine reporting and contacts. Submitted final quarter's financial planning to OAR Budapest along with requested unfunded extension recommendation materials.
8.-Donor Coordination: Continued close coordination with PHARE and Treuhandanstalt.
9.-Transaction Support Project: Working with the Project Manager completed training materials, introduced new team leader, pursued contract, continued translating relevant materials for the incoming team.
10.-Donor/Lender report/control: Initiated effort to continue the previous support of the reporting and control of the SPA's donors and lenders.

-Representational activity: USAID Hungary, US Embassy Budapest (Economic Section), Ministry of international Economic Relations, PHARE (SPA, Mission), Treuhandanstalt, various commercial.

PROBLEMS IDENTIFIED:
-SPA transition to being a larger high throughput organization needs encouragement and support.
-Reporting and planning systems integration needs continued support.
-Need for greater transparency access for investors and their national representatives.

RECOMMENDATION/SOLUTION
-Provide skilled transaction personnel investment - bankers and liquidation specialists.
-Support systems integration with training and information.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

TECHNICAL ASSISTANCE TO THE
STATE PROPERTY AGENCY OF HUNGARY
USAID CONTRACT NO. ANE-0002-C-00-0047-00
USAID PROJECT NO. 180-0014

Long Term Advisor's Progress Report
PERIOD: 1-30 September, 1993

SUMMARY:
During September the thirty-sixth month of the long term contract phase of the project, the LTA concentrated on: introducing the first transaction specialists to the SPA, confirming the scope of work for the program analysis phase of the Self-Privatization program did further editing of the "Privatization Monitor" under the financial management project and futhered phase 3 work. Did the first report for the donor/lender analysis/control task. Supported a 5 month unfunded project extension.

MAIN AREAS OF ACTIVITY:
-The 1993 Self Privatization Project The work plan for the program review was accepted and a December trigger date for the consultant review agreed. The systems review was completed with written recommendations to follow.
-The 1993 Financial Management Project's "Privatization Monitor" in August is still being fine tuned. Interviews for the nationwide privatization report design project commenced.
-1993 Equipment: Copier procurement waiver letter resubmitted to USAID Washington by USAID OAR Budapest. Computer equipment intial tenders out source waiver need identified.
-Training: Planned offshore training continues.
-Transaction Support Team: Briefed and helped introduce first transaction support team personnel.

Work in Progress and Status:

1.-Equipment: Copier waiver letter awaited. Computer waiver letter to be submitted.
2.-PIS: The system is being utilized.
3.-Training: Overseas training continues.
4.-Financial Management: August "Privatization Monitor" a further improvement over previous efforts but still working on it. The interviews for the nationwide report began with good support given.
5.-Self Privatization Phase II: Next phase work -a full program evaluation - agreed with PRI MAN and the SPA Directors and work plan agreed. Consultant review scheduled for December. System needs review completed, recommendations awaited. Assisting reintegration of the Pri Man operation into the SPA discussed.
6.-Investment Promotion Support: no activity.
7.-Project Administration: Routine reporting and contacts. Unfunded extension submitted and questions answered.
8.-Donor Coordination: Continued close coordination with PHARE and Treuhandanstalt. Supported USIS Zagreb proposal.
9.-Transaction Support Project: Working with the Project Manager processed and introduced first team members, continued translating relevant materials for the incoming team.
10.-Donor/Lender report/control: First donor review report submitted.

-Representational activity: USAID Hungary, US Embassy Budapest (Economic Section), Ministry of international Economic Relations, PHARE (SPA, Mission), Treuhandanstalt, various commercial, USIS Zagreb.

100

PROBLEMS IDENTIFIED:

With the launch of the Transaction Support team the previously identified major problems:

-SPA transition to being a larger high throughput organization needs encouragement and support.
-Need for greater transparency access for investors and their national representatives.

should be on the way to being at least partially resolved and progress in that area will be reported by that project's manager.

-Reporting and planning systems integration needs continued support.

RECOMMENDATION/SOLUTION

The recommendations/solutions to the major problems:

-Provide skilled transaction personnel investment - bankers and liquidation specialists.
-Expand range of professionals in the Agency with a brief to provide direct major investor and investor interest support.

are underway in the transaction support project.

-Support systems integration with training and information. This is being supported through both the Self Privatization and Financial Management work.

Attachment A.

STATEMENT OF WORK

TRANSACTIONS SUPPORT THE STATE PROPERTY AGENCY

I. Background

Hungary is undertaking a comprehensive, increasingly multi-track privatization program in CEE. The State Property Agency (SPA, Hungarian acronym AVU) is the principal vehicle for the government's privatization efforts. Based on a need to accelerate the pace of privatization, the government has mandated the Minister of Privatization to increase the speed and volume of transactions.

The speed and precision with which the SPA can perform its mandate will have a direct consequence on how many state-owned businesses will manage to eventually become commercially viable privately owned entities.

The GOH has initiated a number of programs to increase the participation in privatization by the citizenry and is exploring others. The government has sponsored a national ESOPS program and policies which encourage the fragmentation and sale of large conglomerates. It has supported the establishment of a credit program to facilitate small company formation.

The administrative structure, which includes the SPA and the new State Property Management Co., have been established to account for state assets to the Parliament. The State Property Management Company (AVRT), has been formed to operate under the general guidance of the Ministry for Privatization, both to manage residual state-owned enterprises and to privatize a portion of the overall state-owned portfolio, including telecommunications and banking, among other key sectors.

The GOH is establishing a legal framework which increasingly supports privatization. A new bankruptcy law has been passed to curb inter-enterprise credit, forcing creditors to take action against overdue debtors. Unfortunately, companies with commercial prospects are lumped together with companies with no prospects of real earnings in a reformed economic environment. Given the poor state of banking and other financial intermediation systems in Hungary, even viable companies find few alternatives for restructuring their debt in this more competitive, market environment, and many are being forced to declare bankruptcy, requiring them to reorganize and restructure quickly or eventually liquidate. The law, as it is currently implemented, is forcing companies with medium to long-term prospects of commercial viability, but short-term cash flow problems, into bankruptcy. The Hungarian economy would derive more benefit if the potentially viable companies or fragments thereof could be privatized on a commercially viable basis to contribute to Hungary's emerging market economy.

The legal, fiscal, institutional and regulatory settings are being established and the political, economic and social consensus to increase the pace of privatization is gradually emerging. The portfolio of enterprises remaining under SPA mandate is approximately 1,000. The SPA is increasing its focus on closing transactions, as its priority effort. This is especially timely given the SPA backlog of privatization proposals requiring quick action and the huge pipeline of privatization actions which must be addressed in a manner that is technically competent and procedurally understandable and transparent.

To address the transaction backlog, especially in light of the tough bankruptcy laws, the GOH has appointed a new Deputy Managing Director in charge of all the SPA's privatization activities. A number of operational changes have been put in place. A preliminary screening system to prioritize the importance of proposals has been established and SPA staff assigned specific transactions. With the formation of a professional transactions group, a number of due diligence teams will be formed along sectoral lines, meshing with the SPA's current organizational structure, to review investor proposals in ways which foster sector specialization and contribute to increasing the number of transactions which actually close.

In addition to assistance for transactions, the GOH has requested U.S. experts to help the SPA deal with the consequences of the bankruptcy law, provide loan work-out specialists for particular enterprises which may be insolvent, provide assistance to make the SPA's management information system up-to-date and accessible to various SPA users, and specialized legal and financial advisors and accountants to complement the services of the long-term advisors.

II. OBJECTIVES

1. Redirect the focus of U.S. assistance to direct support of the SPA's transaction process in order to accelerate Hungary's privatization process, clear the transaction backlog, and provide loan work out specialists to work on selected companies.

2. Provide investment banker review, analysis, negotiating and closing skills that are urgently required by the SPA to accelerate the pace of privatization transactions.

3. Assist in fostering transactions transparency, and demonstrating/transferring of professional skills to SPA staff required to initiate and close privatization transactions.

4. Review, analyze, structure, negotiate and close privatization transactions with foreign and domestic investors.

III. SCOPE OF WORK -- ROLES AND TASKS

1. The transactions teams will work, under the Deputy Managing Director's direction, in the screening and ranking of the existing privatization portfolio, creation of a priority queuing system and protocol to organize the flow of transactions through due diligence review, structuring, negotiation stages, and closing.

2. Capital Markets Specialists (investment bankers) with general mergers, acquisition and divestiture experience will be made available to the SPA. One, the team Leader, will report directly to the Deputy Managing Director of the SPA, and the others to directors of privatization sectors, including agriculture, commerce, infrastructure, and three industry subsectors. This group will provide advice and counsel to the SPA on structuring of transactions and due diligence review of privatization proposals.

3. The contractor also will provide short-term assistance from insolvency specialists (loan work-out specialists from the generic contract skill categories of Capital Market Specialists and Financial Planners), who will work with the transaction teams and executive management of selected major but insolvent enterprises, with the role of guiding and managing their privatization through fragmentation, merger, reorganization/downsizing, liquidation, or other appropriate means. These specialists also will provide assistance in negotiations for rescheduling of debt. In addition, accountants/auditors will form part of the transaction teams as needed to perform accounts conversion to GAAP and other accounting functions such as preparation of surrogate balance sheets, P&Ls, cash flows and reconstruction of source and use of funds statements etc. These accounts will be used for valuation analyses as part of the overall due diligence review. Economists will be provided to support the transactions teams technical analyses.

Short-term legal advisors will form part of the team to provide assistance in structuring the transactions, as well as to assist in legal document preparation/review, and in negotiations with potential foreign and domestic buyers. Additionally, the attorneys will be expected to provide advice and counsel to SPA management on disclosure practices to interested buyers and liability issues deriving from environmental problems associated with transactions.

4. Support Services: The contractor will provide interpreter, translation, and secretarial support services, as needed to support the transactions teams' efforts.

5. The teams will provide on-the-job training for selected SPA staff and general advice on improving the process of review of privatization proposals. It is expected that, in this endeavor, the teams will coordinate with the activities of other USAID sponsored contractors involved with assisting the SPA on privatization, as appropriate.

6. The teams will provide assistance to further develop the SPA's management information system, currently in place, so that information is accurate, up-to-date, and available to users in clear and accessible formats.

Embassy of the United States of America

Budapest, Hungary

December 4, 1992

H.E. Laszlo Bogar
State Secretary
Ministry of International Economic Relations
Honved utca 13-15
Budapest, Hungary 1055

Dear Dr. Bogar:

Now that I have had the opportunity to review my notes from our meetings in Hungary, I want to provide you an update of where we stand on the various assistance initiatives we discussed. I have enclosed for your review the results of my trip, as well as a list of specific items which we are working on in response to requests and comments from your Government. I welcome your comments on this document (Attachment 1).

I believe that our discussions with you, and the many other senior officials with whom we met, have provided a good framework for further cooperation on our assistance activities in Hungary. All of us who were part of the team greatly appreciate the time and attention your Government was able to devote to our trip, and I look forward to continuing this dialogue both in Budapest and Washington. In the meantime, the U.S. Embassy and especially the A..I.D. Representative in Budapest will work with your staff on an ongoing basis to make sure that our assistance program supports Hungary's economic and political transformation.

With best regards,

Sincerely,

Robert L. Hutchings
Special Adviser
for East European Assistance

Enclosures:
Attachment 1 - Record of Consultations
Attachment 2 - U.S. Assistance Program for Hungary → our mutual US6-GCH policy

105

RECORD OF CONSULTATIONS

U.S. GOVERNMENT AND GOVERNMENT OF HUNGARY
Budapest, October 8-9, 1992

This report concerns meetings requested by the U.S. with the Government of Hungary in order to ascertain whether, after two years of implementation, the U.S. assistance program is targeted according to Hungary's policy objectives. The U.S. encouraged Hungary to indicate the priority sectors where U.S. assistance was most needed, understanding that lower priority sectors faced cutbacks due to U.S. budget limitations. The U.S. urged Hungary to identify problems encountered in the U.S. program and to suggest ways of improving the delivery of official U.S. assistance.

o The consultations were not intended to discuss comprehensively all aspects of U.S. assistance nor to provide a summary of Government of Hungary, and other Hungarian, requests for official U.S. assistance. The points given below are illustrative of the issues raised in the two days, but do not/not represent official, coordinated Government of Hungary requests for U.S. aid.

<u>General Conclusions:</u>

o The U.S. view of priorities for its assistance program in Hungary, as reflected in the draft program for Hungary, reviewed with Hungarian authorities, was consistent with priorities of the Hungarian Government. A revised version of that document is enclosed.

o The U.S. grant assistance program for Hungary ($115 million as of June 1992) is part of the broader universe of Western support for Hungarian economic and political transition, including the EC-PHARE program, activities of other bilateral donors, programs of multilateral institutions such as the World Bank, the European Bank for Reconstruction and Development, and the International Monetary Fund, as well as private sector trade and investment between Hungary and the U.S.

o The assistance program of each donor should reflect the comparative advantage of that donor. Accordingly, the U.S. assistance program concentrates on those areas in which the U.S. has a comparative advantage, including the provision of assistance directly to the Hungarian private sector and through private non-governmental intermediaries, such as the Enterprise Fund.

o From the point of view of the Ministry of International Economic Relations (MIER-NGKM), donor programs should reflect consultation, and be transparent, predictable, and responsive. With the U.S. assistance program into its third year, the Hungarian and American sides agree on the need for both parties to improve consultation and coordination in order to facilitate transparency, predictability, and responsiveness. Both sides need to work toward those ends. The U.S. will endeavor to upgrade the extent and quality of consultations, both through its embassy and A.I.D. Office in Budapest and through high-level consultations involving representatives from Washington.

o The NGKM confirmed its coordinating role on the official Hungarian side, but noted it need not involve itself in every issue. The U.S. is comfortable continuing to deal with individual ministries: where doubts arise as to whether requests for assistance represent the considered priorities of the Hungarian Government, the U.S. will call on the NGKM for help in resolving such issues. (In short, the U.S. accepts the third option as proposed by NGKM Director General Juhasz.)

o Consultations involving senior U.S. representatives from Washington to evaluate formally the U.S. program shall be held with the Government of Hungary on a regular, periodic basis.

o The U.S. side asked about often-heard complaints in Central and Eastern Europe about unhappiness with foreign consultants. Hungarian officials commented that, ideally, advisors should speak Hungarian, understand the region, provide long-term assistance, and be involved in formulation and implementation of policy. (Shorter-term technical advisors can also be useful, so long as they come to meet a specific need identified by the Hungarian side.) In this regard, the Peace Corps program was singled out for praise for the ability of volunteers to work inside the Hungarian system. Recognizing that the ideal will be hard to realize in every case, the U.S. needs to know promptly from the Hungarian side which advisors are not useful. The U.S. will strive to curtail short-term advisors or consultations in cases where there is no clear mandate responding to a defined need.

Specific Items and Follow-up Actions:

PRIVATIZATION

o Both governments attach the highest priority to privatization. The Minister without Portfolio responsible for Privatization, Dr. Tamas Szabo, expressed appreciation for the early support from the U.S. to Hungary's privatization efforts and asked for both quicker responsiveness to Hungary's needs and an increase in the size of the U.S. program. Specifically, the Minister appreciates the offer of long-term transaction managers to the State Property Agency (SPA-AVU): he cannot overestimate their importance.

o Additional U.S. support is required for the State Property Agency and other entities responsible for privatization with technical assistance in bankruptcy and liquidation management, marketing and investment promotion, public education, personnel training, and the information system. As Mr. Twyman's work is highly regarded by the GOH, Minister Szabo asks that he stay.

o The U.S. is committed to continuing support for privatization. The U.S. program in fiscal year 1993 is estimated at $6 million, which does not include current aid to AVU, the extension of the DRT-Twyman contract, work underway to provide long-term transaction advisors, nor KPMG-Peat Markwick's contract on the financial sector. Both sides plan to reach agreement on an outline of the fiscal year 1993 program within the next sixty days.

o The U.S. emphasized that substantial increased funding for privatization assistance would come at the expense of other activities in Hungary because of U.S. resource constraints.

107

FINANCIAL SECTOR

o Ministry of Finance representatives and Minister Tamas Szabo value the resident U.S. Treasury contract advisors who are assisting Hungarian efforts to privatize commercial banks and to develop a strategy for consolidating existing liabilities in the banking sector. Hungary wants to continue using U.S. Treasury advisors for work on pension and insurance reform; national budget planning (including tax policy); official loan guarantee programs (agrarian, small business, etc.); and to use the proposed USAID housing investment guarantee program.

o U.S. Treasury Deputy Assistance Secretary John Hauge stressed the importance of strengthening Hungary's bank regulatory process as an integral part of the bank privatization strategy. Treasury will coordinate with the U.S. Federal Reserve Bank on the scope of continued assistance to Hungary's State Banking Supervision office. State Banking Supervision (SBS) requested more technical assistance and training on collateral evaluation and asset management.

o USAID also will direct its office which manages the Credit Guarantee program to coordinate with relevant offices of the Finance Ministry on procedures for implementing a small business guarantee program.

BUSINESS DEVELOPMENT

o While the U.S. grant assistance program is not an appropriate source for the capital funds needed for infrastructure development, it is understood that the U.S. program can and should support this important Hungarian Government objective by financing feasibility studies and other technical assistance related to infrastructure development. Outside capital resources should come from the private sector or international financial institutions, such as the EBRD and the IBRD, to which the U.S. is a major contributor.

o Hungarian officials concurred in continued U.S. efforts to support the expansion of entrepreneurship through the promotion of an unfettered legal and regulatory climate and by means of activities to support entrepreneurs and development of the business sector. The U.S. will direct most assistance in this sector through non-governmental channels.

o Consistent with the Government of Hungary's economic policy goals, the U.S. will contribute substantially to the promotion of private investment (domestic and foreign) and to expanding trade linkages. This will involve a variety of official U.S. entities, including the Foreign Commercial Service of the U.S. Commerce Department, often working in conjunction with the Hungarian Investment and Trade Promotion Agency. USAID will continue support to the Investment and Trade Promotion Agency with seminars in Hungary or training for agency staff at facilities such as the World Trade Center in New York.

o The Hungarian Investment and Trade Promotion Agency requested U.S. help in establishing a Hungarian investment promotion office in the U.S.

108

o The Hungarian Foundation for Enterprise Development expressed interest in technical assistance. USAID will ask the Center for International Private Enterprise to follow up under its present grant to work with Hungarian enterprise associations, although this request might better be directed to the EC in light of its ongoing assistance to the Foundation.

ENVIRONMENT AND ENERGY

o Both governments agreed that the Regional Environmental Center (REC) has been overly focused on Hungary and needs to expand activities elsewhere in the region. The REC has had growing pains, as every new institution does, but seems headed toward correcting them. Both sides await the results of extensive structural changes of the REC management and board, as well as the development of a clearer strategic plan to fulfill its regional charter. Hungary's Ministry of Environment favors REC expansion into governmental and public as well as non-governmental (NGO) activities.

o The Ministry of Industry and Trade suggested that an integrated approach for energy and the environment is needed. As this view is endorsed by the U.S., USAID project managers in these areas will work more closely to determine opportunities for integration.

o The Ministry of Environment endorsed the constructed wetlands project at Tata, the modular training programs, and noted progress on the multilateral Danube Basin wastewater control (WASH) project. More environmental education and public awareness training will be provided through the new environmental training project.

SOCIAL WELFARE ISSUES

o Ambassador Hutchings explained that social welfare issues are difficult for the SEED program to deal with because the problems are so large in proportion to available official U.S. resources. For that reason, the U.S. expects that EC-PHARE and the World Bank would be the major donors active in this field. Thus, the U.S. would concentrate its limited funds in stimulating non-profit foundations and civil organizations to respond to social needs.

o Hungarian officials countered that besides the role of non-profit organizations, government at the national and local level required assistance on social welfare policy issues.

o The U.S. undertook to explore possibilities for engaging U.S. colleges and universities to assist Hungary with expertise in unemployment, social welfare, and related policy reform issues. The U.S. also indicated that the planned A.I.D. public administration project could possibly be of assistance. The Office of the AIDREP will provide the Ministry of Welfare with information on NGOs (non-governmental organizations) operating in Hungary, and the Ministry would reciprocate with a list of competent Hungarian NGOs with which U.S. entities can work.

109

o Ministry of Labor officials raised a variety of requests ranging from labor retraining to business development. Most of the requests represent activities under review by the U.S. Labor Department, the U.S. Embassy's Labor Officer, and the Office of the AID Representative. U.S. officials will consult with the Labor Ministry on possible forthcoming U.S. programs.

o The U.S. explained that Peace Corps will begin a new program in small business development, and that Peace Corps conducts English language training. Peace Corps and the AID Representative will meet with Labor Ministry officials to see if these new programs address the needs identified by the Ministry.

o The U.S. underscored that job creation was a major focus of numerous efforts, ranging from the Hungarian-American Enterprise Fund to Peace Corps. Larger firms can look to the MBA Enterprise Corps and IESC to assist with job creation or outplacement.

o The Ministry of Social Welfare indicated general satisfaction with U.S. assistance in the field of health care privatization, such as the proposed Hungarian participation in the Health Care Financing project.

EDUCATION AND PUBLIC SECTOR DEVELOPMENT

o Various ministries as well as Parliament representatives emphasized the importance of building English training, notably specialized English, and in managerial skills for public policy makers. The U.S. will continue to provide assistance to modernize public administration and to assist local governments. The U.S. will also continue to support educational reform with emphasis on development of curricula, materials, and institutions which will introduce and strengthen programs in civics, political structures, and economic, social, and democratic processes. The U.S. will assist in strengthening non-government institutional linkages to develop education and to reduce individuals' dependence upon the state.

Program Implementation

o NGKM requested that the U.S. provide a full-time advisor to work on coordination matters related to the U.S. assistance program. The U.S. continues to believe this would be a duplication of the responsibilities of the A.I.D. Representative and his office. However, if the Hungarian government wishes the U.S. to reconsider, it should submit a proposed scope of work for the advisor.

o Hungarian authorities agreed to receive a USAID lawyer in November to negotiate terms on a bilateral assistance agreement concerning tax and duty exemptions and other privileges for those involved in official U.S. assistance activities.

110

U.S. ASSISTANCE PROGRAM FOR HUNGARY

Objectives and Strategy:

It is the overriding objective of the U.S. assistance program to assist Hungary in implementing the difficult political and economic transformation toward a well functioning market economy. Despite positive developments in terms of growth in the private sector and in exports, Hungary is in need of assistance to help it speed the economic transition and reverse a serious growth in unemployment and related social problems. This entails assistance to the private sector to maximize its growth potential and its ability to provide the jobs, exports, and tax base to sustain the nation through the difficult economic transformation and beyond. The U.S. assistance program gives priority, therefore, to accelerating the growth of the private sector, including provision of direct assistance, as well as assisting the GOH to develop the necessary institutional and policy framework conducive to prosperity. The AID program should be focused on eliminating the key barriers which impede economic growth and entrepreneurial activity. In order to be effective, the program must be limited in scope and concentrated on our principal objectives.

I. PRIMARY SECTOR

Economic Restructuring:

The principal strategy for promoting private sector growth includes programs which focus on:

1. private sector development:

   - varied technical assistance to speed up the privatization process, including assistance in processing large transactions;
   - trade and investment promotion, including the attraction of U.S. investors;
   - expansion of existing private enterprises and the development of new enterprises, especially small and medium-sized businesses, through the provision of technical assistance, managerial training and investment capital (Hungarian-American Enterprise Fund).

2. business infrastructure development:

   - technical assistance to the banking sector and the Ministry of Finance to strengthen the financial sector;
   - advisory services to promote investment in and privatize the telecommunications and broadcast sector;
   - technical assistance to improve the legal and regulatory environment for business.

The economic transformation will be judged a success or failure within the next few years. Activities to implement this private sector growth strategy will be developed and carried out in critical sectors -- e.g. housing, energy, environment, and health -- that offer

opportunities for early privatization and job creation; expanded U.S. trade, investment and technology transfer; and broader mobilization of private and foreign capital.

II. OTHER SECTORS

Support for Democratic Institutions and Process:

The twin goals of economic prosperity and the institutionalization of a democratic process are mutually reinforcing. The creation of a prosperous middle class may do more than anything else to support the continuing success of democratic institutions and processes in Hungary. While Hungary has successfully completed both national and local elections, democratic institutions are new and not all elements of a well-organized civil society are in place. Local government, in particular, is struggling with its new responsibilities in a decentralized system. The principal strategy for supporting democratic processes and institutions entails programs which:

- continue to strengthen the growth of a free and independent media;
- support the modernization of public administration at the national level;
- help local governments meet their new responsibilities, particularly in the areas of regional economic development and small business creation; and
- strengthen non-governmental institutions that reduce individuals' dependence upon the state.

Quality of Life:

It is important that the Hungarian authorities provide an adequate social safety net protecting those members of society who are most vulnerable to hardship during the economic transformation, including displaced workers, pensioners and other s on limited, fixed incomes, and children. The $10 million energy sector grant provided resources to directly cushion the difficulties the poor were encountering. Henceforth, our assistance strategy for protecting quality of life will give priority to activities which:

- help develop cost-effective means for maintaining essential services, such as health services;
- address unemployment issues through labor retraining, job creation, or other means.

The above represents the highlights of the present assistance strategy. All ongoing assistance activities, whether addressed above or not, will receive continued funding, at least through present commitment levels.

149 - 5741

HUNGARY

COUNTRY STRATEGY PAPER

It is the goal of U.S. policy to help Hungary successfully complete the difficult economic and political transformation now under way. We support Hungary's drive for prosperity based on the establishment of an economy characterized by market forces and private ownership. We seek to strengthen Hungary's democratic institutions and to support democratic pluralism. We are committed to assist Hungary's reintegration into the community of nations which share the benefits of democratic government and a market economy.

POLITICAL AND ECONOMIC SITUATION

Political

Hungary's multi-party democracy is functioning remarkably well. Since Hungary's free elections in the spring of 1990, Prime Minister Jozsef Antall has headed a coalition government comprised of three center-right parties, including his own Hungarian Democratic Forum (MDF). The three parties together hold more than 60 percent of parliamentary seats. The largest opposition party, the Alliance of Free Democrats (SzDSz), holds fewer than 25 percent of the seats. As the result of a deal struck between the Prime Minister and the SzDSz, one of the SzDSz's founders, Arpad Goncz, was chosen president -- a largely ceremonial position. In exchange, SzDSz agreed on which types of legislation would require a simple majority vote rather than the two-thirds set by the constitution, a compromise that has proven to be a stabilizing factor by minimizing the risk of parliamentary stalemate.

As the parties prepare for the 1994 elections, the government has witnessed a decrease in its popularity. In part, this is a reaction to the hardships resulting from the government's economic restructuring. Nonetheless, the government is expected to complete its term ending in 1994 as democratic institutions remain stable. Although the government has not done well in the polls, neither has any clear preference emerged for the opposition parties. There is a general mood of dissatisfaction with politics and politicians in Hungary. Recent opinion polls have shown that although 56 percent of the population expects things to improve in the long run under a market economy, 70 percent said they were less well off in their current economic situation than they were under communism.

Hungary has a deep affection for the U.S. The Prime Minister is a committed trans-Atlanticist. The country is currently a member of the UN Security Council, where it has been a strong supporter of U.S.-led initiatives, as well as an enthusiastic member of the Conference on Security and Cooperation in Europe (CSCE). The government has repe

05/05/93 08:28 FAX 36 1 251 1981 AIDREP → SPA/TSAID/TMY 001

13

emphasized its support for the Helsinki agreements and, given the number of ethnic Hungarians residing in neighboring countries, is keenly interested in human rights and the protection of minorities.

Human rights and civil liberties are provided for in the Constitution and generally respected in practice, but there has been an increase in violent incidents against "outsiders," especially foreigners of color, gypsies, and Jews. Many of these attacks have been instigated by right-wing extremists and local skinheads. A right-wing tract written by a leading member of the Prime Minister's party has also caused concern by giving further sustenance to such extremist phenomena. President Arpad Goncz and other prominent political leaders have deplored such attacks and lent their support to grass roots human rights groups addressing the issue. Widespread and deeply rooted prejudice against gypsies, however, has not diminished under the new democratic system.

The public has access to a wide range of press publications; however, in the absence of media legislation, the broadcast media remain under government control and scrutiny. This and the contentious question of the selection of the leadership of radio and television have raised serious questions about the government's commitment to free and independent media.

Economic

Hungary is in the middle of an unprecedented, and extraordinarily difficult, economic transformation. To the person in the street (a phrase increasingly true in its many senses), the most visible elements of the transformation have been signs of trouble. Gross Domestic Product (GDP) fell again in 1992, by an estimated four to six percent, shrinking GDP by about one-third over the past five years. Industrial production dropped 10 percent. A tough new law forced some 2,300 firms into bankruptcy and 2,000 into liquidation, and 1991's lack of corporate profitability – some two-fifths of all firms lost money – is likely to be repeated when 1992 results are known. Unemployment, 13 percent at the end of 1992, may rise by some estimates to 20 percent – 1 million workers – by the end of 1993, in a country where a job was both a right and a legal obligation just four years ago. There are also tremendous regional disparities in unemployment; Budapest, with 20 percent of the population, has an unemployment rate estimated at 3 to 4percent, while several rural counties are already experiencing unemployment rates in excess of 20 percent.

Even the employed have felt the hardships of the transformation, as wages have failed to keep pace with inflation, currently running in excess of 20 percent. Personal consumption dropped again, by approximately five percent, aggravating the ten percent drop of 1991. Those at or below the poverty level now constitute a fourth of the population, and the number is growing. The need to control Hungary's fiscal deficit, over seven percent of GDP in 1992 and expected to remain at above six percent in 1993, means there is no more play in

05/05/93 08:27 FAX 36 1 251 1981 AIDNEP → SPA/ESAID/TWY 002

114

the social safety net to cushion the fall. With the highest per capita foreign debt in Europe, Hungary cannot expect to borrow abroad for relief.

The five-year decline in the state-owned enterprise sector has had a pronounced impact on revenue collection, while anecdotal evidence suggests that tax evasion in the private sector is high. In an election year, the government is reluctant to make further sharp cuts in social spending (which accounts for three-quarters of budget expenditures), and improving tax collection will take time. Hungary's fiscal squeeze, therefore, will likely continue for the foreseeable future.

Despite all the gloom in the statistics, Hungary may well be turning the corner. By far, the most significant element in the transformation has been the growth of the private sector. Estimates put the private sector's contribution to GDP in 1992 at about 35 percent. Partly this reflects Hungary's ability to attract foreign investment -- some $4.7 billion over three years, more than half of the flow to eastern/central Europe as a whole. More significantly, it reflects the rebirth of the Hungarian entrepreneurial spirit, as 600,000 Hungarians are now registered "entrepreneurs" by government estimates. Although new business creation is an important element, the government's early successes in privatization (18 percent of state assets were privatized by the end of 1992) have played a critical role. Despite the expected continued decline in the state sector, the dynamism of the newly-important private sector is expected to halt the overall decline of GDP in 1993, and some predictions point to growth of two to three percent this year.

STRATEGIC OBJECTIVES

Hungary's progress toward becoming a stable and prosperous democratic nation can be measured by its success in meeting a series of related strategic objectives in the next five to seven years. Achieving positive real economic growth with unemployment of around 10 percent, the current European Community (EC) average, will be the broadest measure of success in meeting economic goals. The continuation of a democratically elected government committed to economic reform, integration with the West, and democratic pluralism, will convey the broadest measure of success on the political front.

These successes in turn will be predicated on progress in meeting strategic objectives in the areas of macroeconomic stabilization, democratic process, economic transformation, and quality of life. These objectives will not be achieved as the result of the USG assistance program alone. Their attainment will be realized only by the sustained efforts of the Hungarian people with the donor community playing a supporting role.

Hungary's self-professed goal of full EC membership requires careful attention to "Maastricht criteria" -- the guidelines that countries are supposed to meet if they are to use the future common European currency. These criteria are: inflation of 4 percent per annum

05/05/93 08:28 FAX 36 1 251 1981 AIDNEP → SPA/USAID/TWX 003

or less; long-term interest rates at less than 10.6 percent; budget deficit not greater than 3 percent of GDP; and total foreign debt does not exceed 60 percent of GDP. It should be recognized that these criteria are only guidelines, not requirements, and many current EC members are not in compliance. They are nevertheless valid targets for performance and would provide the economic framework for vigorous foreign investment and private sector growth. The strategic objectives in each area are listed below:

Macroeconomic Stabilization:

- Hungary attains substantial compliance with Maastricht criteria, comparable to other EC members;
- Hungarian Forint is fully convertible, in current account;
- Dependence on foreign sources of energy reduced.

Democratic Process:

- Effective democratic institutions functioning at national and local level;
- Population understands and participates in democratic process;
- Political process demonstrates tolerance and respect for human rights;
- Channels exist for free and open communication.

Economic Transformation:

- Percent of GDP from private sector increases from approximately 35% to 70%.

Quality of Life:

- Percent of population at or below poverty line shows strong, steady fall from current level of 25 percent;
- Government maintains essential social services to the most vulnerable elements of the population.

ROLE OF OTHER MAJOR DONORS AND LENDERS

The U.S. Government coordinates its activities with other major donors and lenders in order to avoid duplication and to reinforce mutual objectives. Other major donors and lenders in Hungary currently are the World Bank, the European Community (EC), and the European Bank for Reconstruction and Development (EBRD).

World Bank lending has focused on: structural adjustment of the economy through economic restructuring and privatization; the modernization of industry and transport; export development; reform of specific sectors such as the financial sector, energy, delivery of health services, and human resources development (labor retraining and entrepreneurial skill building). The Government of Hungary and the World Bank have developed a program amounting to approximately USD 2.3 billion through Spring 1993.

05/05/93 08:29 FAX 36 1 251 1981 AIDREP → SPA/USAID/TMX 004

The EC PHARE program has budgeted approximately ECU 100 million (USD 117 million) annually for Hungary, with commitments now totalling ECU 308 million (USD 360 million) for training, technical assistance, co-financing, and procurement. EC PHARE activities focus on: management training; financial and macroeconomic reform; public administration and delivery of public services (e.g. housing); promotion of investment and of small business; industrial restructuring; legislative and regulatory reform; and employment services.

In its initial 12 months of operation in Hungary, the EBRD made commitments to support ten projects in Hungary, with a total project value of about ECU 9 million (USD 10.4 million), of which the EBRD share comprises ECU 2.5 million (USD 2.9 million). The ten projects are in a range of economic fields: telecommunications, manufacturing, hotel development, construction of a Budapest perimeter road, franchising, and development of domestic commerce. EBRD loan applicants are encouraged to provide one-third of project financing from their own resources.

PARAMETERS OF THE USG ASSISTANCE PROGRAM

While it is the purpose of the USG assistance program to assist Hungary to achieve the strategic objectives outlined above, the magnitude of the task clearly dwarfs the resources which we provide on a bilateral basis. It is our task then to define a highly focused assistance program, well coordinated with other donors, which can effectively operate in areas where we hold a comparative advantage. We can greatly enhance the effectiveness and impact of our programs by continuing to emphasize flexible delivery vehicles which can respond rapidly to new and unanticipated demands.

The parameters of the assistance program have been developed in accordance with certain operating assumptions. The dollar resources available are projected to remain roughly constant over the next several years. We will continue to deliver the bulk of our resources outside traditional government-to-government channels. The program will remain focused on the provision of grant-funded technical assistance. We will work to improve the outreach of the assistance programs to depressed areas outside of Budapest. **We also recognize that much of our program of technical assistance is invisible to the average Hungarian; modest resources should be directed toward projects which visibly demonstrate our support.**

We assume the program will continue to be regional in nature, with Mission management in Washington and small representative offices overseas. Given the size and scope of the program, over 100 discrete activities in Hungary under the umbrella of 35 regional projects, we believe the number of program activities must shrink to allow adequate oversight and monitoring in the field.

05/05/93 08:29 FAX 36 1 251 1981 AIDREP → SPA/USAID/TWX

117

We also recognize the sunset nature of our activities. Hungary has a self-professed goal of entering into the EC as a full member by the year 2000. While actual entry will be predicated on a variety of political and economic considerations, we believe that substantial compliance with "Maastricht criteria" is possible within this time frame. We, therefore, project that the need to obligate new assistance funds for activities in Hungary will largely disappear in the next three to five [~~five to seven~~] years.

PRIORITIES FOR THE USG ASSISTANCE PROGRAM

Of necessity, the GOH must deal simultaneously with the issues of macroeconomic stabilization, democratic process, economic transformation, and quality of life. The USG assistance program has provided support in all of these areas. However, the relative importance of each category as well as the specific activities carried out within each category have, and will continue, to evolve over time.

In 1989, macroeconomic stabilization and the introduction of democratic institutions and process were the highest priorities for Hungary. Because of the considerable progress made on both these fronts, it is now the issues related to economic restructuring which have precedence. This does not mean the USG assistance program should abandon activities in support of the earlier priorities; rather, it argues for a shift in emphasis. As discussed more thoroughly below, quality of life issues may become more critical over time and warrant our increased attention.

The strategic objectives in these four areas are mutually reinforcing. The success of the economic transformation and the creation of a prosperous middle class may do more than anything else to support the continuing success of democratic institutions and process in Hungary. Conversely, the continued degradation of living standards for the average Hungarian may undermine the political consensus for economic reform and provide fertile ground for political extremists at both ends of the spectrum while increasing income disparities put further pressure on new and fragile democratic institutions.

Macroeconomic Stabilization and Structural Reform

Macroeconomic stabilization and structural reform of the economy are prerequisites for sustained economic growth and the establishment of stable commercial relations with the West. The budget deficit is the most difficult issue, which has the potential to undermine Hungary's successful transition to a market economy.

In 1989, three-quarters of Hungary's trade was with COMECON members. With the dissolution of the Soviet Union, Hungary's major market collapsed; by 1992, some three-

05/05/93 08:30 FAX 36 1 251 1981 AIDREP → SPA/TSAID/TWY 006

118

quarters of Hungary's two-way trade of $22 billion was with OECD members, and its current account was roughly balanced.

With the collapse of its Eastern markets, however, Hungary's industrial output, employment levels, and GDP suffered sharper declines than had been projected for 1991 and 1992, which led to a substantial shortfall in revenue collection and sharply higher fiscal deficits. In June 1992, when it became evident that a targeted fiscal deficit of 70 billion forints would actually approach 200 billion forints and exceed 7 percent of GDP, the International Monetary Fund (IMF) suspended drawdown of its three- year, $1.5 billion Extended Arrangement. Negotiations between the Fund and the GOH are still underway, focussed primarily on addressing the fiscal imbalance. Further disbursement of the World Bank's second Structural Adjustment loan is also predicated in part on the GOH satisfactorily addressing its fiscal imbalances. On another topic of key concern, while the downward trend in inflation continues, the Bank and Fund are also monitoring its development in their balance-of-payments lending programs. **Energy remains a key structural issue with 50 percent of domestic demand met through imports; this means that 16.7 percent of all export revenues are spent on energy imports.**

The private sector has been playing an increasingly important and dynamic role in Hungary's economic transformation, but that activity has not been completely captured either in Hungarian statistics or more significantly, in government tax collection efforts. Given that revenue shortfalls have greatly hindered deficit reduction efforts, the World Bank is proposing a project to assist the institutional development of the Finance Ministry's Tax Administration Department.

In recognition of the primary role played by other donor organizations, particularly the World Bank and the IMF, the U.S. Government assistance program will seek to complement and support other donor activities. U.S. assistance will:

- provide a long-term treasury advisor with budget expertise to the Ministry of Finance;
- provide limited technical assistance and training in tax policy and administration;
- provide technical assistance and training to accelerate reform in the energy sector, to increase efficiency in production, distribution, and consumption.

Democratic Institutions and Process

Although most of the institutions of Hungarian democracy are in place and functioning, they are young and immature. Hungarians at the national and local levels seek and expect our help in strengthening their democratic processes: public administration; educational reform at all levels; an independent media; English language skills; as well as intellectual discourse on the problems and pitfalls of transitional democracies.

Still needed is the development of a political culture that makes these institutions work in practice. Citizens must think of themselves as active shapers of their future rather than passive recipients of decisions made by others. The problem lies partly in people's attitudes

05/05/93 08:31 FAX 36 1 251 1981 AIDREP ⟶ SPA/USAID/TMX

and partly in organizational structures. In the former, civics education and other instructional reform need to be encouraged. In the latter, volunteers and the whole panoply of nongovernmental and community-based organizations must act as mediators between individuals and government.

Support for Democratic Institutions

Hungarian institutions formed after the collapse of communism continue to need support. Examples include Parliament, local councils, mayors' offices, and the judiciary. Local governments in particular are under great stress as they seek to carry out new and unfamiliar responsibilities in areas such as revenue generation and the financing of infrastructure. U.S. assistance will:

- provide technical assistance and training for local government officials;
- provide information on relevant issues of legislation and U.S. experience; ~~[through USIS outreach programs;]~~
- provide professional development programs in the U.S. for selected Hungarians;
- provide grants to organizations and institutions in public administration, democracy-building, and citizen networks.

Understanding and Participation in the Democratic Process

Public understanding of the new democratic system and participation in it are weak. Forty years of communist rule causes people to question the legitimacy of the government, any government, while expecting it to move quickly to solve economic and social problems. U.S. assistance will:

- support academic programs which promote the spread of democratic thought and action;
- provide support for local community efforts to develop structures for civic action and the promotion of civil and human rights;
- provide support to nongovernmental organizations, particularly outside Budapest, to support local civic action.

Expand Channels of Free and Open Communication and Promote the Spread of Democratic Thought and Practice

Hungary's struggle to develop a strong and independent media is floundering, primarily because of centralization of control over television and radio by the government. In the absence of a media law, there is as yet no legal framework in which a strong, independent media can develop. At the same time, Hungarians are emerging from 40 years of restricted academic and intellectual contact with the U.S. Progressive educators, administrators, and government officials recognize the need to update and upgrade the education system at all levels. U.S. assistance will:

05/05/93 08:32 FAX 36 1 251 1981 AIDREP → SPA/TSAID/TWX 005

120

- support individuals within those broadcast institutions who are working to maintain professional integrity, by providing them with opportunities to visit the U.S. and assisting in co-productions on democracy-building;
- offer media training for Hungarian media specialists, students, broadcasters, and regulators;
- support educational exchanges, including the Fulbright program, the teacher exchanges, and English teaching fellows;
- encourage other exchange activities, targeting key individuals; ~~[, including the International Visitor and Voluntary Visitor programs;]~~
- support book donations, translations, and publications;
- encourage institutional linkages, such as university affiliations.

Economic Restructuring

The overriding priority of the U.S. assistance program is to promote private sector growth. As the public sector continues to contract, it is the private sector which must grow and prosper to provide the jobs, taxes, and exports to sustain Hungary through the difficult economic transition, and beyond. The productive enterprise sector, particularly manufacturing and agriculture, should be the focus of our efforts in this area.

The strategy for promoting private sector growth gives priority to activities which: increase the speed of the privatization process; attract new foreign investment; support the enterprise sector, particularly, small to medium-sized firms; improve financial intermediation through reform of the banking sector; promote development of a modern telecommunications infrastructure; and reform the legal and regulatory environment in which business operates. The adoption and enforcement of environmental legislation consistent with EC standards is also an important structural issue to prevent inappropriate investment in dirty industries and to facilitate the flow of Hungarian goods to the West.

Privatization

The most significant assets of the state sector, some 160 firms in the energy and power, transport, metallurgy, telecommunications, banking and a host of miscellaneous other industries, defined by the government as "strategic", have been consolidated under the management of the newly-formed State Assets Management Company (AVRt), which will seek both partially to privatize and to manage the state's residual holdings in the firms. Most require significant, if not complete, corporate restructuring to operate as viable enterprises in a market economy. Most are also heavily indebted to state-owned banks, and are not meeting their loan repayment obligations. The GOH also faces the challenge of accelerating the pace of privatization of the non-strategic state-owned sector, still under the management of the State Property Agency (AVU). Sensing that the first wave of privatization may be cresting, and that foreign interest may have already peaked in AVU-held assets, the government is looking at a number of methods to ignite domestic interest and to quicken the pace of privatization. These methods range from mass privatization voucher schemes to

05/05/93 08:33 FAX 36 1 251 1981 AIDREP SPA/USAID/TWY

greater help to management buy-out and employee stock ownership programs. U.S. assistance will:

- continue to provide technical assistance to AVU to improve the speed and transparency of the privatization process and to explore new methodologies for privatization;
- provide technical assistance to AVRt to help privatize assets in selected strategic sectors such as power, banking, and telecommunications;
- provide technical assistance to assess the environmental liabilities of firms undergoing privatization.

Investment Promotion

While Hungary has been the most successful country in the region in attracting Direct Foreign Investment, the $4.7 billion invested to date is tiny compared to the size of the economy and the unmet capital needs of the private sector. Further, current investment incentives expire at the end of the calendar year while competition for investment dollars from neighboring countries, like the Czech Republic, increases. Aside from capital, investment brings new management techniques, new technology, and access to new markets. U.S. assistance will:

- provide policy advice to the GOH on investment issues;
- support promotional activities to highlight Hungary's favorable investment climate;
- provide information and counseling to potential investors
- promote investment by providing grants for feasibility and marketing studies to U.S. investors, consistent with guidelines on Section 599 of PL 102-291.

Assisting Enterprises

The creation and growth of indigenous enterprises, particularly small and medium-sized firms, will increasingly provide the engine of growth for the private sector and for generating new employment. U.S. assistance will:

- provide investment capital through the Enterprise Fund, to be supplemented by local capital raised by the Fund;
- provide technical assistance directly to enterprises in areas such as finance, marketing, production, and management;
- make available resident business services;
- provide training to private sector managers and other students of business administration/management in a variety of business skills.

Banking

Effective financial intermediation is not currently taking place. Savings are not channeled effectively to the private sector. Heavy government borrowing and a cycle of public sector banks lending to public sector enterprises combine to crowd out lending to productive private enterprises. Also, bankers, unfamiliar with techniques of credit analysis

05/05/93 08:34 FAX 36 1 251 1981 AIDREE → SPA/USAID TWY 010

122

for small and medium-sized firms, react with great timidity and unreasonable collateral requirements. Banks are further handicapped by a large portfolio of substandard loans which form between 25 percent to 50 percent of all assets. The health of the financial sector is another issue with the potential to undermine the success of the country's economic transformation.

The government is trying to cut through this knot by pursuing a complex solution linking loan consolidation and privatization of the banks.
U.S. assistance will:

- provide technical assistance, both short and long term to the minister of Privatization on the issue of bank recapitalization and privatization;
- provide long term advisors to 3 major public banks slated for privatization;
- provide bankers training, focused on issues of credit analysis;
- provide technical assistance to strengthen bank supervision to provide credible regulation for a private competitive banking sector;
- provide assistance to create a domestic housing mortgage market.

Telecommunications

Absence of a modern telecommunications infrastructure acts as a major impediment to private sector growth. Billions of dollars of investment are required which can only come from foreign sources. This investment is, in turn, dependent on the government's telecommunication policy. While a telecommunication law has been passed, it is quite general in nature, and many of the specifics will be defined in regulations currently being drafted. U.S. assistance will:

- provide technical assistance to law makers in drafting regulations to implement current legislation;
- provide training for telecommunication regulation;
- provide assistance and advice to help U.S. organizations identify investment opportunities in this sector.

Legal and Regulatory Environment

The legal and regulatory environment in which business operates is an amalgamation of old rules and laws inconsistent with the principles of a market economy and a rapidly evolving series of new legal and regulatory requirements. Difficulties in the land title system, company registration, and securing legal title to collateral pledged against a loan are only few examples of poorly functioning systems which act as a drag on private sector development and growth. The lack of effective environmental legislation, regulation, and enforcement creates investment uncertainties and permits inappropriate firm behavior. U.S. assistance will:

- provide technical assistance to help review and critique new and existing legislation effecting the private sector;

05/05/93 08:35 FAX 36 1 251 1981 AIDREP → SPA/TSAID/TMX 011

123

- provide training and technical assistance to improve governmental capacity to undertake its new role as regulator of a private competitive economic system.

Quality of Life

The process of economic transformation has created real hardships for a significant percent of the Hungarian population. At the same time, government budget constraints severely limit national and local officials' ability to provide an adequate social safety net.

These quality-of-life issues are difficult and are likely to grow larger. Unemployment is a lagging indicator of economic growth. This problem is exacerbated by the fact that the contracting public sector is an inefficient employer of labor while the growing private sector uses labor more efficiently. Witness that the private sector now accounts for approximately 35 percent of GDP while providing only 10 percent of the jobs. While private sector job creation will provide the ultimate solution, unemployment may continue to expand, even in the face of real economic growth, and then, to decline only slowly. This area deserves our increasing attention.

Pensioners on fixed incomes, the unemployed, and families with children who fall below the poverty line, constitute the population at highest risk. The creaking government machinery left over from the communist regime is struggling to ensure that this target group receives adequate food, clothing, shelter, and access to health services. While the USG's bilateral resources are too small to provide direct support to the most vulnerable elements of the population, modest technical assistance to the government can help.

The government must reform the pension and social security systems in line with budget realities. New means-tested benefits systems must be developed to provide cost effective delivery of health services and access to housing. We also need to move beyond traditional government-to-government programs and experiment with new creative solutions in partnership with the private sector. The U.S. assistance program will:

- provide technical assistance to national and local government, in coordination with other donors, to support reform of the housing, pension, social security, health care, and unemployment systems;
- provide training and outplacement assistance for displaced workers, through governmental and non-governmental delivery vehicles, emphasizing development of income generating skills short of formal employment, in recognition of the absolute scarcity of job opportunities which will exist for the foreseeable future;
- support NGOs and PVOs which deliver essential services directly to target groups which complement existing government programs.

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124

Privatization Strategy

Republic of Hungary
Prime Minister's Office

Dr. Tamás Szabó MP
Minister without Portfolio,
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Concept of Breakthrough and the Government Privatization Programme

October, 1992

126

Introduction

Point. 8 of governmental resolution No. 3271/1992, which specifies the main short-term tasks aimed at laying the foundations for economic growth, prescribes the elaboration of measures promoting the acceleration of the privatisation process. As a part of this, new privatisation techniques were introduced, supply was increased and its structure transformed, and the decentralisation of selling was strengthened.

From July, 1992, onwards, a working team consisting of experts in various fields worked on the determination of new directions for the privatisation process. The necessary measures were determined upon together with the management of the State Property Agency. The Laws on Privatization accepted by Parliament in June served as the basis for the work.

On October 8, 1992, the Government accepted the document concerning the economic policy tasks for 1993 and 1994, which formulates the tasks of privatisation as follows:

"The purpose of the acceleration and development of privatisation is not the maximization of cash income to the state, but the establishment of a wide and strong domestic stratum of owners and, through this, an efficiently operating economy. This is to be supported by the preparation of various laws, which are still absent today, as well as various means for the purpose of intensifying privatisation demand (credit notes, leasing, Employees' Ownership Programme, guarantee institutions), the formation of privatisation supply (decentralisation, the establishment of the privatisation portfolios), and the development of an institutional system adequate to the privatisation market (stock exchange, consultancy, etc.). The Government intends to promote privatisation by the elaboration of the concepts utilised by technical policy making and by the preparation of various sector-specific laws as well."

I. Achievements of domestic privatisation so far and the necessity of changing direction

1. Characteristics of the privatisation process from the Spring of 1990 to August 1992

Preparations for Hungarian privatisation began in the late eighties - with the Law on Corporations and the Law on Transformation - but we may speak of centrally directed and controlled privatisation only since the establishment of the State Property Agency. After the free elections in the Spring of 1990 and the coming to power of the Government a purposefully directed and properly controlled stage of the privatisation process began (Law on the Protection on Property, Law on Pre-Privatization, etc.).

Until August 31, 1992, 445 state-owned corporations were transformed into companies, 401 of which were transformed within the framework of self-privatisation or at the relevant company or investor's initiative. (Calculated at book value, this state property represents a value of HUF 577 billion.) The receipts from the sale of state property at present exceed HUF 80 billion, more than 70 per cent of which was realised for convertible currency. (In 1991 privatisation receipts to the amount of HUF 31 billion were realised, while HUF 70 billion may be expected in 1992.) So far more than HUF 51 billion from privatisation receipts served the purpose of repayment of the national debt. Within the framework of the Law on Pre-Privatization 4950 shops were sold by the end of August. (The programme is expected to be completed this year.)

As part of the privatisation process, buy-outs and contributions in kind, as well as transformations and cases of property protection, saw foreign capital invested in the Hungarian economy to the value of approximately HUF 88 billion by 31st August, 1992.

In numerous sectors of the economy the privatisation process has made considerable progress, and most companies in the individual sectors have been privatised (e.g. the tobacco, distilling, confectionery, sugar and building materials industries), the privatisation of the food industry and agriculture has begun, similarly in the various branches of the infrastructure (telecommunications, transport) and in the case of the commercial banks.

2. Privatisation at the crossroads

In spite of its achievements so far, the privatisation process has come to a crossroads: in respect of present privatisation policy and practice changes are required. The reasons are as follows:

2.1. The low proportion of domestic ownership

In the course of privatisation so far the proportion of foreign purchases has been decisive, while domestic participation has been rather restricted. One explanation is that the domestic cash reserves, which can be mobilised for this purpose, are limited. The preferential credit structures (e.g. Subsistence credit) and purchase allowances introduced earlier have not brought about a spectacular breakthrough, to which the risk and low yield on privatisation investments have also contributed.

Due to the low proportion of domestic property acquisition, privatisation has not as yet begun to promote the development of a wide domestic stratum of owners (including both small owners and large entrepreneurs) - in accordance with expectations. As a result of this, however, possibly the most important social group - the "supporting pillar" - of the social market economy cannot consolidate itself.

Regarding both economic and social policy, it is important to promote change in this area.

2.2 Changes in privatisation supply

In accordance with the privatisation that has taken place in the past two years and the decisions made in the meantime, the magnitude and composition of privatisation supply has changed considerably:

a] numerous companies, that could be sold for a good price, have been sold partly or in full;

b] a specific part of state-owned property - 25 or 50 per cent of the capital of about 160 companies - has been put aside for "permanent" state ownership, with effect as of 28th August, 1992;

c] the range of state property, which can be privatized, is limited by commitments specified in other laws (handing over of property for to the social insurance organisation, compensation, asset holdings to be handed over to the municipalities);

d] the financial situation of most state-owned companies to be privatised has changed considerably over the year - several hundred have gone bankrupt - and liquidation proceedings, and the devaluation of assets has been remarkable.

Although privatisation supply has not decreased regarding its magnitude, moreover, in a certain respect, the chances of its mobilisation have improved: taking into account its structure and financial-economic relations, the present supply is only partly suitable for inducing demand, since most of the entrepreneurial property of the state has been transferred to the SPA and to ÁV Rt. (State Holding Company Ltd.). The possibilities of selling for cash have been narrowed down considerably.

2.3 Problems on the demand side

A continuous narrowing down of cash demand for present privatisation supply - in an unchanged form - has to be reckoned with. (All this parallel with a weakening of interest on the part of foreign capital.) In the interest of maintaining the pace of the change of owners as well as its acceleration, this phenomenon renders inevitable the introduction of cash substituting and supplementing ways of demand. All these are especially important from the viewpoint of intensifying domestic investor activity. New means have to be elaborated and introduced, parallel with further improvement of the financial conditions of the already existing demand techniques (Subsistence credit, Employees' Part-Ownership Programme).

Naturally, any increase in domestic privatisation demand depends on all economic and financial policy measures aimed at the improvement of the situation of domestic enterprises as well as their development (e.g. system of credit guarantees, credit on the basis of mortgages).

2.4 Termination of income-centred decision-making

A decisive element of the domestic privatisation process so far has been the intention of increasing income. This was supported by the economic policy expectations regarding the privatisation practice of the SPA. All this was necessarily accompanied by other economic and sectoral policy aspects being pushed into the background (e.g. structural policy, competition policy, employment policy). The possibility of change was closely connected to the elaboration of structural development policy and professional privatisation. In cooperation with the ministries concerned, more than six months ago the SPA began to work out these concepts and modify privatisation practice accordingly.

The government economic policy decision, which does not regard the increase of income as primary and exclusive, requires the transformation of the order of decision-making and decision preferences 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 question of income. All these render the rewording of the target system of privatisation necessary.

2.5 Lack of information and social mistrust

Nowadays the target system of privatisation is still unfamiliar to a wide range of the Hungarian population, and the possibilities and opportunities for personal participation are by no means clear either. In many cases, one is able to see only the situation of many companies getting worse and worse, "asset saving" is not rare, organizational structure and management are inherited from the previous regime, the long-range intentions of foreign owners are unknown and, frequently, there are job losses before or after privatisation, etc. As a consequence, the population at large fundamentally distrusts privatisation.

Domestic participation in privatisation can be intensified only if information regarding supply is more widely available, and if its formation is subject to a deliberate policy, if the investors know about and can apply the various demand techniques, and market mechanisms promote the spread of competition and the acquisition of property.

2.6 Changes in the domestic and international environment of privatisation

In the past two years the external and internal conditions of privatisation have changed fundamentally. Meanwhile state-owned industry collapsed with spectacular rapidity, while domestic private enterprises have perceptibly strengthened. In contrast to the first years of privatisation, potential domestic demand continues to increase.

Simultaneously, the Central-Eastern European privatisation market has also changed to a remarkable extent. With the entrance on the scene of new target countries the market has rapidly enlarged, as a result of which, in foreign investors' eyes, Hungarian privatisation has not only lost its charm resultant upon its role as the first endeavor, but it has also come up against intensifying competition. Moreover, some of foreign investors are at present sitting the whole thing out, waiting for a cheap closing-down sale. If present methods are maintained, there is every danger of a further retardation of privatisation.

To sum up, in the autumn of 1992 domestic privatisation has reached a crossroads. On the one hand, the continuation of privatisation in an unchanged form conflicts with the process of development of the economy and society aimed at the establishment of an up-to-date social market economy, and on the other - both on the supply and the demand sides -signs of exhaustion are manifesting themselves more and more frequently. Therefore, a radical renewal of privatisation policy is necessary as soon as possible - for which all the experience and changes of the past two years will provide a sufficient basis.

II. The target system of the new privatisation strategy

Taking into account all the economic and social policy factors involved in privatisation, it must be clearly understood 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 key importance, the characteristics and consequences of which can fundamentally influence the success of transition.

b) In no respect whatsoever can privatisation be identified with a "simple" process of selling, it is much more than that: privatisation is a transformation of the economic system itself. Privatization is the process of dismantling (inherited) state property, a decisive element in which is the handing over of such property into private ownership. Therefore, it may be regarded as privatisation if former state property holdings go to municipalities, foundations, or insurance funds, similarly to foreign and domestic investors, both large and small. From among the many ways of bringing about such a change in ownership, nowadays the handing over and operation of property for economic purposes has become decisive, with the aim of establishing the conditions of a market economy and the necessary transformation of the ownership structure of the economy overall.

c) Efficient and successful privatisation can work only if it is fitted into a system of relations broader than the present one - i.e. in the development process of the private economy, in the efforts aiming at structural change in the economy, as well as in macro-economic processes. In the area of the transformation of domestic ownership relations privatisation must result in a radical change within a short time, so to say, realising and rendering irreversible the decisive economic importance of private ownership.

1. The new priority of privatisation policy: increasing opportunities for domestic property acquisition

The purpose of the acceleration and development of the privatisation process is not the maximization of the cash income of the state, but the establishment of a wide and strong

domestic stratum of owners and, through this, an efficiently operating economy. This will render the economic transformation irreversible and privatisation aimed in this direction can establish the economic and social bases of a modern market economy.

The new privatisation policy, which promotes the establishment of a wide and strong stratum of domestic owners also by increasing opportunities for property acquisition, something which at the same time will improve the operational capacity of the Hungarian economy, is based on the following elements:

a) the strengthening of domestic privatisation demand (including the possibility of artificially establishing demand);

b) the purposeful establishment of a wide supply of property, as well as rational decentralisation, which is justified in economic terms;

c) the extension of the market institutions and mechanisms of privatisation (selling for cash, stock exchange, investment funds, the "privatisation" of privatisation, etc.);

d) the use of the receipts from privatisation for productive purposes promoting the development of enterprises, and the acceleration of the related economic policy decisions.

2. Unchanged and new emphases

The participation of foreign capital in the privatisation process is still important for the Hungarian economy. We are fundamentally interested in maintaining, moreover, increasing foreign investor interest. First of all, because capital investment - which is indispensable for most of Hungarian companies -, the establishment and strengthening of market relations, technical modernization and up-to-date management can be expected only by this means. In numerous areas of the economy the presence of a foreign strategic investor is the basic condition for progress (e.g. telecommunications, the pharmaceutical industry, banks, air transport). Through a purposeful privatisation policy we have to avoid and prevent such undesirable cases as when a foreign presence is accompanied by the preservation of a monopolistic situation and by the elimination of domestic competitors, etc.

Some characteristics of the present privatisation policy, however, will change, as a result of which the following factors will cease (or decline) in the practice of privatisation and the SPA:

a) the handling of privatisation as a "simple" sale of assets;

b) the focus on income;

c) the exceptional situation of certain participants of the privatisation process (cash owners, those having a relationship with consulting firms);

d) the high cash requirement, which can be an obstacle to participation in privatisation, and

e) the lack of information, which makes it extremely difficult for a wider circle of investors to get involved.

The consequences of privatisation policy:

The remarkable improvement in opportunities for domestic property acquisition. The elaboration of a new supply policy (disintegration, separation, etc.) and demand techniques serves for the widening and strengthening of the range of domestic owners.

Enhanced consideration of economic and social policy (sectoral policy) when wording the general criteria of decision-making concerning privatisation (e.g. employment, regional policy, technological development, etc.). Naturally, this does not mean that privatisation would be subordinated to individual and partial policies. We must not formulate expectations which call privatisation policy to account for the establishment of a modern industrial and infrastructural policy, and the fulfillment of the tasks of employment policy. At the same time, the rules and criteria, which promote the realisation of the individual partial policies, have to be built into concrete privatisation practice, and subordinated to its general goals.

In the interest of widening the degree of social support and domestic demand, marketing, as well as information and educational activities should be carried out more efficiently than at present, in relation to questions concerning privatisation.

To sum up, starting from the requirements of the establishment of the change in the economic system and of a social market economy, the purpose of the new privatisation policy is to promote a wide range of domestic owners, to assist in the development of an up-to-date ownership structure and, through this, to establish an efficiently operating economy. To achieve this goal, the focus of the further course of privatisation must shift from income-oriented selling to the improvement of opportunities for domestic property acquisition. All this requires new solutions and means for the formation of both demand and supply policy.

III. Renewal of demand and supply policy

1. Basic principles of demand and supply policy

On the side of privatisation demand the following requirements must be fulfilled:

a) in the privatisation process the chance for property acquisition must be ensured both for large and small, domestic and foreign investors;

b) the various means (techniques) of property acquisition compete with each other;

c) the procedures and rules of privatisation are clear for, and can be known by all parties concerned, and the information regarding supply and demand is readily accessible.

At the same time, for the satisfaction of the requirements of structural change in the economy and the transition to a market economy, deliberate decisions and purposeful steps are desirable in supply policy in the following areas:

a) a concrete and precise definition of state property which may be privatised (which sectors and for what purpose may be withdrawn from privatisation, e.g. "permanent" state property, social insurance, handing over of property to foundations, compensation, etc.);

b) the enforcement 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 inheritance, and the prevention of their coming into existence;

d) the foregrounding of small investor, management and strategic investor participation in privatisation, and the designation of the preferred range of investors.

The target system of the new privatisation strategy - and, first of all, an increase in opportunities for domestic property acquisition - require the conscious transformation of the supply side, and its strategic direction, adjusting to widening domestic demand. Naturally, all this does not mean a strengthening of the direct role of the state. On the supply side actual implementation will take place in an absolutely decentralized way.

2. Transformation of demand policy: opportunities for domestic ownership

2.1. Main directions in respect of the establishment of domestic demand

The essence of the new demand policy is the widening of domestic demand by applying new privatisation techniques. During this it must be taken into account that the coming into being of a domestic property-owning bourgeoisie and the development of a healthy economic and social structure simultaneously assume the presence of large and medium entrepreneurial strata as well as a wide stratum of small owners (small investors).

A change of direction and the elaboration of new means and methods are necessary, such as would provide a realistic opportunity for

a) domestic entrepreneurs to buy, take over and operate significant assets, furthermore,

b) increased participation of small-scale owners (small-scale investors).

In the future privatisation policy and practice must aim at these two strata simultaneously, complementing - and not opposing - each other. (Not denying that some entrepreneurs do not wish to become owners of former state property, but rather settle near state property, furthermore, that the circle of small-scale investors is restricted, i.e. considerable numbers cannot, or do not want to, become owners.) Taking into account all this, in respect of the establishment of domestic demand:

entrepreneurial property acquisition aiming at the taking over of a significant quantity of property must be promoted by the introduction of special credit structures, in recognition of the fact that their participation in the process

exclusively for cash and on a market basis is inevitably subject to restriction. (They can compete with foreign investors only to a limited extent.)

Domestic small-scale investor privatisation activity can be increased by the techniques that have developed up to now (see: Employees' Ownership Programme, Subsistence credit) only within certain limits, as a result of their structure. Therefore, such new techniques are necessary as would continue to activate domestic small-scale investors, while the continued applicability of established techniques must not cease to be considered.

2.2. Main characteristics of the new techniques promoting the establishment of demand

The new concrete techniques, which increase demand, must be established in such a way that they promote the involvement of the population's savings (the partial mobilization of domestic cash savings) in the privatisation process. In the interests of this,

none of the means aiming at the widening of domestic privatisation demand may be "free of charge";

in the case of techniques which promote wide property acquisition cash-substitution solutions must be pushed into the foreground;

the intentions of the domestic entrepreneurial sector regarding privatisation must be promoted by cash-supplementing techniques - above a given asset value (also requiring the mobilisation of significant private resources).

Taking into account the above basic principles, in the interests of increasing domestic demand, we recommend the elaboration and introduction of the following privatisation techniques:

a) Credit note (a technique which establishes opportunities for property acquisition among the widest strata of the population).

A warrant, which can be used by all citizens against a minimum charge (costs of distribution and printing), and which can be spent on the purchase of property. Up to a maximum value the warrant can be converted into property without any restrictions. It embodies a credit structure, the interest on which is variable in time, reaching 100% of the NBH's refinancing credit from 40% within a six- to eight-year cycle, and its repayment is spent on the repayment of the national debt. (Its construction is similar to that of Subsistence credit, but its interest conditions are much more favourable, there is no personal property guarantee and the "own contribution" is also minimal. Its term is 15 years at the most, with a several year grace period.) Credit notes are distributed through a nationwide network, such as the "distribution" of the supply.

b) **Privatisation leasing:** a means for the reorganisation and buying out of businesses, which operate at lower than average efficiency (or which show a deficit), by domestic private individuals, where the organisational and management services performed by the lessee can be included in the repayment of the leasing fee, and accounted as costs. (Its conditions are regulated by Law LIV of 1992.)

c) **Payment by installments:** in the case of a competing tender - the preparation of a proper business plan is a basic condition -, the SPA may permit payment by installments at interest of 9.5 per cent, up to a limit of HUF 5 million per person, with a minimum personal guarantee. The maximum term would be 10 years. (This would be implemented by a body founded by the SPA.)

d) **Letter of credit** (a technique to promote growth in the number of large-scale investors and entrepreneurs). Its financial construction is the same as that of the credit note with the difference that it has no upper limit, and it requires a personal property- and bank guarantee, which gradually (and considerably) increases, depending on the amount used.

Through the elaboration and introduction of the new techniques, on the one hand, the process of domestic property acquisition will accelerate, while the importance of some of the already existing techniques may be expected to lessen (Subsistence credit); on the other hand, expectations in connection with the application of the Employees' Ownership Programme will become more moderate.

From among the techniques promoting domestic property acquisition, primarily, the system of conditions of the Employees' Ownership Programme must 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, finally leading to private ownership as a consequence of collective property acquisition (repayment and the practicing of proprietary rights, etc.). The conditions of the EPOP can be improved mainly by the wider application of the practice of payment by installments.

3. Purposeful decentralisation the focus of supply policy

The basic principles of supply policy adjusting to widening domestic demand are that

a) regarding its magnitude and structure, supply be adjusted to demand;

b) it should promote the modernisation of company organisation;

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 already existing, and newly established economic units.

The main pledge of the enforcement of the above basic principles is reasonable decentralisation in accordance with economic considerations, i.e. the breaking up of state property into privatisable units of a magnitude adjusted to the structure of widening domestic demand. In the course of privatisation, decentralisation is both necessary and possible in the following cases:

a) monopolistic situations based on organisational centralisation, i.e. companies of the "multi-factory" type, where the large company concerned consists of several plants working under the same profile;

b) autarkic company structure, by the organisational integration of the cooperative and service activities (production of parts, maintenance, transportation, building);

c) regional-market monopoly through the establishment of an organisational framework based on the regional principle (see: 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 organisational decentralisation in an administrative manner (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 centralised 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 decentralisation must be seen clearly. Decentralisation cannot be an end in itself, because it does not achieve the effects hoped for, moreover, it can also worsen the output of the national economy. A campaign-like decentralisation may result in a break in a production line, 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 implementation of decentralisation is possible in several ways:

a) by the dismantling of the state-owned company before transformation (when the organisation exercising proprietary rights decides on it);

b) during transformation, when the organization exercising proprietary rights establishes companies or businesses, which are legal entities, from the units of the former company;

c) by privatisation-type buying out after transformation, at the investor's initiative.

In the latter case, decentralisation is closely connected to the appearance of the new owners.

In the course of decentralisation consideration of the aspects of business management, such as optimum capacity, technological units, the demolition of superfluous cost carriers, etc., is important. In more detail:

a) During privatisation it is advisable to hand over the social and welfare institutions of companies - if their further operation for similar purposes is uncertain - to the municipalities (e.g. in return for their share in the business) or, free of charge, to social and welfare foundations established by employees.

b) Decentralisation 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 a whole production process, which is in a key sector.

c) Where foreign technology, capital injection and market relationships are necessary, the organisational decisions may be executed only with respect to this.

d) In certain cases, decentralisation is inconceivable without the financial disburdening of certain production units (e.g. in the agricultural sector). In the opposite case, the chance of operating viable private enterprises is minimal.

The execution of decentralisation and its becoming a programme determining privatisation policy faces numerous difficulties. Some factors of uncertainty are the following: the banks granting credit to companies fear for the allocated credit and their guarantees of decentralisation, investor decentralisation, privatisation is impeded by the lack of buying power (demand), and there is no deliberate policy of information distribution to promote this.

To sum up, the main characteristic of the demand policy of the new privatisation strategy is the artificial establishment of demand by means of preferential techniques offered both to large and small domestic investors (credit notes, leasing, payment by installments, letters of credit). The supply policy focuses on reasonable and purposeful decentralisation and the establishment of units, whose size correspond to the requirements of widening domestic

demand, and which can be privatized, subject to both market mechanisms and central direction.

4. Preconditions for the realisation of the new demand and supply policy: the necessity of immediate steps

The new privatisation strategy requires rapid and determined steps in the formation of both the demand and the supply sides. However, while the elaboration of the necessary legal regulations, the establishment of the system of financial conditions, and the detailed elaboration of the necessary structures are the main tasks on the demand side, immediate decisions are necessary in supply policy in the following areas:

1. Self-privatisation

Since for the most part the assets of companies involved in self-privatisation represent a realistic prospect for domestic property acquisition, a radical change in the present system of self-privatisation is necessary (by modification of the valid general contract). The one-sided concentration on selling, and the demotion of decentralisation and reorganisation must cease. A modification of conditions is necessary which would open up the various means of preferential property acquisition (e.g. leasing, credit notes). At present self-privatisation involves about 700 companies (with an asset value below HUF 1 billion, and staff numbering less than 1000 persons). The SPA has taken steps towards modification of the general contract.

2. The exact definition of the range of state property that may be privatised

At present we have no comprehensive and up-to-date information on state property. No monitoring suitable for this purpose has been developed over the past two years. The companies under former ministerial supervision, the property at the SPA and treasury property utilisable for entrepreneurial purposes do not form part of a uniform system. At present state property exists i the following forms, with respect to the possible ways of privatisation:

state-owned corporations (under the direction of the municipality); state-owned corporations (under state administrative control); companies (joint stock companies,

limited liability companies); asset holdings in companies (joint stock companies, shareholdings in limited companies); real estate;

occasionally, tangible assets (e.g. machinery).

Taking into account all this, the range of state property which may be privatised can be segmented in several ways, notably, state property facing transformation, state property that can be privatized physically, companies that can be sold immediately, state property that can be sold after reorganisation, companies under bankruptcy proceedings, sale by privatisation to one single strategic investor, assets that can be passed to employees' majority ownership, etc. The possible criteria for segmentation are:

a) the form of the property to be privatised,

b) the possibility of actual privatisation or liquidation,

c) the temporal character of privatisation (whether it can be executed immediately or not),

e) the necessity of structural transformation and reorganisation,

g) the diminution of the proprietary role of the state (whether it sells fully or partly),

h) the characteristics of the range of investors aimed at.

Law LIV of 1992 regards corporate property (partial property) as the subject of privatisation, which restricts the scope of those wishing to engage in privatisation compared to earlier on, and urges the transformation of state-owned corporations into companies. Therefore, on the side of the new supply policy the form of state property is not indifferent, because decentralisation can be realized by way of very different means in the case of a state-owned corporation, or in the case of a company. (For example the possibilities and scope of the SPA's "influence".) Similarly, the accurate appraisal of state property and the preparation of a catalogue is necessary as regards the possible pace and extent at which privatisation may take place.

The preparation of an exact and detailed property inventory and the elaboration of information "packages" meeting investors' demands have begun at the SPA.

3. Reorganisation 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 reorganisation and disencumbrance and the capacity to assume burdens. (The development of domestic enterprises, which is also hoped for from the establishment of decentralised supply will be successful only if the enterprises starting up are not strangled by the burdens inherited with privatisation.)

Knowing the present privatisation supply, the necessity and importance of reorganisation is not in question. The reorganisation of state property requires the elaboration of a comprehensive programme, in which it can be clarified what is worth reorganising, why and under what conditions. And what kind of role for the state is either possible or necessary. Reorganisation can be carried out by the state itself, or it can entrust organisations operating on a business basis (investment funds, asset management holdings) with the task, or it may be performed by the prospective owner by ensuring preference in his favour (e.g. leasing). In the forthcoming years a considerable part of the receipts from privatisation must be spent on the reorganisation of state property.

Disencumbrance can be applied in a narrower range of cases than reorganisation. In the case of the necessity of disencumbrance an unambiguous standpoint is required on the following questions:

a) in what well-defined cases and serving what interests of the national economy should the owner undertake partial disencumbrance regarding a given company (in the interests of successful privatisation);

b) which range of state assets should be involved in full disencumbrance (e.g. in the formation of supply against compensation or credit notes);

c) in which areas shall state supported disencumbrance of assets be performed by non-state means (e.g. credit-capital conversion, leasing);

d) where and under what conditions ca .e proprietary structure of state property assume guarantees related to privatisati n (see e.g.: general guarantees).

4. Exact definition of state property outside the scope of privatisation

Nowadays the range of property which is "outside" the scope of (the regulation of) privatisation, is not clear. In connection with this question two sectors of state property must be mentioned, notably,

the property to be handed over to 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 non-profit organisations remain to be established. (The draft of the Property Policy Guidelines of 1992 does not settle this question properly.) In this area concrete definition of the task is required as soon as possible.

To clarify the problems in question the following guiding principles may be formulated:

a) In the case of the handing over of property for social insurance purposes, it is necessary that, similar to what was the case with compensation, 10 to 20 % of the asset of companies under transformation be separated automatically from the outset;

social insurance may acquire a holding in a company exceeding 25 % - except in the case of a precisely defined range 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 costs - except for the necessary portfolio name - social insurance may use exclusively yield on assets;

the range of companies in which social insurance can obtain a holding in companies exceeding 25% + 1 or 50% + 1 vote during the handing over of property must be regulated in a governmental decree.

b) In the case of handing over assets to non-profit institutions

during the handing over of property the foundations serving national cultural, artistic, sports and scientific purposes, which promote domestic higher education, the operation of hospitals and other health establishments, as well as the social, educational and research institutions of the church, should be given priority;

the most favoured form in which assets are handed over is real estate utilised by them at present (or previously possessed by them);

as a rule, the yields on state property handed over may not exceed, at the time of handing over, 50% of the annual operational costs and maintenance of the non-profit organisation concerned;

a government decision is necessary in the case of the handing over of property the annual yield on which exceeds 50% of the annual costs of operation and maintenance of the non-profit organization concerned.

5. The transformation of state-owned corporations

The central idea of the new policy on privatisation supply - rational decentralisation - may be realised consistently only if the obsolescent forms of company management (company council, meeting of delegates, etc.) are terminated without delay. In the case of autonomous companies, the enforcement of decentralisation cannot be ensured, and this is where the "loss" of state property is most frequent. At the same time, the laws that came

into force at the end of August, 1992, make transformation into companies compulsory only by the end of 1993.

In this situation - keeping the provisions of the Laws on Privatization and enforcing those aspects of decentralisation corresponding to the establishment of artificial demand - the best solution is to take the companies in question under state administrative control, accelerated by a decision of the SPA's Board of Directors (or the government), in which case decentralisation and the soonest possible transformation into companies must be achieved through the involvement of an appointed company commissioner. The government decision would represent a simpler solution, in which case the Government would determine in a decree the rights and obligations of the SPA for the purpose of establishing a suitable company structure with special regard to the separation of individual organisational units, the regrouping of the means of production, and the extraction of assets. In respect of the range of companies concerned, the dismissal of directors and the appointment of company commissioners are rights belonging to the SPA, which lays down requirements in connection with the decentralisation of the companies in the contracts concluded with commissioners.

At present the transformation of state-owned corporations into companies depends to a great extent on the capacity of the courts of registration. Since in this area a bottleneck has built up, one of the most important tasks of the forthcoming period will be an increase in capacity, in addition to an improvement in cooperation between the SPA and the Court of Registration, not to mention simplification of the necessary procedures.

6. Renewal of company managements

An important precondition of the new privatisation strategy is that the management of state-owned corporations and companies carry out their activities in the spirit of the new strategy. An clear system of requirements must be established for company managements and commissioners appointed by the organisations exercising proprietary rights, including a "diagnostic study" of the company, the examination of market and business relationships, the company's preparations for privatisation and successful sale. This entails a valid system of tasks related to bankruptcy management, too. In connection with this, the realisation of appropriate preparations and efficient control are also indispensable tasks.

To sum up, the demand policy promoting a widening of domestic demand, and the supply policy aiming at decentralisation can be successful only if the obstacles hindering them are eliminated within a relatively short time, and if final decisions, which can be easily interpreted and followed, are made in this regard. The main points which require rapid and definite decision making are: the definition of what state property may be privatized and what may be withdrawn from privatisation, the correction of self-privatisation, the transformation of autonomous companies, the problem of reorganisation and disencumbrance, as well as the consideration of the possible organisational system.

V. The linking of demand and supply: the strengthening of market mechanisms and the institutions of privatisation

The introduction of the techniques aimed at the increase of domestic demand and a decentralised supply policy can lead to the establishment of new privatisation practice only if the connection between demand and supply is ensured by suitable institutions. The establishment of a wide and strong domestic property-owning bourgeoisie can be realised only if:

realistic information, satisfying expected demand, is available on the available assets;

property acquisition by small-scale investors is promoted by institutions (investment funds);

the conditions of non-immediate (and non-cash) property acquisition are ensured by suitable methods of asset management, which maintain the possibility of decentralisation;

market forms connecting demand and supply strengthen are able to provide wider opportunities than are at present available to domestic investors (e.g. the increasing significance of the stock exchange).

1. Supply information

The role of information is increased by the application of money-substituting (cash-supplementing), demand-creation techniques, since the constraints of solvency are thereby weakened. For this reason, a key element of the new privatisation policy is information (the establishment and operation of an efficient information system).

a) A critical question in the compilation of information on supply is the exploration and publication of the characteristics of marketable units within the present (large) corporate framework, which are important from a business point of view (distribution by premises, product structure, relations within the company, supplier and retail relationships, etc.);

b) In addition to natural privatisation supply, the establishment and continuous ensuring of an adequate supply of securities is at least as important. (The significance of the latter is also supported by the fact that from 31st December, 1992, the state-owned corporation form of association will be terminated.) The ensuring of the supply of securities - with special regard to the stimulation of domestic small-scale investors - can be promoted in two ways: notably, by accelerating the process of making companies public (connected with a wider distribution of shares and shareholdings), and also by a considerable increase in the number of listings on the stock exchange.

The supply of securities contributes remarkably to the acceleration of privatisation if:

there are "good" securities on the market - under proper external financial conditions;

in addition to shares, the market of the shareholdings of limited liability companies also comes into being;

potential investors can obtain regular information on securities, and can monitor investment opportunities continuously; have access to stock exchange information; and can easily establish contacts with firms issuing securities.

2. Investment Funds

So far investment funds have played a relatively small role in domestic privatisation. (In 1992, for the purpose of creating supply against compensation notes, the SPA established a real estate investment fund and preparations for the establishment of a portfolio investment fund are being made.)

The new privatisation policy intends to attribute much greater importance than previously to investment funds, for the following reasons:

a) they are still a suitable means of creating supply against compensation notes;

b) by way of good planning (and efficient advertising) particularly real estate investment funds can promote the involvement in privatisation of the financial resources of those who do not want to participate in any other way (e.g. as entrepreneurs);

c) portfolio investment funds enable the utilisation for privatisation and asset management of the state proprietary organisation's valuable holdings in companies, which do not involve voting rights (e.g. 5 to 10% blocks of shares), which can be advantageous for other shareholders as well;

d) investment funds can give a new stimulus to the appearance of financial investors in the privatisation process (this is especially true if it is also accompanied by intensive foreign participation).

At the same time, the operation of investment funds would not enable the involvement of cash-substituting privatisation techniques - besides the compensation notes.

In the interests of the above-mentioned objectives, in the future the SPA will have to further stimulate the coming into being of investment funds.

3. Asset management

The new privatisation policy distinguishes between the management of provisional and permanent state property. (The latter falls within operations of the State Holding Company.)

Nowadays asset management is necessary mainly because a significant part of state property cannot be sold immediately under advantageous conditions due to the loss of markets and recession, not to mention the fact that companies require restructuring and development, renewed management, and restoration of their liquidity, etc. The purpose of asset management - something which must be emphasised separately - is preparation for advantageous privatisation. In this case, "asset management" is a means of privatisation and not a goal.

As a consequence of all this, the various procedures for asset management must be elaborated in such a way that they correspond to the new privatisation policy and the related expectations on the supply side. For example, asset management structures must devote special attention to decentralisation, and to creating supply against cash-substituting (and cash-supplementing) demand techniques.

All methods of asset management must be refused which lead to the institutional "freezing" of state property that can be privatised. (Generally speaking so-called holding-type asset management should not be encouraged.) Similarly, it is also a problem if a given method of asset management artificially narrows down the range of possible methods of privatisation.

Taking into account the above described requirements, the new property management procedures must be elaborated, including the respects in which asset management can be distinguished from privatisation procedures, what concrete techniques must be introduced (e.g. leasing, consultant-type asset management, entrepreneurial-type asset management), and how proprietary control can be ensured during asset management (e.g. by keeping a certain range of proprietary rights, by persons).

4. Market mechanisms

The new privatisation policy offers two ways for "connecting" supply and demand, notably, a) centralised, and b) decentralised privatisation.

a) For reasons of economic strategy, some of companies must be privatized in a centralised way, on an individual basis.

The Government selects a limited number of units in regard to which such considerations of economic strategy apply (infrastructural networks). Companies in this category are privatised directly by the state body exercising proprietary rights, with the involvement of outside experts and relevant ministries. In such privatisations, all procedures are allowed, such as the closed tender, the application of special stipulations, etc.

In the case of centralised privatisation, the SPA's Board of Directors determines priorities which offer clear directions, e.g. for the handling of the following alternatives:

a higher selling price versus a lower price and greater investment promised by the buyer (retraining, development, etc.);

a higher selling price versus the development (inheritance) of a monopolistic situation;

a higher price versus the protection of a domestic brand;

the extent of the assumption of guarantees by the state (general guarantee, guarantee of the extent that can be determined clearly, partial or full disencumbrance, etc.);

privatisation versus liquidation (in the case of companies facing bankruptcy);

the role of strategic and/or financial investors, the desirable asset structure.

During the determination of the priorities it has to be emphasized at all events that the new privatisation policy is not "income-oriented" at all costs, this is why immediate selling for cash is not given a preferred role.

b) The privatisation of all other state property takes place without the direct participation of the state body exercising proprietary rights - but with control aimed at the maintenance of legality - in a decentralised manner.

In the case of decentralised privatisation, 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 must be completed by a given date.

In a decentralised case of privatisation the procedure is prepared and executed by the privatising agent selected by the SPA on the basis of a tender.

The role of SPA covers the following tasks:

it decides which companies are to be included in the decentralised range;

in certain cases, it decentralises tasks within its own scope of authority;

during a tender it selects the winning applicant;

it scrutinises whether privatisation takes place correctly;

it has an anti-monopolistic right of veto, which means that it can invalidate certain privatisation deals if they seriously endanger the market by establishing monopolies (on this question only, the SPA also has a right of discretion);

It is a peculiarity of the Hungarian privatisation process that in its first phase the presence of strategic investors is necessary and cannot be substituted by anything else. (Most companies require capital injection, new market relations, technical modernisation and a renewed management.) The presence of strategic investors is not favourable as regards trade on the stock exchange. The new privatisation policy attributes an importance greater than before to the development of the domestic stock exchange, for the following reasons:

distribution on the stock exchange enables the state's proprietary organisation to sell a certain proportion of shares which have "got stuck" due to privatisation;

it is still important to create supply against compensation notes;

sale on the stock exchange ensures the presence of passive, institutional or small-scale investors in the companies concerned.

In the interests 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 issue price;

c) the introduction of various financial incentives (e.g. tax allowances, price reductions and payment by installments for small investors).

5. The financial environment of privatisation

The successful realisation of the new privatisation concept depends greatly on the relevant financial conditions and on the financial policy environment in which the above described changes take place, and the means of creating demand appear and supply policy is formed. In this area the following questions are important:

a) the interest conditions related to the various privatisation techniques and the formation of credit interest in general;

b) the assumption of guarantees accompanying the acquisition of property and the guarantee conditions regarding companies in general;

c) the stimulation of the taking up of risk capital ;

d) the establishment of a portfolio supply which meets the yield, liquidity and risk preferences of those investing (or willing to invest) their savings in the economy;

e) the modernisation of the banking system, the conformity of the financial credit- and capital market services and initiatives promoting their diversification;

f) encouragement of companies to issue shares on the stock exchange and that of investment through the stock exchange;

g) bankruptcy management and portfolio clearing.

In detail:

a) Regarding interest conditions, both the credit note and payment by installments, which are planned for wide application, will be much more favorable than Subsistence credit (and, in certain cases, the present one). Deposit interest rates began to fall this year - accompanied by decreasing inflation and solutions to the problem of doubtful debts - which will also result in credit to entrepreneurs becoming cheaper.

b) The considerable decrease in and even termination of guarantee requirements is a peculiarity of leasing, credit notes and payment by installments alike. At the same time, demands for other kinds of security is increasing parallel with this (e.g. the elaboration of a proper business plan).

As regards the assumption of entrepreneurial guarantees, on the way to "unburden" companies (entrepreneurs), the establishment of the Credit Guarantee Co. Ltd. and the launching of its guarantee assumption activities are considerable steps forward.

c) The taking up of risk capital is directly linked to the widening of the range of domestic investors (small investors). The establishment of the legal background and the operation of risk capital associations are more and more urgent questions.

d) Domestic investors' (small investors') confidence in shares (and the stock exchange) may be raised if the right portfolio is offered to them (e.g. Pick Salami, MATÁV). The corresponding "supply packages" must be established.

e) In the area of modernisation of the banking system one of the most important tasks is the establishment of up-to-date investment banks.

f) The measures recommended as in the interests of the development of the domestic capital market are as follows: the development of the legal and institutional framework for the protection of investors; the establishment of regional centres of capital market information; the development of the infrastructure of the Budapest Stock Exchange; taxation policy steps stimulating demand and supply on the share market (e.g. the reduction or abolition of the dividend tax on the shares bought and sold on the stock exchange, the reduction of domestic investors' tax payable on profit taking, the reduction of issuers' corporation tax), and the offsetting of the receipts from the above related to the state budget by receipts from privatisation.

g) Bankruptcy management and portfolio clearing are processes linked to each other. The establishment of the system of credit consolidation institutions serves the improvement of bank portfolios. All these assume, on the one hand, the rapid liquidation of some of the companies concerned as well as successful bankruptcy management and reorganisation, on the other. So far the state's proprietary organisation (SPA) has taken action in the area of bankruptcy management and company reorganisation only now and then. The situation of companies, which have come under the auspices of the SPA, and the increase in the number of bankruptcies makes it unavoidable that the SPA assume a much greater role than before both in the formation of the relevant processes (professional management) and in financing. The personnel, institutional and financial background for this must be established as soon as possible. (This last must be ensured from privatisation receipts.)

In summary, in the area of market mechanisms connecting demand and supply every attempt must be made to establish the most diverse methods and means possible. In the recommended system the main emphasis has been placed on ensuring supply information, the establishment of investment funds and efficient asset management as well as the improvement of conditions for buying and selling on the stock exchange and the extension of the range of financial solutions.

Employee Stock Ownership Plan

Law no. XLIV of 1992

On the Employee Stock Ownership Plan[1]

In order to expedite the process of privatization and enable the employees to obtain ownership through forms of ownership other than the traditional ones, subject to their decision, in an organized and preferential form in the company where they are currently employed, the Parliament is passing the following Law:

General Regulations

Article 1.

(1) Shares/business shares[2] (together hereinafter: property shares) of a joint-stock company (hereinafter: Company) or of a limited liability company (hereinafter: Company) registered in Hungary may be obtained by the workers employed by the Company (hereinafter: Employees), within the framework of the Employee Stock Ownership Program (hereinafter: ESOP), in the way regulated in this Law.

(2) Employees who dedicate at least 50% of their official working hours to the enterprise[3] and have been employed by the enterprise (or the legal successor of the enterprise) for at least six months are entitled to participate in the ESOP. The ESOP Organization (hereinafter: Organization) can also stipulate a longer service period as the condition of eligibility, but this period may not exceed five years. Employees who are entitled to participate in the Organization may waive their entitlement only in writing.

(3) Only those Employees are entitled to participate who meet the conditions stated in section (2) and report in writing their intention to participate to the Organizing Committee (Article 2. section 1), or, after the establishment of the Organization, to its administrative and representative body (hereinafter: Executive Body).

(4) Upon termination of employment, the Employee loses his right to participate in the ESOP.

(5) An ESOP may be initiated upon the transformation of state-owned enterprises,

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[1] *This Law was enacted by the Parliament on June 9, 1992 and published in the Hungarian Gazette no. 1992/69 on June 29, 1992.*

[2] *Translator's note: In Hungary, joint-stock corporations have shares; limited liability companies have "business shares".*

[3] *Translator's note: The term "enterprise" applies to the company prior to its transformation/privatization.*

subsidiaries and certain legal entities. Upon the request of the Organizing Committee, the State Trustee Organization may set aside the assets of a unit of a state-owned enterprise for the purpose of establishing an ESOP. In such cases, the rights which are due to the Company on the basis of this Law are exercised by the State Trustee Organization, which participates in the transformation process as a founder.

(6) This Law does not apply to banking institutions and insurance companies.

Article 2.

(1) In case at least 25% of the Employees want to obtain assets within the framework of the ESOP, a three-member Organizing Committee must be assigned in writing for this purpose. If the assets of a unit of a state-owned enterprise are set aside by the State Trustee Organization for the purpose of establishing an ESOP, the basis for the calculation of the 25% participation ratio should be the number of people employed by that particular separated unit of the enterprise. The Organizing Committee - in the name of the assigners and in accordance with them - comes to agreement with the owners who intend to sell their property to the Organization to be established by the Employees. The agreement includes the conditions of sale, particularly the services and counterservices, in case of an instalment payment its terms, and other obligations securing the contract.

(2) If during the process of sale of assets by the State Trustee Organization there exists a possibility for the utilization of an "existence loan", the deadline for the application for the sale of assets may not be less than 35 days.

(3) The Organizing Committee must have a feasibility study (hereinafter: Study) prepared regarding the feasibility of the agreement stated in section (1). The Study must conclude that if the conditions stated in the Study are fulfilled, the financial situation of the Company will make it possible to repay the purchase price and the interest on the property. It must also include the extent of ownership participation and the par value of the shares at which the program is feasible. The Study must be countersigned by the Company, certifying that its contents are professionally valid.

(4) The Company is obligated to provide the required data for the preparation of the Study. In case the Organization is established, the expenses connected to the preparation of the study will be borne by the Company,

Article 3.

(1) With the Study in hand, the Organizing Committee may apply to banking institutions for credit, or it may offer instalment payments to the vendor-owner.

(2) As a result of the credit review, the banking institution can write out a promissory note for credit, and the vendor-owner can make a declaration that he accepts the offer.

162

(3) The initial founding meeting of the Organization is summoned by the Organizing Committee. In addition, the general assembly of the Company must approve the establishment of the Organization, in accordance with the Law on Economic Organizations (LEO) no. VI. of 1988, and in accordance with the statutes of the Company.

(4) In case of approval, the right of first refusal of the members (shareholders) of the Company - on the basis of the LEO and the statutes - may not be exercised with regard to the property shares offered to the Organization.

Establishment of the ESOP Organization

Article 4.

(1) The Organization is a legal entity established voluntarily by the Employees for the purpose of obtaining property shares in the Company in which they are employed. The Organization is a self-governing entity and has its own registered participants. Its Statutes must not deviate from the aims stated in this paragraph.

(2) The property shares obtained by the Organization are transferred into the ownership of the Organization, and the Organization will transfer them to the ownership of its participants according to the conditions stipulated in this Law and in the Statutes..

(3) For the establishment of the Organization it is necessary that at least 40% of the Employees of the Company declare the establishment of the Organization at the founding general assembly, establish its Statutes corresponding to the requirements stated in this Law (Article 9.) and elect its Executive Body. Upon establishment of the Organization, the Organizing Committee ceases to exist.

(4) One employee may participate in only one Organization at a time.

Article 5.

(1) After the establishment of the Organization it must apply for registration at the court. The minutes of the founding general assembly, the Statutes of the new Organization and the declaration of approval by the Company (Article 3. section 3.) must be attached to the application.

(2) The registration of the Organization may not be refused if the founders met the requirements stated by this Law. The Organization becomes a legal entity upon its registration.

163

Article 6.

(1) The Organization will be registered by the competent county court or by the capital court (hereinafter: Court).

(2) The Court decides about the registration out of turn and not by means of legal action. The Court will send its decision about registration to the Prosecution.

(3) Any changes in the contents of the Statutes must be reported to the Court within 30 days after the changes have been made.

Functioning of the ESOP Organization

Article 7.

(1) The supreme body of the Organization is the general assembly, which consists of all participants of the Organization.

(2) The following belongs to the exclusive scope of authority of the general assembly:

a Establishment and modification of the Statutes;

b. Determination of the annual budget;

c. Election and recall of the Executive Body, and determination of the salary of its members;

d. Approval of the annual report of the Executive Body;

e. Determination of the extent of property shares transferred into the possession of the participants;

f. Decision about the approval of the conditions of taking credit and of instalment payment and about everything which Statutes remit to the exclusive scope of authority of the general assembly.

(3) The general assembly must be summoned as needed, but at least once a year. The general assembly must also be summoned if the Court so orders or if one-third of the members - or a smaller number of them specified in the Statutes - wishes to summon it, while pointing out the reason and objective.

(4) The general assembly may be held in the form of a partial general assembly in the way regulated in the Statutes.

164

Article 8.

(1) The members of the Executive Body are elected by the general assembly by means of a secret ballot, for a definite period of time.

(2) The Organization is represented by the Executive Body through one of its members named in the Statutes. This member represents the Organization vis-a-vis third parties, courts, and other authorities. The Executive Body elects its president from among its members.

(3) Unless another provision is made by the Statutes, all members of the Executive Body are collectively entitled to management.

(4) Any person who is not forbidden to exercise public affairs may be a member of the Executive Body. At least half of the members of the Executive Body must be elected from among the members of the Organization. Not more than one-third of the Executive Body may be appointed by the Company.

(5) The members of the Executive Body are responsible for their activities according to the general regulations of the Civil Code.

Article 9.

(1) The Statutes of the Organization must specify the following:

a. The name, objective, and domicile of the Organization, and the name of the Company whose property shares were purchased by the Organization;

b. The name of the representative of the Organization;

c. The mode of summoning the general assembly, its quorum, the procedure in case the general assembly does not reach its quorum, the mode and conditions of exercising voting rights;

d. The number of members of the Executive Body, the mode of their election, their scope of authority, and the duration of their activity;

e. The manner and amount of payments effected by the participants;

f. The mode of transferring the property shares from the ownership of the Organization to the ownership of the participants, and the principle of their allocation;

g. The rules for repurchasing the property shares which are already in possession of the participants, and the mode of exercising the right of first refusal in case of their sale;

165

h. The mode of announcing decisions;

i. The regulations concerning the affiliation of Employees with the Organization after its establishment;

j. Rights and responsibilities of the participants;

k. The rules for alienating (selling) the property shares remaining in possession of the Organization after repayment of the credits and instalments;

l. The principles of distribution of the assets in case the Organization ceases to exist;

m. Anything which the participants wish to regulate in the Statutes.

Article 10.

(1) Any decision of the general assembly or of the Executive Body which violates the Law may be challenged at the Court by any participant within 30 days after the person came to know about it.

(2) Challenging the resolution may not interfere with its implementation, however in a justified case the Court may suspend the implementation of the resolution..

Article 11.

The Organization is controlled by the Prosecution from a legal point of view, according to the regulations pertaining to it. In case the legality of the functioning can not be guaranteed in any other way, the Prosecutor may appeal to the Court.

Article 12.

On the basis of the legal action of the Prosecutor and of the participant, the Court:

a. May repeal the unlawful resolution made by the Organization and, if necessary, may order the passing of a new resolution;

b. In order to re-establish the legality, it may summon the general assembly;

c. In case the legality of the functioning of the Organization can not be guaranteed in any other way, it may suspend its activity and may appoint a supervisor to control the functioning of the Organization.

Article 13.

(1) The Organization is responsible for its liabilities with its entire property. The participants are not responsible for the liabilities of the Organization with their own property, with the exception of the issues stated in Article 19. section (1).

Article 14.

(1) The Organization may purchase the property shares offered for sale utilizing credit or instalment payment facilities, and, according to section (4), utilizing its own financial resources. When disposing of the property shares through the State Trustee Organization, compensation coupons are to be considered at par value and regarded as own financial resource when obtaining credit and instalment payment facilities.

(2) The Organization may not sell the property shares acquired in section (1) until the termination of instalment payments, with the exception of transferring the property shares into ownership of the participants. The creditor banking institution, or in case of instalment payment the State Trustee Organization, has the mortgage right on the property shares.

(3) The profit (dividend) of the property shares purchased by utilizing credit or instalment payment is to be spent on repayment of current debts. This is the guiding principle for the property shares transferred to the ownership of the participants in the process of repaying instalments.

(4) The condition of granting credit is that the Organization must have its own financial resources. The quantity of own resources - taken as a function of the purchase price of the property per participant - is the following:

Category of Average Purchase Price per Participant	Basis of own Resources		Percentage of Average Purchase Price
zero - five million HF	0 HF	plus	2%
five - ten million HF	100,000 HF	plus	15% of the part above five million HF
above ten million HF	850,000 HF	plus	25% of the part above ten million HF

The proportion of own resources according to the above must be determined with respect to the property shares purchased by the Organization.

167

(5) The term of repayment of credit and of the instalments may not more than ten years, of which two years at most is the grace period.

(6) In the case of lack of guarantees other than the pledge stated in Article 19. section (1), the creditor or the vendor may require that the Company be responsible as a guarantor for repaying the credit and for completion of the instalment payment.

(7) In Law no. LXIX of 1991 regarding banking institutions and banking activities, Article 38. section (3) and Article 39. section (2) may not be applied with respect to this Law.

Article 15.

(1) The interest rate of the credit provided for the purchase of property shares in the possession of the State Trustee Organization must always be equal to the interest rate of privatization credit. The State Trustee Organization must spend all its proceeds financed by credit facilities on decreasing the state debt.

(2) The conditions of sale by instalment payment of the property shares owned by the State Trustee Organization are the same as the ones stated in section (1), with exception of the interest margin.

Article 16.

(1) The Organization may not pursue any economic activity beyond the ones stated in Articles 14. and 19.

(2) As far as reporting and book-keeping are concerned, the accounting regulations pertinent to other organizations must be applied.

(3) The income of the Organization includes remittances by the Company; payments made by participants and other natural persons and legal entities; dividends of the property shares owned by the Organization; and income deriving from sale of the property shares.

(4) Only costs directly connected to the implementation of the purposes of the Organization may be charged to the operational expenses of the Organization.

Article 17.

The Organization exercises its membership rights resulting from the ownership of property shares through its representative. The exercise of voting rights may be delegated to other participants in the way stipulated in the Statutes.

168

Article 18.

(1) The Executive Body opens for the participants share accounts, on which the value of the property shares transferred into possession of the participants must be indicated.

(2) The total amount in the share accounts of the participants may not exceed the par value of the paid-off property shares.

(3) The property shares are transferred into ownership of the participants if the sum total indicated on the share account equals the par value of the shares or, in the case of business share, if it is in accordance with the provisions regarding equity rate of business shares of Law no. VI of 1988, Article 159. section (1) on economic business units.

(4) The acquisition of the property described in section (3) is free of duty.

(5) The Statutes may provide that the property shares in possession of the Organization - with the exception of those purchased by utilizing own resources - remain the property of the Organization for a defined period of time and to a defined extent, even after terminating the repayment.

(6) The property shares purchased by utilizing own financial resources must be transferred by the Organization into ownership of the participants, in proportion to the individual payments. If this cannot be fully accomplished, the equivalent of the property shares remaining in ownership of the Organization must be registered on the share accounts in the same proportion.

Article 19.

(1) The property shares which (in accordance with Article 18. section 3) were transferred from the possession of the Organization to the possession of a participant may not be alienated until repayment of the debt and instalments with regard to property shares remaining in possession of the Organization is terminated. The creditor banking institution or, in the case of instalment payment, the State Trustee Organization, has the right of pledge on the above-mentioned shares. These property shares will henceforth be administered by the Organization. This however does not affect the shareholder (membership) rights derived from the legal relations of corporate membership.

(2) During the instalment repayment period, in case of retirement or death of the owner of the shares, the Organization has the right of first refusal. If the Organization does not exercise its right of first refusal, the restraint on alienation, the mortgage right and the administration right of the Organization terminate upon the date of death or retirement of the participant.

(3) In case of termination of the participation relation during the repayment period for any other reason, the Organization is entitled to repurchase the shares already owned by the participant within a certain period specified in the Statutes, but not exceeding six months.

169

The right of repurchase is exercised by the Organization at a certain value defined in the Statutes which, however, may not be less than half the market value. In case the participant unlawfully discontinues his employment or the employer discontinues the employment by a special notice, the Organization may also pay the purchase price in instalments within five years, but in certain cases within two years. In case the Organization does not exercise its right of repurchase before the termination of the instalment payment, the guiding principles are as stated in section (1).

(4) The other Employees of the Company, the participants and the members[4] of the Company - in this order - have the right of first refusal on the repurchased property shares according to the conditions of the Statutes.

(5) The provisions of this article do not apply to property purchased through the utilization of own financial resources.

Article 20.

(1) In case the Organization does not fulfill its obligations to the banking institution or the State Trustee Organization when due, the standard to follow for further procedure is the Cabinet Decision on Money Circulation and Bank Credit, 39/1984/XI.5.

(2) If the proceeding of distraint against the Organization was fruitless, the banking institution or the State Trustee Organization must so inform the Court, sending there the documents at the same time. The Court, informing the Prosecution at the same time, will liquidate the Organization effective immediately. The liquidation decision may be appealed within 15 days.

Article 21.

In case the property shares are not purchased through the State Trustee Organization, the interested parties may depart from the regulations stated in Article 14. sections (1), (4), (5) and (6).

Article 22.

If, on the basis of other laws, a certain part of the privatization proceeds of the State Trustee Organization belongs to another organization, such organization may grant instalment payment facilities - under the conditions corresponding to it - instead of the credit facilities defined in this Law.

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[4] *Translator's note: shareholders.*

170

Article 23.

If the State Trustee Organization sells property shares to the Organization, the Law regarding the Transformation of Economic Organizations and Economic Associations (Law no. XIII of 1989, Article 21. section 1.) does not have to be applied.

Termination of the ESOP Organization

Article 24.

(1) When the Organization has transferred the ownership rights of all shares, the Executive Body is obliged to summon within 30 days the general assembly, which may decide on termination of the Organization and distribution of its assets.

(2) The topics stated in section (1) are standards to be followed also if the Company ceases to exist without a legal successor.

(3) Besides the cases described in sections (1) and (2) of this Article and in Article 20, the Organization may be terminated (liquidated) only on the basis of the majority initiative of the participants and following an agreement with the Company, with the creditor banking institution, and with the vendor granting instalment payment facilities, and after final settlement with the participants has been concluded.

Closing Provisions

Article 25.

This law will enter into effect on the 15th day after its announcement.

Article 26.

(1) Article 6. section (1) item e. of Law no. XC of 1991 on personal income tax is replaced by the following regulation:

"(e) ....a member of a cooperative, an ex-member, an inheritor of a member, an employee of a cooperative, in case of agricultural cooperatives a member of the family - with regard to this legal relation - cooperative business share given without any direct counterservice (counter value), property value obtained in the form of property bill, stock, or employee share given to the employee by the employer without any counterservices (countervalue), the amount of the par value of the property bill (reduced by reimbursement and paid by the employee), the amount which appears to the credit of the employee over and

171

Privatization Leasing

172

LAW LIII OF 1992
ON THE MANAGEMENT AND UTILIZATION OF CORPORATE ASSETS
REMAINING IN LONG-TERM STATE OWNERSHIP

Article 68 of this law sets the legal basis for privatization leasing:

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.

Privatization Facility for Small Investors

174

INFORMATION ON THE SMALL INVESTORS' SHARE PURCHASE PROGRAM

The Government of the Hungarian Republic has approved on April 15. 1993 the concept on the Small Investors' Share Purchase Program, presented by Tamás Szabó, Minister without Portfolio, responsible for privatisation and Iván Szabó, Minister of Finances.

The background of the concept is the Government Work Program (GAM) approved in June 1992, which includes measures to promote the conditions for economic growth and to accelerate privatisation. In August-September 1992 professional analysis was made on the key problems of privatisation, and in December 1992 the Government has approved the program which specified the directions of progress. After that, to increase privatisation demands, in early 1993 lease technique, payment on installment arrangement were introduced and the conditions for obtaining "Existence" credit improved. Together with already existing methods (e.g. MRP= Employers' Shareholding Program) the chances for obtaining property in Hungary significantly improved. (This statement is unambiguously supported by statistical data in 1991 the role of Hungarian capital was only 20 % in privatisation, and that participation has increased to 40 % in 1992. In 1993 we expect to have it further increased to 80 %) However there was still missing a system which would have helped wide, or rather great masses of the population to participate in privatisation in Hungary.

Objectives

The Hungarian Government had the following objectives with the program:

* to accelerate the privatisation of state property
* to assist greater masses of the Hungarian population to participate in privatisation

175

When developing the privatisation program concept the following expectations were specified:

* while preserving the market features of the privatisation process, the program should supplement already existing privatisation techniques, and should help the influx of foreign capital and technology into Hungary;

* it should contribute to the emergence of privatisation revenue;

* it should help to develop primary and secondary capital markets in Hungary and

* it should not have detrimental effects to the national economy.

To encourage the widest possible participation of Hungarian citizens in the privatisation process, the

* program should be flexible and easy to operate;

* the program should be easy to understand and explain;

* the program should be of low cost, and

* should provide equal chances for the participants and should be transparent.

<u>The concept of Small Investors' Privatisation Program</u>

By realising the concept the Hungarian Government intends to accelerate privatisation by

(a) extending the supply:

* by the public issuance and flotation of shares of companies which have so far not been available for the public, or were not present at the stock exchange;

* by establishing sectoral or regional holding companies, which will have the task of rehabilitating and strengthening firms in which so far no strategic investors showed interest. The management of such rehabilitation companies would be entrusted to investor-management groups who would be selected through a tender process, and who would be motivated to stabilise the firms concerned and to introduce them to the stock exchange.

(b)increasing demands:

through the establishment of a fund which could be used for the purchase of shares of the following types of companies:

* companies whose shares could be floated on the stock exchange;

* investment companies dealing with the state's minority shares in partly privatised companies;

* rehabilitated holdings- association.

<u>Key characteristic features of the Small Investors' Share Purchase Program</u>

* Hungarian citizens over the age of 18 would have the right to apply for the private privatisation fund

* The process of underwriting would be centrally

controlled through the local branches of a selected financial institute, with applicants identifying themselves by presenting their identification card;

* a nominal fee would have to be paid-in as underwriting cost;

* the creditworthiness of the investor who makes use of the fund will not be checked;

* the private property of the investor would not be mortgaged;

* the fund cannot be transferred, sold and can only be used for the purchase of shares owned by the state;

* the investor shall repay the loan in identical annual sums;

* no interest will be charged on the loan;

* until fully paid, the shares thus purchased could not be transferred and sold;

* should the user fail to pay the amortisation of the loan, the organisations of owners would have the right of disposal over such share package;

* immediately after underwriting, the investor would have voting rights, and after paying the first installment he/she would de entitled to dividend for as yet unpaid shares also;

* to prevent short -term speculation, investors would be motivated to try to retain the shares they obtained, while fully paid shares would be freely transferable on the secondary market.

178

Summary: The Government expects from the introduction of the above described Small Investors' Share Purchase Program the acceleration of the privatisation process, moreover a significant the extension of the range of Hungarian investors, to strengthen the role of the stock exchange on the capital market, to support the financial and economic rehabilitation of the companies to be privatised.

Further tasks

The Government plans to decree the final and detailed conditions of share purchases by a wider stratum of the population as well as the first group of companies the shares of which will be available for such investors. According to the plan underwriting can start at the end of 1993. Early 1994 will see the public issuance of shares suited as first investments.

Until that time the professional preparatory work will have to be concentrated on the following areas:

* Designing the technical conditions and administration system of the project,

* Surveying the supply so, that the range of companies the shares of which will be suited to be publicly available on the longer term,

* information supply through the media and market research to make the population better aware of the key features of the program, so that they should joint the largest possible range of investors.

The press and the population will receive continuous information of the part results of the work listed above.

STATE PROPERTY AGENCY

WORK PROGRAM

1993

Confidential

July, 1993

180

Table of contents:

WORK PROGRAM FOR 1993

Executive Summary 2

1. Introduction 3

2. Background 4

2.1. Present challenge 4
2.2. Strategy for 1993 4
2.3. Property Policy Guidelines 1993 7
2.4. Organization 8

3. Privatization target for 1993 9

4. Privatization Directorate 10

4.1. Organization 10

4.2. Industrial and Agricultural Directorates 10
4.2.1. Major Tasks 10
4.2.2. Objectives 10
4.2.3. Planned Actions 11

4.3. Commercial and Self-Privatization Directorate 13
4.3.1. Major Tasks 13
4.3.2. Objectives 14
4.3.3. Planned Actions 14

5. Corporate Directorate 15

5.1. Major Tasks 15
5.2. Objectives 15
5.3. Planned Actions 15

6. Portfolio Management Directorate 16

6.1. Major Tasks 16
6.2. Objectives 16
6.3. Planned Actions 17

7. Economics Directorate 18

7.1. Major Tasks 18
7.2. Objectives 18
7.3. Planned Actions 18
7.3.1. New privatization techniques 18
7.3.2. Asset Management Policies 20

EXECUTIVE SUMMARY

This document was prepared as a part of the reporting requirements consistent with the terms of the Enterprise Reform Loan agreement (ERL). It presents planned actions of the State Property Agency (SPA) in 1993.

The SPA plans to privatize 10% of the state assets in its responsibility in 1993. Based upon the privatization results of the first 4 months and projections for the second half of 1993, SPA's management feels confident to reach the target.

SPA's major objectives for 1993 are
- further speeding up privatization by increasing demand for as well as supply of assets and improve mechanisms of matching the two;
- improving the value of SPA's portfolio by further strengthening corporate governance; and installing a monitoring system.
- helping the long-term viability of state-owned enterprises by using various intervention and restructuring tools.

The process of transformation of all enterprises in SPA's responsibility will be completed by December 31, 1993. The privatization law requires enterprises that did not start transformation by June 30, 1993 to be drawn under state administration and subjected to a simplified transformation procedure. In order to facilitate this "fast-track" privatization these enterprises will be analyzed by the SPA in a prequalification procedure.

New privatization methods will be introduced, such as payment in instalment, privatization leasing and improvements in other forms of credit purchase. Moreover, a privatization facility for small investors is currently being developed with the objective to further accelerate privatization and facilitate the participation of a large number of domestic investors in the privatization process.

The privatization directorates will organize their work on the basis of industrial sectors. They plan to have a first tender for all companies in their responsibility by December 31, 1993.

The SPA increased its staff from 140 people in 1991 to about 300 people at the end of 1992. Only small staff increases (+17%) are planned for 1993. The institutional budget of the SPA will increase to HUF 1,350 million in 1993, from 635 million in 1992. Expenses will be covered by privatization revenues and transfers from the state budget.

182

1. INTRODUCTION

The World Bank and the Republic of Hungary concluded an agreement for an Enterprise Reform Loan (ERL) in February 1992 in support of Hungary's program of structural reforms, designed to complete the transition to a competitive market economy. A major component of these reforms is the reduction of the role of the state in the economy, directly as owner of productive assets, and indirectly through specific and targeted interventions in economic activity. Since previous, partial reforms of the state enterprise sector over the past decade have not given the desired results, the Hungarian government has embarked on a far reaching program with the aim to privatize at least 50% of the state owned property in the competitive sector by the end o 1994.

As a part of the ERL agreement, the Government of Hungary committed itself to report regularly on the progress of this reform program. This document is prepared as part of the reporting requirements consistent with the terms of the ERL. It presents the work plan for the State Property Agency for 1993.

Current policies are largely based upon principles and methods developed in the last 2 years. These are described in more detail in the review of activities in 1992, submitted concurrently with this report. The SPA has the legal mandate to operate as a temporary owner of state assets, and therefore puts its major emphasis on a rapid sale of its assets. Nevertheless, SPA's management is aware of the importance of ownership policies for the assets that are not yet sold and has already undertaken substantial steps implementing and improving its ownership function. These steps are summarized in the review of activities in 1992. (See there, comments in II. 2.4.) A separate document on ownership and asset management policies submitted with this report gives a more detailed review of the current status and presents planned actions for 1993.

2. BACKGROUND

2.1. Present Challenge

By the end of 1992 the SPA had a portfolio of approximately 1100 companies, of which 540 operate already as corporations and 560 remain to be transformed. Of the about 1850 SOEs originally in SPA's portfolio, 658 (35%) were transformed, 126 were transferred to the SAMC, 256 remain in the responsibility of other institutions, and 249 (13%) were liquidated. Of the transformed companies 37 were transferred to the SAMC and about 130 were sold entirely.

2.2. Strategy for 1993

The Hungarian Government adopted a strategic plan for privatization in 1993 (see appendix 1), which is based upon the principles developed in the last 2 years - with the fundamental objective of creating an efficiently operating market economy - but sets some new priorities. The strategy for 1993 is directed towards

- facilitating privatization and in promoting the role of the domestic investor
- improving the value of the portfolio
- decentralizing big SOEs with a monopolistic position
- helping improve the long-term viability of SOEs or effecting the liquidation of clearly non viable units.

2.2.1. Facilitating privatization

The major privatization objectives are to increase demand for privatization, provide an appropriate supply of assets and improve the mechanisms matching the two.

Demand-side objectives

Encouragement of domestic ownership

The interest of foreign investors in SPA's assets has declined in recent months, partly due to the recession in Western Europe and partly due to increasing competition for foreign direct investment from other Eastern European countries. Therefore, activities to attract domestic investors have to be intensified. They have to address the fact that domestic investors lack sufficient cash reserves to pay for the assets up-front, and many

of the companies to be privatized are too big to be sold in one unit. Several new privatization instruments were developed, specifically designed for the local market.

* **Privatization facility for small investors**
  designed to accelerate privatization and promote the participation of domestic small investors in the privatization process. The basic structure of the program is to make appropriate assets available for purchase (such as individual companies to be floated on the stock exchange, as well as a portfolio of SPA's residual shareholdings and holding companies to be floated after reorganization) and to facilitate the purchase of shares through a credit instrument.

* **Privatization leasing**
  gives domestic individuals - preferably the former managers - the opportunity to lease a company and manage it. They may charge a management fee for their services which can be deducted from their lease payments. This instrument is available for companies that could not be sold and provides an incentive for the manager to use his or her know-how for restructuring.

* **Employee Share Ownership Program (ESOP)**
  allows employees to acquire shares in their companies, in a similar fashion as analogous schemes in Western countries. The purchase conditions for the ESOP, which was introduced last year, will be made more favorable in 1993.

* **Payments in instalments** for privatization purchases.

* Various other forms of **credit purchase**
  in addition to the already available existence credit, such as MBOs etc. are currently being discussed.

As a general policy, the credit instruments will be mostly applied to the privatization of smaller firms and in cases where prior attempts to sell for cash have failed, to maintain the principle of market oriented privatization while at the same time increasing the number of potential investors.

Supply-Side Objectives

185

Structural changes

Suitable assets have to be made available in order to speed up privatization. In some cases that will require the decentralization of SOEs, breaking up some of the large, integrated firms and spinning off service and infrastructure activities.

Prime target for decentralization will be monopolies created by the former command economy which are an impediment to the formation of competitive markets.

Decentralization will only be applied in appropriate circumstances. Considerations of minimum efficient scale of operations will be taken into account. Relevant markets will not only be judged by domestic but by international standards. Companies will not be broken up if they cannot compete by international standards.

Improvements in matching supply and demand

The existing information system will be improved and expanded, creating the capability within the SPA to provide potential investors with timely and accurate information on the characteristics of companies to be privatized (such as products, production facilities, supplier relationships, etc.)

Moreover, a marketing strategy has been developed and is currently being implemented, advertising the available assets as well as facilitating the preliminary contacts between interested potential investors and the case officers at the SPA.

2.2.2. Improving the value of the portfolio

The value of the portfolio will be improved by further strengthening corporate governance and create intervention capabilities.

* Policies developed in the last year on the selection and training of SPA's representatives in the companies (board members, executives and state administrators) will be implemented. Training programs for these representatives will be carried out.

* The transaction officers, who are directly responsible for the exercise of ownership rights, will be assisted in their task by general ownership policies developed in the newly established sectoral committees and, whenever necessary, by decisions of SPA's board.

* The current information system will be improved by adding a monitoring system. The system will allow transaction officers to follow the operational performance of their companies and determine when serious economic problems are arising, and thereby enabling them to take quick, decisive remedial actions.

* A debt consolidation scheme was developed and is being implemented by a bank and debtor consolidation committee. It is designed to solve the reorganizational problems of viable and strategically important companies and improve the SPAs prospects of privatizing these companies.

2.2.3. Helping the long-term viability of state-owned enterprises

The SPA's priority is clearly to sell all of its assets as quickly as possible. However there may be companies left that cannot be sold, even after tenders on favorable terms. For these assets, SPA has the right and responsibility to exercise its ownership (as the legitimate representative of the state) within the rules and principles applicable for Hungary's market economy framework. SPA will carry out these responsibilities in order (one) to prepare the enterprises for their privatization, and (two) to help maintain or improve the value of the assets under its responsibility. SPA will not try to manage the enterprises itself, but will exercise its ownership through the corporate boards. In this regard, it is a major SPA objective to strengthen corporate governance in the state enterprise sector.

2.3. Property Policy Guidelines for 1993

The Property Policy Guidelines for 1993 were submitted to Parliament in January 1993. Their approval is expected by early summer 93.

The guidelines do not differ substantially from last years guidelines (see appendix 2), except for the following provisions:

* Additions to the list of objectives are the widening of the circle of small investors and the acquisition of property by the company management.

* Additions to the rules of procedures are the widening of participants in the privatization market, the establishment of a decentralized order of procedure.

* Individual policies are modified to the extent that financial reorganization and coverage for guarantees has to be taken into account.

* The assignment of property is now also possible to promote the development and reorganization of infrastructure.

2.4. Organization

The SPA successfully implemented its institutional development plan in 1992 and now operates as a fully functional organization. SPA's organizational structure was changed in the fall of 1992, in response to the new tasks given to the agency by the Act LIV (in particular the founding rights for companies originally in the responsibility of the ministries) and the governments privatization strategy for 1993. (For a detailed discussion of the organizational changes see the report on activities in 1992.) The SPA increased its staff in 1992 from 140 to 300 people. Further staff increases for 1993 will be much smaller (+17% to 350 people), considering the eventual need for scaling down operations.

The institutional budget for the SPA (excluding the privatization budget) will increase to 1,350 million in 1993 from 635 million in 1992. The budget for 1993 has already been approved and revenues will be sufficient to cover the increased expenditures. (See appendix 3 for detailed budget statistics.)

The SPA is not the only organization involved in privatization. In 1992 the State Asset Management Company (SAMC) was set up to manage those assets that will remain (partially of totally) in state ownership in the long term. The SPA transferred all documents regarding these companies to the SAMC. The SPA understands that SAMC will transform, manage and privatize assets on different principles than applied by the SPA. Nevertheless, SPA's management remains open for cooperation on all issues of mutual interest.

188

3. PRIVATIZATION TARGET FOR 1993

The following target for privatization was agreed with the World Bank:

Privatization of assets in the responsibility of the SPA at the time of SPA's establishment (defined, at the time, as all SOEs belonging to the "competitive" sector):

- by the end of 1992: 12% of these assets
- by the end of 1993: another 10%

By the end of 1992 the SPA already completed the privatization of 17,5% of assets in the competitive sector in 1990 and is therefore ahead of schedule. Nevertheless, this work plan is committed to the objective of a privatization of further 10% of assets, that means, maintaining the pace of privatization.

Estimates of the privatization results of the first 4 months on 1993 and current activities show that the goal of 10% or HUF 200 billion in share capital can be reached.

It should be considered, though, that the transfer of companies to SAMC resulted in a considerable reduction in SPA's assets. Future privatizations by the SAMC should therefore take up a substantial amount of the privatization target.

Privatization reached HUF 17,3 billion in the first 4 months of 1993. Assuming that the pace was kept in the following 2 months, privatization from company sales will be HUF 26 billion in the first 6 months. According to case by case projections from transaction directorates, privatization revenues for the second half of 1993 are expected to be approximately HUF 75 billion. Based upon the calculation rules applied in previous years (according to which any majority sale to a private entity may be considered a complete privatization) and the assumption that 75% will be majority sales, with an average share of 35% remaining at the SPA, privatization from company sales for the second half of 1993 can be estimated at approximately HUF 105 billion. The Asset Management Directorate estimates an asset transfer and privatization through compensation notes at around HUF 55-60 billion. Asset protection procedures are estimated to reach last year's level, with HUF 20 billion, bringing the total to HUF 209 billion. (See table 1, page 9a.)
Estimates on privatization revenues are currently only available for the second half of 1993. (See table 2, page 9b) Revenues for June to December are projected to be HUF 75 billion, with 29% being paid in cash (of which 14% being in foreign currency), 49% in credit, and 22% in compensation notes.

TABLE 1: PRIVATIZATION ESTIMATES FOR 1993

	HUF Billion
I. PRIVATIZATION DIRECTORATES	
1. ESTIMATES 1 - 6/1993	
Actual privatization:	
Accumulated privatization 12/92	239,47
Accumulated privatization 4/93	256,76
Actual privatization 1-4/93	**17,29**
Estimates 5 - 6/93:	
Assumption:	
pace of first 4 months continues	
Estimated privatization 5 -6/93	**8,65**
2. ESTIMATES 6 - 12/1993	
Assumption:	
Estimates are based upon case by case revenue projection by transaction directorates;	
privatization is calculated as in previous years, i.e. all sales with SPA minority are considered as completely privatized;	
in 75% of all sales SPA keeps minority shareholding;	
average SPA share in these sales is 35%	
Estimated revenues, 6 - 12/93	75,00
of which: majority sales	56,25
to be considered privatized	86,54
minority sales	18,75
Estimated privatization 6 - 12/93	**105,29**
II. ASSET MANAGEMENT DIRECTORATE	
Projections by directorate:	
Real estate fund	3,00
Compensation warrants	25,00
Asset transfer	30,00
Estimated privatizations by asset management directorate	**58,00**
III. ASSET PROTECTION CASES	
Assumption:	
Asset protection cases will proceed at same volume as in 1992	
Estimated asset protection cases; 1993	**20,00**
TOTAL ESTIMATED PRIVATIZATION	**209,22**

TABLE 2: ESTIMATED PRIVATIZATION INCOME: JUNE - DECEMBER 1993

HUF MILLION

	Cash	of which foreign exchange	Credit	Compensation Notes	Other	Total	% of total
IP 1	4.843	1.900	4.968	885	38	10.734	14,29%
IP 2	1.034		5.393	1.932	0	8.359	11,13%
IP 3	2.644	1.270	4.076	2.625	0	9.345	12,44%
IP 4	4.391	2.020	6.770	1.484	137	12.782	17,02%
MEH	4.366	3.232	5.977	3.749	0	14.092	18,76%
KER	1.847		5.426	2.311	0	9.584	12,76%
Self-privatization	2.400	2.000	3.840	3.360	50	9.650	12,85%
Office buildings	0		466	67	39	572	0,76%
Total	**21.525**	**10.422**	**36.916**	**16.413**	**264**	**75.118**	**100,00%**
% of total	28,65%	13,87%	49,14%	21,85%	0,35%	100,00%	

4. PRIVATIZATION DIRECTORATE

4.1. Organization

The following sectoral directorates operate at the SPA:
* Industrial Privatization Directorate I.
* Industrial Privatization Directorate II.
* Industrial Privatization Directorate III.
* Industrial Privatization Directorate IV.
* Agricultural and Food Industry Privatization Directorate
* Commercial and Self-Privatization Directorate

For a distribution of sectors among the Industrial Directorates see appendix 4.

4.2. Industrial and Agricultural Directorates

4.2.1. Major Tasks

The major tasks of the privatization directorates are:
- implementation of the reorganization, transformation, privatization and property-protection transactions of assets in the responsibility of the SPA;
- enforcement of technical requirements of sectoral privatization strategies;
- taking self-administered enterprises under state administration in circumstances specifical by law;
- exercise of property rights of transformed companies;
- selling state assets belonging to the SPA as soon as possible and on the most advantageous terms available;
- proposals for the liquidation of shell-corporations.

In these respects the sectoral directorates have a controlling role.

4.2.2. Objectives

* Speed up the privatization process by improving the operational efficiency of the privatization departments and setting privatization priorities.

* Develop and implement policies assuring an appropriate supply of assets to be privatized.

* Design and implement policies facilitating the decentralization of SOEs which cannot be sold in their entirety and/or should be broken up due to competition considerations.

* Further improve and implement the new methods (leasing, ESOP, payment in installment) of increasing demand.

* Prepare for the deadline set by the Privatization Act LIV, probably resulting in a substantial increase in applications for transformation in the second quarter of 1993.

* Develop policies and procedures to deal with the forced transformation.

* Develop methods to deal with companies that cannot be sold.

4.2.3. Planned Actions

The privatization department's action plan for 1993 is based upon a "**sectoral strategy**" with the following components:

Improvement of organizational efficiency

* Reorganize transaction departments along sectoral lines outlined in appendix 4.

* Redistribute work among transaction officers, assigning each officer to one or several industry groups and thereby
- ensuring a clear distribution of responsibilities among officers,
- helping officers to acquire know-how about "their" industries,
- facilitating access to SPA for SOE managers and potential investors who will be able to easily identify the transaction officers in charge of their projects.

* Notify transaction officers in advance about the companies they will be in charge of during the year, enabling them to work out a schedule for their work load and deal with the anticipated increase of their work load during the period of the deadline.

* Provide transaction officers with information received from the prequalification procedure.

* Apply experiences from forced transformations that took place already (such as some cases in agriculture) to develop policies for the simplified transformation procedure after the deadline of June 30, 1993.

* Design incentive schemes for transaction officers to further speed up the sale of assets with the goal of having at least one first tender for all companies in their responsibility by December 31, 1993.

Provision of adequate supply of assets

* Get in-depth overview of assets in the responsibility of the SPA. Cooperate with Corporate and Informatics Directorate in that respect. Use methodology developed for the prequalification of SOEs not yet transformed and apply it to companies in portfolio. Train transaction officers in application of financial questionnaire.

* Take strong action to improve data entry by transaction officers into the Privatization Information System (PIR).

* Work out privatization strategies for specific industry sectors in cooperation with the responsible ministries. Use the studies that were already carried out by the Ministries as well as the information gathered by the PIR system and the prequalification procedure.

* Set up sectoral committees for the institutional coordination of privatization activities, consisting of SPA officers (the privatization director in charge of the industrial sector in question the portfolio management, external personnel and asset evaluation director) representatives of the responsible ministries, and possibly other interested parties. The committee will be consulted in the development of sectoral privatization policies, the discussion of general privatization and corporate governance procedures. On the basis of individual cases it will develop general policy guidelines.

* Set up register for assets to be sold individually.

Development of privatization strategy

* Develop a strategy for market segmentation, assigning groups of companies to specific privatization avenues (such as companies suited for strategic investors, domestic investors, floatation on the stock exchange, decentralization and liquidation).

* Plan necessary steps for each segment of companies and set priorities within each segment.

194

* Work out a privatization timetable for each company, listing all actions to be taken (transformation, selection of advisors, tender announcement, etc.). According to the latest estimates, most of the transformations will have started by July 93 and more than two thirds of tender announcements will be made by August 93 (see appendix 5).

* Have first tender for each saleable company by the end of 1993.

Improvement of ownership functions

* Design and implement a monitoring system of portfolio companies in cooperation with the Informatics and the Economic Directorate. The system will contain current financial information, in particular data indicating a crisis situation. (For a further discussion of the system see document on asset management policies.)

* Devise strategies to quickly and efficiently respond to the information generated by the monitoring system.

* Establish policies to improve communication between transaction officers and company management as well as SPA's representatives on the board of directors.

4.3. Commercial and Self-Privatization Directorate

4.3.1. Major Tasks

The major tasks of the Self-Privatization Directorate are:

- prepare general principles of the self-privatization procedure, in particular the procedure of contracting the privatization activity to an outside consultant;
- determine the range of companies participating in the program;
- coordinate and control the process and the institution set up to implement daily activities (PRI-MAN Kft.);
- agree on the purchase price submitted by the consultant (Phase II.);
- settle disputes and make decisions in special cases not covered by the provisions of the frame contract with the consultant.

4.3.2. Objectives

* Continue the process of supporting small and medium-sized businesses in their efforts to privatize and mobilize ones still inactive.

* Ensure, that new privatization methods (leasing, instalment payments, ESOP) are applied.

4.3.3. Planned Actions

* Set March 31, 1993 as deadline for companies in Phase I. of the program, that have not yet contracted with a consulting firm.

* Cooperate with corporate department in determining actions for companies that missed the deadline.

* Apply experiences from Phase I to the next phase of the program and adjust the contract with the consultants of the second phase accordingly. (See appendix 6 for changes in the consulting contract.

* Determine procedures to make use of the most successful consultants of the first phase.

* Complete Phase I and II by the end of 1993.

5. CORPORATE DIRECTORATE

5.1. Major Tasks

The Corporate Directorate is responsible for all SOEs not yet in contact with the SPA and has the following major tasks:

- registration of all SOEs in its responsibility and recordkeeping;
- analysis of the assets;
- monitoring of the financial performance of SOEs;
- decisionmaking regarding firms to be transformed (with resulting transfer of SOE to Privatization Directorate);

5.2. Objectives

* Speed up the privatization process by getting a summary overview of companies not yet affected by privatization.

* Establish a standardized "fast track" procedure for these SOEs.

5.3. Planned Actions

* Establish prequalification system for SOEs:
  - assess information needs of SPA;
  - design checklist with outside consultant;
  - contact and register companies;
  - prepare tender and retain local consultants who apply checklist to companies.

* Develop masterplan as a result of the prequalification study:
  - develop clusters of companies with common characteristics;
  - decide on appropriate method of privatization;
  - decide on actions for other companies.

(See appendix 7a and b for an outline of planned procedure.)

* Cooperate with Privatization Directorates in transfer of SOEs to be privatized. Provide transaction officers with information on companies even before they approach SPA.

6. PORTFOLIO MANAGEMENT DIRECTORATE

6.1. Major tasks

The major tasks of the Portfolio Management Directorate are:

- work out principles of portfolio procedures;
- evaluate companies as to their fitness to be floated on the capital markets;
- assemble portfolios and sell them;
- exercise ownership rights in companies available for compensation notes;
- develop procedures for sale of shares for compensation notes and coordinate actions with OKKH;
- keep register of SPA share holdings.

6.2. Objectives

* Speed up privatization by carrying out transactions of portfolios of companies rather than individual companies.

* Support development of stock exchange and other capital markets by offering appropriate investment vehicles and enforcing of rules regarding their tradeability.

* Make assets available to be bought by compensation warrants in sufficient number and considering the specific structure of demand of compensation warrant holders.

* Fulfill SPAs obligation to transfer state assets to other institutions (e.g. social security), taking into consideration the limited supply of appropriate assets.

* Develop policies for the temporary management and disposal of companies that cannot be sold in their present form, as discussed in appendix 8.

6.3. Planned Actions

* Float 6-7 SOEs:
  - evaluate appropriate floatation candidates;
  - analyze demand structure and choose method of placement accordingly (e.g. public offering, private placements, trade sales);
  - carry out transactions;
  - monitor performance.

* Work out a compromise with responsible government agencies regarding the transfer of assets to social security. Given the limited supply of companies that were deemed acceptable, work out new solutions such as the transfer of certain rights (e.g. rents or bonds) and propose changes in the law.

* Offer a real estate fund, that was set up last year, to the public, in particular to holders of compensation warrants.

* Prepare and implement the sale of other physical assets in state ownership.

* Create securities fund:
  - work out management principles;
  - analyze appropriate securities (shares, compensation notes, bonds, etc.)
  - float fund.

* Monitor performance of various segments of capital markets.

* Propose legal changes facilitating the introduction of investment funds.

7. ECONOMICS DIRECTORATE

7.1. Major tasks

The major tasks of the Economics Directorate are:

- development and planning of privatization strategies and new privatization techniques
- development and planning of corporate governance and asset management policies
- organization and planning of the restructuring and financial reorganization activity of the SPA
- coordination of the implementation of new strategies and techniques
- participation in the development of asset policy guidelines
- analysis of macroeconomic trends relevant for privatization
- cooperation with the trade unions.

7.2. Objectives

* Review current privatization and asset management practices and recommend policies where improvement is required.
* Develop new privatization techniques consistent with the government's strategy to increase privatization demand and create adequate supply of assets.
* Design new asset management policies and a debt consolidation scheme consistent with the goals of improving the value of the portfolio and help the long-term viability of SOEs.

7.3. Planned Actions

7.3.1. New privatization techniques

While the SPA's privatization program will continue to rely mostly on the traditional instruments (cash sales and E-credits), a number of new privatization methodologies have been introduced or are being developed to accelerate the rate of privatization:

- privatization facility for small investors (being developed in 1993 for implementation in 1994)
- instalment payments (approved for implementation in 1993
- leasing (applied in early 1993 in 8 pilot companies, ready for full-scale implementation)
- ESOPs (continuation of the employee ownership program based on the ESOP law of June 1992)

*** Privatization facility f :all investors**

A new privatization in ment will be designed to accelerate privatization and promote the participation of small investors in the privatization process in the following way:

Identification of appropriate floatation candidates
- select companies ready to be floated immediately;
- assemble portfolio of residual shareholdings of SPA where investor does not have or waives preemption rights;
- form new holding companies managed by an investor/manager responsible for restructuring the companies and preparing them for floatation at a later date.

Introduction of a "Privatization vestment Facility"
- of an amount of HUF 100,
- available to Hungarian citizens over 18 for a nominal registration fee
- not transferable
- payable in installments over a set period, in cash or compensation notes.
- with voting rights exercised by and dividends paid to investor.

(For further details of the plan see appendix 9a and b.)

*** Instalment payments**

SPA will implement its approved program for privatizing through instalment payment facilities, in order to accelerate privatization, involve more Hungarians, increase flexibility in handling special privatization issues, and allow criteria other than price in selecting suitable owners. This will include developing:

- criteria for when to allow instalment payments, for which assets and to what buyers
- model contracts and other implementation documents
- public awareness program to promote instalment payments
- a structure for administering and monitoring instalment payment contracts

(See appendix 10.)

*** Leasing**

Building on the pilot experience of privatization leasing of eight companies in early 1993, SPA will implement in 1993 a full-scale program for leasing companies which cannot be sold outright. This will include developing:

- criteria for when to allow leasing, for which assets and to what buyers
- model contracts and other implementation documents
- a public awareness program to promote leasing
- a structure for administering and monitoring leasing contracts

(See appendix 11.)

*** ESOP**

SPA will continue in 1993 to promote acquisition of shares by groups of employees under the ESOP law of 1992 and the other existing facilities for employees.

SPA transaction officers will be trained in using the methods already developed for comparing privatization offers using different techniques (cash, E-credit and ESOP credit, instalments, leasing, management contracts).

(See appendix 12.)

7.3.2. Asset Management Policies

Note: Asset management policies are discussed in a separate document, submitted concurrently with this work plan and will be only briefly summarized here.

*** Monitoring system**

A standardized monitoring system on current performance and plans of all companies with an SPA majority will be implemented, starting in June 1993. The system will have the following features:

- performance report with profit and loss statement
- balance sheet with liquidity indicators
- general information and future plans.

The system will be implemented in cooperation with transaction directorates to ensure ease of use for transaction officers and integration into already established reporting procedures.

*** Board function**

Ownership in portfolio companies will, in general, be carried out by appointment of representatives on company boards. Selection and supervision procedures will be improved; a new training program established.

*** Intervention and restructuring capability**

For companies that are unsaleable and in danger of financial difficulties it may become necessary for the SPA to intervene, within the framework of market based solutions. In exceptional cases (when companies are unsaleable, but viable, and restructuring seems feasible) asset management contracts will be used as a tool for intervention and restructuring.

Planned Income and Expenditures

Institutional Budget

Number of Employees

STATE PROPERTY AGENCY: BUDGET 1992/1993					
	1992 ACTUAL HUF 1000	% of total	1993 BUDGET HUF 1000	% of total	1992/1993 % change
EXPENDITURES					
Salaries	273.673	43,1%	707.000	52,4%	158,3%
Employee benefits; trave	18.555	2,9%	35.000	2,6%	88,6%
Office and other materia	42.046	6,6%	44.700	3,3%	6,3%
Utilities	41.623	6,6%	54.600	4,0%	31,2%
Social insurance	119.374	18,8%	311.000	23,0%	160,5%
VAT	11.481	1,8%	45.000	3,3%	292,0%
Misc. other expenditures	85.562	13,5%	42.700	3,2%	-50,1%
Furniture & fixtures	11.000	1,7%	5.000	0,4%	-54,5%
Transfers to employees	2.500	0,4%	8.000	0,6%	220,0%
Renovations	29.000	4,6%	97.000	7,2%	234,5%
Other	237	0,0%			
Total expenditures	635.051	100,0%	1.350.000	100,0%	112,6%
INCOME					
Transfer fr. other public	32	0,0%			
Inst. for services rendered					
Other income	24.773	3,9%			
Sale of assets	1.633	0,3%			
Income from budget	606.209	95,5%			
Transfer fr. previous yr.	2.404	0,4%			
Income from budget			1.350.000	100,0%	
Total income	635.051	100,0%	1.350.000	100,0%	112,6%

STATE PROPERTY AGENCY: NUMBER OF EMPLOYEES					
	1992 ACTUAL		1993 BUDGET		1992/1993 % change
Managing Directorate	112		135		20,5%
Privatization Directorat	121		137		13,2%
Administr. Directorate	71		84		18,3%
TOTAL	304		356		17,1%

Sectorial Distributions of Activities Among Privatization Directorates

Director: Igor Máté	Director: Ferenc Csunderlik	Director: Gábor Halmi	Director: Attila Lascsik
Number of companies under management			
150-160	180-190	170-180	180-190
Industries under management			
Manufacturing: -paper and articles made of paper -rubber and articles made of rubber -non metallic mineral products -metallurgy -parts for vehicles -machinery -other vechicles Accomodation, services and catering industry	Manufacturing: -textiles -clothing -leather, leather products and shoes -wood -chemical raw materials and products -office machinery and computers -furniture and other processing industry products -publishing, printing and music recording	Mining: -coal and peat -oil and gas -uranium -metallic minerals -other mining activities Manufactoring: -sugar -products for the metal processing industry Manufactoring and repair: -machinery for the electronic industry -telecommunication products -precision instruments Electricity, gas and heat supply Water production, management and distribution Real estate and professional services -rent of moveable assets -computing and related activities -research and experimental development -advertising activities	Manufacturing: -oil and coke processing -waste recycling Construction Ind. Trade, repair and maintenance: -vechicles and fuel -wholesale, agric. products -wholesale,machinery -foreign trade Transportation, storage, post and telecommunications -land transport -water -air -accessory activities -post and telecommunication Finance -insurance and pension-fund management -other financial activities Real estate, and Professional Services Government -social insurance Education Healthcare and social services Other public, social and personal services

Agricultural and Food Industry Privatization Directorate
Director:
Károly Tófalvy

Commercial and Self-Privatization Directorate
Director:
János Both

Number of companies under management

200-210

170-180

Industries under management

Agriculture:
-agriculture, game management and related services
-forestry and related services

Fisheries:
-fisheries and related services

Processing Industry:
-manufacturing of foodstuff and drinks
-production of tobacco products

Trade, Repair and Maintenance:
-wholesale of pharmaceutical products
-retail of pharmaceutical products
-retail of medical instruments

Other Public, Social and Personal Services:
-entertaiment, cultural and sports activities

Trade, Repair and Maintenance
-wholesale trade
-retail trade
-accomodation services and catering industry

Timetable for Privatization Activities

	KB01	KB02	KB03	KB04	KB05	KB06	KB07	KB08	KB09	KB10	KB11	KB12	KB13	KB14	KB15	KB16	KB17	KB18	KB19	KB20	KB21	KB22	KB23	KB24
91. 7.	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
91.12.	0	1	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0
92. 4.	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
92. 5.	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0
92. 6.	0	1	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0	0	0
92. 7.	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0
92. 8.	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	0	0	0	0	0	0	0	0	0
92.12.	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	1	0	1	0
93. 1.	0	0	0	1	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0	1	2	0	0	0
93. 2.	0	0	1	2	0	0	0	0	2	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
93. 3.	5	0	5	5	2	0	0	0	1	1	1	1	1	0	3	1	1	0	0	0	1	0	1	0
93. 4.	22	15	8	27	7	5	4	1	5	5	1	0	2	6	8	11	1	1	0	1	5	14	0	0
93. 5.	24	33	39	61	35	12	16	2	21	6	4	12	0	3	24	22	0	0	1	0	33	21	2	0
93. 6.	13	89	26	102	37	30	25	1	10	2	1	12	3	9	19	14	4	0	2	2	5	8	23	0
93. 7.	2	12	22	85	50	43	35	0	16	0	2	1	0	4	10	14	1	3	1	0	1	8	4	0
93. 8.	1	7	13	54	48	53	31	0	13	0	0	5	1	3	28	2	0	0	0	0	1	2	8	1
93. 9.	2	3	2	76	45	45	63	0	20	0	1	9	3	6	17	1	0	0	0	1	3	12	7	1
93.10.	0	4	1	22	23	26	27	2	25	0	1	0	0	2	20	0	0	0	1	0	1	4	3	1
93.11.	0	1	0	17	25	21	18	0	9	0	0	2	0	2	15	1	0	0	0	0	0	0	1	0
93.12.	3	1	0	28	12	11	20	0	11	0	5	9	0	5	15	0	0	0	0	0	8	3	19	0
94. 1.	0	0	2	2	4	10	5	0	2	0	0	0	0	1	4	0	0	0	0	0	0	0	0	0
	72	169	119	483	288	257	244	6	135	14	16	53	10	44	163	66	7	4	5	5	61	72	69	3

KB01=Vagyonvédelem
KB02=Átalakulás
KB03=Tanácsadó kiválasztás
KB04=Pályázat kiírás
KB05=Pályázat lezárás
KB06=Pályázat elbírálás
KB07=Eredményhirdetés
KB08=Alaptőke leszállítás
KB09=Szerződés előkészítés
KB10=Csődegyezség előkészítés
KB11=Csőd végrehajtás
KB12=Végelszámolás (előkész.)
KB13=Vagyonelvonás (átvétel)
KB14=Ért. lezárás (fizetés)
KB15=Szerződéskötés
KB16=Ágazati Biz. ülése
KB17=MRP szervezet megalakulás
KB18=MRP szervezet elfogadás
KB19=MRP-vel szerződéskötés
KB20=Részvények-kárp.j. cseréje
KB21=Felszámolás
KB22=Priv. koncepció elfogadása
KB23=Privatizáció
KB24=MRP ajánlat értékelés

KB01-Asset protection
KB02-Transformation
KB03-Selection of advisors
KB04-Tender announcement
KB05-Closing of the tender
KB06-Evaluation of the tender
KB07-Announcement of results
KB08-Decrease of the equity
KB09-Preparation of the contract
KB10-Preparation of the bankruptcy agreement
KB11-Implementation of Bankruptcy
KB12-Termination payment (preparation)
KB13-Transfer of assets (take over)
KB14-Closing of the sale (payment)
KB15-Contracting
KB16-Sectoral Committee meeting
KB17-Establishment of ESOP organization
KB18-Acceptance of ESOP organization
KB19-Contracting with the ESOP
KB20-Exchange of shares for compensation bonds
KB21-Liquidation
KB22-Approval of privatization strategy
KB23-Privatization
KB24-Evaluation of the ESOP offer

3. **Long-Term Advisor/Investment Promotion Reports and other Supporting Documents**

ATTACHMENT 1
Amendment 4
ANE-0002-C-00-0047-00

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.

TECHNICAL ASSISTANCE TO THE STATE PROPERTY AGENCY OF HUNGARY

USAID Contract No. ANE-0002-C-00-0047-00
Amendment 4

Advisory Services to Promote Foreign Investment in Privatizing Firms, Budapest, Hungary

FINAL REPORT

Submitted By: Deloitte & Touche

2/6

REFERENCES

Agency for International Development contract with Deloitte & Touche
Technical Assistance to the State Property Agency of Hungary
ANE-0002-C-00-0047-00

Amendment 4

Advisory Services to Promote Foreign
Investment in Privatizing Firms, Budapest, Hungary

Contract Period 02/01/92 - 06/18/93

RELATED REFERENCES

Agency for International Development Contract DPE-0008-C-00-5058-00
National Property Agency Phases II - VII Project Number 7201 132
Center For Privatization/Deloitte & Touche
Contracts Period 03/15/90 - 09/30/90

TABLE OF CONTENTS

	TABLE OF CONTENTS	1.
I	PROJECT SUMMARY	2.
II	BACKGROUND	4.
III	OBJECTIVES	5.
IV	ACHIEVEMENT OF STATEMENT OF WORK	6.
V	RECOMMENDATIONS FOR FUTURE USAID SUPPORT	8.
VI	APPENDIX DIRECTORY	10.

I PROJECT SUMMARY

During the 16 months ending 18 June, 1993 Mr. Brian O'Conner, The Long Term Advisor Investment Promotion (LTA) worked at the Ministry of International Economic Relations' (MIER) Hungarian Investment and Trade Promotion Agency (HITPA) to support Hungary's efforts to increase the pace of the private sector's involvement in its economy by specifically supporting investment and trade initiatives involving the U.S. markets.

The LTA as one of his many task was involved with the study team for the long term successor organization to the HITPA and helped design and implement its work plan particularly as regards the North American market.

The HITPA has now completed the institutional preparation work to found a successor organization on 1 August, 1993 named the ITD Rt.. This will be an independent investment and trade promotion agency funded by the Government of Hungary (GOH) but operating outside it. The new agency is closely modeled on the very successful Irish, Welsh and Austrian investment agencies. The goal is to make the ITD Rt. a pro-active, professional agency staffed with highly qualified people and functioning as a competitive private sector company.

In addition to this specialized activity the LTA's daily tasks centered on meeting with US investors interested in Hungary, conducting briefings, meeting with Hungarian companies interested in finding joint venture partners or seeking access to training and education, working on investment missions and seminars and coordinating with the HITPA team's overall strategic directions.

While the attached Monthly Progress Reports provide supporting detail it is worthwhile highlight that the LTA completed the following activities during the contract 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 USAID for Mr. Jan Havelka, Deputy Minister for 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 two U.S. Investment Seminars held in the U.S. in October, 1992 (Houston and Los Angeles).

- Initiated and organized discussions on the types of investment incentives required to continue to attract foreign investment to Hungary. This is extremely critical since the current tax incentives expire at the end of 1993.

- Conducted and recruited co-sponsors, helped draft the final agenda, assisted with the in-country arrangements for the University of Kentucky's planned investment seminar scheduled for June 1993 in Budapest. This seminar was cancelled due to insufficient responses from US and West European companies.

- Completed agro-business research for major U.S. Companies interested in fruit juice, snack foods, grain and meat products.

- Spoke at the USAID sponsored RAAPS education and training seminars for Bulgarian agro-business leaders.

- Initiated the installation of the CD ROM based Standard and Poors' Corporate Registers, funded by the Hungarian American Enterprise Fund. This will enable the HITPA to immediately access information on the U.S. market, by sector, by product, by company, by region on behalf of Hungarian companies.

- Initiated specific market research to determine success of the Houston and Los Angeles October 1992 investment seminars held in the U.S.. Prepared questionnaire, conducted mailings, analyzed results and prepared detailed report outlining findings. The overall assessment rating of the seminar ranged from good to excellent with 24 companies (45% of the respondents) interested in investing in Hungary within 1 year and 32% within 1 to 3 years.

- Initiated and prepared market research questionnaires for the Association for Manufacturing Technology's (AMT) Central European Trade Mission scheduled in Budapest at the end of March. The questionnaire pin-pointed the U.S. companies' specific requirements (distribution, investment, subcontract, etc.) and provides a better opportunity to match their interests to specific Hungarian companies. AMT was very pleased with the overall results.

- Supported the Capital Development Initiative's field visit to Hungary and the U.S. Department of Labor's review of unemployment impacts and retraining programs.

- Actively assisted the Partners in International Education and training in both the Participants' Training Program and the Entrepreneurs' Training Program.

- Spoke at the World Trade Club's ATLANTA investment Seminar June 2, 1993 and at New Brunswick's Trade 2000 Seminar on 3 June, 1993.

II BACKGROUND:

The United States Agency for International Development (USAID) has supported the Government of Hungary's (GOH) Privatization Program since its inception. 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). The subject of this report is the expansion of the core assistance to include a Long Term Trade and Investment Promotion Advisor (LTA) in the Ministry of International Economic Relations (MIER).

Janos Martonyi, the original Hungarian Commissioner for Privatization and startup mentor to the SPA, was later appointed State Secretary (Economic) at the MIER and subsequently the first Vice Chairman of the SPA. He observed at the SPA that Hungary lacked the complimentary investment and trade promotion agency to go with its asset sales effort at the SPA. He directed the formation of the Hungarian Investment and Trade Promotion Agency HITPA at the MIER. He coordinated the initial funding support of it from the same external agencies that had initiated the SPA activities, the Economic Community's (EC) Poland Hungary Aid for Economic Recovery (PHARE) Program and the USAID.

The SPA's privatization effort clearly would benefit from a close link between the its selling activities and the HITPA's buyer finding activities. Thus USAID supported through its SPA core contract the startup activities of the HITPA. These activities included:

- The basic policy piece for the HITPA in April 1991 "Hungary: Increasing Coordination the HITPA and SPA to Promote Foreign Investment" by Richard Weinert a resource of the SPA Core Project subcontractor Multinational Strategies.

- The production and distribution through Hungary's Embassies worldwide in February 1992 of the first ever GOH modern investment brochure INVEST HUNGARY Edited by Paul Marer working with a Multinational Strategies/D&T team.

- The SPA-focussed USAID-funded training effort made sure, and continues to assure, that the HITPA benefits from and shares in the US funded training helping to support Hungary's privatization efforts and participates in other - forinstance PHARE funded- training at the SPA.

The GOH was promised the support of a PHARE funded team in the HITPA coupled to a ECU 5 million technical assistance budget. Realizing that the PHARE related funding would be EC and PHARE regionally tied, the GOH asked the USAID for balancing assistance that could support the American (particularly USA) investment efforts of the HITPA.

The US country team, aware of the US position as the preeminent foreign investor in Hungary, felt that it should continue to support the investment and trade promotion efforts of Hungary particularly those directed at the USA. To supplement the efforts of the US commercial office it was felt that a resident long term advisor in the HITPA supported with training and other resources was appropriate. The immediate availability of a Hungary experienced Investment promotion resource Brian O'Conner (APPENDIX IV, CV Foreign Investment Promotion Advisor, led to his being added to the already in place SPA core contract.

III OBJECTIVES:

"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."

From its inception the LTA Investment Promotion sub-project was designed to try achieve a broad range of objectives, some explicit, some implicit.

The explicit objectives are outlined in the "Statement of Work" in the Terms of Reference APPENDIX I.

The implicit objectives:

1. To help support Hungary as regards North American, particularly U.S., investment and trade interests and help represent to those interests the opportunities and guidelines for involvement in and with Hungary.

2. To help continue the development of the HITPA/SPA linkages to ease the course for investors and increase information availability on the privatization effort in the Investment promotion arena.

3. To support the communication between investors -particularly US- and the Hungarian government investment and trade promotion activities and the privatization effort.

4. To help institutionalize within the HITPA the need for and means to develop a North American -particularly U.S.- outreach program-.

5. To support the US Country team's efforts by providing an accessible highly skilled resource who could be positioned to speak knowledgably about Hungarian objectives and who could hear the concerns of the US investors/traders in this regard and help those concerns get relayed to the appropriate GOH ear.

IV ACHIEVEMENT OF STATEMENT OF WORK

-LTA Activities:

Given the high volume of contact and support activities undertaken by the LTA, the reporting frequency of the LTA was increased to monthly from the contractually required quarterly. As a result the LTA's Monthly Progress Reports (APPENDIX VIII) provide detailed summaries of his activities by major Statement of Work responsibilities.

The LTA made hundreds of corporate contacts, participated in a broad range of investment and trade promotion activities, initiated many major efforts that will remain in place after his departure, and made the U.S trade and investment support an integral part of the HITPA's mission.

The impact of his work is partially documented in APPENDIX IX Impact Testimonials.

-Support Efforts:

The original statement of work was conceived with a technical assistance budget in mind which was intended to provide the LTA with the independent ability to jointly with the HITPA identify problems of mutual interest and then take steps to resolve them. The inability to fund this planned budget placed the LTA in a position of having to satellite on efforts being funded elsewhere within the HITPA or MIER or to access on an extraordinary basis funding within the SPA core contract.

The Specific efforts of the LTA that could be directly supported under the SPA Core Contract included:

1. Training:

The training effort of the HITPA was supported significantly by the SPA Core Project training staff person. (For greater detail please refer to APPENDIX 5 Human Resource Development and Training) The SPA Core Project full time training resource helped the HITPA develop a training program so that it could access its PHARE support, made sure that HITPA personnel were included in relevant training being done at the SPA regardless of the funder, accessed the USAID's participant training program on behalf of HITPA staff. The same resource helped the HITPA initiate the development of a personnel department which would include appropriate links to training.

On a day to day basis the LTA interfaced with various of the staff of the HITPA guiding and improving their understanding of their task.

2. Promotional Materials:

The introduction of the USAID funded "INVEST HUNGARY" brochure coincidental with the LTA allowed his effort to support its effective introduction into and distribution by the HITPA.

This first brochure effort of the HITPA led to subsequent efforts -general and sector specific- which received input by the LTA but, due to limited funding, they were produced by Canadian or PHARE funded resources.

3. Trade and Investment Missions:

The LTA was able to make his presence felt on the platform in numerous investment mission settings within the established budgetary guidelines.

However with limited budget resources a higher level of support was only justifiable from the SPA core budget for the Houston component of the major HITPA USA trade and investment promotion effort for the last year as it included senior SPA officers. (Reference APPENDIX VII, Trade Conference: Houston example)

4. Computers, Software, LAN installation:

The PHARE program at the HITPA is prepared to fund an appropriate computer network at the HITPA and fund a system to serve the needs of an investment and trade promotion agency.

The equipment and prototype systems established at the SPA closely parallel the needs of the HITPA and the database requirements are essentially the same. The PHARE design team have been cooperated with consistently since the inception of their activities. The original design parameters of the SPA's system included on-line connection to the HITPA.

V RECOMMENDATIONS FOR FUTURE USAID SUPPORT

Supporting U.S. investment and trade in Hungary is a principal task of the United States Embassy Country Team in support of United States Government (USG) objectives in Hungary.

A leading role is taken by the U.S. Commercial Officer and his staff. Many other activities including; the IESC, the CDC, the MBA Enterprise Corp, trade and investment missions, the Central and Eastern European Trade and Technical Assistance Center in Washington D.C. have support roles.

USAID itself has a critical direct support and coordinating role as their longer term in-place resource commitments frequently become catalysts for other activities.

The GOH has three principal activities that are of particular interest in the foreign investment and trade arena. Those are the State Property Agency (AVU), the State Asset Holding Co. (AV Rt.), and the just-being- formed IDT Rt.

Within the GOH apparatus if USAID is to strongly support US trade and investment objectives it is appropriate to have advisors in each of the SPA, the AV Rt., and the IDT Rt.

The experience of the SPA core contract, confirmed by the activities of the LTA investment promotion in his activity, clearly establish that to provide meaningful, professional quality, responsiveness and assistance to US investors in the SPA, and the AV Rt. that in-house US funded and responsive advisors are necessary. It cannot be done from outside. The linkage concept the HITPA to the SPA has not been particularly successful at the GOH level or US advisor to US advisor level.

Effective August 1 the official GOH <u>proactive</u> investment and trade promotion office will be the IDT Rt.. The GOH's <u>policy</u> work on investment and trade promotion activities will continue to be carried on at the MIER. The IDT Rt. will require support for US targeted or sourced activities as its principal funding is from PHARE which must focus on the EC and PHARE countries and expend funds only on EC or PHARE based resources.

The experience of the LTA in the HITPA confirm that a fully US funded and focussed advisor within that agency or its successor the ITP Rt. is a way to integrate US interests and responsiveness into that operation. An alternative would be to make a pool of technical assistance available to address U.S. related issues. This pool could be targeted by the PHARE PMU in coordination with the USAID and ITP Rt. officials.

-At the <u>working</u> level the IDT Rt. would require and welcome USG support in the following areas:

1. Support in dealing with US trade and investment inquiries.
2. Support on US targeted trade and investment activities.
3. Funding for U.S. sourced training.
4. Funding for U.S. sourced and targeted market, industry, and company information.
5. Liaison support to introduce the IDT Rt. with US trade missions, US/Hungarian trade, investment, and training related activities.
6. Funding and other support for the establishment of US based trade promotion offices.

-At the <u>policy</u> level close liaison work with the MIER investment and trade promotion policy office should continue to include training and other activities that require support that have a US component. Making available consultant resources to support policy alternative and development work to include initial legal drafting work would be most welcome.

225

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 Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: May 1 - June 18

SUMMARY:

During the period the long term advisor continued his role of active investment promotion, participated in and supported two major investment seminars in the U.S. and completed the orderly phasedown of the office including notification of clients.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following:

Placid Oil	Hungarian Market Consultancy
Dynalytics Corp.	Int. Federation For Business Education
Sovex	Cargill
Forgacs	Pepsi
SAAS	McDowell Rice
Market Fusion	HFT
BCIU	CDC
PIET	Carana
Jones & Company	Mission Energy
ADMART	International Quality Management
Burke Marketing	CENTUR
A.G.Edwards & Son	Business Innovation Center
DWT Enterprise	For Com Inc.
OECD	University of Kentucky
Micropolis	Family Business Advisory International

COMPLETED TASKS:

Participated with the Ministry as a speaker at the June 2 Investment Seminar on Hungary, sponsored by the World Trade Club and the City of Atlanta. Thirty investors attended. Also participated and spoke at the New Brunswick Trade 2000 Trade and Investment Seminar. Attendance was over 200. Both seminars were well received. Completed the phase down of the office. Notified clients on who to contact for any followon requirements.

WORK IN PROGRESS AND STATUS:

The Modems have arrived, finally enabling the start of installation in the Ministry of the Standard & Poors' Corporate Registers. This CD Rom application will be completely installed by June 25, 1993.

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. (see Work In Progress above)

2. Provide technical assistance to the Investment Promotion office

Training and education plans for Ministry personnel have been finalized and approved. Implementation is under way.

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 future U.S. Investment Seminars and Workshops, 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:

None.

TECHNICAL ASSISTANCE TO THE STATE
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USAID PROJECT
NO. 180-0002-3-0183107

Advisory Services to Promote Foreign Investment in Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: April 1 - April 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. In addition the LTA supported the U.S. Labor Dept., the AID sponsored Capital Development Initiative and Entrepreneurial Training Program and the Atlanta and New Brunswick Investment and Trade Seminars scheduled for June in the U.S.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following:

Eurocorp	Top Trade
SAAS	Knowhow
Mission Energy	Pepsi Cola
Coopers & Lybrand	Market Fusion
Fisher Scientific Int.	PIET
Sister Cities	CIPE
Midwest Curtain Walls Inc.	OKISZ
FIAS	OECD
U.S. Dept. of Labor	New Brunswick
University of Kentucky	Ministry of Industry & Trade
IBM	Financial Service Volunteer Corp.
Atlanta World Trade Club	Placid Oil

COMPLETED TASKS:

Supported the Capital Development Initiative's (CDI's) field visit to Hungary and the U.S. Dept. of Labor review of unemployment impacts and retraining programs. Continued to assist the Partners In International Education and Training in both the Participants Training Program and the Entrepreneurs Training Program. The LTA has also accepted an invitation to serve on the Hungarian-U.S. Business Council sponsored by the U.S. Chamber of Commerce.

WORK IN PROGRESS AND STATUS:

Final preparations were put in place regarding the Ministry's participation in the Investment Seminars scheduled for Atlanta, June 2 and New Brunswick, New Jersey, June 3-4. The LTA is to speak at both events. The University of Kentucky will make a go/no go decision on their June Investment Seminar planned for Budapest. If they do not obtain between 80-100 U.S./European registrations by May 10, 1993 they will cancel the event. As of April 30, 15 firms have signed up. Early discussions were held with OECD regarding the upcoming July meeting in Warsaw for the Advisory Group on Investment of which the LTA is a member. Discussions continue on the government's investment incentive strategy after 1993.

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. (see Work In Progress above)

2. Provide technical assistance to the Investment Promotion office

Training and education plans for Ministry personnel have been finalized and approved. Implementation is under way. The Standard and Poors' Corporate Registers have been approved for funding by the Hungarian American Enterprise Fund. As soon as the modems are received from the U.S., installation will begin - expected cutover May 1993.

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 future U.S. Investment Seminars and Workshops, 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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NO. ANE-0002-C-00-0047-00
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Advisory Services to Promote Foreign Investment in Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: March 1 - March 31

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. In addition the LTA continued to support the University of Kentucky's June Investment Seminar, the AID sponsored Entrepreneurial Training Program and the Trade and Investment Mission of the Association for Manufacturing Technology.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

OKISZ	Liberty Imp/Exp
IESC	Hyginett Kft
VOSZ	Suzuki
University of Kentucky	Teleport Industries
Economist	Bechtel
Conagra	International Fashion House
IBM	Mortgage & Equity Funding Corp.
DEG	Budapest Chamber of Commerce
MBA Corp.	Fazis
Eitel Presses	Financial Services Volunteer Corps
DoAll	Minster
Kingsbury	Cincinnati Milacron
Hardinge	Bryant Grinder
Livernois	Ministry of Industry & Trade
State of Illinois	

Discussions and meetings were held with Hungarian organizations to encourage participation in the trade and investment program of the machine tool manufacturers (AMT).

COMPLETED TASKS:

Participated and supported the successful Trade and Investment mission of the Association for Manufacturing Technology held in Budapest March 29-30, 1993. Completed the advertising and marketing campaign discussions with the University of Kentucky regarding the June Investment Seminar. Distribution of the brochures in both English and Hungarian has been initiated.

230

WORK IN PROGRESS AND STATUS:

Detailed plans are under way to support the Ministry's Investment Seminar in Atlanta, June 2 and New Brunswick, New Jersey, June 3-4. Continued assistance will be provided to the University of Kentucky's June Seminar. Discussions continue on the government's investment incentive strategy after 1993.

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. (see Work In Progress above)

2. Provide technical assistance to the Investment Promotion office

Training and education plans for Ministry personnel have been finalized and approved. Implementation is under way. The Standard and Poors' Corporate Registers have been approved for funding by the Hungarian American Enterprise Fund. As soon as the modems are received from the U.S., installation will begin.

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 future U.S. Investment Seminars and Workshops, 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 Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: February 1 - February 28

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. In addition the LTA continued to support the University of Kentucky's June Investment Seminar, the AID sponsored Entrepreneurial Training Program, the RAAPS Bulgarian Training Seminar and the Trade and Investment Mission of the Association for Manufacturing Technology.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Pirelli Cables	OKISZ
Fornax	W.R.Grace
Knowhow	Association for Manufacturing Technology
Pragma	Citizens Democracy Corp.
Bell Additives	Hungarian-American Business Council
University of Indiana	Magnetek National Electric
B'nai B'rith	Euroventures
IBM	New Era Invest
Price Waterhouse	ACES
Nynex	Tennessee Valley Industrial Development Assoc.
Ideal Standard	Hungarian Foundation for Enterprise Promotion
Pattinka	Partners for Int'l Education & Training
Development Journal	John Eastwood Association Inc.
Avar Hotel	

Discussions and meetings were held between Hungarian organizations and Partners for International Education and Training regarding training opportunities in the U.S. for entrepreneurs and institutional organizations. There was very keen interest by the Hungarian groups to participate in the programs.

COMPLETED TASKS:

Participated in the AID sponsored RAAPS education and training seminar for Bulgarian agro business leaders. Completed and issued a full report on the market research survey covering the recently held Investment Seminars in the U.S. Of the 210 attendees 53, or 25% responded to the questionnaire. The overall assessment rating for the seminars ranged from good to excellent with 24 companies (45% of the respondents) interested in investing in Hungary within 1 year and 32% within 1 to 3 years. The high response rate, level of investment intent and general satisfaction are all indicative of a successful conference.

WORK IN PROGRESS AND STATUS:

Continued assisting the University of Kentucky's planned Budapest Investment Seminar scheduled for June. Promotional material is now being printed and agenda finalized. Discussions continue on the Hungarian investment incentive strategy after 1993. Initial planning has started on the Ministry's proposed U.S. investment and trade promotion activities for the year.

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. (see Work In Progress above)

2. Provide technical assistance to the Investment Promotion office

Trading and education plans for Ministry personnel have been finalized and approved. Implementation is under way. The installation of the Standard and Poors' Corporate Registers is awaiting final approval from the Hungarian American Enterprise Fund. A March cutover is now planned.

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 future U.S. Investment Seminars and Workshops 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 Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: January 1 - January 31

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. In addition the LTA continued to support the University of Kentucky Investment Seminar to be held June 1993 in Budapest and participated as part of the Hungarian delegation at the OECD's, Advisory Group on Investment, discussions.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Pepsi Cola	Conagra
Fornax	University of Kentucky
B'nai B'rith	Partners for Int'l Education & Training
Westbrook Associates	Hungarian Foundation for Enterprise Promotion
CDC	Atwood Richards
KPMG	American Chamber of Commerce
Videoton	Center for Private Enterprise Development
IBM	Dun & Broadstreet
Booz Allen	Montile International Inc.
Cargill	Dole

Discussions and meetings were held with Pepsi on snack food investments and Montila International on telephone handset manufacturing. In addition the LTA met with Partners for Inernational Education and Training regarding their AID sponsored programs of providing training opportunities in the U.S. for personnel from small and medium size Hungarian private enterprises. The LTA expects to actively assist their efforts in finding qualified candidates.

COMPLETED TASKS:

Completed initial preparation for assisting the University of Kentucky in staging an Investment Seminar in Budapest in June, 1993. Six organizations including the American Chamber of Commerce and CDC have agreed to be cosponsors of the event. Marketing and promotion will begin in February. The LTA also participated in OECD's Advisory Group on Investment which focused on attracting foreign direct investment to Central, Eastern Europe. Delegations were present from all the countries in the region including many from the CIS.

WORK IN PROGRESS AND STATUS:

Continued focus and discussions centered on the replacement strategy for investment incentives. Unless a joint venture is operational by year end 1993 it cannot qualify for any of the tax concessions available to foreign investors. The Ministry is looking to propose some extensions of the current program for investments initiated in 1993 but not scheduled for operation until 1994.

We received 53 responses (25% of the registrants) to our survey on the recently held Investment Seminars in the U.S. Tabulation has been completed and a full report will be issued in early February.

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. (see Work In Progress above)

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 coordinating 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. Installation planning meetings have been held with an objective of cutting over by mid Feb 1993.

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 future U.S. Investment Seminars and Workshops 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 Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: December 1 - December 31

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. In addition the LTA continued to support the Danube Basin III Investment Seminar to be held June 1993 in Budapest.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Cargill	University of Kentucky
Fornax	Price Waterhouse
Conagra	General Motors
Pragma	Hungarian Foreign Trade Corp.
Riverside	RAAPS
Acquincum	Muszertechnika
Simcord	Citibank
Seward & Kissel	Hung.Foundation for Enterprise Development
Medcross	Dole
Nynex	Shimadzu

Discussions and meetings were held with Cargill and Conagra in a continuing effort to support their investment strategies in Hungary. Research on apple juice producers was prepared for Dole Corp. In addition the LTA visited the Local Enterprise Agency in Fejer County focusing on the support activities for local business development.

COMPLETED TASKS:

Completed the agro business research for Dole, set up the agenda for University of Kentucky's January visit relating to sponsorship of the Danube Basin III Seminar, participated in the final program of the AID supported RAAPS education seminar for Bulgarian agro business leaders and conducted background analysis on the impact of Hungary's new telecommunication law.

236

WORK IN PROGRESS AND STATUS:

Follow up meetings were held on the replacement strategies for investment incentives required to continue to attract foreign investment to Hungary after the expiration of the current investment tax benefits in Dec 1993. Survey responses relating to the US Investment Seminar are starting to come in. These will be tabulated and a report issued by early February at the latest. Work continues on the Danube Basin III Conference with emphasis on sponsorship and 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. (see Work In Progress above)

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 coordinating 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. Installation planning meetings are being held with an objective of cutting over by mid Jan 1993.

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 future U.S. Investment Seminars and Workshops 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 Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: November 1 - November 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 centered on preparation and distribution of a followup questionnaire relating to the recently concluded Investment Seminars in the U.S. In addition, the LTA met with the University of Kentucky and the U.S. Embassy in Austria to discuss Danube Basin III Investment Seminar planned for Budapest in June 1993.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

W.R. Grace	Conagra
Siniex	Cargill
Knowhow	State of New York
Pragma	Computer Task Group
Price Waterhouse	Hungarian Foundation for Enterprise Promotion
ITCA Europe Ltd	Expo 96
Arthur Anderson	EBRD
Thermal Invest	Council of American States
OKISZ	Seven Continents Baloons
Beverage Marketing	Haywood Securities Inc
Fornax	Bechtel
Creditanstalt	Hungarian Corp. for Investment & Development
Rich Products	Plant Location International
Credit Suisse	University of Kentucky

Discussions were held with Cargill relating to their plans and problems associated with a privatization proposal in the flour milling area, WR Grace, Conagra and Rich Products relative to other agro business investments and Bechtel relating to energy plans and problems. Meetings were also held with the Hungarian Foundation for Enterprise Promotion regarding support activities for small business development.

COMPLETED TASKS:

Follow up questionnaires were mailed out to each of the Investment Seminar registrants in Houston and Los Angeles. The purpose will be to obtain some direct feedback on the value of the Seminars, the investment plans of the participants and the type of ministerial support required for future investments. Returns and analysis should be completed by the end of Jan 1993.

As part of the training programs being conducted in Hungary for the AID sponsored Bulgarian Restructuring Agriculture and Agrobusiness (RAAPS) project, the LTA made a presentation on the investment environment in Hungary.

238

WORK IN PROGRESS AND STATUS:

Meetings were held with Ministerial officials regarding types of incentives that will be required to continue to attract foreign investment to Hungary, after the expiration of the investment tax benefits in 1993. The LTA set up a key government briefing by Plant Location International, a Price Waterhouse subsidiary, on the current outlooks for investment and incentives in the region. This topic will continue to receive major focus as it is key to creating a positive investment climate in Hungary after 1993.

The first of a series of meetings relating to the followon Danube Basin III Investment Seminar, scheduled for Budapest in June 1993 was held in Vienna with the University of Kentucky. Significant work will have to be done to make this event a reality. Logistics and local sponsoring issues will first have to be resolved before definitive plans can be concluded.

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. (see Work In Progress above)

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 coordinating 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. Installation planning meetings are being held with an objective of cutting over by the year end.

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 future U.S. Investment Seminars and Workshops 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 Privatizing Firms, BUDAPEST HUNGARY

Long Term Advisor's Progress Report
PERIOD: October 1 - October 31

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 which were held in the U.S. in October. In addition the LTA visited Kecskemet, meeting with the Mayor and local companies seeking foreign direct investment.

MAIN AREA OF ACTIVITY:

Investment support and advice during the period were supplied to the following firms:

Conagra
Deloitte & Touche
Baker McKenzie
W.R.Grace
Pragma
Dolefam
Fornax
Borsodchem RT
Joliot Curie Research Institute
Riverside
Group 92
Acquincum Porcelain
Bechtel
Atalanta
Pepsi Cola
U.S.West
Procter & Gamble
Colgate
Nynex
CI Privatization
Szimker
Eastman Chemical
HBO
Price Waterhouse
Hiros Sutoipari RT
Credit Suisse First Boston
CDC
Siniex
IESC

Discussions were held with Lajos Bokros, Chairman Budapest Bank LTD., Ramon Arias, Managing Director Conagra Int., George Kuti, Managing Director Acquincum Porcelain Co., Joseph Merasz, Mayor of Kecskemet and James Tackett, Vice President Strategic Planning Eastman Chemical. Major emphasis during the period was placed on final preparations for the US Investment Seminars.

COMPLETED TASKS:

All training, direct mail support and presentation preparations were completed for the Investment Seminars held in the U.S. Both events were viewed as very successful by the Hungarian government officials involved and the participants. At Houston we had 110 registrants and 112 at Los Angeles. Our next major area of focus will be direct followup with the registered firms to pro actively assist their investment plans in Hungary. The technical assistance provided by AID was very important in attracting U.S. participation and providing support at the seminars.

WORK IN PROGRESS AND STATUS:

Starting in November the LTA will initiate follow up activities with the U.S. investment seminar participants. Direct contacts and continuing services will be offered to prospective investors. Programs to measure investment yield will be put in place.

In addition the LTA has started the dialogue and discussions within the Ministry, on Hungary's investment promotion incentive strategy which will replace the current tax incentives due to expire in December 1993. This work effort is essential to creating a positive investment climate in Hungary after 1993.

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. (see Work In Progress above)

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 coordinating 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.

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 future U.S. Investment Seminars and Workshops 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 Privatizing 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
Colgate
Procter & Gamble
Schwinn Bicycle
Urbitran
Rodgers Capital
Guardian Glass
First Boston
Gedeon Richter
Caola
TIA
Westbrook Associates
Knowhow
Samling
Citibank
Atalanta Corp.
Pratt & Whitney
Capital Cities/ABC
U.S. West
Guardian Industries
Continental Grain
McDowell, Rice & Smith
Contitrade
ESSO
Atlantic Property
Krew Inc.
Grey Advertising
Magyar-American Communications
M. Schulist Interests Inc.
MBA Exec. Corp.
Interpress
77 Elektronika
Arthur Andersen
Securities Data
A.P.Gross & Co.
Nynex
Mission Energy
Atwood Richards
Baker McKenzie
New Era Invest Ltd.
GJW
CentEur
MMG
Hungarian Tel. Co.
Arnold & Porter
Frontier International
OKISZ
GE Tungsram
Ernst & Young
Securities Data Corp.
Morgan Stanley
Charles Bell Ltd.
Emery Roth & Sons
Metropolitan Life
HFT Corp.
Arch International
Arent, Fox
Seward and Kissel
Burson Marstellar
Kockazat Inc.
Sanborn Capital Management
Bell Atlantic
Dow Chemical
United Technologies
Technoimpex
Salomon Brothers
General Motors
University of Indiana

Thermal 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 loal 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 Privatizing 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 committments 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.

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USAID PROJECT
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Advisory Services to Promote Foreign Investment in Privatizing 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
Salomon Brothers
Coopers & Lybrand
Price Waterhouse
James Capel & Co.
B'nai B'rith
Hungalu
Procter & Gamble
Trade Development Ireland
Know How
Hemingway Holding
IESC
IMC
Interpress
MBA Corp.
Bechtel
Expo '96
General Motors
McDowell, Rice & Smith
KPMG
RCI Capital
Nynex
EDS

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 wih 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
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Advisory Services to Promote
Foreign Investment in Privatizing 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	MIKI
Seward & Kissel	PEMU
Zwack Unicum	BHG
Pragma	K & H Bank
Nynex	Riggs Nat. Bank
B'nai B'rith	Sanborn Capital Management
Price Waterhouse	General Motors
Know How	IESC
Atalanta	Eastman Chemical
Bechtel	Daiwa-MKB
Szamado Ceh	Boothroyd Dewhurst
BSB Budapest	K & F Research
Cap Snap Co.	Saatchi & Saatchi
Int. Business & Tech. Consult	C.I. Privatization Consulting Ltd.
Credit Suisse/First Boston	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 wih 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.

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Advisory Services to Promote Foreign Investment in Privatizing 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
Arent, Fox
Seward and Kissel
Burson Marstellar
Kockazat Inc.
Magyar-American Communications
M. Schulist Interests Inc.
Dow Chemical
United Technologies
U.S. West
Pepsi
77 Elektronika
Arthur Andersen
OKISZ
University of Indiana
Contitrade
ESSO
Atlantic Property
Krew Inc.
Grey Advertising
Sanborn Capital Management
Bell Atlantic
MBA Exec. Corp.
Interpress
Procter & Gamble
Technoimpex
Salomon Brothers
General Motors
Securities Data
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.

UNGOING 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 Privatizing 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/Tungsram, Robin Winchester General Manager Citibank, Stan Sauerhaft Vice Chairman Burson Marstellar, 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 Rácz 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.

255

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 Privatizing 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.

257

4. **Advisor - Agricultural Privatization**

Reports and other Supporting Documents

Deloitte & Touche

Vármegye u. 3–5.
H–1052 Budapest,
Hungary

Telephone: + 36-1-267-2062
Facsimile: + 36-1-267-4182

CONFIDENTIAL

Ms. Alexandra Hendrickson
Office of the Representative
United States Agency for International Development
1075 Budapest
Karoly Korut 11, V Floor

30 August 1993

Re: Privatization Transactions Support Project

Dear Alexandra:

During a recent meeting we went over the various activities that have been undertaken in preparation for the SPA transactions adviser team. I want to respond to your request at that time to provide a few "case studies" or examples of the projects in our "*prototype*" experience.

The prototype project has achieved the initial objectives of both establishing the mode of integration for a financial adviser team, and delivering tangible products consistent with the SPA needs. This said, I would like to point out that the prototype did not start with transaction specific tasks as its sole objective. The atmosphere for immediate transaction activity was not pre-established and we accepted the fact that we must identify what, where, and how assistance could be effective.

Therefore, the cases should include examples of the adviser integration activities. Within a couple of months of initiation, transaction assignments did become a part of the adviser activities. They began with key trouble-shooting situations. The list, over time, expanded to some 18 or 20 cases, in different stages of development. We are now maintaining a Status Chart on the current privatization involvement (Attachment 1). Two successfully concluded assignments are included in the current Food Industry *sold* list.

It is worth recalling that in 1992 SPA's management was in transition and special attention was paid to the perceived needs and the environment for absorption:

- **The Situation:** The Deputy Managing Director realized that his Divisions, where transactions are negotiated, have little time for or knowledge of the thorough preparation of a company for sale. Emphasis is placed on the process, transformation and legal form for the privatization, rather than the "deal." Therefore, the appearance to the outside can be one of lack of detailed understanding of an individual company situation, the overall sector strategy, or a sense of priority and timing. Transactions, ready to negotiate, may not proceed in a timely fashion.

- **The Solution:** Place an individual adviser close to each Division Director and their staff to field the questions and issues *related* to their case load. Removing the issues that will delay attention to closure of the key individual deals should accelerate the negotiation process. The prototype sector selected was the *Agriculture and Food* related industries where progress had (and has) been slower and more sensitive than others. Activities assigned by the Director involve day-to-day contact, consultation and problem resolution with the Director and case officers.

- **The Result:** The prototype activities fell into broad categories related to the privatization process, such as policies and strategies, technical support, intergovernmental communications, investor outreach and information, access to international information and facilities, and alternate contract and investment approaches. The ability to resolve these establishes introduction to troubled transactions. Successful input on projects in progress results in confidence with new and future transactions. Today, the advisor is invited to participate in weekly Director meetings (with the Deputy Managing Director) to review progress, new targets and problems. This will be the regular source of urgent transaction assignments for the advisory team.

It is anticipated that the new transaction team will not have to go through the same initiation steps, but will be more quickly assimilated. As the advisers are assigned to a Division, they will now find a ready acceptance of integration onto the case teams. Several Directors have tentatively identified urgent transactions for them (the actual availability or relevance, of course, depends on the arrival of the advisers). We are helping SPA complete (along with each Division) a thorough prioritization of all outstanding transactions, which will serve as the screen for the financial adviser assignments. The content of the adviser activity, however, will continue to include all

of the items already discussed. For example, one Director has indicated a keen desire to have the adviser guide sector privatization strategy with him.

I have included here several attachments illustrating the activities that have contributed to the successful use of the prototype financial adviser:

- Attachment 1. Privatization project status
- Attachment 2. Advise on sector policy and problem issues
- Attachment 3. Participation in privatization transactions
- Attachment 4. Coordination of relations with outside agencies

This sample is intended to provide a basis for further discussion with you. I believe you will understand from the examples that the SPA is now at a point where financial advisers can make a critical contribution. Priorities are more clear, there is urgency to accelerate the process for 1994, and case officers are now under constant pressure to bring acceptable transactions to the Board.

Very truly yours,

Charles Stamm

attachments: 4

ATTACHMENT 1

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Bekescsaba Hutoipari MEH, Mr. Zsitvay	Freezing vegetables	Stamm, Forte	Price Waterhouse selected as the consultant to sell the business (EC PHARE)	Follow-up
Borsod-Abauj-Zemplen megyei Husipari MEH, Mr. Ivanyi	Meat	Stamm, Forte	Prepared a tender for a quick evaluation of the company by an outside consultant (EC PHARE). Project abandoned due to the financial condition of the company. The company will be liquidated.	None
Budapest Tejipari MEH, Ms.Szendröi	Dairy and Refrigeration, Distribution	Stamm, Kieken	Contract with Ernst and Young (EC PHARE) to decentralize plants and distribution centers. Cheese plant tendered for sale. East Pest tendered. BSN bid for main plants.	Review status of Ernst and Young project. Prepare for negotiation.
Cerbona (Fejer) MEH, Ms. Toth	Grain	Stamm	Transformed. Consumer products, pasta. CPC (Central Europe Trust) has shown interest in the company. The Board of Directors has instructed the company to tender for sale by September30. Management will also submit a plan	Continue to follow.
Csorna Dairy Plant (Gyor-Moson-Sopron) MEH, Ms. Szendröi	Milk Protein Processing	Stamm, Kieken	Csorna plant to be sold separately as an asset. Tender let by KIM, about 5/8. Five bidders interested. Target 25/8.	Get previous documentation of DMV bid of 12/92 and valuation on record. Prepare for negotiations.

292

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Express Tour IPARI I, Heija, R.	Tour and hotels	Stamm, Lauderdale, Hoyse	Assigned to assist division. EC PHARE consultant has prepared a privatization plan for decentralization and sale of the tour company. Plan evaluated and incomplete.	Consultant sent to improve plan and information memorandom. SPA will tender building and land parcels for sale immediately. Consultant concentrates on the memo for the tour business and survey of possible buyers for the whole business. We expect update by the end of July.
Fejer es, Komarom MEH, Ms. Szendrõi	Dairy	Stamm	Major Italian bidder. Negotiations completed for purchase of majority share.	Sold
Kiskunhalas, Torokszentmiklos Baromfifeldolg. MEH, Mr. Ivanyi	Poultry	Stamm	Negotiations with ConAgra broke down, March 1. OKH Bank continues in the ConAvis partnership looking for joint venture partners with Hungovisz.	No follow-up. Companies in serious financial condition.
Kozep-Tejip MEH, Ms. Szendrõi	Dairy	Stamm, Fort	Contract for consultant to restructure business. For PHARE contract.	Bankruptcy
Miskolci Hütôipari MEH, Mr. Zsitvay	Potato (Vegetable) Freezing	Stamm	Contracted consultant (EC PHARE) to tender for sale. JR Simplot, major bidder.	Review situation with case officer on presentation of recommendation to Board of Directors
Oroshaza Poultry MEH, Ms. Roszani	Poultry processing	Stamm	Prepared overview of operations and arranged visits of foreign investsors. Company is transformed and a tender for sale was let in July. Bids were unacceptable.	Follow with the case officer.

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Papai Hus MEH, Ms. Rozane	Meat Slaughtering and Processing	Stamm, Forte	Tender for privatization consultant was let the end of May. Indosuez is the contractor. Several foreign bids should be received to the tender for buyers.	Update from Indosuez available on 20/7. Board of Directors has approved plan for privatization and tender 11/8. Prepare for review of results.
Pest-Nograd megyei Allatforgalmi es Husipari MEG, Mr. Ivanyi	Meat trading company	Stamm	Prepared for the hire of a consultant to evaluate the company. The stratagy is to decentralize the parts of the company and liquidate those that cannot continue. Prepare a valuation of parts that can be sold.	Prepared for liquidation.
Sárvári Baromfifeldolg. MEH, Mr. Ivany	Poultry	Stamm	Negotiations with English bidder, Bernard Matthews completed.	Sold
Szigetvar MEH, Ms. Hutera	Vegetable processing, canning.	Stamm, Fleischer, Kieken	Proposal for purchase by Manz accepted by the SPA. Due to lean on shares, transaction stalled. Bank is key to keeping company operational. Manz has now put purchase price in a blocked account.	Letter sent to Manz 16/7 with proposed approach to keep company operating and close the transaction. Meeting with the bank is nonproductive. Huters has a new approach to the sale 10/8. Follow
Szolnoki Tejipari MEH, Ms. Szendrõi	Diary	Stamm, Kieken	MoA/PHARE hired consultant for strategy plan. Recommendations are complete. PHARE will contract for the privatization consultant.	Waiting SPA decision on action.

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Vas Tejipair MEH, Ms. Szendröi	Diary Processing	Stamm, Forte	Consultant (Indosuez) for strategy selected in March. Company is now transformed. Awaiting action by consultant for privatization. Meggle GmbH confermed interest in the company in July.	Review with case officer for privatization action.
Veszprém m. Tejipari MEH, Ms. Szendröi	Dairy	Stamm, Kieken	Negotiations with French firm, Bongrain, concluded. Presentation made to SPA Board of Directors. (Terms different than company proposal). Board approved Bongrain for investment.	Final resolution of terms with Bongrain may be reviewed with Racz Erno. Kieken to set date for meeting in the first two weeks of September

ATTACHMENT 1

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Bekescsaba Hutoipari MEH, Mr. Zsitvay	Freezing vegetables	Stamm, Forte	Price Waterhouse selected as the consultant to sell the business (EC PHARE)	Follow-up
Borsod-Abauj-Zemplen megyei Husipari MEH, Mr. Ivanyi	Meat	Stamm, Forte	Prepared a tender for a quick evaluation of the company by an outside consultant (EC PHARE). Project abandoned due to the financial condition of the company. The company will be liquidated.	None
Budapest Tejipari MEH, Ms.Szendrõi	Dairy and Refrigeration, Distribution	Stamm, Kieken	Contract with Ernst and Young (EC PHARE) to decentralize plants and distribution centers. Cheese plant tendered for sale. East Pest tendered. BSN bid for main plants.	Review status of Ernst and Young project. Prepare for negotiation.
Cerbona (Fejer) MEH, Ms. Toth	Grain	Stamm	Transformed. Consumer products, pasta. CPC (Central Europe Trust) has shown interest in the company. The Board of Directors has instructed the company to tender for sale by September30. Management will also submit a plan	Continue to follow.
Csorna Dairy Plant (Gyor-Moson-Sopron) MEH, Ms. Szendrõi	Milk Protein Processing	Stamm, Kieken	Csorna plant to be sold separately as an asset. Tender let by KIM, about 5/8. Five bidders interested. Target 25/8.	Get previous documentation of DMV bid of 12/92 and valuation on record. Prepare for negotiations.

267

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Express Tour IPARI I, Heija, R.	Tour and hotels	Stamm, Lauderdale, Hoyse	Assigned to assist division. EC PHARE consultant has prepared a privatization plan for decentralization and sale of the tour company. Plan evaluated and incomplete.	Consultant sent to improve plan and information memorandom. SPA will tender building and land parcels for sale immediately. Consultant concentrates on the memo for the tour business and survey of possible buyers for the whole business. We expect update by the end of July.
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Kiskunhalas, Torokszentmiklos Baromfifeldolg. MEH, Mr. Ivanyi	Poultry	Stamm	Negotiations with ConAgra broke down, March 1. OKH Bank continues in the ConAvis partnership looking for joint venture partners with Hungovisz.	No follow-up. Companies in serious financial condition.
Kozep-Tejip MEH, Ms. Szendröi	Dairy	Stamm, Fort	Contract for consultant to restructure business. For PHARE contract.	Bankruptcy
Miskolci Hütôipari MEH, Mr. Zsitvay	Potato (Vegetable) Freezing	Stamm	Contracted consultant (EC PHARE) to tender for sale. JR Simplot, major bidder.	Review situation with case officer on presentation of recommendation to Board of Directors
Oroshaza Poultry MEH, Ms. Roszani	Poultry processing	Stamm	Prepared overview of operations and arranged visits of foreign investsors. Company is transformed and a tender for sale was let in July. Bids were unacceptable.	Follow with the case officer.

268

HUNGARY SPA PROJECT STATUS 08/12/93

Company	Business	Team	Project Description/Status	Action
Papai Hus MEH, Ms. Rozane	Meat Slaughtering and Processing	Stamm, Forte	Tender for privatization consultant was let the end of May. Indosuez is the contractor. Several foreign bids should be received to the tender for buyers.	Update from Indosuez available on 20/7. Board of Directors has approved plan for privatization and tender 11/8. Prepare for review of results.
Pest-Nograd megyei Allatforgalmi es Husipari MEG, Mr. Ivanyi	Meat trading company	Stamm	Prepared for the hire of a consultant to evaluate the company. The stratagy is to decentralize the parts of the company and liquidate those that cannot continue. Prepare a valuation of parts that can be sold.	Prepared for liquidation.
Sárvári Baromfifeldolg. MEH, Mr. Ivany	Poultry	Stamm	Negotiations with English bidder, Bernard Matthews completed.	Sold
Szigetvar MEH, Ms. Hutera	Vegetable processing, canning.	Stamm, Fleischer, Kieken	Proposal for purchase by Manz accepted by the SPA. Due to lean on shares, transaction stalled. Bank is key to keeping company operational. Manz has now put purchase price in a blocked account.	Letter sent to Manz 16/7 with proposed approach to keep company operating and close the transaction. Meeting with the bank is nonproductive. Huters has a new approach to the sale 10/8. Follow
Szolnoki Tejipari MEH, Ms. Szendrõi	Diary	Stamm, Kieken	MoA/PHARE hired consultant for strategy plan. Recommendations are complete. PHARE will contract for the privatization consultant.	Waiting SPA decision on action.

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Company	Business	Team	Project Description/Status	Action
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Veszprém m. Tejipari MEH, Ms. Szendröi	Dairy	Stamm, Kieken	Negotiations with French firm, Bongrain, concluded. Presentation made to SPA Board of Directors. (Terms different than company proposal). Board approved Bongrain for investment.	Final resolution of terms with Bongrain may be reviewed with Racz Erno. Kieken to set date for meeting in the first two weeks of September

ATTACHMENT 2

INDUSTRY POLICIES AND STRATEGIES

SPA Food Industry Policies and Strategies

The food and agriculture sectors of the nation have been difficult to adapt to privatization for historical and political reasons. Strategies and policies have been slow in formulation. This has introduced uncertainty into SPA's management of the whole privatization process. The USAID adviser to the Director of the Division is asked to examine issues as they are introduced into the decision process. Following are examples of these situations.

DAIRY INDUSTRY. *How is milk (consumer product consumption) distributed in a large metropolitan area, such as New York or London?* The origin of the question was the strategic issue of retaining the current regional processing decentralization or allowing consolidation and concentration through privatization. The conflict in this case arises as a result of local interests wishing to retain small operations versus potential investor groups recognizing the potential (frequently need) to gain efficiency of scale for technology and economy reasons. Political expediency dictates more desegregation.

Through industry and corporate contacts in London and the United States the adviser obtained some rough distribution information pertaining to the number of dairies serving metropolitan areas and the radius of distribution. The adviser also inquired as to the types of business ownership, such as retailer owned (captive operations for Safeway, for instance), cooperative owner (producer or distributor), independent, etc.

Uniformly, the answer was that for years the trend has been toward concentration. For instance, a distributor in Seattle services retailers in a radius of 200 miles, essentially the size of Hungary. In London, three major (and one or two minor) dairies service the metropolitan area, probably equal to the population of Hungary. This was also confirmed on technical and economic grounds by a Dutch consulting study that had been ordered in 1992 by the Ministry of Agriculture (and again a year later). The adviser provided several summaries of these findings (see one attached), along with comments and recommendations.

Discussions with the Director highlighted the internal Hungarian dispute, which is more sensitive to local control, avoidance of dominance or monopolies, and the opportunity for Hungarian ownership and operations. After advisory input, however, major dairy investments have been allowed: at least two technical investors have successfully obtained control of large dairy operations, and another is being negotiated. At the same time several failing units have been allowed to slide into liquidation. Thus, there is now a de facto recognition of a highbred strategy for dairy privatization.

The nature of these exchanges was not definitive or recorded as the guideline for privatization decisions. However, the example is occasionally used by the Deputy Managing Director as the kind of council that is effective in aiding policy making.

INVESTOR / CONTRACTOR CONFIDENCE. *"From the press of 1 July we learned that SPA's Board approved our planned investment under conditions different from those proposed by us."* This was the opening line from an investor letter to a Director; the last line started *"we demand reimbursement....."*. Stories and experiences of mistreatment and discrimination are among the most damaging conditions to counteract while in the process of negotiation with investors.

There is generally some basis for these complaints. Occasionally the SPA acts inappropriately, but more frequently the appearance of unfairness results from conflicting demands on the agency case officers and the sheer fact that the rules and regulations are incomplete or only in the process of being formulated and tested. Most often the lack of experience and training in the privatization process at the case officer level is at the core of these problems. With a serious turnover in the case officers responsible for each company, by the time the company is seriously in the privatization process, the case officer and the system are probably concentrated on the hundreds of other companies not yet advanced in the process.

The instance mentioned above is representative of all of these problems. Actually, two examples occurred at once. The first related to the selection of an outside consultant to conduct the competitive tender for sale of a meat company. This was a straight forward competition conducted by EC PHARE, for internationally qualified firms. The requirements included a public offering. The judging of bids was presented to the Board of Directors (SPA) by a new case officer, unfamiliar with the situation, and approved. Unknown to the judges, the case officer introduced a recommendation for fees lower than proposed by the bidder, based on a belief that the SPA Board had a limit on the acceptable range of rates. The contract was awarded without notice of the difference, causing embarrassment to the agency and the Board.

The second case was that of an international investor, long in the process of a specific acquisition. The Hungarian company was in need of a technical partner. A dispute arose in the negotiation over the appropriate value to be given in the purchase for the investor's brands and processing know-how. Their best and final offer included acquisition of new shares upon privatization for some cash and this know-how. In preparation of the recommendation for the Board of Directors (SPA), the young case officer was instructed to compare acceptance of the bid with a new tender process. Instead, the bid was restated in terms consistent with perceived wishes of the Board, which was of course accepted. Again, it was unfortunate that the communication of the changes were not shared with advisers or the potential buyer. The result was the reaction reported above.

As the financial adviser to the Food and Agriculture Division, I became involved in these situations as I conducted routine follow-up on project progress. The projects were under separate adviser and case officer administration, but I have found random follow-up provides an effective way of staying current with the Division case load. In

both cases there was a common problem. The staff, pressed with conflicts and lack of experience, made mistakes of judgment. In this situation it was easy for the independent financial adviser to call attention to the problem and to specify rapid corrective action to the Deputy Managing Director: internal procedures had to be modified to assure that *recommendations to the Board must state offers, as made. Board recommendations or approvals with modification must be reported to the bidder confidentially for consideration.* This action was taken and the process of tendering for outside contractors was strengthened by requiring case officer approval of all contracts before final management signature. (We were able to keep the investor in negotiations.)

The example highlights the potential value of financial advisers assigned to transactions with the case officers. Rather than catch the problem after the fact, the independent adviser can keep the steps of the negotiation consistent and on track, including review of presentations as they go through the approval process. Probably more relevant is the constant and longer term affect as the same support is given to numerous SPA staff people and managers in conjunction with a large number of transactions. Of course, this consistency should improve investor confidence, as well.

METHODS OF FINANCING. The lowest cost, easiest accessible financing method available to the small investor is the Existence Loan (E Loan). Funds obtained with this method, *however, may only be paid to the State.* When SPA was prepared to tender assets of the grain industry, they found banks and other creditors had substantial leans on much of the property. Thus, the proceeds of sale would have to go to them (banks) and preclude use of E Loans. Upon the request of the Division Director, the financial adviser looked into the need for investor advise.

Discussions with the case officer showed that the problem was more broad based. With the announcement of hundreds of small parcels for sale, a large number of small business and individual bidders made inquires. They had little information on the means of financing. The case officer had little concrete information on financing methods and no documents to assist with answering the questions of the small investor. A new tool was needed to improve the dissemination of information and reduce the case officer interview demands.

The USAID adviser and the case officer decided a summary of all applicable financing tools should be prepared to help the small investor in the grain industry. This would be useful for the specific problem by accelerating investor preparation of proposals, but also apply to all similar transactions. We realized this would require legal, financing and privatization expertise and commitment of substantial resources. In conjunction with EC PHARE we prepared a description of these needs and they were incorporated in Terms of Reference (TOR) for a prospective consultant. PHARE agreed that the project had wide application and agreed to provide the funds for the project.

The research project was designed to react quickly to the need for implementation of the grain industry privatization policy and strategy. The product summarized the

274

existing means for financing, but more to the point, focused the investor on keeping the cash requirements low, maximizing the working capital of the business and dealing with existing creditors. Further, consideration was give to the technical constraints to the use of instruments like the E Loan. Recommendations, and appraisals of alternative financing methods were provided (the product is attached).

OTHER PROJECTS: These illustrations only show the diversity of critical decisions in which the adviser can become involved. Experience in financial and business situations allows the adviser to propose pragmatic remedies and move the decision and transaction process along. Other projects triggered by our transaction participation include: Research of prospective foreign bidders
Research on international consulting contractors
Grain industry mobilization assistance
Confidentiality agreements

275

Please [illegible]
[illegible]
after a few days!
(as we talk about this morning) Rex.

DATE : September 24, 1992

MEMO TO : Racz Erno
State Property Agency

FROM : Charles Stamm, Adviser

RE : COWIconsult, Hungary Dairy Study, July 1992

As a part of the process of restructuring and privatization, we are going to review and summarize the findings of several strategic studies done for the Ministry of Agriculture. The following is a brief look at the Dairy industry which we can expand upon. In general the study is quite thorough and provides good data on the sector. The emphasis is on fluid milk and the relationship to milk production. Less focus is placed on manufactured products, although greater profitability may be derived in them. The recommendations are good and directed at policy strategy. The recommendations would be useful in SPA privatization tactics and decisions.

SUMMARY OF POINTS

1. The dairy industry is seriously over capacity, working largely with adequate but old technology, and in serious need of capital expenditure to compete on a world basis. Ten small new plants were built in 1991.

2. Quality is good and usually equal to EC standards. The most serious problems are those of small farm/dairy operations selling unprocessed product. This later condition is brought on by small operations trying to take market on the basis of lower cost and price.

3. Subsidies have been removed over the last two years at the raw product and consumer levels. Prices to the consumer have risen, but inflation adjusted it only amounts to about 25%. Demand has fallen; supplies have declined to adjust.

4. Price for raw milk is high now, but may just cover direct costs of production.

5. Excess inventories of the past have been sold as dry milk in export markets. Unfortunately, costs exceed world market prices and the result was great losses.

6. Raw milk is more expensive to move than finished products.

7. Major dairys have serious short term dept problems. Debt to equity ratio can exceed 100%. Short term interest can equal 24-91, indicating at least some are very sensitive to any changes.

CONCLUSIONS

1. The dairy industry will concentrate toward areas of supply and lower cost to service high density markets. The result will be fewer, larger processors driven by a need for efficiencies of scale and the resources to mount a market strategy. There are numerous DRIVERS contributing to *progressive* concentration :

    * Transport cost. Locate close to low cost supply.
    * Cost to meet health and safety regulations.
    * Capital for new technology in packaging and products
    * Investment in market development
    * Economy of scale. Large plants have low unit cost.

2. Processors will have to raise prices to cover costs of technology. This will be mitigated by new efficiencies.

3. Farms: Coop farms have high labor costs.
   Small farms will decline.
   State farms have cost control. They will be broken into business units.

4. Regulation of health / quality standards is required. This will prevent expansion of small farms marketing unprocessed milk, but also remove these operations from the market. A milk quota system and / or class system may be required.

RECOMMENDATIONS

1. Sell dairy processing enterprises , "as is", on a case by case basis. Coops may be better directed to own shares of large operating companies.

2. Price intervention, if any, should be set at / linked to world butter, or skim milk powder and not above the average variable cost of the efficient producers.

3. Government should provide regulation and framework, not intervene directly in business. Intervention should occur only as a means to smooth the process.

4. The Budapest dairy situation does not threaten monopoly, in that many companies are seeking large distribution markets. The processing can be offered separately from the distribution business to achieve the best return. No obligation need be put on the purchasers to sustain supply or guarantee purchases of raw milk.

MINISTRY OF AGRICULTURE

These recommendations are generally accepted but not approved by the ministry.
I will review this summary with Keleti Emil to assure accuracy.
Shall we discuss how we apply this to the outstanding dairy privatization cases?

Pacz Erno: please note: concentration of the industry affects the commodity business first. Like fluid milk. High value added products like cheese, ice cream, frozen novelties, puddings, are ideal for successful entrepreneurs.

Charlie Stamm

ATTACHMENT 3

PRIVATIZATION TRANSACTIONS

Privatization Transactions

Entering the operation of the SPA Food and Agriculture Division in 1992, there was limited information on the companies and their status in the privatization process. Each case officer maintained independent files, generally produced as a function of the transformation activities. In other words, no transformation, no data. The first task the USAID adviser undertook was generating summaries of about 4O individual company profiles and status (several are included as an attachment). The purpose was to have a recognition of the high priority privatizations and a document to share with prospective investors and partners. It required the case officer to share the results of work to date. *It also led to assignment to negotiation of some of the high priority transactions.*

SARVARI BAROMFIFELDOLGOZO RT. Sarvar Poultry Company is one of the largest poultry operations in Hungary, specializing in turkey processing. The plant employs over one thousand people in the slaughter and processing of turkey, goose, duck, chicken and other fowl. Seventy five percent of the production is processed into products prepared for the retail shelf. This includes whole birds, cut up parts, breasts, and processed turkey rolls, salami, hot-dogs, etc. The products are sold fresh, frozen and processed. About half of the production is exported to Western Europe.

THE STRUCTURE OF THE TRANSACTION. From late 1991 to early 1992 the company had a variety of interested parties evaluate investments. The capital stock had a value of over $3,000,000, which ultimately was 90% the property of the SPA and the balance the local municipality. The best and most aggressive party for privatization was Bernard Matthews P.L.C. (England).

May 1, 1992: Matthews proposes purchase of 91% of the equity capital and construction of a turkey breeding farm, provide new processing equipment and establish new markets. Employment will be maintained and exports increased, with exclusive rights for product markets in Austria.

In addition to acquisition of the SPA shares, Matthews proposes an increase in their holding through increased working capital (one third cash and the balance in loans over two years), plus know-how valued at $6 million. Employees are offered a stake of about 8% of the shares via a give back from the SPA. Further, a stock purchase plan is proposed for employees and management in the form of an incentive program.

TIME FOR THE NEGOTIATION. August 28, 1992: A purchase and transfer agreement is drafted. In between, the transformation took place. The proposal for privatization is approved by the SPA Board of Directors.

September 1992: Confidentiality agreement drafted. September 17th, documents revised. October, documents revised again. During the next three months the case

officer, legal council and USAID adviser re negotiate the closing agreements and terms. January 1993, a forty-five day non-compete period is offered to allow the purchaser to perform due diligence investigations. At the end of this period the agreements must be accepted or rejected.

February 26, 1993: The purchaser gives notice of agreement. SPA has ten days to approve the sale and deliver the title and documents. March 17, 1993 the shares are sold.

FEJERTEJ RT. The dairy industry of Hungary has gone through a trying period since 1990 when the trust that coordinated activities was dissolved. Price supports are eliminated, consumption has declined and the dairy herd and supply has dropped at least 30% since 1988. Exports cannot replace this loss. Most of the fifteen companies are heavy with debt and produce little or no profit. Privatization and new capital could alter this situation, but the process has been slow.

THE STRUCTURE OF THE TRANSACTION. The first exception to this was the dairy company of Fejer County which was transformed in 1992, somewhat ahead of the industry. The company management had conducted discussions with several interested parties and received particular attention from an Italian organization, Parmalat. The negotiation was initiated in early 1992 and had proceeded through several negotiation stages. The initial offers presented were rejected by the SPA and price increases were proposed which approximated the company nominal value at transformation. A draft of the final contract was prepared by the end of the year (1992).

The SPA owned and wished to sell 60% of the capital shares in the company. A contract was drafted to convey these shares at the nominal value with:

- Further investment in additional shares to bring the ownership to over 75%
- Contribution of brands and technology

These values were based on the financial records at transformation, or mid-year 1992. There was no provision in the transaction for year-end or closing audit adjustments prior to sale. However, during the later part of year the company produced a substantial profit which was reported at the year end. Recognizing the change of circumstance, the SPA team successfully reopened the negotiation on pricing. A firm stand was taken that the pricing discussion would be concluded or a new tender would be prepared. The new value and purchase price was then set at well over $6 million (PRIVINFO May '93). The deal closed January 22, 1993.

VESZPREM DAIRY COMPANY. The company itself is about forty years old and has gone through a number of operational and financial reversals. However in the 1980's the company developed a wide range of soft cheese products, many of which are distributed on a national basis. The company has continued to create new products and at present successfully operates five plants in the western part of the country. The

281

plants and equipment are in good condition, although quite old. The operation is profitable, but not adequate. Near term needs for operating and replacement equipment capital are quite significant.

THE STRUCTURE OF THE TRANSACTION. The management has taken the concept of privatization quite seriously. Their plan was submitted and approved by the SPA in the summer of 1992. Invitations for tender offer were sent to a half dozen Western companies in August 1992. The plan was to offer 51% ownership to a foreign investor and in addition obtain a commitment for about $ 5 million investment in new plant, technology and working capital. The increased equity investment would result in a final share holding of 60-70%.

The only offer received consistent with the plan was from a French dairy products company. The equity structure suggested was:

French	51%
Farmers	20
Employees	10
Municipality	19
	100%

TIME FOR THE NEGOTIATION. In December 1992, the original offer was unresolved due to a position taken by the SPA regarding the capital value. The nominal value at transformation was increased about $ 3 million by SPA. In addition, the offer for increased capital ($ 5 mil.) was met by a combination of 1/3 cash, 1/3 equipment (in kind), 1/3 know-how in brands and product technology. The value of the equipment and know-how was unsupported.

Continued discussion during the spring resulted in an agreement to the higher nominal share value. An approach to the capital structure was also concluded that would result in the investor initially purchasing about 30% of the capital shares and increasing their holding through the new share purchase. Based on the offer of cash and in kind assets, the new proposal would now result in a control of just over 50% of the company. The structure was also modified by the introduction of Compensation Notes (restitution for past property claims) as a means for investment by local investors.

The proposal in May 1993 would result in:

French	50%
SPA	29
Compensation Notes	14
Employees	7
	100%

282

Three conditions were left in dispute, first the Board of Directors would not accept the value to the know-how in the purchase of new shares (in reality this will also be an issue for the Court of Registration). Second, a supply contract for local farmers was requested, and finally a requirement to spin off one or more plants to local investors. The latter two arrangements were quickly negotiated.

The know-how issue remains in contention in August 1993. The investor has indicated their offer is their best and final. At the request of the SPA, the USAID adviser has continued contact with the management of the bidder. Further refinement of the conditions are under consideration and new meetings are set for September.

TRANSACTION PROJECTS, STATUS IN AUGUST. In the period from the fall of 1992, the USAID adviser has been involved in the evolution of the privatization process in the Agriculture and Food Division. New financing tools have been introduced and the guidelines for involvement of international and local investment have changed. Though largely in the food sector, the eighteen privatization situations have ranged from successful sales to liquidation recommendations.

A summary of the status of those cases is included as an attachment (Attachment 1); it is updated with some regularity. As the resources of the advisory group expand, the information available on the continued development of each case will be tracked.

283

Company	Location	Activity	Products	Size	Privatization Status
Papai Huskombinat 8500. Pf. 41. Moczar Istvan (Director) SIC 2011, 2013	8500 Papa, Kisfaludi ut 5. Five plants are located at: • Papa • Balatonakali • Devecser • Sumeg • Ukk	Second largest meat slaughtering and processing company in Hungary. The company has major domestic and export markets. The operation concentrates mostly on pig slaughtering and processing, which is the basis for their canned ham business. A significant relationship is their contract as a primary supplier of ham products to Atalanta in the US. The company is located in and serves the growing northeastern region of the country north of Lake Balaton. Their plants operate mostly on a two shift, five day basis: • pig slaughter, 120 head/hour, 530,000 head/year • fresh ham production, 4000 ton/year • bacon, 1200 ton/year; Canadian bacon, 480 ton/year • canned ham production, 4300 ton/year • dry sausage, 920 ton/year There is limited cattle slaughtering operations of 18,000 head/year. Raw meat exports amount to about 14,000 ton/year. The plants have USDA and EC certfications and are well maintained. Current technology is maintained and there is a modist capital expenditure program. Expansion is constrained by lack of capital.	Fresh pork Fresh Beaf Chilled and frozen meat Dry suasage Canned ham Smoked products Vacuum packaged products.	1991 Sales: HUF 8.3 billion Export sales are about 50% Profitable for 1991. Employees: 2280	Being transformed to a Public Limited Company. A tender will be let within three months. Opportunity for foreign investor at 51%.

Company	Location	Activity	Products	Size	Privatization Status
Oroshazi Baromfif. V. Papp Jozsef SIC 2015	5900 Oroshaza, Oktocer 6. u.8. 5 plants; including four slaughtering facilities and one canning plant. All of these are in Oroshaza. orosháza	This is one of the largest and best poultry processing operations in Hungary. The company has obtained and maintained current technology from the Netherlands, Germany, USA, UK, Austria and elsewhere. The product standards for health and hygene meet or exceed those set by the EC. The company is located in the agricultural southeast part of Hungary where there is a large concentration of poultry production. The quality of their poultry products and the OROSHAZA brand are widely recognized in domestic and export markets. Their goose liver production may be the largest in Hungary and a substantial part of their exports. Production of the plants for 1991, of which about 50% was canned, included: poultry (chicken, turkey, goose), 11,250 tons chicken parts, 8,839 tons poultry sausage, 2,271 tons Exports of 4,350 tons included whole and cut-up chicken, turkey, pigeon, and goose; smoked and marinated specialties, and fresh and canned goose liver. Destinations range from France and the EC countries to the Middle East and Japan.	Fresh and frozen poultry; whole and cut-up. Goose liver. Smoked and processed poultry products.	1991 Sales HUF 2.0 billion. Over 40% export. Employees: 900	Being trasformed at this time. 50-100% ownership is available.

ATTACHMENT 4

COORDINATION WITH OUTSIDE AGENCIES

Relations with Outside Agencies

The State Property Agency has to retain strong contact with many other bodies in the privatization process. Much of this is in the political and bureaucratic arena. However, consider that each state entity once was owned and managed by other Ministries. These and other groups inside and outside of government still have legitimate interests in the outcome of privatization and can provide massive assistance in the present processes. Optimizing the use of all these resources is difficult if not impossible. The USAID adviser found that there is frequent need to use these relations and expand the capability of the SPA. There are several examples of direction by the SPA for the adviser to undertake this work. However, once initiated this activity becomes a natural extension of the adviser role.

FOUNDER MINISTRIES. Most of the companies to be privatized have had management and direction from a "Founding" Ministry. In a number of cases these Ministries are still involved in policies for their industry. The SPA frequently loses touch with the evolution of that process in the day-to-day work of privatization. The adviser found that in examining the state of preparation for privatizations, there was little or no up-to-date industry policy advise to assist the SPA case officer.

At the direction of the Director, the adviser interviewed the Ministry of Agriculture (MOA) staff and management to obtain sector research and forecasts. International consultants have been engaged regularly by the MOA to prepare sector studies which are related and relevant to privatization policy. The role of the adviser here is to summarize and make accessible these resources to the case officer and the Board of Directors as applicable to each privatization. Over the last year studies and recommendations have been prepared in:

- Meat Slaughtering and Processing Industry (summary attached)
- Milk and Dairy Products Industry
- Grain Milling and Animal Feed Industry (seed processing is a separate industry)
- Privatization of State Farms
- Fruit and Vegetable Preserving and Marketing
- Poultry Slaughter and Processing Industry (fresh and preserved)

The adviser has continued to maintain coordination with the MOA and its consultants. From time to time the adviser can assure the proper case officers attend presentations and seminars to keep up to date on the technical advisories produced by them.

INTERNATIONAL LENDING AGENCIES. It is assumed the USAID adviser's role should include an overall appreciation of privatization problems and provide the widest support for the unit Directors and case officers. *Even though the EC PHARE program had been established in the SPA for over a year, as of early 1993 the Food and Agriculture Division had essentially never obtained project or consultant assistance*

287

funding. The Director asked the USAID adviser to assist the case officers initiate liaison with the PMU and provide the lead in developing assistance projects. This is a significant opportunity to leverage the USAID support.

Meeting with the PHARE PMU management at the SPA, the Deputy Division Director and the adviser agreed to target some of the most difficult food entity privatizations. This was initiated by convening a round-table of the case officers responsible for the privatizations of meat and dairy companies. With them we discussed the sectors and their strategy for privatization. Then we selected individual target companies and established the consultative tasks needed on each. For instance, one case may only require an evaluation of the privatization strategy (or feasibility), while in another case we could obtain services to complete the entire sale.

Based on the Division agreements, the adviser assisted each case officer prepare a request to the PMU for project support and funds. These requests structured the requirements for consultants and became the Terms of Reference for each procurement (tender). The case officer managed the tender and selection with the PMU. With this initiative, the use of PHARE funded consultants rapidly spread throughout the Division. The cases include:

- The Budapest Dairy Company (BTV), description attached
- Borsod-Abauj-Zemplen megyei Allatforgalmi es Husipari
- Pest-Nograd megyei Allatforgalmi es Huspari
- Szolnok Dairy Company, conducted jointly between SPA and Agriculture PMU's
- Kozep magyarorszagi (Middle-Hungary) Tejipari Vallalat
- Bekescsabai Hutoipari (Freezing and Refrigeration) Vallalat
- Miskolci Hutoipari Vallalat
- Vas County Dairy Company
- Zala megyei Allatforgalmi es Husipari Vallalat
- Heves megyei Allatforgalmi es Husipari Vallalat
- Papi Huskombinat Rt.

From time to time this planning activity is repeated, but now the Division case officers and the PHARE PMU meet independently to determine the next issues and cases to pursue. We also consider the application of Know How funds and other agency assistance.

INDEPENDENT CONSULTANTS AND ADVISERS. There is a regular procession of outside visitors and advisers to the SPA. The Directors and the Managing Director handle the formal receipt of these guests. In some instances the visits promise to be of considerable benefit to SPA and they are referred to the advisers for future coordination. *This is generally an opportunity to promote and develop foreign investment interest, advice and resources.*

The United States Department of Agriculture has sponsored an "outreach" program for American food businesses in Hungary. This is in the form of a contract with an outside consulting firm (from the U.S., specializing in food and agriculture) to locate and match American interests with Hungarian companies. The USDA and their team first visited the SPA in the fall of 1992. After initially meeting the delegation the Deputy Managing Director of the SPA turned the coordination over to the USAID adviser. As a result, up to this point we have hosted two separate month long visits from U.S. companies and expert advisers; they have visited over fifty (50) companies and prepared summaries of many investment opportunities. There are eight (8) U.S. companies from the first delegation still actively in contact with Hungarian interests. The consultant has an extension on the project contract and will return in the Fall of 1993 to maintain and expand the contacts.

There is a division of the Ministry of Agriculture in the United Kingdom, specializing in privatization of State Farms, those farms held and managed by the government. This is very valuable resource to the SPA, which holds over 100 such operations. The group, ADAS, first contacted the SPA Managing Director while he was on an official visit to England. Subsequently, he asked the USAID adviser to assess the possibility for SPA to use their expertise. We coordinated a visit by a technical delegation to the SPA and to selected State Farms. There is high interest on their part in structuring a pilot privatization project and obtaining Know How Fund support, as soon as the SPA strategy is in place. We also met with the U.K. Minister of Agriculture and have been offered assistance in location of corporate farming investors.

Fielding similar offers from firms and agencies, the adviser team has a reference file of resources in consulting, financing, investment banking and marketing. Over time these will be useful to the adviser team in facilitating individual transactions.

STATE PROPERTY AGENCY

DATE: September 22, 1992

MEMO TO : Racz Erno
State Property Agency

FROM: Charles Stamm, Advisor

RE: MEAT INDUSTRY STUDY (Nehm/Ernst & Young)

The Ministry of Agriculture has had a study of the red meat industry assembled. The study was initiated in mid-1991 and conducted by Coveconsult B.V. This has been updated/refined and drafted in June 1992. The conclusions and strategy are largely as in 1991.

The study depends considerably on written and mail surveys. This may reflect the need to assemble large amounts of data that noone had available. The result highlights the financial stress and critical operating conditions of the industry. The strategy direction suggested is very complex in execution. The reports available to me do not help understand: whether priorities can be set for action
the effect of privatization now in process
how a very long and complex strategy can be done

The report is in a presentation format. It was mentioned the plan is to make an oral presentation to you and Mr. Rasko in the near future. That would be useful because many questions could be answered on the spot. The results have been reviewed by the agriculture technical people and the findings accepted. The strategy is not approved yet.

SUMMARY OF POINTS

1. The industry is over capacity. There are good facilities with low utilization. There are 16 EC certified slaughtering companies, and over 1000 uncertified slaughtering houses. Six of the certified houses have been privatized and sold.

2. Meat quality, production and profit are down.

3. Meat exports are critical to the economy and the survival of the industry. There does not seem to be a policy in place to protect and expand these markets (vs. domestic).

4. There is a lack or market orientation. The are no business plans, plans for packaging, or plans for distribution.

Address: H-1051 Budapest, Vigadó u. 6. • Letter: H-1[illegible]
Phone: (36-1) 118-5044 • Fax: (36-1) 118-7115 • [illegible] 22-51-2

5. The industry is in need of major refinancing. Apparently, many will liquidate without quick action.

6. Advantages
   - low operating costs
   - EC production decline
   - exports

7. Disadvantages
   - high feed cost
   - decreasing domestic consumption
   - protective trade policies

RECOMMENDATIONS

Restructure the industry, and clean up the companies prior to any privatization or sale to new owners.

1. Form teams to study all of the State Owned Companies.

2. Put companies into Holding companies on the basis of geography or segment to concentrate the plants and products.

3. Specialize each Holding company and separate slaughter from processing. Involve farmers in the slaughtering operation investment.

4. Invite investors for the restructured companies.

MINISTRY OF AGRICULTURE

On October 5th I reviewed the summary of the meat industry report with Keleti Emil. Specifically, we discussed the complexity of the restructuring process (and consolidation) and the potential that implementation would take a long time.

Further discussion revealed that the ministry has a pretty good idea of the priorities for consolidating plants in regional areas. These take advantage of the better facilities and eliminate redundant facilities, while supporting the farmer and supplying the processing plants and the fresh market. Naturally, this means accepting the judgment of the technical people, but it seems one could check the reasonableness of the selections and the financial problems.

The additional recommendation is the closure of many of the small uncertified plants. The major justification is elimination of uncontrolled facilities and improvement of the health and sanitation standards. No doubt there would be resentment of this, however the result would be to remove excess capacity and improve quality of product for domestic markets. An alternate and probably effective approach would be the

installation of rigorous quality standards and set dates for plants to meet those targets. This requires expanded, but already necessary, inspection and enforcement methods.

To advance these ideas and develop a strategy for the Ministry and SPA, Mr. Keleti requests we get together to review the meat study. He contacted Mr. Rasko and they suggest Monday, October 12th at 2:00 PM (1400 hrs.) if that is convenient to you. I was asked to convey the request to you and give them a reply.

PRIVATIZATION OF BUDAPEST DAIRY COMPANY (BTV)

Introduction

The purpose of this request is to select the financial advisors or consultants who will assist the State Property Agency (SPA) and the Ministry of Agriculture in restructuring and the privatization of Budapesti Tejifari Vallalat (BTV). The consultant will determine the business units that need to be transformed into separate Limited companies and the best allocation of BTV assets among the units.

An important element in dairy supply to Budapest, BTV will be restructured into viable business units without State ownership. Upon approval of the plan, prepared in Phases I and II, the SPA will proceed with the transformation of the business in Phase III of this project. During Phase IV individual units will be privatized.

The scope of the project should start with the documentation of the Company's activities and proceed to the final selection of investors and disposition of the company and related assets. It is expected that this will result in more that one operating entity and that these may be privatized at different times, according to the final plan and the market.

To complete this project, the consultant will have to consider the viability of resulting units and the continued supply of dairy products to the retail trade and the consumer.

Specific review and approval points will be established at which the Board of Directors (SPA) will evaluate the progress and determine the next steps. The following sections will outline current situation and the approach that is suggested for this project.

The Company

BTV is a large but unprofitable dairy products company concentrating its' marketing interests in Budapest. Losses for the first-half of 1992 amounted to about HUF 125 million HUF. Also important is the fact that there are outstanding debts of over HUF one and one-half milliard, a sizable part due to their suppliers. Thus, there are implications for the financial management of the country dairies as well as the supply of the Budapest market.

Total sales volume is about ten milliard HUF, 90% of which is in the Budapest area. Roughly one half of the sales are related to sixty to eighty products manufactured in one or more of the three plants (one cheese, two fluid milk and other products). The balance of sales is another 175-200 products purchased for resale from a dozen or more country dairies (those outside of Budapest). Total capacity is 800,000 liters/day of fluid milk, but utilization is only about 70% at this time.

This organization services as much as 60% of the Budapest market, though this is declining with competition from the dairies outside the city. The sales order and delivery system may however be essential to some of the rural dairies for reaching the Budapest market.

The company makes daily deliveries to retail customers directly from the dairy plants and from two distribution centers in central Pest. A fleet of large trucks distributes between the plants and centers, while smaller vans are used to make the deliveries in the congested center city streets. All products can be delivered from each point. The company also serves schools, bakeries and other institutions and businesses.

Thus, there are really two operations: one the dairy products manufacturing, and the other marketing and distribution of dairy products. In the company is imbedded the organization, financing, and systems that support all these activities.. For instance, the sales functions are staffed and managed at the plants, including the order entry and the traffic scheduling. On the other hand the marketing activity is centrally managed, including the acquisition of new retail products from other suppliers. Delivery is managed by the depots associated with the distribution business. The plants maintain the fleet of vehicles. Similarly, the organization is financed as one operation; debt is not necessarily associated with one business or the other.

The business is in need of some significant capital investment, such as the replacement of the truck fleet. The depots are very inefficient and in need of improvement, but are on potentially valuable land in well placed mid-city locations. Thus, consideration of restructuring the company must account for long term asset location and value issues, as well as the immediacy of consumer service.

The Current Situation

The Ministry of Agriculture and the State Property Agency have collaborated on the evaluation of BTV and the future ownership and operations. While the current situation provides adequate service to the city of Budapest, the long term concern over the monopolistic character of one dairy so dominating the market must take priority. There is mutual desire to divide the business into two or more parts, designed to retain the present services and offer more competitive alternatives to both the dairy industry and the consumer.

Several goals are in mind with the restructuring:

- assure efficient and cost effective service to the consumer
- assure the market is accessible to all dairies
- prevent loss of Hungarian dairy product distribution
- allow Budapest dairy processing to adjust to the market
- provide an expeditious exit for the SPA from the business

SPA needs concentrated professional help to develop the strategy for splitting the operations of the company and to guide the implementation. This is essential to give BTV and the government an assurance the planning and analysis is complete, done quickly and does not detract from the day to day management of the current operations. Both the Ministry of Agriculture and SPA wish to obtain a consultant experienced in projects of this kind to undertake the effort in their behalf.

Project Description

294

SPA wants to employ a consultant with the capability to undertake the entire BTV privatization project. Working with SPA the consultant will be expected to obtain enough information to recommend a course of action to the Board of Directors. With necessary approvals, the consultant will implement the recommendations in cooperation with the management of BTV and SPA. The project should be divided into several steps or phases. This approach is intended to provide a structure for the work process and review, although the consultant should suggest modifications as appropriate in their proposed approach.

Phase I, Structure Separation and Design

Analyze the activities of each BTV business unit (separate product or service). Propose the most effective units, or alternatives, for separation as autonomous viable businesses. This includes, but should not be limited to, the separation of the distribution depots and dairy processing business.

Define the role of each new business unit. Suggest the operating relationships required, sources of supply, customer base and alterations needed to allow separation. Consider in the process privatization that will change relations with food retailers and countryside dairies.

Review the company financial statements and records and determine the assets and liabilities associated with the alternate business units. Also, estimate the profit and/or loss from current operations of each of the alternate business units.

Define the effect on BTV and adjustments required for each business unit to create a viable operation. How and what organization and physical plant changes would be needed? What systems and procedures would have to be installed or replaced? Suggest additional changes required for successful operation. This may include cost reduction, product line changes, contract relationships, plant modification or closing, asset disposal, etc.

Define transition requirements for sources of supply and service to customers. Comment on present management capability and changes required for separated operations.

DELIVERABLES Recommend business unit separation design to the SPA Board of Directors. Comment on major consequences such as effect on consumer prices and BTV ability to service debts.

If applicable, present transformation and privatization alternatives that may be of interest the Board of Directors. Include the benefits of foreign investment and the opportunity for employee participation in ownership. Comment on the application of current company and taxation laws, if these present alternatives or opportunities.

Phase II, Implement Separation of Units

The first step in implementation is to establish the operational separation of the business units under the ownership of BTV. This will require the autonomous operation of each unit with separate management and reporting. Assets will be separated among the ultimate new operating units.

The consultant will prepare a stepwise plan for the execution of the separation of the business units within BTV. Upon approval and concurrence of the plan between SPA and BTV management, the consultant will advise on the implementation and separation of systems, assets, and management.

To complete the transition, the consultant will advise and monitor on the creation of a "one person" state owned company and the preparation of the necessary legal documents.

DELIVERABLES: The establishment of the independent autonomous business unit(s) structure within BTV, according to the approved concepts and plans.

Phase III, Transformation

With the successful conversion of the business to separate autonomous operating units, the consultant will assist SPA and BTV plan the conversion to a share company(ies) and the eventual privatization.

The specific tasks may vary depending on the approved plan, however, working with SPA the consultant will:

Develop the privatization strategy, including the specifications for potential investors and managers.

Define the required structure for the transformation of the businesses according the current laws relevant for the transformation and the ultimate privatization.

Prepare and process the required documents for transformation.

Monitor the preparation of the required business valuations (conducted by an independent contractor).

Participate in the presentation of the transformation recommendations to the SPA Board of Directors.

With SPA approval, submit the transformation documents to the proper courts for registration.

DELIVERABLES: Presentation of the transformation plan and time table to the Board of Directors. Comment on the present market situation and the requirements for continued restructuring (sale of assets, liquidation, other activities needed to make business units viable).

BTV and subsidiary units transformed as a Private Limited Company, ready for privatization.

Phase IV, Privatization of BTV

The consultant will be responsible for privatization of the individual transformed BTV units and assistance to SPA in completion of the reconstruction of BTV. Specific tasks will be refined as a result of the design and transformation achievements, however they will include:

Preparation of the privatization plan and presentation to the SPA Board of Directors, including the approach and timing for implementation.

Definition and recommendations to the Board of Directors as to the list of possible investors for each privatized business unit.

The consultant will be responsible for the privatization of each autonomous business unit under the direction of the SPA. A number of activities will be undertaken for each of the units as required by the circumstances:

1. Assessment of existing interest and potential investors.
2. Assessment of market potential for the unit and selling price.

3. Prepare information and selling documents.
4. Prepare and distribute the tender offering documents.
5. Receive, control and evaluate responses. Recommend SPA action.
6. Work with SPA in negotiation of final agreements with bidders.
7. Prepare and submit final legal privatization documents,

DELIVERABLES: Recommendations for sale of BTV units, their value and potential investors. With approval of the Board of Directors, completion of all documentation for privatization of BTV units.

297

Consultant Staff and Time

A competitive process will be used to select the consultant for the privatization project. Based on the terms of reference here, the consultant is asked to propose the staff, timing and fees appropriate for the tasks.

Qualifications

The consultant must be approved for these projects by PHARE and be qualified to receive funding under their programs.

The consulting firm must demonstrate successful past experience in all of the areas of expertise required for managing and coordinating the total restructuring and privatization of state owned companies in Hungary. The consultant must have full time managers assigned to the project and the ability to provide their administrative and facility support.

Specialists can and should be used to execute those tasks where the consultant staff is inadequate. Use of Hungarian firms is encouraged to augment the consultant team, especially where project activities can benefit from local professional experience and training.

Project Schedule

As a guideline for the project the following time frames should be considered:

	consultant	*duration*
Phase I	four weeks	six weeks
Phase II	six weeks	twelve weeks
Phase IV	four weeks	eight weeks
Phase V	open	December 31,1993

Staff

The consultant will provide all of the resources needed for execution of the tasks outlined for the project. The consultant should specify the types of personnel to be assigned to each phase and task and indicate the types of professional background required, such as operations, marketing, finance, accounting, distribution. organization, legal and the like.

Individuals with applicable industry skills are expected to lead all tasks and be responsible for presentations and recommendations to the SPA and BTV management. Consultants with experience in transformation and privatization in Hungary is essential. Use of local firms to augment the consulting team is encouraged.

The team should demonstrate they have a thorough understanding of the applicable Hungarian regulations and laws.

The consultant will be asked to propose the appropriate experts to participate in the project, their commitment to the project and responsibilities.

Hungary
State Property Agency
USAID Transaction Assistance

Monthly Report, November 1993
Hungary State Property Agency (SPA) Transactions Unit
Contract EUR-0014-I-00-1-56-00, Delivery Order No. 26

299

Project Status

Privatization Process

The privatization activity continues at an accelerated pace, due to the approach of the year end. The SPA has set significant goals for transformation and privatization to which staff and management compensation is tied. The tax exemptions available to international investors also expire December 31. In addition, there is more political attention paid to the progress of the privatization process, as preparations for National elections draw nearer.

Correspondingly, there is an acceleration in introduction of financial and economic initiatives that influence the whole privatization process. The important bank loan consolidation program financed by the World Bank has been approved by the Parliament. Initially, the schemes for this program would have had direct impact on transactions in that relief would have been simultaneously directed to financially weak companies. Although this specific linkage is no longer considered, there is continuing focus placed on troubled companies for restructuring. Government funds are being put in place to essentially refinance the largest and most difficult situations.

New Selected Restructuring Privatization fund for SPA companies

Closer to the SPA privatization process, the government approved the implementation of the Small Investor Share Purchase program, which anticipates the public offering of six to eight companies over the next year or so. This program finances limited share purchases by all Hungarians over 18 years of age. PrimaGaz was the first, floated this month. Similarly, the preliminary outline of a new Selected Restructuring Program (SRP) was announced this month. This EC PHARE/EBRD financed fund anticipates the transfer of SPA assets (viable companies) to a fund that will restructure and privatize the businesses over a three year period.

300

The latter program will directly influence the work of our Advisers. The supply of companies will come from the SPA and AV Rt. The USAID Advisers are in the perfect position to assist in selection and analysis of the potential candidates for inclusion in the fund. Although the number of candidates may initially be small, if successful, this program will provide a new vehicle for practical restructuring/privatization. Further, the process of the transfer of assets requires considerable time, during which the company and the restructuring process must be advanced. In the case of the Tisza Shoe Company, for instance, the USAID Team will be able to assist SPA initiate the restructuring process and ease the successful transfer of the company to the fund for management.

Longer terms for tender offers

In other ways the Adviser Team is assisting change in the SPA transaction process. For instance, the use of short tender time limits has prevented broad response to the company sale offers, especially from international bidders. In reaction to our requests, new tenders are being given longer and better planned response periods. This enables our Advisers to develop greater competition for the offering and improve the transparency of the privatization process.

Contacts with the legal and investment firms

To extend the Adviser understanding of the privatization environment in Hungary, and improve the SPA use of all the facilities for investment and financing, we continue to meet with the private and public entities involved in the Hungarian market. This fosters more efficiency for the team and potentially aids in attracting "buy side" interest. To give some idea of the extent of our effort, **Annex D** provides our contacts with the finance and legal community.

Current activities were reviewed with the Deputy Managing Director at the regular Steering Committee Meeting on December 5. Significant topics of discussion included:

- potential for accessing funds so that SPA can guarantee contract representations and warrants.

301

- policy statements on conflict of interest and confidentiality regarding transaction participation

- expanded use of Short Term Advisers on major privatization transactions.

- Advisers review meeting set for December 8.

Transaction Status

Forty six transactions assigned to the USAID Advisers

The Transaction Log, **Annex B**, reflects the status of assigned privatization activities. The list has grown to 46 transactions in various states of completion. Although only four percent of the SPA companies, they are some of the largest and most difficult privatization cases managed by the Agency. This is consistent with the objective of selecting targets that will attract international investors and have high impact on SPA success.

The Adviser cases include several of those scheduled to be closed by the first of the year:

- Veszprem m. Tejipari (Dairy)
- Hungarian Cable Manufacturing (MKM)
- Budamill (Grain and Flour)

Short Term Adviser teams have been committed to support development of two major transactions (Work Orders 3 & 4 in **Annex C**). These cases are at a stage of development where we can be very effective in influencing long term success through application of the USAID contract resources:

- Bakony Muvek; automotive electrical parts manufacturer with major world market customers. We will refine information documents, solicit international investors and participate in tender management and evaluation.

Major restructuring project

- Tisza Shoe; the largest Hungarian shoe manufacturer. In need of massive restructuring and financing. We will undertake the business planning and strategy for the SPA to initiate restructuring of the core company. This will support our ongoing advise on privatization of the company.

302

The October issue of the SPA Monitor is included in this report as Annex F. The document shows an increasing influence of USA investors at the SPA.

Special Activities

Met with eight foreign delegations

Foreign Delegations and Visitors. A large number of visiting teams were received in November. Five of the groups represented agencies of the U.S. Government in Washington D.C. interested in the start-up and mobilization phase of the Transaction Support project. Annex E provides a summary of the delegations itinerary and agenda.

Most important were the visits of Gordon West and Richard Burns of USAID. During our activity review, each Adviser was able to describe their transactions and integration into the SPA organization. Interviews were arranged with Lajos Csepi, Managing Director, and Erno Racz, Deputy Managing Director of the SPA.

AGUNA-Trade Exhibit. The USAID Advisers provided assistance to the Treuhandanstalt Advisers in proactive solicitation of investment interest in SPA assets. Follow-up contact has been initiated with international firms that attended the Trade Exhibit and indicated interest in food processing businesses.

New Long Term Adviser

Long Term Advisers. A new investment banker candidate has been approved to join the Long Term Adviser team:

- Michael Stanton will arrive and start work on the 10th of January. Tentatively, we have agreed with the Deputy Managing Director to assign him to the Trade Division, where his Hungarian language capability will be very helpful.

Search for Legal Assistance. During the month the team has interviewed the leading foreign based law firms in Budapest. We hope to find one or more of these firms that will be interested in acting as Short Term Advisers on our SPA cases. A report of our interviews and progress is included in Annex D.

303

Financial Report

The contract budget is now over half committed. The oncoming holiday season is now creating discontinuity in the availability of SPA staff and the urgency for closure of existing activities. Major expansion of projects and staff is now being scheduled to continue in January. Meanwhile, we have full commitments to completing all scheduled transaction activities and providing office staffing throughout the year-end period.

The Budget Summary report for November, **Annex A**, shows expenditures are increasing toward full operation. There are no unusual items or issues anticipated at this time.

New Work Orders (3 & 4) have been issued to start Short Term projects for two major transactions. These are included in the commitment calculations. See **Annex C** for the details.

5. **Self Privatization Program**

Reports and other Supporting Documents

THE PLACE AND SIGNIFICANCE

OF

SELF-PRIVATIZATION

IN

HUNGARIAN PRIVATIZATION

Budapest, 15 November 1993

306

TABLE OF CONTENTS

	Page
I. EXECUTIVE SUMMARY	2
II. INTRODUCTION	3
III. THE MAIN FEATURES OF PRIVATIZATION, INCLUDING SELF-PRIVATIZATION	5
1. The Aims and Evolution of Privatization	5
2. The Aims and Evolution of Self-Privatization	6
3. Managing the Process of Privatization: Differences in the Decision-Making Systems	8
4. The Roles an Tasks of Participants in Privatization	11
IV. ANALYSIS OF THE RESULTS OF PRIVATIZATION IN HUNGARY, WITH SPECIAL EMPHASIS ON SELF-PRIVATIZATION	16
1. Overall Review	17
2. Transformations	21
3. Bankruptcies, Liquidations and Company Wind-ups	23
4. Sales	25
5. Investors and Methods of Financing	30
6. The Success Factors of Self-Privatization	32
V. RECOMMENDATIONS	34

I. EXECUTIVE SUMMARY

Over the past three years privatization has been taking place in a variety of forms and within the framework of various programs, of which the Self-Privatization Program (SPP) has been a particularly successful one.

The program is drawing to its close at the end of 1993, and the State Property Agency (SPA) has requested Deloitte & Touche to carry out a review of self-privatization in order to identify its place and significance in the overall privatization process in Hungary.

In the course of the assignment

- self-privatization has been assessed through a historical perspective;
- a comparative analysis of overall privatization and self-privatization data has been performed;
- recommendations have been made on the basis of the results.

The detailed analysis shows that self-privatization has made significant achievements in a number of areas:

- high number of sales, few liquidations, involvement of domestic capital;
- reduction of the SPA's workload;
- advisers' accumulation of wide-ranging experience which may be utilized in other areas of privatization or the economy;
- integration of company interests in the privatization process;
- jobs saved through successful privatization and a high rate of employee ownership.

On the basis of the results, Deloitte & Touche has made a number of recommendations for the future, of which the most important ones are as follows:

- continuity should be maintained in the privatization of companies involved in the SPP through the utilization of the expertise and experience of successful SPP advisers and PRI-MAN staff after the closure of the program;
- a new contract should be drawn up between the SPA and selected advisers to complete the sales of those companies in the program whose privatization has not finished before the end of 1993;
- certain features of self-privatization should be incorporated in overall privatization, such as:
    - the development of a separate and specific framework for the privatization of different categories of companies with the involvement of selected advisers;
    - the allowance of market forces within each framework;
    - high level of freedom for advisers in the decision-making process;
    - support for the best integration of company interests in privatization, etc.

The present review provides an objective picture of the place and significance of self-privatization in overall privatization, and it is hoped that the success of the program will further enhance the process of privatization in Hungary.

308

II. INTRODUCTION

The Hungarian Privatization Program was launched by the newly elected Government in 1990. One of the government's major goals was to restructure the economy and create a free market economy.

Privatization is a highly complex process with both economic and social implications. It involves both Hungarian and foreign investors, and cuts across the entire social spectrum: it has allowed employers and employees as well as ordinary citizens to become owners and encouraged the emergence of an entrepreneurial middle class in Hungary. Together with foreign capital investment, new market opportunities have opened up and advanced technology and managerial know-how has been injected into the economy. All this may solve a great number of business problems state owned enterprises had to struggle with in the past.

Over the past three years privatization has been taking place in a variety of forms and has been organized within the framework of various programs, such as the First and Second Privatization Program, Pre-Privatization, Self-Privatization and more recently the Small Investors' Share Purchase Program. The techniques used in privatization (E-loans, leasing, installment payment, ESOP, employees' discount purchase option, EBRD loans to support liquidations) have been developed specially in response to the Hungarian market requirements.

The level of changes in the ownership structure, the dynamic rate of investment and the increase of privatization revenue all indicate that privatization will reach a milestone at the end of 1993. The public sector's share and its contribution to state revenue is expected to lose its dominance in the Hungarian economy by 1994. One of the programs contributing significantly to the success of privatization has been the Self-Privatization Program which is coming to its conclusion at the end of 1993.

The SPP was specially designed to accelerate the conversion of selected small and medium-sized state owned enterprises to privately owned companies. Phase I of the program started in October 1991 and expired in March 1993; however, the unsold companies of Phase I had the opportunity to continue their privatization with newly selected advisers in Phase III which expires at the end of 1993. Phase II of the program opened in July 1992 and is coming to an end on 31 December 1993. In view of this, the SPA has ordered a full review of the program.

Deloitte & Touche has been commissioned to carry out the review to analyze the results of the program and identify the place and significance of the SPP in the main stream of privatization. The project has been funded by the United States Agency for International Development as part of the contract "Technical Assistance to the State Property Agency of Hungary" (Self-Privatization Program Assistance, contract number ANE-0002-C-0047-00). Within the framework of the same contract Deloitte & Touche has carried out previous projects for the SPA in connection with self-privatization:

- the development of an evaluation scheme to monitor the performance of privatization advisers in Phase I of the SPP (March 1993);

- the modification of the evaluation scheme to suit the requirements of Phase II and the development of a separate a monitoring system (June 1993);

- the creation of a manual for privatization advisers in Phase II (August 1993);

- the design of a plan for a compatible information system between the SPA and PRI-MAN to ensure the smooth flow of information (October 1993).

The present report provides a comprehensive overview of the Self-Privatization Program, rounding off the series of previous self-privatization projects shortly before the closure of the program. It gives an objective assessment of the place and significance of self-privatization in overall privatization, and through the analysis of the results and the subsequent recommendations, it may further enhance the success of privatization in Hungary.

310

III. THE MAIN FEATURES OF PRIVATIZATION, INCLUDING SELF-PRIVATIZATION

III. 1. The Aims and Evolution of Privatization

When privatization started in 1990, the main goal of the government was to reduce the state's stake in the Hungarian economy from 90% to less than 50% by 1994. By the autumn of 1993 the private sector has reached an almost dominant position in the Hungarian economy: currently 40-50% of Hungary's GDP comes from the private sector.

At the end of 1990 the State Property Agency assessed the national property of Hungary at HUF 6,000 billion. Of this the commercial property accounted for HUF 1,850 billion spread across approximately 2,200 enterprises. The latter was broken down into the following categories:

1. Enterprises which are to remain in state ownership for an indefinite period [approximately 100 companies of net worth approximately HUF 500 billion (book value)]

2. Loss-making companies not being considered for privatization - some 400 companies of net worth approximately HUF 350 billion

3. 900 large companies with assets worth HUF 700 billion

4. Approximately 800 small and medium-sized companies with assets worth around HUF 300 billion

Thus the SPA has been managing the privatization of approximately 1,700 companies. Such a great number of companies covers a wide range of interests and opportunities, and requires a flexible approach to cope with the changes which occur during the process. Privatization started spontaneously in the late 1980s and as the process advanced, it has evolved into previously unknown directions: new concepts have sprung up, new strategies have been formed together with specialized techniques and methods, and an institutional background supporting privatization has also developed. The state controlled and regulated form of privatization started to be dominant in 1990 with the establishment of the State Property Agency, although spontaneous privatization continued until mid 1992. The stages of development institutionalized privatization has gone through may be characterized by the following:

1. During the first stage (May 1990 - Sept. 1991) two centrally directed privatization programs were launched, the First and the Second Privatization Program, which involved large companies and attracted mostly foreign investors. Parallel to this the introduction of the Pre-Privatization Program gave investment opportunities to domestic purchasers of modest means and

311

resulted in the establishment of almost ten thousand small enterprises in the service sector.

2. The second stage (Oct. 1991 - Nov. 1992) started with the Government's approval of the **Ownership and Privatization Strategies** which initiated the elaboration of a new legal framework and the establishment of the institutional background. The new legislation (Privatization Acts No. LIII., LIV. and LV. of 1992 and Act No XLIV. of 1992 on ESOP) laid down the principles for the selection of property which is to remain in state ownership in the long term, outlined the intended ownership structure to be achieved through privatization, identified privatization procedures, defined the possible range of asset transfers and available discounts, and described the methods of asset management.

This period is also marked by the introduction of the Self-Privatization Program: Phase I was started in October 1991, Phase II in August 1992. Its significance lies in the fact that privatization itself has been privatized in this program: the State Property Agency commissioned outside advisers to carry out the privatization of the small and medium-sized companies involved in the program. A separate company, PRI-MAN Kft., was also established to administrate the SPP and supervise the work of the advisers.

3. The third stage, which has been going on since December 1992, has been characterized by the acceleration of the privatization process through new privatization techniques, improved communications and detailed elaboration of industry-specific privatization strategies. During this period a network of financial institutions has been developed to support the privatization process and the operation of the newly founded private enterprises. Increased emphasis has been placed on the assessment of the supply of companies and the demand in both the domestic and foreign market. The conditions of discount purchase options have been improved (Existence loans) and new financial techniques have been introduced (leasing, installment payment, small investor share purchase option), mainly in order to support and speed up domestic purchase procedures. The decentralized sale of company assets has become an increasingly frequent practice also supporting domestic investors. Public relations and mass communications concerning privatization have been further improved.

III. 2. The Aims and Evolution of Self-Privatization

The Self-Privatization Program has been part of the whole privatization process in Hungary, specially designed to accelerate the conversion of designated small and medium-sized state owned enterprises to privately owned companies.
The group of enterprises involved in the SPP represented 20 to 25 per cent of Hungary's national income and 15 to 20 per cent of the country's labor force.

312

Phase I of the Self-Privatization Program began in October 1991 and expired on 31 March 1993. The selected state owned enterprises in Phase I have up to 300 employees, HUF 300 million annual sales and HUF 300 million in equity. The program was designed to privatize 423 small enterprises using the expertise of 84 external advisers.

As a result of a review carried out by the SPA in March 1993, the companies whose privatization had not been completed in this phase had the opportunity to conclude their sale in Phase III by 31 December 1993. Advisers in Phase III were selected from among those participating in Phase I, but their number was reduced to 48. They signed a new framework agreement with the SPA.

Phase II of the SPP began in July 1992 and expires on 31 December 1993. The 270 SOEs involved in this phase employ between 300 and 1,000 staff, have between HUF 300 and 1,000 million annual sales and between HUF 300 and 1,000 million in equity. The initial number of advisory firms taking part in this phase of the program was 129.

The above figures were registered at the start of the two phases of the program; since then the number of both companies and advisers have changed. Some of the companies have fallen out of the program through liquidation, others whose value is above HUF 500 million and which have been involved in the publishing industry have been considered to be withdrawn from the program by the SPA. The range of advisory firms has also been reduced by the SPA for a variety of reasons. The total number of companies and advisers actively participating in the SPP on 30 September 1993 was 513 and 83 respectively (of the 83 advisers 33 are involved in both currently running phases of the program).

Although self-privatization has been functioning according to the same principles laid down in the current privatization legislation as all other forms of privatization in Hungary, the program differs from the main trend of privatization in its philosophy of privatizing privatization.

The SPA has engaged private sector advisory firms to carry out the entire privatization process without the SPA's assistance. Their activity is regulated by a framework agreement which allows them considerable freedom. Advisers and SOEs select and contract one another independently of the SPA, advisers then transform the SOEs into private companies, act as owners representing the SPA during the period between transformation and sale, they market the companies, tender the sale and select the new owners. For the transformation advisers receive their fees from the SOEs, while for the successful sale of the companies they are rewarded by the SPA. The co-ordination and supervision of the program is carried out by the SPA's own company, PRI-MAN Kft., which was specially established to perform this function.

III. 3. Managing the Process of Privatization: Differences in the Decision-Making System

The strategic decisions in privatization are made by the Board of Directors of the State Property Agency. The function of the Board of Directors is twofold: on the one hand, it determines the framework and conditions of privatization as well as the possible techniques, on the other, it manages the day-to-day operation of the SPA through transaction related decisions.

The main principles of privatization are the public availability of information and the tendering. These principles are effective in both the privatization managed directly by the SPA and the various privatization programs. The SPA sells state assets through closed tendering only if the nature and significance of the assets in question or other policy requirements make it necessary.

The essence of self-privatization from the decision-making point of view is that since the SPA has transferred the right and responsibility of privatizing state owned enterprises to advisers, they are thus eligible to solve problems occurring during the process without consulting the SPA, provided they adhere to the relevant legislation and the Framework Agreement. This reduces the SPA's workload significantly and speeds up the procedure.

With the advance of privatization, the SPA has increasingly been taking non-financial factors into consideration in the decision-making process. Higher significance has been placed recently on employment, industry and environment related issues such as the number of jobs to be maintained and new ones to be created by the purchaser; the underlying purpose of investment (whether it is solely to take advantage of the market opportunities while winding down production); the likely amount and purpose of further investment; guarantees for the use of domestic raw materials, etc. The Board of Directors of the SPA assesses all these factors, and, if necessary, ensures the inclusion of clauses in the contract which safeguard local interests.

Such subjective factors gain particular importance in the privatization of valuable companies with a high rate of employment, where the consequences of the SPA's decision may be very significant. In the Self-Privatization Program the economic impact of such considerations is smaller since the companies involved are smaller in size and value. The Framework Agreement between advisers and the SPA does not require the consideration of non-financial factors in selecting the purchaser, (as control over these would be difficult), and advisers' fees are based on the speed of sale and the achieved price. However, non-financial factors are incorporated in the transformation plan which is prepared jointly by the adviser and the management of the company, bearing the interests of the employees in mind. As the management has the right to terminate the contract if the transformation plan is contrary to the interest of the company, the adviser is motivated to work closely with the management in developing a privatization strategy best suited to the specific needs of the company.

The following table summarizes the differences between the decision-making system used in overall privatization managed by the SPA and in self-privatization: Under the

314

heading "SPA", the relevant decision-making body is marked by its abbreviation; under the heading "Self-Privatization", the relevant authority (the SPA or the adviser) is indicated by the shading of the appropriate boxes. Depending on the significance of the issue, SPA decisions concerning self-privatization are made at the same level as in overall privatization.

315

Chart to illustrate the differences in the decision-making process in privatization directed by the SPA and in self-privatization

SUBJECT OF DECISION	SPA directed priv.	Self-Privatization	
	AUTHORITY		
	SPA	SPA	Adviser
Placement of companies under state control	BD		
Withdrawal of assets at over HUF 250 m	BD	*	
Winding up of companies with equity over HUF 250 m (net book value) (in self-privatization liquidation also)	BD		
Transformation of state owned enterprises with equity over HUF 500 m	BD		
Establishment of companies	BD	*	
Asset protection and asset management where value of assets is over HUF 250 m (in self-privatization asset protection only)	BD		
Sale of state property with face value over HUF 250 m and payment of state liabilities	BD		
Approval of leasing and other permission-requiring privatization techniques	BD		
Personnel changes in state owned enterprises (in self-privatization top manager only)	BD		
Approval of advisers' fees over HUF 80 m	BD	*	
Approval of guaranty liability on state assets over HUF 500-1,000 m	MD	*	
Approval of advisers' fees between HUF 5-80 m	MD	*	
Permission for closed tender	MD	*	
Transformation of state owned enterprises with equity below HUF 500 m	D		
Winding up of companies with equity below HUF 250 m (net book value) (in self-privatization liquidation also)	D		
Asset protection, asset management and asset withdrawal where value of assets is below HUF 250 m (in self-privatization asset protection only)	D		
Sale of state property with face value below HUF 250 m and payment of state liabilities (in self-privatization sale only)	D		
Approval of guaranty liability on state assets below HUF 500 m	D	*	
Approval of advisors' fees below HUF 5 m	D	*	
Other matters outside the scope of the Board of Directors and the Managing Director	D		
Below limit sale and the creation of unbalanced ownership rights in self-privatization		BD	

BD = Board of Directors MD = Managing Director D = Director
* Not applicable for self-privatization

The shaded boxes indicate the relevant decision-making authority in self-privatization (SPA or adviser).

316

III. 4. The Roles and Tasks of Participants in Privatization

The following tables show the differences between the roles and tasks of participants in the overall, SPA managed privatization and self-privatization:

SPA

Overall Privatization	**Self-Privatization**
ROLES 1. Representation of state ownership rights	1. Design, regulation and supervision of self-privatization process 2. Setting the operational framework for the Self-Privatization Program, which includes the following: • Selection of companies and advisers involved in the program; • Drafting Framework Agreement to direct privatization process; • Review, control and modification of Self-Privatization Program; • Ensuring adherence to the regulatory framework.

317

SPA cont.

Overall Privatization	**Self-Privatization**
TASKS 1. Preparation and implementation of privatization of state assets belonging to the SPA with the involvement of advisers; case related decision-making in the following areas: • Privatization of state assets; • Self-initiated transformation and mandatory transformation of state owned enterprises belonging to the SPA; • Asset protection cases in state owned enterprises belonging to the SPA; • Placement of state owned enterprises under state supervision; reorganization and final settlement of state owned enterprises; • Asset withdrawal, undertaking state obligations and guaranties on state assets; • Privatization techniques as regulated by law; • Conditions of contract between the SPA and advisers; • Nomination and dismissal of top management members of state owned companies. 2. Represent rights for setting up companies and state ownership rights; hiring consultants temporarily for asset management. 3. Elaboration, revise and control privatization programs. 4. Administration of state assets belonging to the SPA, elaboration and implementation of asset policy, elaboration of privatization techniques and methods.	1. Case related decisions based on requirements of the law and the Framework Agreement, i.e. approval or rejection of: • Foundation document; • Liquidations; • Asset protection cases; • Changing top manager; • Unbalanced ownership rights; • Below limit sales; • Application of different privatization techniques as described in the law; • Closed tender. 2. Administration of proceeds of self-privatization.

318

ADVISER

Overall Privatization	Self-Privatization
ROLES 1. Preparation and implementation of the privatization of state owned assets and asset management as outlined in the public tender and set in the particular conditions of the subsequent contract.	1. Complete privatization of companies involved in the Self-Privatization Program and freely contracted with the adviser according to the Framework Agreement and the relevant legislation. 2. Representing SPA's interest according to the Framework Agreement.
TASKS Based on the specific contract with the SPA, the performance of any or all of the tasks below: 1. Transformation of state owned companies into associations. 2. Asset management. 3. Preparation of state owned companies for privatization. 4. Privatization. 5. Other assignments on SPA request.	Performance of all tasks outlined in the Framework Agreement: 1. Transformation of contracted companies into associations; preparation of transformation plan and related documentation according to the requirements of the law and the Framework Agreement. 2. Initiation of the liquidation before or after the transformation if necessary. 3. Practicing ownership rights to maintain the value of the company. 4. Preparation and implementation of the privatization for the SPA and on behalf of the SPA: • Tendering; • Ensuring the possibility for the employees to acquire ownership; • Contracting; • Financial settlement.

COMPANY

Overall Privatization	Self-Privatization
ROLES	
1. Co-operation with the adviser and the SPA, support for their work in the privatization process.	1. Co-operation with the adviser, help its work in the privatization process.
TASKS	
1. Supply necessary information and documentation for the privatization.	1. Selecting and contracting the most suitable adviser from the range of advisers preselected by the SPA to privatize the company. 2. Supply necessary information and documentation for the privatization.

320

Overall Privatization	Self-Privatization
Not applicable	**ROLES** 1. In relation to SPA: Co-ordination of self-privatization process on behalf of SPA: • Administration; • Control • Supply adviser and company with information. 2. In relation to adviser and company: Representation of SPA in self-privatization process: • Control of adviser; • Ensuring that self-privatization process is carried out according to legislation and the Framework Agreement. 3. In relation to investor and other interested parties: Supply of information and support.
Not applicable	**TASKS** 1. Administration: • Recording, filing and processing data; • Preparing reports regularly and on request. 2. Control: • On-going preventive control during entire privatization process; • Specific investigation on SPA's request. 3. Support through: • Individual consultations with all interested parties; • Regular seminars for advisers; • Publications for advisers. 4. Preparation of SPA decisions

321

IV. ANALYSIS OF THE RESULTS OF PRIVATIZATION IN HUNGARY, WITH SPECIAL EMPHASIS ON SELF-PRIVATIZATION

The present chapter provides a detailed picture of the results of overall privatization and self-privatization through graphs which are subsequently analyzed and concluded upon.

In this report, the term "overall privatization" implies all privatization which is, directly or indirectly, the responsibility of the State Property Agency, and therefore it also includes self-privatization. The main source of information concerning overall privatization was the September 1993 issue of Privatization Monitor, published by the State Property Agency. Some of the data relating to overall privatization, not explicit in the Privatization Monitor, was calculated on the basis of the Privatization Monitor or was derived directly from the SPA's Management Information System (PIR). Data relating to self-privatization was collected from PRI-MAN's Monthly Information Report and their internal Management Information System. All data used in this report is of 30 September 1993.

The first part of the chapter, "Overall Review" illustrates the number and value of companies which are at some stage of privatization (transformation or sale) or have fallen outside the scope of privatization through bankruptcy or liquidation. Chapters IV. 2 to IV.6. analyze and compare the results of specific aspects of privatization; while Chapter IV.7. summarizes the significance of the achievements of self-privatization.

322

IV. 1. Overall Review

The table below shows the results of overall privatization and self-privatization as of 30 September 1993:

Table 1.

	Overall privatization		Of which Self-privatization	
Companies	**Number**	**Value * billion HUF**	**Number**	**Value* billion HUF**
Transformed	1,032	717.3 #	433	62.3
Sold				
100%	273	108.3	197	10.1
Partially	215	123	45	2.9
Total	488	231.3	242	13
In bankruptcy	87	19	45	5.2
Liquidated or wound up	336	156.9	95	10.8

Sources :

- Privatization Monitor, September 1993 issue, published by the State Property Agency; (The data marked by # has been calculated on the basis of information available in the SPA's Management Information System);
- SPA's Management Information System, data collected as of 30 September 1993;
- PRI-MAN Monthly Informational Report, 30 September 1993.

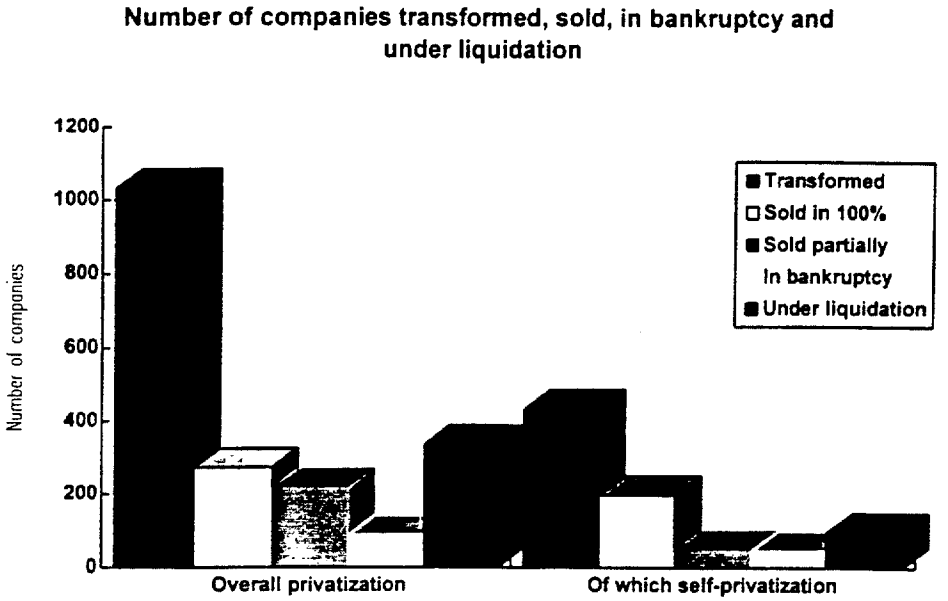
The data of **Table 1** is interpreted in the two sets of graphs below: the first set of graphs gives the absolute number and value of companies in the various categories, while the second set shows the data in relative terms: the figures have been calculated on the basis of the number and value of transformations taken as 100%.

Graphs 1/a and 1/b illustrate the figures of **Table 1** in absolute terms:

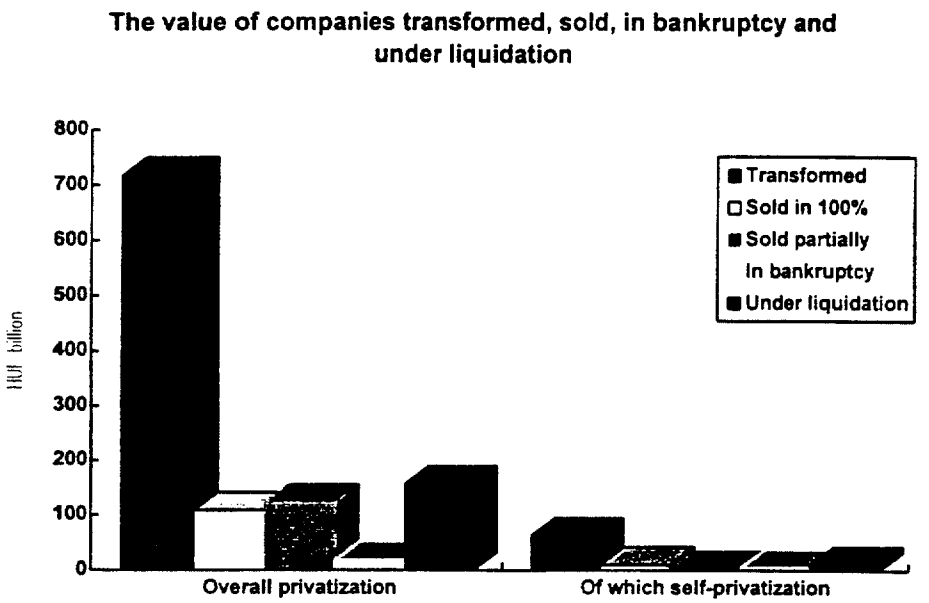
* "value" is

- the value of assets in the transformation balance sheet of transformed companies
- the market value of companies sold
- the book value of companies in bankruptcy or under liquidation

Graph 1/a



Graph 1/b



Comparing **Graphs 1/a and 1/b** it is obvious that in terms of company numbers the Self-Privatization Program has contributed significantly to the success of overall privatization, whereas in terms of the value of companies, the SPP has played a less important role due to the size and value of companies involved in the program. Therefore the main significance of self-privatization lies in the fact that it affects a wide range of companies, rather than in the revenue obtained through their sales.

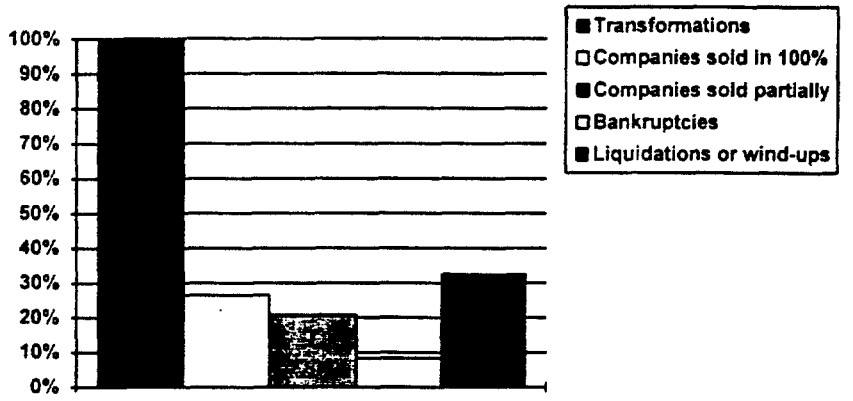
324

In the above, data relating to both overall privatization and self-privatization was illustrated in absolute terms. However, in order to get a deeper understanding of the underlying differences, it is advisable to look at the ratio between the number of companies in the various categories and the number of transformations.

Graphs 2/a and 2b show the number of total and partial sales, bankruptcies, liquidations or wind-ups in relation to the number of transformations taken as 100% in both overall privatization and self-privatization.

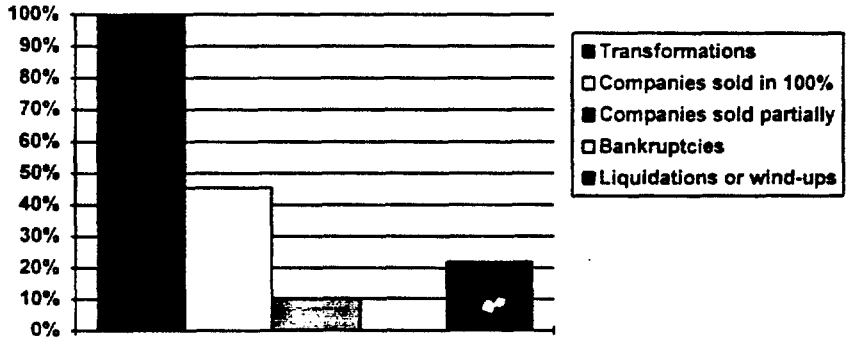
Graph 2/a

The number of total and partial sales, bankruptcies and liquidations as a percentage of transformations in overall privatization



Graph 2/b

The number of total and partial sales, bankruptcies and liquidations as a percentage of transfromations in self-privatization



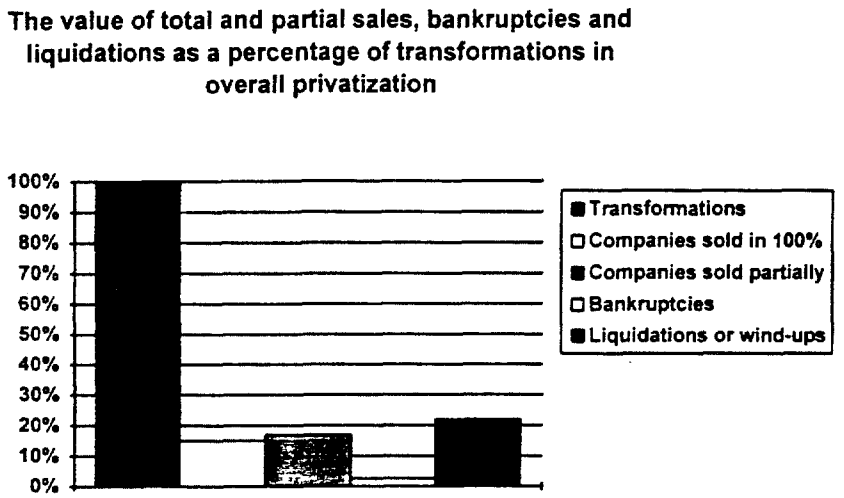
The comparison of **Graphs 2/a and 2b** shows that if the analysis of the results is based on the number of transformations taken as 100%, the success of self-privatization can be seen clearly: the ratio of transformations and total sales is considerably high (45% of the transformed companies have been sold in self-

325

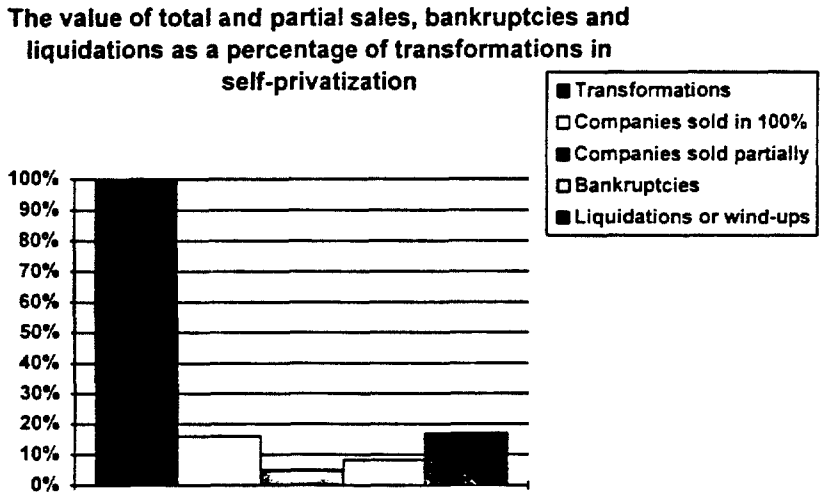
privatization, while in overall privatization only 26%). Considering the number of total and partial sales together, more than half (55%) of the transformed companies have been privatized to some degree in self-privatization, while in overall privatization this ratio is 47%. As for the number of liquidations or wind-ups, the ratio is lower in self-privatization (22%, while it is 32% in overall privatization). The ratio of bankruptcies is approximately the same in both cases.

Graphs 3/a and 3b show the value of total and partial sales, bankruptcies, liquidations or wind-ups in relation to the value of transformations taken as 100% in both overall privatization and self-privatization.

Graph 3/a



Graph 3/b



From **Graphs 3/a and 3b** it is obvious that if the value of total sales is compared with the value of transformations, the ratio is similar in both overall privatization and self-privatization: 15-16%. The value of partial sales forms a significant proportion of the

value of transformed companies in overall privatization (almost 20%), while in self-privatization this proportion is very low (2%). The difference is due to the fact that investors involved in the privatization of large companies do not necessarily purchase 51% or more of the shares to achieve a de facto controlling position. The value of bankrupt companies is insignificant in SPA-managed privatization (2% of the value of transformed companies), while in self-privatization the ratio is higher (8%). The ratio between the value of liquidated and wound up companies and the value of transformations is more favorable in self-privatization (17%, while in overall privatization it is 24%).

The reasons for the difference between the ratio of liquidations and transformations in both the number and value of companies involved may be the following:

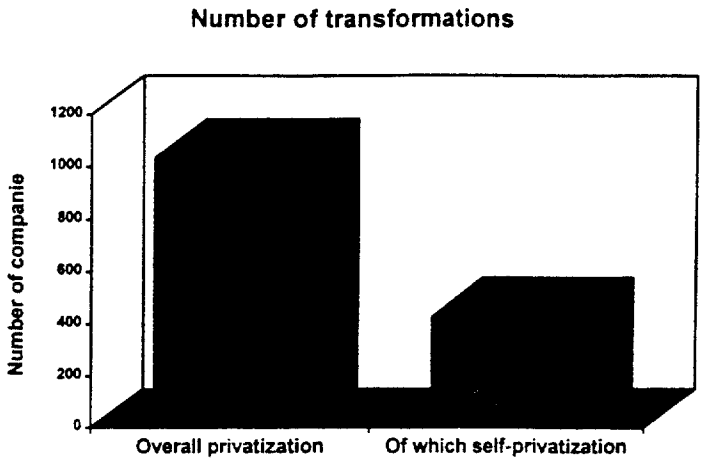
- in self-privatization the number of industrial companies is smaller than in overall privatization, whereas the number of companies involved in popular areas of the service sector is considerably higher (see the professional segmentation of companies in Chapter IV. 4. below);
- companies in the SPP can adopt a more flexible approach to the changing market requirements due to their fairly small size;
- for reasons detailed in Chapter IV. 7. below, company and employee interests can be integrated into the process of privatization more in the SPP than in overall privatization;
- in self-privatization employee ownership is more widespread than in overall privatization.

IV. 2. Transformations

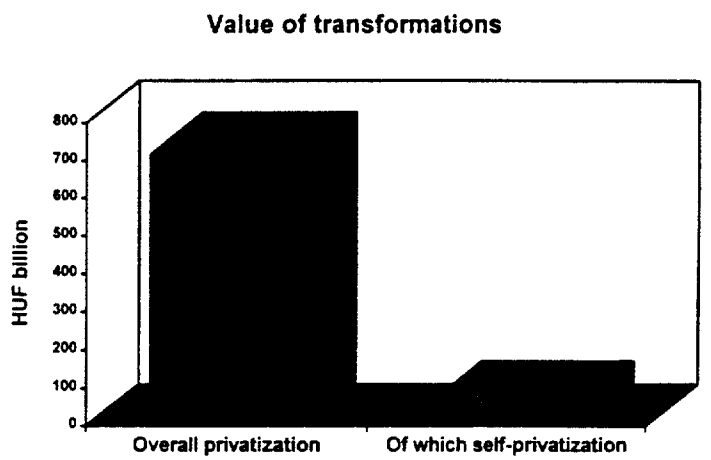
In the course of the Hungarian privatization 1,032 state owned enterprises have been transformed into associations under the SPA's management with a total value of HUF 717.33 billion. Of the above, 427 have been transformed in the self-privatization program, with a total value of HUF 61.3 billion.

Graphs 4/a and 4/b show the number and value of transformed companies respectively in both overall privatization and self-privatization.

Graph 4/a



Graph 4/b

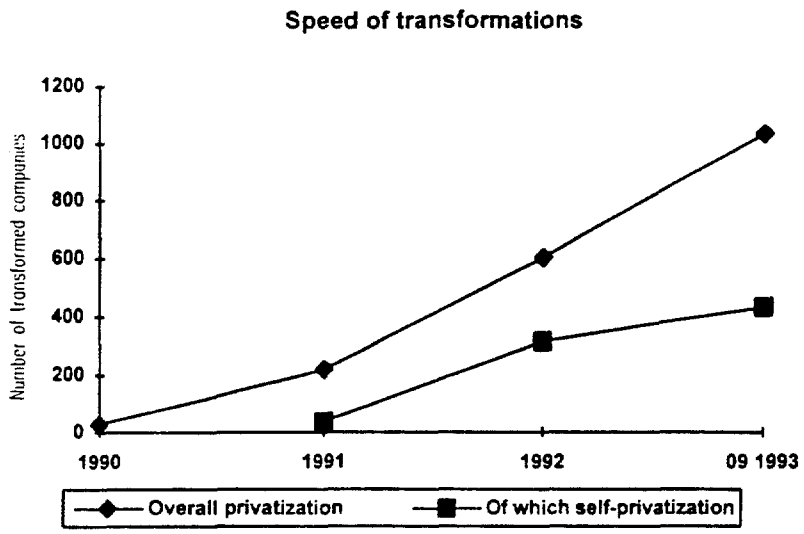


Graphs 4/a and 4/b suggest that when the achievements are measured in terms of numbers, a significant proportion, 42%, of the transformations in overall privatization come from self-privatization; while in terms of value, the SPP's contribution is much more modest, 9%, due to the smaller value of companies involved.

As opposed to the previous method of illustrating the status of privatization at a particular point in time (30 September 1993), **Graph 5** depicts transformations from a dynamic angle showing the annual number of transformations.

328

Graph 5



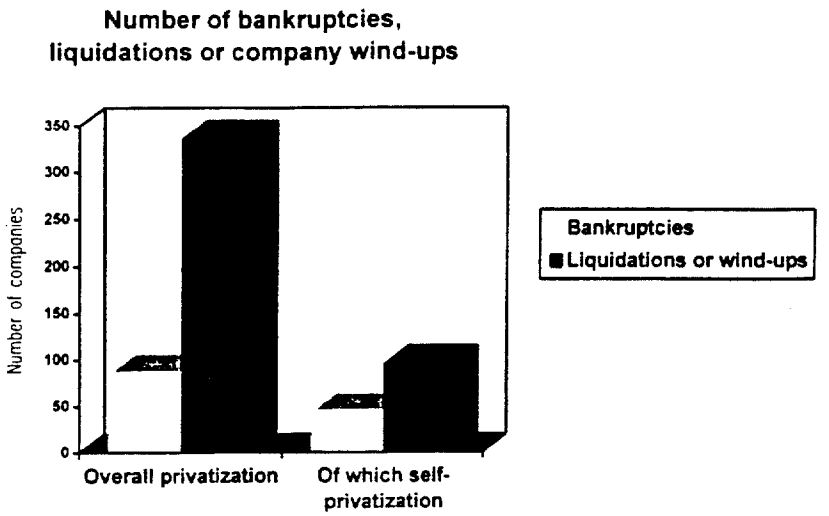
In **Graph 5** it is apparent that the pace of transformations has slowed down in self-privatization as compared with overall privatization, which can be explained by the limited number of companies available in the SPP. In the first fifteen months of the program the majority of the companies was transformed; this figure reached 433 by 30 September 1993, there are only 80 companies left which are legally obliged to transform by 31 December 1993. Thus the above graph cannot show an increased tendency for SPP transformations for 1993. In overall privatization, however, a growing tendency can be observed throughout the whole period, and the number of transformations will peak in 1993, since all companies have to go through mandatory transformation before the year end.

IV. 3. Bankruptcies, Liquidations and Company Wind-ups

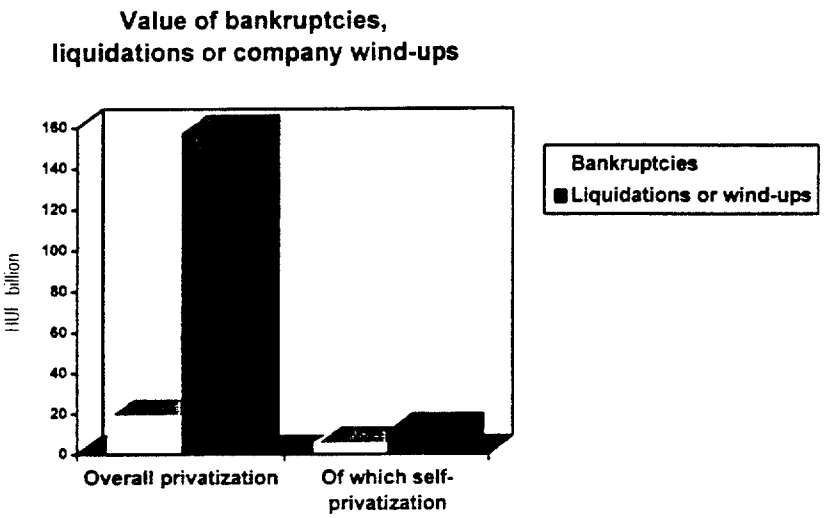
In the overall privatization managed by the SPA 87 companies have gone bankrupt, with a total value of HUF 19 billion, and 336 have been liquidated or wound up with a total value of HUF 156.9 billion. In the Self-Privatization Program 45 companies operate currently under bankruptcy procedures with a book value of HUF 5.2 billion. The number of liquidations and wind-ups is 95, their total value is HUF 10.8 billion.

Graphs 6/a and 6/b compare the above categories in overall privatization and self-privatization on the basis of the number and value of companies respectively.

Graph 6/a



Graph 6/b



As **Graphs 6/a and 6/b** indicate, approximately half the number of bankrupt companies recorded in overall privatization are involved in self-privatization; however, this ratio is less than one third in the area of liquidations and wind-ups. In terms of value, the ratio is more favorable for the SPP: 26% of the value of bankruptcies in overall privatization comes from self-privatization, while only 6% of the value of liquidated of wound-up companies originates in self-privatization.

330

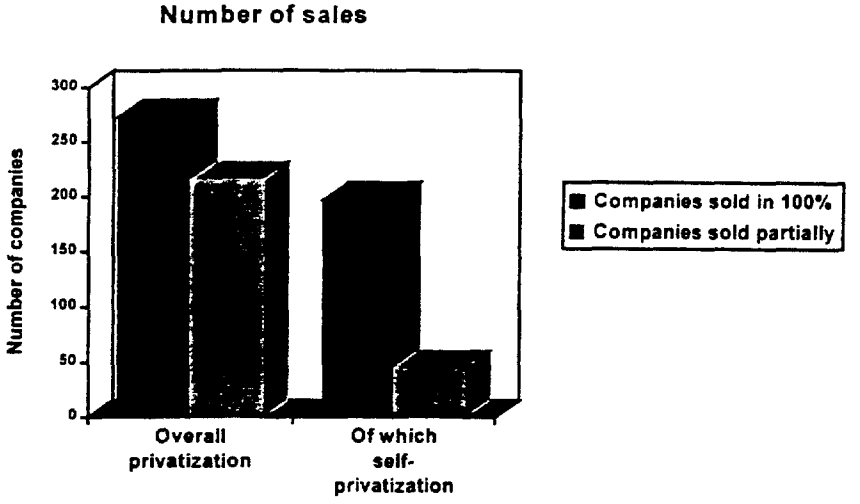
IV. 4. Sales

In Hungarian privatization, 273 companies have been sold in 100%, from which the proceeds are HUF 108.3 billion. The number of partial sales is 215, from which the proceeds are HUF 123 billion.

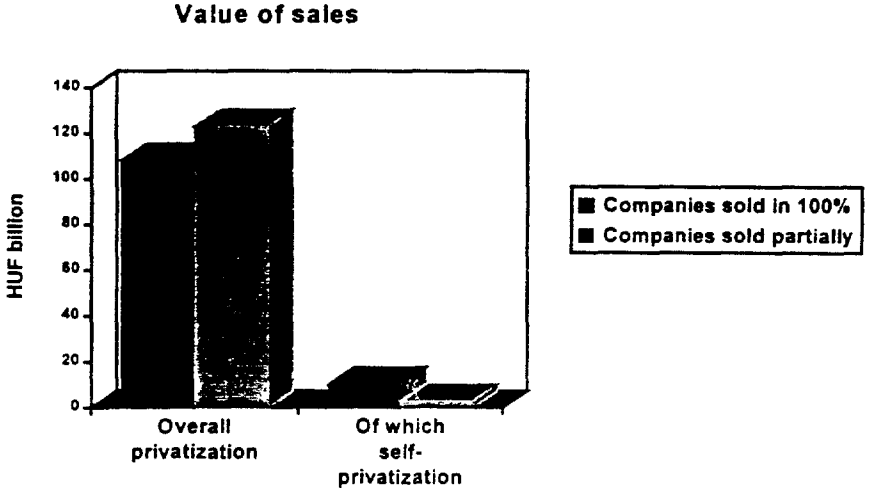
In the Self-Privatization Program, 197 of the above mentioned 273 companies have been sold in 100%, with proceeds of HUF 10.1 billion. If the 45 partial sales are also taken into consideration, the total income from self-privatization is HUF 13 billion.

Graph 7/a below illustrates the number of sales in both overall privatization and self-privatization, while **Graph 7/b** shows the revenue obtained from the sales in both areas.

Graph 7/a



Graph 7/b

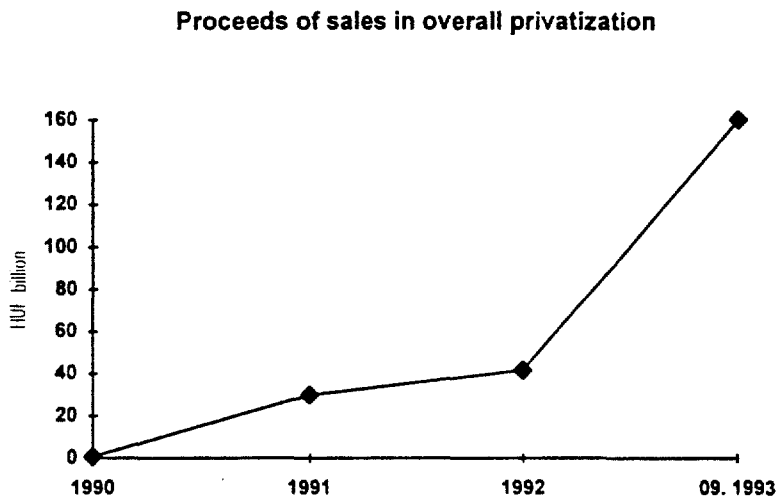


331

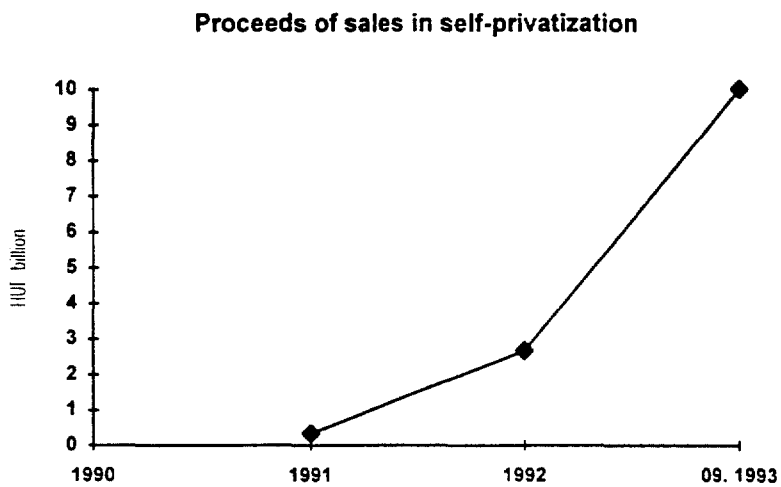
Comparing **Graphs 7/a and 7/b**, it becomes obvious that the contribution of self-privatization to the results of overall privatization is significantly different depending on whether the number (**Graph 7/a**) or the value of the companies involved (**Graph 7/b**) is used as a basis of comparison, due to the difference in size. If the results are analyzed in terms of numbers, 72% of complete sales and 21% of partial sales recorded in overall privatization have come from the Self-Privatization Program, i.e. half of all the sales completed to some degree have been achieved in self-privatization. However, if the results are viewed from the standpoint of revenue, it is apparent that the Self-Privatization program has contributed to only 5% of the proceeds of overall privatization.

So far, sales have been illustrated from a static point of view showing the status of privatization as of 30 September 1993. However, this category is worth looking at dynamically, through its development since 1990. Basing the trends on the revenue of sales, **Graphs 8/a and 8/b** below show the speed of sales in overall privatization and self-privatization respectively.

Graph 8/a



Graph 8/b

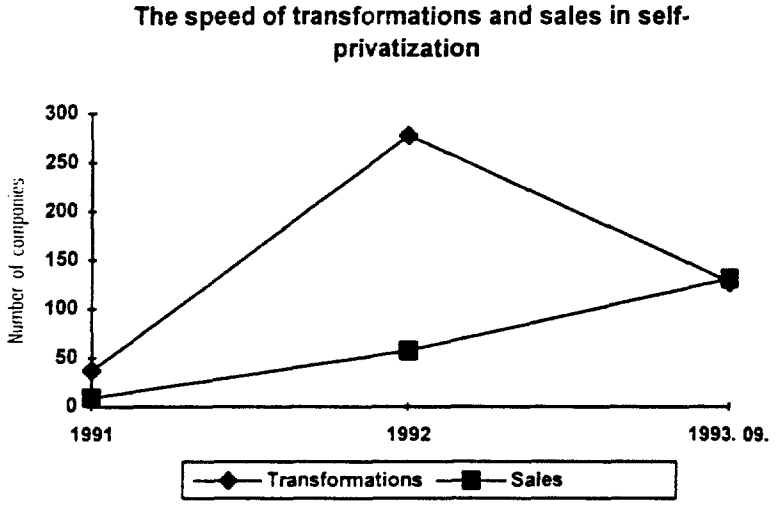


332

Graphs 8/a and 8/b illustrating the increase of sale proceeds indicate a sharp acceleration of sales in both overall privatization and self-privatization in 1993. The volume of income from sales for the period between 1 January and 30 September 1993 is considerably more significant than in the previous years: in overall privatization the figure is HUF 160 billion as opposed to HUF 42 billion in 1992, and in self-privatization it is HUF 10 billion as opposed to HUF 3 billion the previous year.

Studying the dynamics of the transformations and sales together, the analyst is able to make forecasts for the future. **Graph 9** illustrates the speed of transformations and sales in terms of company numbers in the Self-Privatization Program.

Graph 9

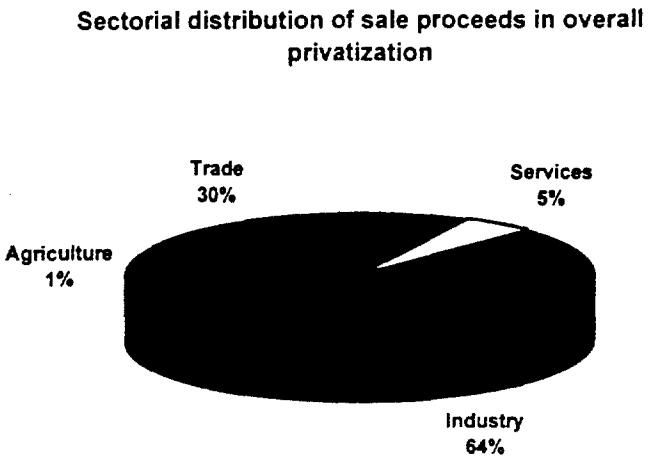


Graph 9 shows that in self-privatization the number of transformations was very high in 1992, while the numbers fell in 1993. However, sales have proved to have an exponentially increasing tendency in 1993. If sales are to be forecast on the basis of the speed of transformations, the greatest number of sales is to be expected for 1993-94 due to the delay caused by the preceding transformation phase.

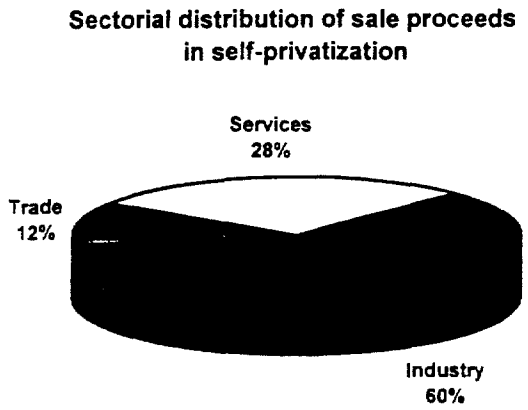
A further aspect which provides a deeper insight into both overall and self-privatization, is the analysis of the sectorial and regional distribution of sales, illustrated in **Graphs 10/a and 10/b** and **11/a and 11/b** below.

333

Graph 10/a



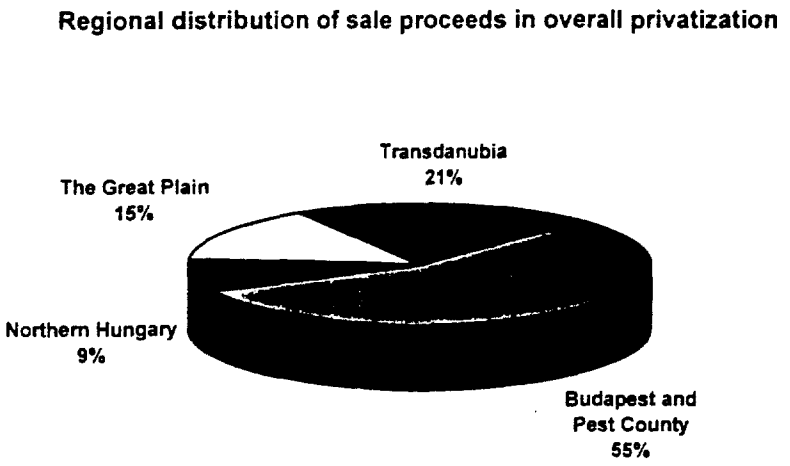
Graph 10/b



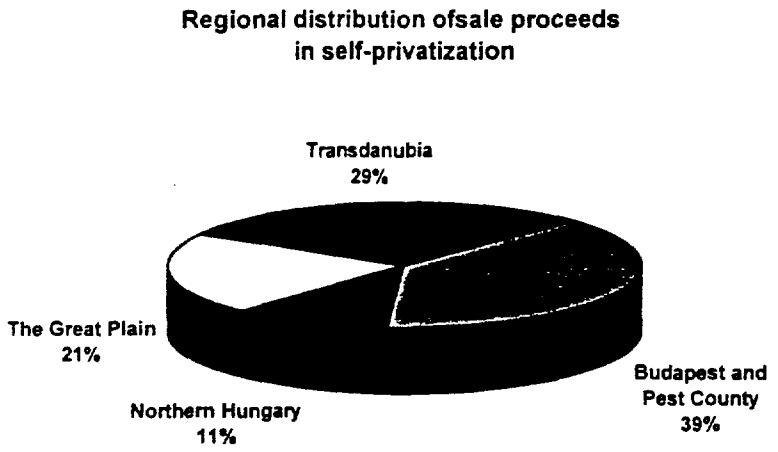
Graphs 10/a and 10/b clearly shows that the industrial sector dominates in both overall privatization and self-privatization, although it is somewhat smaller in the latter, and that the contribution of the agricultural sector is almost equally negligible in both. The main difference lies in the percentage of sales in the trade and the service sectors: in overall privatization the revenue from the sale of trading companies is approximately one third and for service companies it is only 5% of the total revenue, while in self-privatization the revenue from service companies is bigger, 28%, and from trading companies it is only 12%. The reason for the difference is again due to the size of companies involved: the majority of consumer services is traditionally provided by small companies, while trading has mostly been performed by large companies which were established in the past few decades and have developed a monopoly position in the market.

334

Graph 11/a



Graph 11/b



The regional analysis of sales in **Graphs 11/a and 11/b** show that more than half of the revenue from sales in overall privatization comes from companies sold in the capital or in the neighboring area (Pest County), whereas the percentage of sales in the same region is only 39% in self-privatization. In accordance with this, the proportion of investments in the SPP is higher in other parts of the country, but mainly in the Great Plain and in Transdanubia. Northern Hungary has proved the least attractive for investments in both cases. The difference between overall privatization and self-privatization in this respect is mainly due to the wider spread of the small and medium-sized self-privatized companies which specialize in consumer services required by the public nationwide. (This feature has also appeared in the analysis of the sectorial distribution of sales.) The wide spread of companies involved in self-privatization has a significant social aspect too: within the SPP privatization has been proceeding, affecting a considerable number of companies and their employees all over the country.

335

IV. 5. Investors and Methods of Financing

The range of investors in both overall privatization and self-privatization is illustrated through the value of investments in **Table 2** (data as of 30 September 1993):

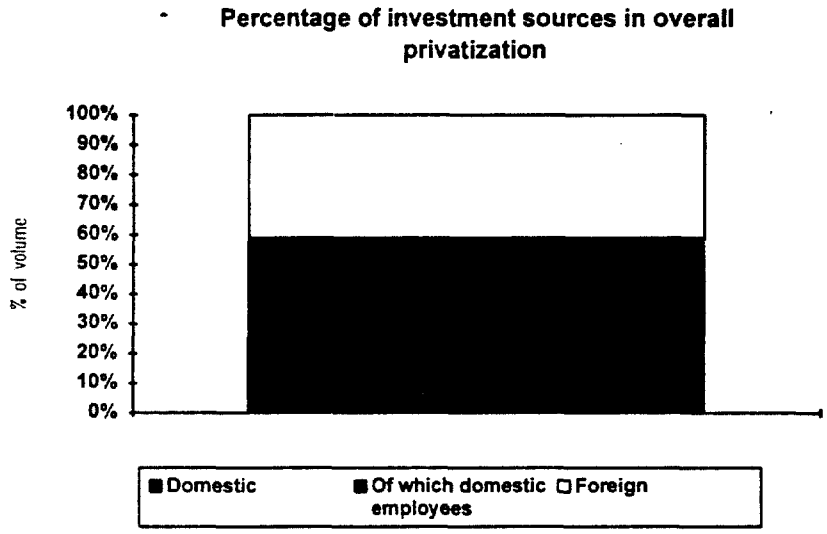
Table 2

	Overall privatization	**Of which Self-privatization**
Investors	**Value of SPA shares (HUF billion)**	**Value of SPA shares (HUF billion)**
Domestic Of which: employees	135.74* 47.82*	11.38 4.577
Foreign	95.65	1.7
In total	**231.39**	**13.08**

Sources : PRI-MAN Monthly Report, September 1993
Privatization Monitor, September 1993, published by the State Property Agency
(Data marked by * has been calculated on the basis of information published in "Privatization Monitor")

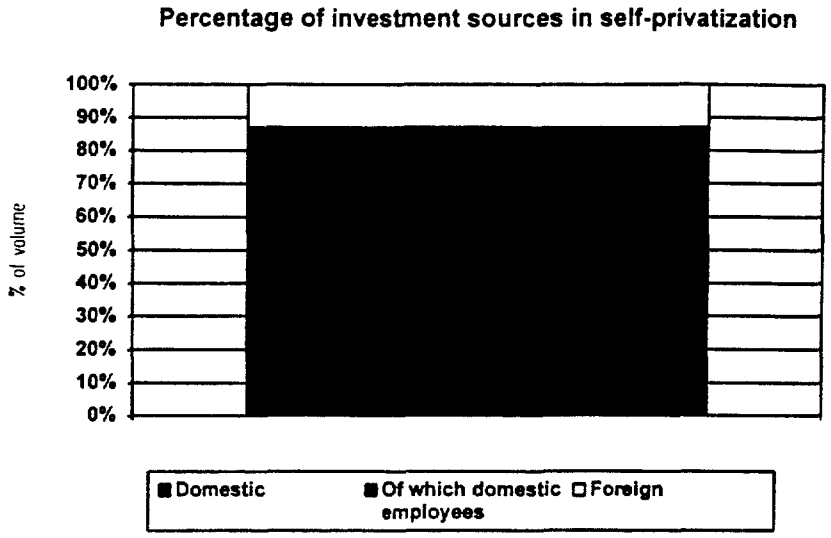
Graphs 12/a and 12/b show the percentage of investment sources in overall privatization and self-privatization respectively.

Graph 12/a



336

Graph 12/b



As **Graphs 12/a and 12/b** show, the role of domestic investors is noticeably greater than that of foreign investors in both overall privatization and self-privatization. Domestic capital takes up 60% of the value of investments in overall privatization and 87% of the value of purchases in self-privatization. This proves that the available discounts and the financing methods designed to support domestic investors has had a beneficial effect in both cases. In the SPP, because of the smaller size of companies, employee ownership has been a popular form of privatization (34%), which has contributed significantly to reaching the 87% ratio. Foreign investors have been attracted mainly to large companies, and to a lesser degree to smaller companies scattered around in less developed parts of the country. Therefore the involvement of foreign capital is higher in overall privatization (41%) than in self-privatization where it is only 13%.

Table 3 below details the various financing methods supporting domestic investors and the results they have been used with (data as of 30 September 1993):

Table 3

Financing methods	**Overall privatization**		**Of which Self-privatization**	
	Number	Value (HUF billion)	Number	Value (HUF billion)
ESOP	65	15.04	37	1.9
Leasing	6	1.63	2	0.14
E-loans	N/A	22.58	N/A	3
Compensation warrants	N/A	8.99	N/A	1.9

Sources : Privatization Monitor, September 1993, published by the State Property Agency
Internal Information System of PRI-MAN Kft, 30 September 1993 data

337

The significance of domestic investments in the Self-Privatization Program is apparent in **Table 3** : more than half of the 65 ESOP organizations, and one third of the leasing arrangements have been made in self-privatization. Analyzing the data from the standpoint of the value of investments, 13% of ESOPs and 8% of the leases is to be found in self-privatization, and 13% of E-loans and 21% of compensation warrants have been used in the SPP. Considering that only 5% of the privatization revenue comes from self-privatization, the above ratios reflect the significance of the different financing methods in the Self-Privatization Program.

IV. 6. The Success Factors of Self-Privatization

The following summary table and detailed assessment analyses the success factors of self-privatization from the point of view of the whole privatization and the participants of the program.

AREA	ACHIEVEMENTS
a) Privatization	High level of sales, few liquidations, involvement of domestic capital
b) State Property Agency	Reduction of the SPA's workload
c) Adviser	Accumulation of wide-ranging experience through independent activity
d) Company	Integration of company's interests both in the contract with adviser and in the privatization process
c) Employees	Jobs saved through successful privatization and opportunity to gain ownership of company

a) Self-privatization has achieved significant results in the areas of sales, the ratio of liquidations and the volume of domestic capital involved, as it is proved by the data detailed previously in Chapter IV. Thus the Self-Privatization Program has contributed significantly to the success of overall privatization in Hungary.

b) The SPA's direct involvement in self-privatization has been much smaller than in the other privatization programs which are managed by the Agency, as it is described in "The Roles and Tasks of Participants in Privatization" (Chapter III. 4.). This is due to the fact that the SPA established its own company, PRI-MAN Kft, to oversee the management of the program, and transferred the right and responsibility of decision-making to advisers.

c) The advisory firms taking part in self-privatization have worked independently of the SPA and gained a wide range of experience, knowledge and contacts in a completely new field of the Hungarian economy. The assessment of advisers' performance has enabled the SPA to select the best firms to continue their activity in the Self-Privatization Program. As a result, a group of advisers has

emerged with significant expertise in the Hungarian economy to be relied upon in the future.

d) In the SPP state owned enterprises have been able to select and contract (or terminate the contract with) the most suitable advisory firm of the ones involved in the program by the SPA. This way the likelihood of conflict-free and effective cooperation between company and adviser has been increased. A further factor which has enhanced the success of privatization from the company's point of view is the integration of company interests in the process. This is achieved in two ways: through the transformation plan which includes the privatization concept and has to be approved by the board of the self-governing state owned enterprise, and through the opportunity given to employees to become investors. This has encouraged the consideration of non-financial factors in privatization, such as maintaining production and employment, support for innovation and improving the company's market position.

e) In the SPP 22% of transformed companies have been liquidated. This ratio is much more favorable than that of privatization outside the SPP (32%). The reasons for this lie in the nature of self-privatization: on the one hand it is easier to sell small companies than bigger ones, on the other the favorable conditions of employee ownership have increased the circle of investors and thus the volume of sales. Many employees have obtained shares in their own companies which also means that through the program a considerable number of jobs has been saved.

339

V. RECOMMENDATIONS

On the basis of the comprehensive comparative analysis of overall privatization and self privatization in Chapter IV, the Self-Privatization Program can be regarded as one of the most successful programs of the State Property Agency, during which an enormous amount of experience has been accumulated by both the advisers and the coordinating organization, PRI-MAN Kft.

Assuming the continuity of the program, the trend of self-privatization may be forecast for the future: a major increase of sales in may be expected for the period 1993-94. The reasons for this have been discussed in Chapter IV.4: in the SPP the majority of transformations took place in 1992, while the trend was falling in 1993. However, sales have shown an exponentially increasing tendency in 1993. The delay caused in the sales by the preceding transformation phase, and the high number of companies already transformed but not yet sold in the program suggest that sales will peak in 1993-94.

To ensure the maximum success of self-privatization within and outside the scope of the program, certain features of self-privatization should be integrated into all privatization in the future.

1) Securing Continuation

In order to secure the smooth continuation of the privatization process started in the SPP, those advisers whose qualifications, experience and previous performance have proved satisfactory in the program should be able to complete the transactions which they began before 31 December 1993. Continuity should also be maintained through the utilization of the expertise and experience gained by PRI-MAN in the management of the SPP: the currently employed staff of PRI-MAN should form a unit within the SPA which would be more effective in managing the remaining sales than a new group of privatization managers lacking the background knowledge and experience of PRI-MAN employees.

2) New Contract between Advisers and the SPA

A new contract should be drawn up between the SPA and selected advisers to complete the sales of those companies whose privatization is in process. This new contract should contain new control aspects enabling the SPA to monitor the process closely. This is important as the majority of companies which have not been sold in Phase II of the SPP yet are fairly large and valuable companies with a strategic significance higher than that of the smaller ones in the program.

3) **Integration of the Features of Self-Privatization into Other Areas of Privatization**

Certain features of self-privatization may be incorporated into the privatization of companies which have not been included in the program. They can be summarized as follows:

a) In order to increase the speed and success of sales in general privatization, the concept of the framework agreement should be applied there too. A separate contract should be drafted between the SPA and selected advisers for each specific category of companies. Such a contract would ensure a certain level of freedom for advisers and reduce the SPA's workload.

b) If a certain range of companies and advisers, determined by the SPA, may contract with one another freely, privatization is likely to take off more speedily than in the present SPA directed privatization practice, where advisers' services are publicly tendered for.

c) The Framework Agreement should be drawn up specifically for the privatization of selected companies to allow the best integration of company interests in the process. This would also allow the number and type of decisions made by the adviser and the SPA to be defined according to the specific nature of the privatization process.

d) Non-financial factors to be taken into consideration by the adviser at the time of sale should be incorporated in the Framework Agreement in order to ensure the manifestation of general economic and company interests. Such factors may be the maintenance of jobs, environmental protection, production orientation, the development of technology and market potential.

4) **Further Evaluation of Advisers**

Similarly to the evaluation of the performance of advisers in the Self-Privatization Program, it would be useful to evaluate the performance of advisers in general privatization too, and select the most suitable firms. The basis of evaluation should be a range of general criteria applicable to all advisers, plus specific criteria developed according to the type of the privatization process advisers participate in.

5) **Separation of Sellable and Non-Sellable Companies**

In both general and self-privatization it has become obvious that a certain range of companies cannot be sold due to limited demand. In order to increase the effectiveness of privatization it would be important to separate clearly the range of sellable and non-sellable companies. As for the latter, the following alternatives seem possible:

a) quick liquidation to avoid the total exhaustion of company assets and to allow the flow of the remaining capital into the economy;
b) asset management to be provided by professionally qualified and experienced organizations for companies whose privatization may be achieved through restructuring and rationalization.

342

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EVALUATION SCHEME FOR THE PERFORMANCE OF PRIVATIZATION ADVISERS IN PHASE I OF THE DECENTRALIZED PRIVATIZATION PROGRAM

Deloitte Touche Tohmatsu International

343

1. EXECUTIVE SUMMARY

At the end of 1992 PRI-MAN Kft. and the SPA decided to review the Decentralized Privatization Program (DPP) in order to get a clear picture about the results of the program and to determine the factors of success or failure in this program.

The major aspect of this review was the evaluation of the performance of the privatization advisers since they are the major players in the DPP. The determination of successful performance is regarded as essential for the continuation of the DPP but also for the design of other privatization programs.

Deloitte & Touche was requested to develop a scheme to evaluate the performance of privatization advisers. In the course of the assignment

- the criteria of performance were defined
- a measurement system was established, and
- some additional findings were revealed.

The evaluation scheme is designed to be a pragmatic approach for a quick evaluation at a particular time. It is recommended that in order to have more control over privatization advisers, PRI-MAN should consider the following recommendations:

- **extend and modify the evaluation scheme for continuous use by:**
    - creating the framework for a more up-to-date database
    - developing more sophisticated measurements
    - designing a computer program to handle data processing
- **develop a manual for privatization advisers including:**
    - the adviser's role, tasks and responsibilities
    - relevant procedural and legal regulations
    - guidelines for the required quality standards
    - strategies for advisers to speed up the privatization process
    - the expected results of advisers' work
- **analyze the information systems at PRI-MAN and the SPA based on the data exchange requirements in order to improve:**
    - the information and data exchange
    - the continuous updating of both systems

The final output of the evaluation scheme is a ranking of the privatization advisers according to their performance in Phase I of the DPP. In addition, the scheme will reveal a comprehensive database. The professional and quick analysis of this database is probably the most important recommendation. The appropriate application of the major perceptions from this analysis should have positive effects on the DPP.

2. INTRODUCTION

The SPA designed the Decentralized Privatization Program to accelerate and decentralize the process of converting designated small and medium-sized state owned enterprises to private companies. The two major components of acceleration and decentralization are:

- **the establishment of PRI-MAN**, to oversee the day to day operations and to avoid procedural and administrative road blocks by the SPA;

- **the engagement of private sector consulting firms** which function as privatization advisers to the SOEs, help to transform the SOEs, provide technical and managerial skills, find new owners and negotiate the sale of the companies.

Phase I of the Decentralized Privatization Program began in October 1991. The selection criteria for Phase I was initially based on SOEs which had up to 300 employees, 300 million HUF annual sales, and 300 million HUF in equity. In the process of selecting the SOE's, PRI-MAN had to consult with several ministries to obtain their approval for the sale of these SOEs. The program was designed to privatize 423 small enterprises by 31st March 1993, using the experience of external advisers. Out of the 423 companies, 363 companies contracted with 84 advisers, of which 210 were transformed to Kft's or Rt.'s. The transformation of SOEs to other legal entities is required before their sale to investors. By the end of November 1992, 27 companies were completely and 13 were partly sold to private investors.

Since the DPP's strategic objective is to advance the flow of privatization of small and medium-sized SOEs by privatizing the privatization process, PRI-MAN's major functions are the supervision, the administration and the communication of the program. The privatization process under the DPP differs from that of the ordinary privatization in Hungary. Privatization advisers were preselected and contracted by the SPA to assist in the DPP. (The contract listing the advisers' rights and responsibilities, regulating their activity in detail and outlining the fee structure is the Framework Agreement.) The actual steps towards the privatization of SOEs are taken by the advisers and the companies themselves. The contract between them for privatization services is not influenced by the SPA.

The fees for the transformation phase, which is the period between contracting the SOEs and transforming the SOEs are negotiated between adviser and SOE. The fees for the period from transformation to sale (selling phase) are linked to the sales price and the speed of the sale of the SOE. During the selling phase the adviser acts as the owner of the SOE in the interest of the SPA. He selects the new owner through tendering and negotiates the sales contract with the successful applicant.

Within the scope of the Decentralized Privatization Program, success is a function of sale taking place and the speed of sale. Therefore success or failure of the program heavily depends on the performance of the advisers. These advisers are supposed to be the only link between PRI-MAN and the SOEs. The supervisory function of PRI-MAN is restricted to watching the conduct of privatization and to following up unusual or irregular activities.

This work is funded by the United States Agency for International Development as part of the contract "Technical Assistance to the State Property Agency of Hungary". ("Self Privatization Program Assistance", contract number ANE-0002-C-0047-00).

346

3. OBJECTIVES OF THE ASSIGNMENT

Since it is obvious that the program has not been as successful as originally expected, Deloitte & Touche was asked to design a scheme to evaluate the performance of the advisers in Phase I of the Decentralized Privatization Program. It was emphasized, that the priority is on the development of the evaluation concept, rather than on the format of the output. It was agreed that at this stage, the scheme will be fairly simple, pragmatic and not yet computer driven. The workload for PRI-MAN staff to run the scheme should be reduced to a minimum. The evaluation itself is to be carried out by PRI-MAN with assistance from Deloitte & Touche if required.

The final result of this evaluation scheme is a ranking of the participating advisers which can be used to decrease the number of advisers, to exclude advisers from the program, and to reallocate some cases which do not show any progress. Furthermore, all additional findings concerning achievements, insufficiencies and constraints of Phase I during the course of the assignment are documented and used as the basis for related recommendations. Since Deloitte & Touche have no access to the actual results of the evaluation, the analysis of the results as well as result based recommendations are excluded from this report.

SCHEME

TO EVALUATE AND MONITOR

THE PERFORMANCE

OF PRIVATIZATION ADVISERS

IN PHASE II OF THE

SELF-PRIVATIZATION PROGRAM

1. EXECUTIVE SUMMARY

The Self-Privatization Program (SPP) has been running since October 1991: Phase I officially expired on 31 March 1993, but has been extended to complete the sale of the remaining companies; Phase II is coming to an end on 31 December 1993.

In March 1993 the State Property Agency (SPA) carried out a review of Phase I to determine how successful the program had been and what measures or modifications needed to be implemented in order to increase the effectiveness of self-privatization.

One of the major aspects of this review was the evaluation of the performance of privatization advisers since they are the major players in the process: they are commissioned by the SPA to privatise the selected companies and act as owners representing the SPA. The determination of their successful performance was essential for the continuation of the program.

On the SPA's request Deloitte & Touche developed a scheme to evaluate the performance of privatization advisers in Phase I. The scheme was then used successfully by PRI-MAN and the SPA in selecting the advisers they wished to involve in the extension of the program. The evaluation scheme was designed to provide a pragmatic approach for a quick evaluation at a particular time: at the end of Phase I.

After the implementation of the first evaluation scheme, the SPA has requested Deloitte & Touche to modify the scheme according to the specific features of Phase II in order to evaluate the performance of Phase II advisers. Again, the aim is to evaluate performance at a particular point of time, which is to be determined later by the SPA.

The new scheme includes a monitoring system to cover all the possible breaches of regulations which may occur in the SPP. The framework agreement between the SPA and self-privatization advisers states that in the event of breaches occuring, the SPA retains 40% of the advisers' fee. Therefore, the appropriate monitoring of breaches has major significance from the standpoint of maintaining adherence to the legal requirements of the program.

Parallel to the evaluation scheme and the monitoring system, Deloitte & Touche is also developing a manual for advisers in Phase II of the SPP, which will discuss topics such as:

- the advisers' role, tasks and responsibilities
- the most up-to-date legal and procedural regulations
- guidelines for the required quality standards
- marketing strategies
- alternative methods of financing

The manual will be regularly updated to provide advisers with information concerning the most current changes of the program and will serve as a basis of the evaluation of their performance.

Thus, through the different tasks undertaken, Deloitte & Touche is able to assist both sides: the SPA in issuing guidelines, clarifying requirements and monitoring performance, and the advisers in following guidelines, meeting requirements and improving performance, all for the benefit of self privatization.

2 INTRODUCTION

The SPA designed the Self-Privatization Program (SPP) to accelerate the process of converting designated small and medium-sized state owned enterprises to private companies. The program differs from the main trend of privatization in Hungary in its philosophy of privatizing privatization. The two main features of SPP are as follows:

- The SPA has established its own company, PRI-MAN, to oversee the day-to-day management of the program in order to reduce the SPA's administrative workload. PRI-MAN's major functions are the administration, the supervision and the communication of the program.

- The SPA has engaged private sector advisory firms to carry out the entire privatization process without the SPA's assistance. Their activity is regulated by a framework agreement which allows them considerable freedom. Advisers and SOEs select and contract one another independently of the SPA, advisers then transform the SOEs into private companies, act as owners representing the SPA during the period between transformation and sale, they market the companies, tender the sale and select the new owners. For the transformation advisers receive their fees from the SOEs, while for the successful sale of the companies they are rewarded by the SPA.

Phase I of the Self-Privatization Program began in October 1991, and although it officially came to an end on 31 March 1993, it has been extended to complete the sale of the remaining companies. The selected SOEs in Phase I have up to 300 employees, 300 million HUF annual sales and 300 million HUF in equity. The program was designed to privatize 423 small enterprises using the expertise of 84 external advisers. Out of the 423, 371 state owned enterprises contracted with 73 advisers, 269 were transformed into limited companies or public liability companies, and 167 were sold by the 31 March 1993.

As a result of the review carried out by the SPA in March 1993, Phase I has been extended under the code name Phase III. The number of advisers participating in Phase III has been reduced to 48, who then signed a new framework agreement with the SPA. In the extended phase a further 7 SOEs were transformed and 15 were sold to private investors by 31 May 1993.

Phase II of the SPP began in July 1992 and expires on 31 December 1993, but it may also be extended. The 270 SOEs involved in this phase employ between 300 and 1,000 staff, have between 300 and 1,000 million HUF annual sales and between 300 and 1,000 million HUF in equity. The number of advisory firms registered in this phase of the program is 129. By 31 May 1993 205 state owned enterprises contracted with 77 advisers, 107 were transformed into limited companies or public liability companies and 9 were sold to private investors.

350

The Self-Privatization Program has so far been the most successful part of privatization in Hungary. Success is a function of sale taking place and the speed of sale, although in Phase II the significance of asset management has increased considerably due to the size and value of the companies involved. As every step of the process is carried out by the advisers, success or failure of the program heavily depends on their performance.

The development of the scheme to monitor and evaluate the performance of advisers has been funded by the United States Agency for International Development as part of the contract "Technical Assistance to the State Property Agency of Hungary" (Self-Privatization Program Assistance, contract number ANE-0002-C-0047-00).

351

3. OBJECTIVES OF THE ASSIGNMENT

A review of Phase II of the Self-Privatization Program is planned by the SPA which may result in the possible extension of Phase II, the reselection of the participating advisers and the reallocation of privatization cases.

One of the objectives of the present assignment is to assist the SPA in their review through a modification of the existing evaluation scheme. Within the scope of the new scheme the performance of advisers will be evaluated with consideration of the specific features of Phase II. The scheme will remain fairly simple, not computer-driven and suitable for evaluating performance at a particular time. Again, the workload for PRI-MAN staff to operate the scheme is reduced to a minimum. The evaluation itself is to be carried out by PRI-MAN with Deloitte & Touche assistance if required.

The other, equally significant objective is to develop a monitoring system through which PRI-MAN and the SPA are able to identify breaches of legislation, and consequently retain 40% of the adviser's fees. This system will be computer-driven, and suitable for quick and continuous monitoring. Deloitte & Touche will develop the software, but the operation will be PRI-MAN's responsibility.

352

INTEGRATION

OF THE

INFORMATION SYSTEMS

OF THE

STATE PROPERTY AGENCY

AND PRI-MAN

15 November 1993, Budapest

353

TABLE OF CONTENTS

	Page
I. EXECUTIVE SUMMARY	2
II. INTRODUCTION	3
III. CHARACTERISTICS OF THE TWO SYSTEMS	5
1. The special PRI-MAN method	5
2. Facts and forecast data	5
3. SPA MIS dominance and management system orientation	5
4. Transaction and status orientation	6
5. Wide range of data	6
6. Outputs	7
7. Conclusions	7
IV. BASIC ALTERNATIVES	8
1. Complete function transplantation	8
2. Maintaining the complete independence of PRI-MAN MIS	9
V. DETAILS OF INTEGRATION IMPLEMENTATION	11
1. Questions of data transplantation	11
1. Updating data	11
2. Complete filing or transplantation of changes	11
3. Process of data transplantation	12
2. Realization of transplantation	13
1. Basic data of enterprises/companies	13
2. Change in basic company data	14
3. Data of transformation	14
4. Transplanting data of sales	15
5. Data of shares	15
6. Data of advisers	15
VI. SUPPLEMENTS	16

354

I. EXECUTIVE SUMMARY

The Self-Privatization Program was specially designed to accelerate the conversion of selected small and medium-sized state owned enterprises to private companies. The State Property Agency (SPA) has established its own company, PRI-MAN, to oversee the day-to-day management of the program in order to reduce the SPA's administrative workload. The management information systems of the two institutions are different in many respects. The PRI-MAN Management Information System (PRI-MAN MIS) had been developed before the SPA's Management Information System (SPA MIS) was introduced to meet the specific information requirements of self-privatization.

The purpose of this report carried out by Deloitte & Touche is to analyze the possibilities of integrating of the two systems. The need for such an integration has arisen because the SPA wishes to unify the privatization information services and because the Self-Privatization Program is coming to an end. Therefore, the separate operation of both the organization and the information system of PRI-MAN is to be ceased.

Three main factors have to be considered when it comes to the integration of the two systems:

- The Self-Privatization Program is coming to an end, so further utilization of PRI-MAN MIS will not be required.
- The number of data changes in self-privatization is low.
- The different operational principles of the two systems (PRI-MAN is status oriented, SPA MIS is transaction oriented) make the transfer process complicated.

Although self-privatization is to be ceased, PRI-MAN MIS will continue to contain useful information. As no further companies are to participate in self-privatization, the creation of a PRI-MAN subsystem within SPA MIS would not make sense. Due to the different operational principles of PRI-MAN and the SPA systems and to the low number of changes in the data, the implementation of a continuous computerized data transfer between the two systems is not justified and would be more expensive than a well elaborated parallel data input. However, the initial data comparison and transfer should be computerized.

In order to achieve the required aims, the following tasks should be carried out:

- The one-off, not continuous comparison and transfer of basic PRI-MAN data into SPA MIS according to the above (which had been carried out almost fully by the time of completing this study);
- Organization of parallel data input and elaboration of a suitable control process;
- The parallel operation of the two information systems for a period of time while PRI-MAN MIS can provide useful information;
- In case the privatization of companies currently involved in self-privatization will continue to follow a different pattern from the SPA directed privatization, a minimal development of SPA MIS might be necessary.

355

II. INTRODUCTION

The possibility of a closer integration of the Management Information Sytems of PRI-MAN and the SPA has already arisen before. Ideas concerning the future of PRI-MAN have brought the need of solving the problem to the surface again. The following study and the rough system plan show the possible solutions based on the detailed examination and comparison of the two systems.

The basic tasks and the objectives of the PRI-MAN MIS and the SPA MIS are similar. Nevertheless, the ways of their implementation are different. The main differences are as follows:

- self-privatization, co-ordinated by PRI-MAN; differs from all the other methods of privatization performed under the authority of the SPA;
- the PRI-MAN MIS is based on facts while the SPA MIS is based on forecast data;
- the PRI-MAN MIS is based on the particular administrative system of the organization; while the SPA MIS has a strong orientation to meet the needs of a management information system;
- the PRI-MAN MIS is status, while the SPA MIS is transaction oriented;
- the data structure of PRI-MAN is simple while that of the SPA MIS is more complicated;
- the tools of output forming are also different.

The realization of integration is not simple due to these differences, despite the similar functions.

There are two possible approaches of integration :

- complete transplantation of PRI-MAN functions into the SPA MIS and the closure of the PRI-MAN MIS;
- maintenance of the independence of the PRI-MAN MIS within the framework of total or partial integration.

Of the possible solutions, the transplantation of PRI-MAN functions to the SPA MIS would require high development costs, so this version is not recommendable. The development of the PRI-MAN system towards the SPA MIS functions to achieve complete integration seems impossible because of the nature of the PRI-MAN MIS, and in particular, its lack of transaction orientation.

356

Based on the above, the two possible solutions are the following:

- maintaining the present situation without any changes; further operation of the PRI-MAN MIS as an independent system; manual filling of SPA MIS data base;

- continuous input of PRI-MAN data changes (on disk or network) to SPA MIS system.

As only the second alternative requires further thought, that is the detailed subject of the present study.

Chapter V and the Supplements include the actual system plan for data transfers. Transfers cannot be complete concerning data content, and the process cannot be fully automated in respect of functionality because of the conceptional problems detailed in Chapters I -IV. Therefore, only a mixed data transfer can be realized (partly manual, partly automated); however, even this cannot improve considerably the quality of the data and the information services.

The report has been funded by the United States Agency for International Development as part of the contract "Technical Assistance to the State Property Agency of Hungary" (Self-Privatization Program Assistance, contract number ANE-0002-C-0047-00). Within the framework of the same contract, Deloitte & Touche has carried out previous projects for the SPA in connection with self-privatization:

- the development of an evaluation scheme to monitor the performance of privatization advisers in Phase I of the SPP (March 1993);

- the modification of the evaluation scheme to suit the requirements of Phase II and the development of a separate a monitoring system (June 1993);

- the creation of a manual for privatization advisers in Phase II (August 1993);

- the evaluation of the place and significance of self-privatization in the overall privatization (November 1993).

359

III. CHARACTERISTICS OF THE TWO SYSTEMS

Possibilities of integration depend on features of the two systems. Their system of basic tasks and objectives are similar or in many respects they are the same. Nevertheless, their system philosophy, implementation and inner structure are different.

This chapter shows the conceptional differences of the two systems that determine the integration possibilities.

III. 1. The special PRI-MAN method

PRI-MAN represents one of the privatization methods used by SPA. The companies involved in self-privatization have less assets, fewer employees and the risk of sale is smaller than in the SPA managed privatization. As the process of privatization is done by sub ventures, the data of privatization transactions can be processed only after finishing the whole transaction. This feature makes this process different from those done by SPA where data are available during the process and at each step of it. Though subsequent data loading by SPA MIS is also characteristic, SPA MIS conception evolves many-sided and time parallel procedure following system while that of PRI-MAN is built up on subsequent following of the events.

III. 2. Facts and forecast data

The database of SPA MIS contains data mainly about future assumptions, decisions and contracts that are plan data in this meaning. On the other hand PRI-MAN MIS contains mainly data of already happened and closed cases, so they are fact data. This difference can arise questions also during processing data under the same names.

III. 3. SPA MIS dominance and management system orientation

During the process of SPA MIS planning, the respects of management information system enjoy absolute priority. Though matching to the inner management processes of SPA has induced sufficient developments, SPA MIS is still basically a management information system. There are no forced processes belonging to the

system that could connect handling the transactions and loading SPA MIS data. Some other forced actions have to be done, e.g.: printing Enterprise/Company Datasheets.

PRI-MAN MIS also gives high priority to management information service but the system adjust, itself to PRI-MAN management, too.
Namely data loading is connected with the phases of management (making contract with an adviser, approval of transformation, sales contract, payment, clearing procedure).

Management orientation doesn't exist on this level in SPA MIS. In consequence, PRI-MAN data base is more detailed in this respect.

III. 4. Transaction and status orientation

Privatization transactions have played the most important role in the original conceptions of SPA MIS. The developments have made this transaction orientation stronger. Its essence is that the temporal changes can be followed through the transactions; and the data of the company can reflect the conditions of the time being.

In the PRI-MAN MIS the company and its conditions play the main roles. Privatization changes the conditions of a company; data of enterprise/company data base show the conditions of the time being; the system is condition oriented. At the same time the transition concept or data base that are dominant in SPA MIS (with the only exception of the nowadays introduced data base of sold out proprieties) don't exist here.

III. 5. Wide range of data

PRI-MAN management concentrates on the relatively small scope of the possible cases, that are well featured, concerning privatization (transformation, company sales). According to this the scope of PRI-MAN MIS is narrower.

At the same time SPA MIS has to cover the whole spectrum of privatization methods and events (except privatizations beforehand). Within this different transaction styles occur; e.g.: seizure of property, property protection, increasing of capital, buying back, utilizing of seized property, company capital etc. There are events that have results only in changing signs or names; e.g.: it was a case of property protection Yes/No in PRI-MAN MIS whereas in SPA MIS a transaction is supposed to exist with an independent data base. Other types of cases are not indicated at all by the PRI-MAN MIS (e.g.: capital raise/ decrease).

III. 6. Outputs

The outputs of PRI-MAN MIS, according to the specific PRI-MAN constructions, form a good report system. There is a close connection between PRI-MAN data base and PRI-MAN report system.

SPA MIS also has a series of standard list of which only SPA MIS MONITOR has a general and decisive role. SPA MIS output system is based on a list generator with big output, the use of which makes SPA MIS output system very flexible and changeable.

III. 7. Conclusions

From Chapters 3.1 - 3.6 it can be stated, that although the objectives of the PRI-MAN and the SPA MIS systems are similar or the same, the implemented systems are significantly different from each other. Both the PRI-MAN MIS and database and the SPA MIS have functions and data that do not exist in the other system. The functions and data existing in both often form different structures. In the two systems the ratio of those elements which correspond logically to one another can be assumed approximately 10:1. (However, this ratio is much lower among those system elements which would form part of the actual integration.) Therefore, the integration of the two systems is not primarily a technical, but a conceptual issue, and the implementation would require a significant investment.

360

6. **Financial Management**

Reports and other Supporting Documents

STATE PROPERTY AGENCY

PRIVATIZATION MONITOR

November '93

monitor

362

PRESENT SITUATION

NUMBER OF ENTERPRISES

• Total number of government enterprises in 1989*	2,000
• Public utilities**	241
• Corporations created prior to the foundation of the SPA	31
• Enterprises belonging to the SPA	1,728
• Currently transformed	1.102
• In liquidation	349
• Transferred to other state asset management agencies	174
• TO BE TRANSFORMED	103

** approximately*
*** Excluding electric suppliers and power plants (transferred to State Holding Company)*

NUMBER OF CORPORATIONS

• Corporations belonging to the SPA *(by transformation, foundation, seizure, and corporation establishment prior to the establishment of the SPA)*	1,232
• In liquidation	27
• Transferred to other state asset management agencies	65
• 100 % sold	347
• TO BE SOLD *(Including partially sold companies)*	793

VALUE OF ASSETS BELONGING TO THE SPA *(in billion HUF)*

• in enterprises	118.50
• SPA holdings in corporations *(proportional to equity capital)*	372.26
• Other acquired assets for sale	4.80
• **TOTAL**	**495.56**

The privatization of corporations

SALES

	Number of corporations	Value of assets in corporations affected by privatization* (bilion HUF)
Ownership right sold		
100%	347	117.12
above 50 %	115	106.46
under 50 %	39	7.37
		230.95

**According to World Bank guidelines, in the case of sales greater than 50%, the value of the corporation's total assets is included here; in cases under 50% only the value of the assets sold is included.*

OWNERSHIP STRUCTURE (%)	at time of establishment	current*
○ SPA	92.3	67.88
○ Municipalities	2.5	5.43
○ Hungarian investors	2.3	15.45
within this employees	*0.1*	*4.09*
○ Foreign investors	2.9	10.74

**without electric suppliers and power plants*

SALES FOR RESTRUCTURING PURPOSES (asset protection)

	1990	1991	1992	1993 Jan-Nov.	Total
number of cases	38	186	247	575	1.046
value *(billion HUF)*	3.96	20.15	22.38	32.93	79.42

PRIVATIZATION REVENUE REINVESTED IN RESTRUCTURINGS

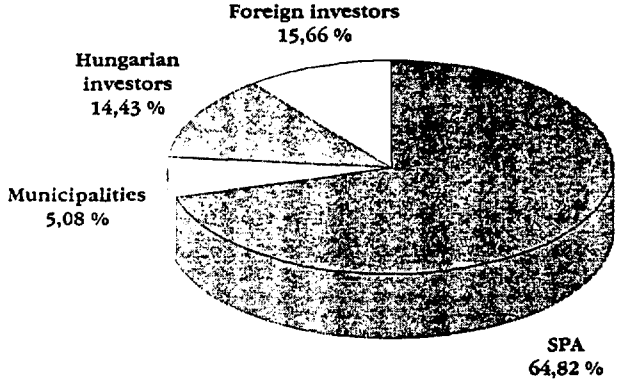
	1990	1991	1992	1993 Jan-Nov.	Total
value *(billion HUF)*	–	–	5.8	5.3	11.1

Methods for sale

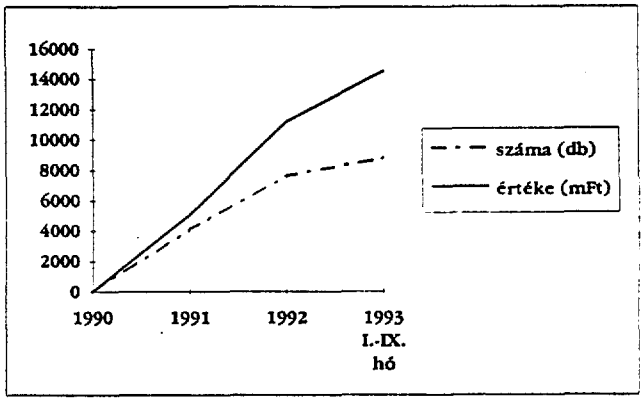
(supporting the domestic investors)

	1991	1992	1993 Jan.–Nov.	Total
ESOP:				
number of cases	–	7	72	79
value *(billion HUF)*	–	2.132	15.35	17.48
Leasing:				
number of cases	–	–	7	7
value *(billion HUF)*	–	–	2.12	2.12
E-Credit:				
value *(billion HUF)*	1.01	9.07	15.82	25.90
Compensation notes:				
value *(billion HUF)*	–	2.2	10.80	13.00

Sales of small businesses	1991	1992	1993 Jan.–Nov.	Total
number of cases	4,066	3,571	1,380	9,017
value *(billion HUF)*	5.09	6.10	4.29	15.48



Ownership structure in corporations



Preprivatisation program

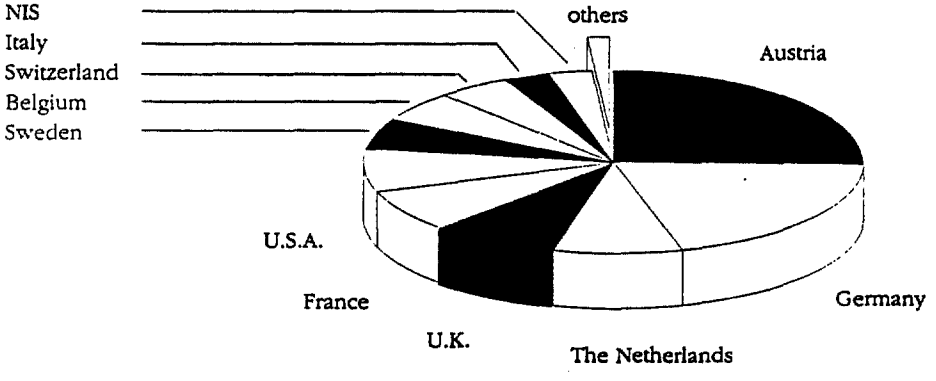
365

Foreign Investments

INVESTMENT BY COUNTRY

	Number of corporations	Number of investments	Foreign participation* (share capital, in billion HUF)	
Austria	87	107	43,14	25.30%
Germany	60	73	34,67	20.34%
The Netherlands	7	8	14,40	8.45%
U.K.	31	36	14,23	8.35%
France	28	29	12,90	7.57%
U.S.A.	23	27	12,59	7.38%
Sweden	7	10	9,39	5.51%
Belgium	6	9	9,00	5.28%
Switzerland	9	10	8,05	4.72%
Italy	10	9	5,25	3.08%
NIS	7	8	4,85	2.84%
others	22	25	2,02	1.18%
TOTAL	**297**	**351**	**170,49**	**100,00%**

**Includes: value of salesby SPA-owned corporations and related capital contributions in kind, investments related to incorporations, sales of assets taken over by the SPA, capital increases and sales of shares and equity.*
Does not include "greenfield" investments).



Investments by share capital

FOREIGN PARTICIPATION IN CORPORATIONS

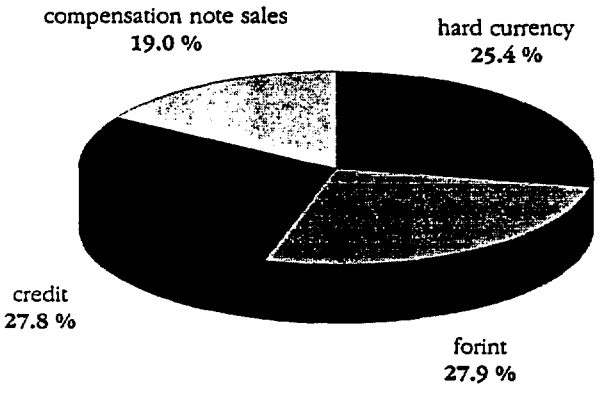
joint ventures	66.63 %
total corporations	8.53 %

366

Revenues

(in billion HUF)

	1990	1991	1992	1993 Jan. – Oct.
TOTAL REVENUES of which:	**0.67**	**31.38**	**74.56**	**56.99**
○ **Cash revenues**				
Hard currency sales	0.53	24.61	40.98	14.48
Forint sales	0.14	4.82	17.51	13.64
Divident and other income	–	0.94	4.74	2.25
TOTAL CASH REVENUES	**0,67**	**30,37**	**63,23**	**30.37**
○ **Non cash revenues**				
Credit	–	1.01	9.07	15.82
Compensation note sales	–	–	2.26	10.80
TOTAL NON CASH REVENUES		**1.01**	**11.33**	**26.62**

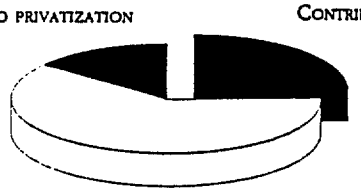


Income in 1993

Expenses

(in billion HUF)

		1993. Jan. – Nov.
EXPENSES DIRECTLY RELATED TO PRIVATIZATION		8.09
Sales related expenses	3.11	
SPA operating expenses	1.25	
Transferred to municipalities	1.06	
Reimbursement to corporations (20%)	2.06	
Incorporations, equity management	0.46	
Asset management	0.15	
CONTRIBUTIONS TO ASSIST FUTURE PRIVATIZATION OF EXISTING BUSINESSES		12.98
Reorganization	5.38	
Guarantee related expenses	3.60	
Reserve for guarantees	4.00	
MANDATED EXPENSES AND CONTRIBUTIONS		33.84
Repayment of national debt	15.82	
Contribution to Employment Fund	1.90	
Contribution to Regional Development Fund	1.30	
Contribution to Agriculture Development Fund	0.80	
Contribution to Automobile Liability Insurance and Indemnification Fund	0.72	
Redemption of compensation notes	10.80	
State Holding Company registered capital increase	1.50	
Small Holders's Warranty Fund	1.00	
TOTAL		**54.91**



Chronicle

(Privatization decisions of the month)

➢ **Bids and Auctions**

In November, **326** invitations of bids and to auction, with a total nominal coverage of **15.2 bn HUF** were released in the press. Of these, the State Property Agency (SPA) put into the papers 22 ads, in a nominal value of 5.9 bn HUF, with the rest of the monthly portfolio offered for sale by the companies themselves or by appointed consulting firms, respectively.

➢ **Budapest Companies of KÖZÉRT (State Food Shops)**

Pursuant to a decision by the Board of Directors of SPA, the rights of administration and lease of shops are withdrawn from the district KÖZÉRT companies of *Angyalföld, Belváros, Erzsébet, Józsefváros, Kelenföld, Kispest, Kőbánya, Óbuda* and *Zugló*. With the exception of the Óbuda, Kispest and Belváros companies, they are terminated by the BD by way of final accounting, without any legal successor. The companies remaining afloat will take over all shops and assets not covered by the final accounting, as well as all the employees.

➢ **Sugar Factories**

The privatization bidding for the sugar factories of Ács, Ercs, Mezőhegyes, Sarkad and Sárvár has successfuly ended, with Első Hazai Cukorgyártó és Forgalmazó Konzorcium (approx. first Hungarian consortium for manufacturing and distributing sugar), constituted by agricultural producers and by the managements of the sugar factories concerned, and having submitted a bid for purchasing a package in a nominal value of 1,828 mHUF, equivalent to 50.1 % of the property of the individual companies, selected as the successful bidder. Upon the conclusion of the purchase contract, SPA will remain the owner of a further shareholding with a nominal value of 1.3 bn HUF, to the debit of which assets will be assigned, as provided by the law, to the national social insurance and pension administrations, and a repeated invitation of bids by producers will be issued in spring next year, as appropriate.

➢ **Major Investments by Foreigners**

The signature ceremonies of two major contracts took place in November. In respect of Kőbányai Sörgyár (brewery), the South-African firm SAAB has become the controlling owner, whereas controlling interest, i.e. 51 % of the shares, of Pannonia Hotels Rt. has been acquired by the French company Accor.

➢ **Publishing Houses**

The privatization of state-owned publishing houses goes on. The assignment into private ownership of 11 publishers participating in the self-privatization program is continued under the strict control of the State Property Agency, in co-operation with the Ministry of Education and Culture. Under a 10th November decision by the Board of Directors, the right of pre-emption shall be granted to the employee shares purchasing (in Hungarian: MRP) organizations in the course of bidding.

➢ **Consolidation of Banks**

The Board of Directors has considered the necessity and the justification of debtor consolidation recommended within the framework of bank consolidation in 1993. It was agreed that the re-organization of a particular scope of economic organizations is indispensable and useful, both for creating the balance of the bank system and for improving the conditions of privatization.

➢ **KRP (Small Investors' Shares Program)**

The Board of Directors of SPA has discussed the initial portfolio to be offered for the Small Investors' Shares Program accepted by the Government. The management has been commissioned to have Sopron Sörgyár Rt. (brewery), Pannonplast Rt. and Pannónia Hotels Rt. prepared for public issue by spring 1994. The Board has agreed that the shares owned by SPA and not ear-marked under any other liability will be put into the reserves, together will the shares designated for compensation, until their public issue scheduled for spring next year.

➢ **Dunai Cement és Mészmű Kft. (Cement and Lime Works)**

The privatization of Dunai Cement és Mészmű has come to the final stage. Pursuant to a decision by the Board of Directors, of the package of business quotas held by DCM a quota of 3.4 bn HUF will be sold by SPA for cash, at nominal value, to Heidelberger Zement AG and E. Schwenk KG., with equal proportions of 50 % going to each. At the same time, 10 % of the current primary stock of DCM shall be offered to the employees for purchase at a discount price of 50 %. Compensation bills will be also accepted as a means of payment. The quota not purchased by the employees will be sold by SPA to investors.

➢ **MAHIR Rt. (Telecommunications)**

The first round of the two-stage public bidding for MAHIR Rt. has been closed. Three bidders have qualified themselves for the second round: B-Reklám Reklámszervező és Média Kft., Szigeti és Társai Kft. and Tóth-Ker Kereskedelmi Kft. The time limit of bidding in the second round is 5th January, 1994.

FINANCIAL MANAGEMENT TASK EXTENSION
SPA CORE PROJECT
1993 FISCAL/CONTRACT YEAR

"The design of a privatization reporting system for the Minister."

Phase I Problem definition and recommendations

370

FINANCIAL MANAGEMENT TASK EXTENSION
SPA CORE PROJECT
1993 FISCAL/CONTRACT YEAR

BACKGROUND: The State Property Agency (SPA) has placed planning, financial control, systems, management reporting, and documentary control under one Director. Throughout the SPA Core Contract's Financial Management Task USAID's funding has been used to provide supplemental assistance to the activities of the SPA in these areas. This assistance has consisted principally of making available a highly qualified bi-lingual financial consultant as a mentor to the head of this Directorate. He has helped the Director identify key problem areas related directly to supporting the progress of the privatization process, define the way to resolve them, and help implement the solution chosen by the Director. This advise has been so successfully integrated into the SPA that the Advisor; manages by consensus and guides SPA personnel, focuses other foreign advisors, and the where necessary commits resources made available through the Core Contract. The Project Manager and Advisor work together to economize on core project resources with the objective of levering of the Advisor's impact by utilizing SPA and other advisory resources where it is most effective. The Project Manager and Advisor's objective in each case is to undertake tasks that are needed and whose products will be put to immediate use in the SPA. The only worthwhile deliverable is one that is implemented or used to resolve an actual problem.

TASK: "The design of a privatization reporting system for the Minister."
Phase I Problem definition and recommendations

"Privatization" as viewed by the policy makers in Hungary -to include the Minister Without Portfolio charged with the overall success of the effort- encompasses the full range of social, legal, financial, regulatory, and actual Government asset sales that will lead to the conversion of Hungary's economy to one where the majority of Hungary's economic activity is controlled by a private sector market economy. The problem is that the complex process of moving toward this "Privatization" objective is not being reported or systematically analyzed as a unified process.

This was identified as the third task to be undertaken by the Advisor in the 1993 contract cycle. The Advisor conducted internal and external interview. Gathered materials from various sources to identify the availability and quality of present data, and made the recommendation to establish a task force to begin the significant task of bringing a report design and implementation project together to specifically include identifying legislation required to allow the Minister to access the required data and effect its timeliness.

RESULT:
1. The SPA to the Ministerial level agrees there is a problem.
2. The recommendation to begin to systematically solve the problem has been accepted.
3. The basic framework of the reporting required has been agreed.
4. The task is scheduled to commence in August, 1993.

ATTACHMENT: Working papers

FINANCIAL MANAGEMENT TASK EXTENSION
SPA CORE PROJECT
1993 FISCAL/CONTRACT YEAR

Contract Tracking System

372

FINANCIAL MANAGEMENT TASK EXTENSION
SPA CORE PROJECT
1993 FISCAL/CONTRACT YEAR

BACKGROUND: The State Property Agency (SPA) has placed planning, financial control, systems, management reporting, and documentary control under one Director. Throughout the SPA Core Contract's Financial Management Task USAID's funding has been used to provide supplemental assistance to the activities of the SPA in these areas. This assistance has consisted principally of making available a highly qualified bi-lingual financial consultant as a mentor to the head of this Directorate. He has helped the Director identify key problem areas related directly to supporting the progress of the privatization process, define the way to resolve them, and help implement the solution chosen by the Director. This advise has been so successfully integrated into the SPA that the Advisor; manages by consensus and guides SPA personnel, focuses other foreign advisors, and the where necessary commits resources made available through the Core Contract. The Project Manager and Advisor work together to economize on core project resources with the objective of levering of the Advisor's impact by utilizing SPA and other advisory resources where it is most effective. The Project Manager and Advisor's objective in each case is to undertake tasks that are needed and whose products will be put to immediate use in the SPA. The only worthwhile deliverable is one that is implemented or used to resolve an actual problem.

TASK: "The design of a method to identify and track the SPA's responsibilities under its sales contracts."

The problem was the privatization success of the SPA had led to the concluding of over 2,000 sales contracts for various Government of Hungary (GOH). Neither the actual contract documents nor the explicit undertakings by the SPA or the Buyer were systematically and independently controlled or monitored. The lack of systematic controls was creating daily crises on privatization manager's desks keeping them from new transaction work.

This was identified as the most urgent task to be undertaken by the Advisor in the 1993 contract cycle. The Advisor built a team within the SPA and using outside resources (Treuhandanstalt, PHARE, and IDOM) to define the problem and suggest methods to resolve them.

RESULT:

1. All contracts are now under centralized control.
2. All contract obligations have been reviewed by the relevant SPA Director and confirmed by the SPA law Department and entered into a computerized monitoring system controlled by an independent Department.
3. Modified Treuhandanstalt control systems were adopted (one modification led to a revision of the Treuhandanstalt's own core system) using the skills of a resident Treuhandanstalt advisor.
4. PHARE has funded the legal review of the more complex agreements so that the obligations of the seller and buyer are properly detailed in the system.
5. Criticism of the SPA in this area by outside commentators, internal and external controls and audits were reduced allowing. The SPA's officers to continue with their principal task of Privatization.

ATTACHMENT: Working papers

373

7. **Training**

Reports and other Supporting Documents

MEMORANDUM

TO: Charles G. Twyman, Project Manager

FROM: Linnea Corwin, Project Support - Training Linnea

SUBJECT: Summary of USAID Support Provided to the State Property Agency in Human Resource Development & Training from April 1991 - June 1993

DATE: Friday, June 11, 1993

SUMMARY: The period between July and September 1993 will be the final quarter for the core project under which support in training and human resource development is provided to the State Property Agency (SPA) and, to a lesser extent the Hungarian Investment & Trade Promotion Agency (HITPA) and State Holding Company (AV Rt.) Since April 1991, the USAID Project Office has helped define and establish procedures for the recruitment, organization and development of human resources and raised the skill level of employees in important areas. The SPA now has a personnel office, training program, relatively experienced personnel and assistance from the British Know How Fund. The HITPA is executing its EC PHARE-funded training programs with the guidance of its PHARE advisors. The USAID project training task is essentially completed. The following is an outline of recommendations for items to address in the last quarter and a summary of current activities. For a background of previous work, please see attached.

RECOMMENDATION of Follow-Up Activities for the Last Quarter:

1. Participant Training

The USAID Project Office should organize follow-up oral and written evaluations with individuals upon their return from training in the US. It should help place "postponed" individuals in training programs and continue to nominate new candidates for training in the US.

2. Special Workshops/Projects

The USAID Project Office should provide some assistance in organizing and presenting commercial law training programs and follow-up evaluations, although the American Bar Association/CEELI is expected to lead. If the ABA will post a legal advisor in the SPA Legal Department, a TDW should be written and approved to provide for Dr. Vargedo's travel to Washington, DC to interview candidates for the position and visit experts in joint venture negotiation and dispute resolution/arbitration (see my June 12 memo re Vargedo).

3. Human Resource Strategy

Continue dialogue with USAID and SPA Personnel Director on assistance to transform the SPA from a privatization agency to an investment bank.

4. Transaction Support Effort

Address training needs related to USAID transaction support project as defined by US advisors and SPA privatization directors.

375

CURRENT SITUATION: On-going assistance is focused on 1) nominating individuals to participate in training programs in the US through the Participant Training Fund, 2) organizing special workshops, and 3) on-the-job training of the SPA Training Officer. Some assistance is also given to the HITPA and it's EC PHARE advisors in planning training activities for the HITPA staff and Hungarian exporters.

1. Participant Training

Name	Subject	Type of Training	Return
	State Property Agency		
Csikos Balint	Privatization	Seminar	postponed *
Dorogi Janos	Privatization	Seminar	postponed *
Foldvari Katalin	Privatization	Seminar	postponed *
Gibicsar Adrienne	Commercial Law	Internship	July 10
Hejja Robert	Agriculture/Econ	Study Tour	undetermined
Kazar Peter	Securities	Seminar, Study Tour	June 25
Kerekes Janos	Valuation	Seminar, Internship	August *
Lascsik Attila	International Business	Seminar	June 26
Mate Igor	International Business	Seminar	June 26
Pesta Janos	Privatization	Seminar	postponed *
Szakaly Zsolt	Commercial Law	Seminar	June 18
Talmacsi Eva	Commercial Law	Internship	returned
Tomor Lazslo	Privatization	Seminar	postponed *
	Hungarian Investment & Trade Promotion Agency		
Andriska Aniko	Investment Promotion	Seminar	postponed *
Csakvari Marianne	Investment Promotion	Seminar	postponed *
Csorba Andras	Investment Promotion	Seminar, Study Tour	early July
Csosz Lajos	Trade Shows	Seminar	returned
Farkas Mariann	Investment Promotion	Internship	July 3
Kiraly Odon	Marketing	Internship	undetermined
Kiss Karoly	Investment Promotion	Seminar	July
Miklos-Kornes K.	Joint Ventures	Seminar	postponed
Szucs Susan	Foreign Investment	Seminar	October 2
	State Holding Company		
Almasi Akos	International Business	Seminar	July 3
Ivanyi Tamas	Investment Promotion	Seminar, Study Tour	July 2

(* nominations postponed or awaiting final approval by USAID)

2. Special Workshops

Subject: Negotiating International Agreements
Target Group: Legal and Transaction Departments
Dates: September 1993
Funding Provided By: American Bar Association Central and Eastern Europe Law Initiative (USAID)
Contacts: Vargedo (Legal)

376

3. On-the-Job Training
Guidance in time management, prioritization of tasks, selection of training providers and other training-related activities.

4. Definition of Terms of Reference
Helping to define a major task to address personnel and outplacement training considerations in the SPA's downsizing activity.

MEMORANDUM

DATE: March 2, 1993

TO: Chick Twyman, Project Manager

FROM: Linnea Corwin, Project Staff

SUBJECT: Human Resource Development and Training at the State Property Agency (SPA) and Hungarian Investment and Trade Promotion Agency (HITPA)

BACKGROUND: The State Property Agency (SPA) and the Hungarian Investment and Trade Promotion Agency (HITPA) require visible direction in all human resource areas, with a strong focus on training. The employees of both agencies are insufficiently experienced to handle the extremely large workloads and rapidly evolving situations that they face. The SPA has suffered because **training and personnel** matters were not addressed **at the earliest stages** of activity. By not **defining and establishing procedures immediately** for the **recruitment, organization and development of human resources**, confusion and chaos occurred. **Transparency** is as **important** in the recruitment of human resources as it is in the actual privatization and investment and trade promotion process.

CURRENT SITUATION: USAID support of the SPA and HITPA has been provided in the following areas:

<u>Human Resources</u>

1. Recommendations concerning the creation of an organizational structure to manage resources required to organize training, ways to create an effective environment for adult learning and how to plan for training needs. Suggestions for strategies to develop the following:

    a. the skills of each employee as an individual
    b. the skills of each individual in relation to his/her job
    c. the skills of each employee in relation to his/her expected future role
    d. the team spirit and productivity and efficiency in all departments
    e. the collaboration among different departments
    f. the Agency's overall "health" and self-renewing capabilities

2. Assistance in defining required skills and training response.
3. Assistance in the design and collection of data for employee database.

Human Resources, cont'd

4. On-going support and assistance to the Personnel Director

- Specific recommendations have included:

    a. close, direct connection to the Managing Director, institutionalizing the Personnel Department at a very high level within the organization;
    b. linkages with other departments and organizations through the establishment of ad hoc committees and task groups
    c. the introduction of new Personnel and Training procedures and policies within the agency using a combination of geographical, vertical and functional phasing;
    d. ways to create an effective environment for adult learning ;
    e. how to plan for and approach initial meetings with directors about their departments' training needs for 1992-93.
    f. creation of job descriptions;
    g. feedback and performance appraisal.

Training

1. Conducted Training Needs Assessment.
2. Wrote Training Unit Policies and Procedures Manual.
3. Wrote Terms of Reference for EC PHARE funded short term training consultant.
4. Advised and assisted EC PHARE funded training consultant.
5. Helped define required skills and training response.
4. Helped organize the following programs in 1991-92

Program	Persons	Funded By
Individual Training in US		USAID
US Legal System	1	USAID
Advanced Privatization	10	USAID
Foreign Investment Negotn.	2	USAID
International Arbitration	1	USAID
Negotiation Skills	60	USAID
Secretarial Skills	3	USAID, EC PHARE
Computer Skills	100	EC PHARE
English Language	100	EC PHARE
Advanced Financial Courses	90	EC PHARE
Individual Training in Hungary	96	EC PHARE
Individual Training in EC	36	EC PHARE
SPA Lecture Series	150	EC PHARE
TOTAL	649	

Training, cont'd

5. Helping to organize the following programs for 1993-94

Program	Persons	Funded By
Individual Training in US		USAID
Participant Training Fund	30	USAID
Environmental Liability	40	USAID
Commercial Law	75	USAID
Negotiation Skills	60	EC PHARE
English, German Language	150	EC PHARE
Marketing for Exporters	200	EC PHARE
Investment Promotion	25	EC PHARE
Export/Trade Development	25	EC PHARE
Management Skills	250	EC PHARE
Computer Skills	250	EC PHARE
Bankruptcy Management	60	EC PHARE
Secretarial Skills	150	EC PHARE
TOTAL	1315	

Mentoring

1. Helped select appropriate training strategies, integrate donor assistance (EC PHARE, USAID, British Know How Fund) and learn the essential aspects and functions of organizing training activities. Mentoring provided to:

SPA Personnel Director
SHS (AV Rt) Personnel Director (formerly SPA Deputy Director of Personnel)
SPA Training Officer
SPA Legal Administrative Assistant (formerly SPA Training Coordinator)
HITPA Directors and EC PHARE Unit in charge of training

Investment Promotion

1. Helped LTA identify potential joint venture partners in Hungary particularly through close liaison with SPA.
2. Assisted the LTA with follow-up with investors, ministries and agencies.
3. Supported the LTA in designing and coordinating Investment Promotion seminars in Houston and Los Angeles.

Project Management

1. Helped define needs for short term support within the SPA.
2. Helped coordinate/backstop short term consultant teams.
3. Helped maintain working papers and project files.
4. Assisted in the management, financial reporting and evaluation of project work against plan.
5. Assisted with office set-up phase of Investment Promotion project.

Other

1. Wrote Aide-Memoir and analysis of committee meetings to review proposals and interview short-listed candidates for Financial Advisory Services to the Hungarian Government on Restructuring and Privatization of the Hungarian Telecommunications System.

RECOMMENDATIONS: The efforts of the USAID Project Office have been an important catalyst to create a proactive approach to human resource development and training in the SPA and HITPA and, more recently, in a limited way, the State Holding Supervision (SHS). Support has proven to be instrumental in helping agency officials consider the skills they require and the appropriate training response, as well as understand and use donor assistance to meet their training needs. However, more work needs to be done. It is recommended that support should be continued, with emphasis on the following projects:

1) Training for Exporters (in cooperation with EC PHARE efforts at HITPA)
2) Training in "How To Structure a Deal" and "Leadership"
   Short workshops on mergers and acquisitions, investment forms and agreements, negotiation, drafting contracts, arbitration, taxation, bankruptcy and reorganization, systems thinking, organizational change, etc. Participation would be open to SPA, SHS, HITPA, banks, law firms, other ministries and agencies and enterprises.

TRAINING POLICY

Introduction

The SPA recognises that training has an important role to play in developing the skills of its staff, and thus in contributing to the effectiveness of the organisation. Because the SPA has a limited life span its training policy must reflect this, and is therefore focussed on the short term training needs of its staff and not on their long term development. During the last one or two years of its work it is possible that SPA will make use of training in its strategy of retaining key staff.

The administration of all training activities rests with the Personnel Department. It is the responsibility of this department to see that the principles laid down below are observed, and to liaise with the Managing Director, other directors, and external bodies providing financial support for training, in particular PHARE and USAID.

Principles of Training

1) Training activities within the SPA will fall under four broad headings:
a) Induction training
b) Basic job training
c) Advanced job training
d) Other training

2) Induction training will be available for all staff who join the SPA. Its purpose will be to help them to settle into a new working environment, and to provide them with an understanding of how the SPA operates. These programs will use mainly internal resources.

3) Basic job training will build upon the professional or vocational training that staff have undertaken prior to joining the SPA to enable them to meet the requirements of their jobs. Appropriate basic training programs will be available for the major operating divisions and for support staff such as secretaries. Departmental managers will be responsible for deciding whether new staff, existing staff, or both, are in need of such programs.

4) Advanced job training is intended to develop further the skills of staff to improve performance in their existing jobs, or to prepare them for new duties to which they are likely to be transferred or promoted within the next twelve months.

5) Other training is intended to cover any form of training apart from the above that may be approved by the directors.

6) The identification of training needs is the responsibility of directors and departmental managers, in consultation with the Personnel Department, and using systematic procedures designed by the Personnel Department. Staff should be fully consulted over any training proposed for them, and may at any time approach their manager with suggestions related to training, or the Personnel Department for training information.

individual, the appropriateness of the level of the program, the quality of presentation, the balance between topics, and aspects of administration.

3) Follow-up will take the form of a scheduled meeting between the course participant and his or her manager immediately after the course, at which they will review the course and consider how the participant can utilize what has been learned in the work of the department. Where appropriate they may formalize their conclusions in an action plan.

Responsibility of Course Participants and Managers

1) Once a staff member has confirmed in writing that he or she is able to attend a training program, attendance on that program is mandatory. Those who fail to attend for reasons other than absence through sickness will be required to give an explanation for non-attendance to the Personnel Director, and may be subjected to penalties, including the loss of pay for the period of absence.

2. Managers who have confirmed in writing that a member of staff is able to attend a training program will normally be expected to release him or her for the whole of that program without recall to departmental duties. It is recognized, however, that there will from time to time be circumstances in which it will be necessary to recall staff in the interests of the operational effectiveness of the SPA. Where this occurs the manager will be requested to provide an explanation in writing to the Personnel Director.

M E M O

From: Béla Majer
Personnel Director, SPA
To: Brian Bartlett
Personnel Advisor, SPA
Date: 24. May, 1993.

Re: Human Resource Strategy: Transformation from Privatization Agency to an Investment Bank

Background

The SPA's managing director announced at the last MANREZA, that the SPA should transfer to an Investment Bank. After approval of such a plan, an immediate action is needed from the Personnel Department, so I request technical assistance from you to lay the groundwork for the SPA's transformation from a state privatization agency to an investment bank.

The request focuses only on issues related to staff downsizing, termination procedures, and outplacement services for individuals presently employed by the SPA, as well as skills requirements, compensation structures and organization of functions for the newly established investment banking activity.

The objective of this technical study is twofold:

A. To provide information that will assist the SPA in responsibly and effectively terminating the employment of large numbers of its staff in order that it might make a transition from its current activities to those of an investment bank.

B. To gather information about the skills requirements and general human resource practices of investment banks, including recruiting standards and objectives, job descriptions, career progression, performance appraisals, compensation structures, merit increases/bonuses, divisions of labor and manpower needs.

Statement of work

Part I Personnel and Staffing Requirements

Develop a clear and objective strategy for downsizing the SPA from its current size and scope of activity to that of an investment bank. Derive as needed, a set of recommendations on staff restructuring that should be undertaken prior to the transformation in order to enhance the institution's effectiveness.

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Environmental Liability Workshop
June 8-9, 1993
Budapest, Hungary

SUMMARY

A two day workshop on Environmental Liability was conducted for the Hungarian State Property Agency (SPA) by the Environmental Training Project for Central and Eastern Europe at the University of Minnesota. Directors and officers of the SPA's legal, valuation and privatization departments attended. The program was made possible by a grant from USAID.

The workshop addressed the challenges in valuing environmental liabilities, the role of audits in valuation of environmental liabilities and considerations in managing environmental audits. It also covered public policy and contractual issues, including clean-up goals and standards, compliance obligations and considerations for government in allocating environmental liabilities in privatization.

Environmental liability and valuation are critical and rapidly evolving issues for the SPA and the participants were generally satisfied with the workshop and the speakers. At the end of the two days, they stated that they had a better understanding of environmental liability issues and how to handle them when structuring an audit and negotiating sales agreements with Hungarian and foreign investors in which there are warranties that address possible liability for past environmental damages and future operating costs. They also got a clearer picture of expectations of Western investors.

Members of the valuation department requested follow-up training in managing and reviewing environmental audits.

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 comunication, 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.

Preparation for negotiation, determination of my goals.

The course has improved my confidence in my position.

Well (x2).

I'll be able to put my partner and myself into the given situation consciously.

In official and own life as well.

8. What did you like most about the workshop?

Behavioral scale, negotiation levels, tactics.

Samples from the life (x2).

Style of presentations, content of the topic.

Introduction to the behavioral levels.

How the teacher himself uses this skill (x2).

The case studies (5).

The structure of the presentation.

Behavioral scale.

The course helped me to recover, recall my abilities, improved my confidence.

9. What could be improved?

General answers for exact questions.

Some topics were repeated several times (x2).

Scheduling it on the weekend.

Too slow presentation.

Too didactic presentation.

It was too long, not enough intensive.

"NEGOTIATION SKILLS"
Presented by Edward E. Morler, Ph.D. to
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.

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.

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?

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.

8. **Equipment**

Supporting Documents

TASK DEFINITION WORKSHEET

Task Title: Equipment, Computers, Scope of Work Modification
Time Budget: 7 days
Assigned Leader: Twyman C. Sched Start: 1 Sept. 1993 End: 1 Nov. 1993
Assigned To: Deloitte & Touche on: 1 Sept.1993

TASK OBJECTIVES AND SCOPE

The objectives of this task is to modify paragraph III Scope of Work, Area 5, Equipment: b. Computers component of the November, 1992 extension of Contract ANE-0002-C-00-0047-00 Technical Assistance to the State Property Agency of Hungary to permit its application in the present changed circumstances. The objective continues to be to provide specialized additional computer equipment support to the SPA. However due to the passage of time, neither of the contract identified users continue to have the identified specialized need. However the Privatization Department of the SPA urgently requires computer work stations and other equipment to support The about-to-arrive USAID funded Transaction Support Team and its Secretariat. This task will identify the equipment needed, order it, deliver it, and help install it.

APPROACH AND METHODS

The LTA working with the SPA, D&T, AMEG, and DRT Hungary equipment and systems persons will; define the need, identify the required equipment, procure it in accord with AID regulations, deliver and install it at the SPA in time for the arrival of the Transaction support team.

TASK OUTPUT REQUIREMENTS

1. Identify the equipment needed.
2. Tender, order, and deliver the equipment.
3. Install the required equipment and software.

TASK CHECKPOINTS

Description	Date Due
1. Identify equipment	15 Spt.
2. Tender for equipment	30 Spt.
3. Ship equipment	15 Oct.
4. Install equipment	25 Oct.

APPROVED:

David L. Cowles

David L. Cowles
AID Representative
Budapest, Hungary

Date

MEMORANDUM

TO :File
FROM :Charles G. Twyman
DATE :19 May, 1993

REF :Equipment Needs definition, Transaction Support Team

PARAMETER DEFINITIONS:
METHODOLOGY: There are four sources of information that were called on to help define the equipment needs of the Transaction Support Team (TST) at the SPA.

1. A detailed knowledge of the task definitions of the incoming TST. A detailed knowledge of the hiring profile for the TST. Full direct responsibility for placing and supporting each member of the TST to include office siting, training, control, support. Responsibility for the well advanced negotiation with the SPA of precisely what the TST will be expected to do and what the SPA must and/or can do to support them.
2. Over three years of operating experience within the SPA as an advisory unit in all aspects of the SPA's operation.
3. Operating experience with the Czech Republic's USAID transaction support team since its inception. With particular experience in the practical project management, support, and the practical administration aspects of the effort.
4. Detailed knowledge of the SPA's systems, computer configuration, and computer and other equipment distribution and availablity within the SPA. It should be noted that the USAID funded SPA Core Project designed the SPA's system and purchased and installed its core equipment. The PHARE program has provided the balance in close and continuing cooperation with the USAID Project Office. The same D&T team that did the initial systems work with SPA under USAID funding is still working full time for the SPA on system upgrades on a direct contract basis and is in regular contact with the project office.
5. The detailed computer and other configurations have been checked not only with and by the D&T team but with the SPA's in house computer team to make sure of its compatibility with the SPA's equipment and their ability to support it technically and with servicing.

I Team Composition and Mission:

Transaction Support Team:

8 professionals (including the Project Manager):
Each member will be expected to operate independently and separatly sited near their indivudual Sector Director. Each should be capable of operating off site at enterprise locations, during analysis, marketting and/or negotiation trips. They should be able to draft and produce work papers during these trips. Each will be expected to draft and help produce finished analytical work and other communications of a routine nature at the SPA. The team will be expected to be able to produce finished work presentable at the ministerial/cabinet level in the Government of Hungary (GOH). Each individual will be required to be computer literate and will be trained on the specific operating systems of the client, the SPA. Each will be expected to work with the operating files of the SPA's client base which are in the Privatization Information System (PIS on line with the other transaction officers and directors.

Secretariat:

6 Staff: 4 Secretaries + 2 full time translators possibly more:

Will be expected to support the TST team members and to some degree the short term technical assistance undertaken in support of the TST. Each of the secretariat will be expected to help draft and produce finished analytical work and other communications of a routine nature at the SPA. The secretariat will also be expected to be able to produce finished work presentable at the ministerial/cabinet level in the Government of Hungary (GOH) in English, Hungarian and possibly German. Each secretariat member will be required to be computer literate and will be trained on the specific operating systems of the client, the SPA. Each will be expected to work with the operating files of the SPA's client base which are in the Privatization Information System (PIS) on line with other SPA staff.

II Equipment and software technical parameters:

Environment: IBM (and compatibles) PC, 386 SX (some 486) operating with DOS 5.0 operating speeds of 25 and 33 Mhz most at 33 Mhz

Local Area Network: 3.11 Novell, thin Ethernet BNC (802.3)
EISA Servers, 486 DX operating at 33 and 66 Mhz
There are presently 230 machines on the LAN. The system's capacity is 300.

Software: The SPA presently operates a windows environment on LAN versions of:

Windows 3.1
Word for Windows 2.0
Excel for windows 4.0
Norton commander 6.5

The Data Operating System standard is DOS 5.0

Configuration: The following is the SPA's equipment and workstation standard configuration:

220 volt, 50 hz (some original USAID equipment uses transformers)
IBM or compatible
386 SX or higher
25 Mhz operating speed minimum, 33 Mhz preferred
4 MB RAM minimum
40 MB Hard Disk minimum
1.44 MB, 3.5' floppy disk drive standard
VGA display and card minimum, SVGA the standard
monitors 1024/768 color
1 each serial & parallel card/port
3com Etherlink II/16 at 750 LAN card w/port (Part#3C503-16)
102 key keyboard minimum
Microsoft mouse, card, and mouse pad
Laser printer standard is HP Laser Jet III, and IIIsi
5/6 MB RAM, Network Printer Interface (Novell, Thin Ethernet BNC 802.3)
dot matrix printer standard is the Epson FX850 (870 new version) with sheet feeder, FX-1050 (wide carriage version).

III Equipment needs definition:

Based on the composition and mission of the team and the equipment environment at the SPA the team will be best served by the following approximate equipment configuration:

-8 Dockable computer packages like Gateway Nomad 425sxl Combo @$2,495 (with cables etc.)	$19,960
-6 Workstation packages like Gateway 4 DX 33 @ $2,195 (with cables etc.)	$13,170
-14 3com Etherlink II/16 card @ $200 (or equivalent that allows each work station to be attached to the SPA LAN	$ 2,800
-Software 14 x $500 (Dos 5.0 & LAN version Lotus 3.1 Plus and LAN version Wordperfect. As the windows and Norton software at the SPA are LAN version we do not need new ones for each workstation. The SPA and the advisors wish a LAN Lotus 3.1 and LAN wordperfect to compliment what they already have.)	$ 7,000
-1 HP Laserjet III w/network Printer interface, international character set cardridge, postscript cartridge, 4 mb RAM memory board Model 33449Ab (or A plus a 800 watt transformer, or a model with an automatic or manual current selection card) or higher. 2 printer cables, 1 data transfer switch, consumables and service packages.	$ 2,500
-1 Zerox 5028 Need automatic loading, coalation, 15,000 copies per month capacity, local servicability, need the consumables and maintenance kits.	$13,000
-1 Epson FX 870 with sheet feeder	$ 500
-1 Epson FX 1050 wide carriage	$ 500
3 printer cables, 1 data transfer switch	$ 200
-2 portable bubble jet printers like Canon K 10060 with AC adapter and battery pack. @$250	$ 500
-1 Modem xxxxxxxx	$
-1 Fax like zerox 7007 (has message storage and a telephone answering capability built in) a simpler machine like the Canon FAX-270 S would work as well, no answering feature, lower cost.	$ 2,000
TOTAL	$
tax @4.5%	$
	$
shipping say 6%	$
TOTAL	$

Gateway 2000's Hit Parade

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Desktop Systems

3SX-33

- 33MHz 386SX Intel® Processor
- 4MB RAM
- 5.25" & 3.5" Diskette Drives
- 80MB 17ms IDE Hard Drive
- Windows Accelerated Video w/ 1MB DRAM
- 14" Color CrystalScan™ 1024NI
- Mini Desktop Case
- 5 16-Bit ISA Slots
- 124-Key AnyKey™ Keyboard
- MS-DOS,® Windows™ & Mouse
- Cool Tools for DOS
- MS Works for Windows™ 2.0

$1295

4SX-33

- 33MHz 486SX Intel Processor
- 4MB RAM
- 5.25" & 3.5" Diskette Drives
- 170MB 13ms IDE Hard Drive
- Local Bus IDE Interface
- Intel OverDrive Socket
- Windows Accelerated Video w/ 1MB DRAM
- 14" Color CrystalScan 1024NI
- Mini Desktop Case
- 5 16-Bit ISA Slots
- 124-Key AnyKey Keyboard
- MS-DOS, Windows & Mouse
- Cool Tools for DOS
- MS Works for Windows 2.0

$1495

4DX-33

- 33MHz 486DX Intel Processor
- 8MB RAM, 64K Cache
- 5.25" & 3.5" Diskette Drives
- 250MB 13ms IDE Hard Drive
- Local Bus IDE Interface
- Intel OverDrive Socket
- Windows Accelerated Video w/ 1MB DRAM
- 14" Color CrystalScan 1024NI
- Mini Desktop Case
- 5 16-Bit ISA Slots
- 124-Key AnyKey Keyboard
- MS-DOS, Windows & Mouse
- Cool Tools for DOS
- MS Works for Windows 2.0

$1995

4SX-33V

- 33MHz 486SX Intel Processor
- 8MB RAM, 64K Cache
- 5.25" & 3.5" Diskette Drives
- 250MB 13ms IDE Hard Drive
- Local Bus IDE Interface
- Intel OverDrive Socket
- VLB ATI Ultra Pro with 1MB VRAM
- 15" Color CrystalScan 1572FS
- Desktop Case (Tower Upgrade)
- 8 16-Bit ISA Slots, 2 with 32-Bit VLB
- 124-Key AnyKey Keyboard
- MS-DOS, Windows & Mouse
- Cool Tools for DOS
- Choice of Application Software

$2195

4DX2-50V

- 50MHz 486DX2 Intel Processor
- 8MB RAM, 64K Cache
- 5.25" & 3.5" Diskette Drives
- 250MB 13ms IDE Hard Drive
- Local Bus IDE Interface
- Intel OverDrive Socket
- VLB ATI Ultra Pro with 1MB VRAM
- 15" Color CrystalScan 1572FS
- Desktop Case (Tower Upgrade)
- 8 16-Bit ISA Slots, 2 with 32-Bit VLB
- 124-Key AnyKey Keyboard
- MS-DOS, Windows & Mouse
- Cool Tools for DOS
- Choice of Application Software

$2495

4DX2-66V

- 66MHz 486DX2 Intel Processor
- 8MB RAM, 256K Cache
- 3.5" Diskette Drive AND CD-ROM Drive
- 340MB 13ms IDE Hard Drive
- Local Bus IDE Interface
- Intel OverDrive Socket
- VLB ATI Ultra Pro with 1MB VRAM
- 15" Color CrystalScan 1572FS
- Desktop Case (Tower Upgrade)
- 8 16-Bit ISA Slots, 2 with 32-Bit VLB
- 124-Key AnyKey Keyboard
- MS-DOS, Windows & Mouse
- Cool Tools for DOS
- Choice of Application Software

$2995

4DX2-66E

- 66MHz 486DX2 Intel Processor
- 8MB RAM, 256K Cache
- 5.25" & 3.5" Diskette Drives
- 500MB 11ms SCSI Hard Drive
- 32-Bit EISA SCSI Controller
- Intel OverDrive Socket
- Windows Accelerated Video w/ 1MB DRAM
- 14" Color CrystalScan 1024NI
- Tower Case
- 8 32-Bit EISA Slots
- 124-Key AnyKey Keyboard
- MS-DOS, Windows & Mouse
- Cool Tools for DOS
- Choice of Application Software

$3495

Software Options

With systems that include "choice of application software," pick one from this selection:

- Microsoft Excel for Windows
- Microsoft Word for Windows
- Microsoft Word and Bookshelf 92 CD
- Microsoft PowerPoint for Windows
- Microsoft Project for Windows
- The MS Entrepreneur Pack (Works, Publisher, Money and games)
- Borland Paradox for Windows
- The Windows Programmer Pack (MS Quick C, Visual Basic and more)

You can also upgrade from MS Works to a choice of software for $100, or upgrade from these choices to MS Office for $175.

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- Lifetime Toll-Free Technical Support
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397

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back tray, even in cramped quarters. And the solid, 4-hour battery life is conducive to extended travel.

The system is based on an Intel 386SL-25 processor, and it comes with a 64K external memory cache. Its performance ranked an impressive fifth overall, and it was particularly speedy on our *Windows* test suite. It managed the second best score on the *Excel* test and third on both *Word for Windows* and the graphics-intensive *Freelance* test.

The keyboard has a nice medium travel and a slightly soft feel, but BCC chose to squeeze the special-function key down to half the size of the ordinary keys. You get all 12 regular function keys, but the page control keys are emulated. BCC provided an external Thumbelina trackball from Appoint, which is very portable but somewhat awkward to use. Our test panel had trouble getting used to this device, and so did we.

The BCC has a good price and good performance, plus a respectable 80MB hard disk, with a 120MB option available. Service and support is decent: There's no on-site service, BCC provides a three-day turnaround policy, and while support is toll free, it's unavailable on weekends. This system isn't at the very top of our list, but you might consider it if you spend a lot of time in the air. Otherwise, you'll find your best bets further up the list.

Mobile Computing Pace Picks Up

There are several other notebooks available for around $2000 or less that we were unable to get in time for this review. In addition, a multitude of products were announced at Fall Comdex a bit too late for inclusion. The most impressive newcomers are from AST, Gateway, Panasonic, and Texas Instruments. New products also emerged from Canon and Keydata.

The AST Power Exec EL is the latest version of the Power Exec 3/25SL. It now includes a removable, upgradable hard drive, a PCMCIA version 2.0 slot, and an optional expansion chassis. The Texas Instruments TravelMate WinSLC uses TI's own (Cyrix-designed) 486SLC-25 processor and has a great screen. A wide range of options is available with the TI, including LAN interface adapters, a SCSI module, and a high-speed internal fax-modem. The Panasonic CF-1000 is another intriguing model. It uses AMD's low-power AMD386SXLV-25 and you can exchange the floppy drive for an additional battery pack, doubling battery life. Panasonic claims up to an 11-hour battery life. Without modem and pointing device, it weighs 5 pounds, and an expansion chassis is also available.

The Canon Innova 386NX uses an AMD 386SX running at 33 MHz and is also offered in special bundles with portable versions of Canon's BubbleJet printers. The Keydata Keynote 486SLC-33 uses the fastest version available to date of the Cyrix SLC.

Gateway 2000 originally shipped us its AMD 386SXL-25–based Nomad 325SXL for this review. Gateway subsequently decided to replace the 325SXL with the Nomad 425SXL, which features a low-power-consumption version of the Intel 25-MHz 486SX processor. Although we were unable to get a unit in time to review the new system, its initial specs look attractive. It ships with 4MB of RAM, an 80MB hard disk, *Microsoft Works for Windows 2.0*, DOS, *Windows*, an external trackball, and a modem for around $2100.

Other Notebook Notables

Company	Product	Processor	Phone number
Altec Technology	Altec 486SLC Notebook	Cx486SLC-25	800/255-9971
AST Research	Power Exec EL	i386SL-25	800/876-4278
Aurum Computer	GoldNote 425SX/80	i486SX-25	800/552-8786
Canon Computer Systems	Innova 386NX	AMD386SX-33	800/848-4123
CompuAdd	CompuAdd 325tfx	i386SX-25	800/456-3116
CompuAdd Express	CompuAdd Express 425XL	Cx486SLC-25	800/925-3000
CompuTrend Systems	CompuTrend Premio 386SL-25	i386SL-25	800/677-6477
DEC	DECpc 320P Notebook	i386SX-20	800/332-4636
Eltech Research	Model 386NB25	AMD386SXL-25	800/358-8330
Epson America	Epson NB-SL/20	i386SL-20	800/922-8911
First Computer Systems	FCS 386-33DX Notebook	i386DX-33	800/325-4441
Gateway 2000	Nomad 425SXL	i486SX-25	800/846-2000
IBM	ThinkPad 300	i386SL-25	800/772-2227
Insight Computers	Insight 386SX-25 Notebook	i386SX-25	800/776-7600
Keydata Int'l	Keynote 486SLC-33	Cx486SLC-33	800/486-4800
Leading Edge Products	N3/SL25 Monochrome	i386SL-25	800/874-3340
NEC	UltraLite SL/20	i386SL-20	800/632-4636
Notsable Computer	Noteable N400 486SLC/25	Cx486SLC-25	800/274-4124
Packard Bell Electronics	PB 386SX25	i386SX-25	818/886-4600
Panasonic	CF-1000	AMD386SXLV-25	800/742-8086
PC Brand	PC Brand 486/SLC Monochrome LeaderBook	Cx486SLC-25	800/722-7263
Reitsys	RN-6000	AMD386SXL-25	408/945-9000
Samsung Electronics	NoteMaster 486S/25N	Cx486SLC-25	800/446-0262
Sharp Electronics	PC-6781	i386SL-25	800/237-4277
Texas Instruments	TravelMate WinSLC	TI486SLC-25	800/527-3500
Twinhead	Slimnote 486SX/25	i486SX-25	800/995-8946
USA Flex	USA Flexnote 386SXL-25	AMD386SXL-25	800/872-3539
Zeos Int'l	Zeos Freestyle/SL	i386SL-25	800/423-5891

BEST AVAILABLE COPY

398

FEATURES COMPARISON

Affordable Notebooks *continued*

● Yes
○ No
n/a = not available

	BEST BUY AceAnyWare V386SL	Archa NP-201	Aspen Aquiline Personal 486	Austin 386/SXL-25	BCC SL325	Blackship BLK 386SL/25 NB	CAF AquaLite-II	Chaplet NBC 386SL-25
Power management (continued)								
Charge indicator shows full charge	●	○	○	●	●	●	●	●
Supports Intel/MS Advanced Power Mgmt. (APM)	●	○	○	○	●	●	○	●
Suspend button	●	●	●	●	○	●	●	●
Timed suspend	●	●	●	●	●	●	●	●
Change battery with suspend on	●	○	●	●	○	○	●	○
Set timeouts for HDD	●	●	●	●	●	●	●	●
Set timeouts for display	●	●	●	●	●	●	●	○
Set timeouts for ports	●	○	○	○	●	○	○	○
Set timeouts for modem	●	○	○	○	●	○	○	○
Turns on or resumes on modem ring	●	○	○	○	●	●	●	●
Expandability								
Keyboard port	●[9]	●	●	●	●[9]	●	●	●
Mouse port	●[9]	●	○	○	●[9]	○	●	○
SCSI port	○	○	○	○	○	○	○	○
Internal modem available	●[12]	●[13]	●[8]	●[13]	●[13]	●[13]	●[13]	●[13]
Docking station available	●	○	●	○	○	○	○	○
PCMCIA slot	●	○	○	○	○	○	○	○
Display								
Screen (square inches)	43.8	43.8	44.6	43.8	44.6	44.6	44.6	44.6
Screen (diagonal)	9.5	9.5	9.8	9.5	9.8	9.5	9.8	9.8
SVGA output	●	●	●	○	○	○	●	○
Simultaneous LCD and CRT	●	●	●	○	○	○	●	○
Keyboard								
Cursor keys in standard T	●	●	●	●	●	●	●	●
Dedicated page control keys	●	●	○	○	○	●	●	●
All 12 function keys dedicated	○	●	●	○	●	○	○	○
Standard <Alt> <Ctrl> layout	●	○	○	○	●	●	●	●
Built-in trackball	○[14]	○	●[15]	●	○	●	○	●
Service and support								
Warranty (months)	12	12	12	12	12	12	12	12
On-site service price for first year	none	none	none	none	none	none	none	none
Turnaround policy (days)	1	4	1	2	3	2	3	3
Free unlimited support	●	●	●	●	●	●	●	●
Toll-free central support	●	○[17]	●	●	●	●	○[17]	○[17]
Daily support (hours)	12	9	8	24	10	9	9	9
Weekend support	●[18]	○	●[18]	●	○	○	○	○
BBS	●	○	●	●	●	●	○	○
Fax	●	●	●	●	●	●	●	●
Dedicated support staff required	○	○	●	●	○	n/a	●	○
Support staff training required	n/a	n/a	●	●	n/a	n/a	●	n/a
Dedicated support line for dealers	●	○	●	●	●	n/a	●	○
Inventory and parts requirement	○	○	●	○	○	n/a	○	○
Service available from any authorized dealer	○	○	n/a	n/a	○	n/a	●	○

[6] Resume on bootup optional. [7] With optional battery installed. [8] Serial only. [9] One dual-function port for keyboard and mouse. [10] Combined keyboard and mouse port. Mouse adapter required.

399

	Compaq Contura 3/25 Model 8A/r*	Compaq Slimline 386SL/25 (BEST BUY)	Compudyne Slimline 386SLL/25 (BEST BUY)	CompuTrend Presto SL Notebook	Cube 325NTX Model 90	Dataq Professional Pro	Dell Dimension NL25 (BEST BUY)	Micro Express NP925	Sarna 386SX/25	Sarna 486/SLC25	Toshiba Satellite T1850	ZDS 625xi Model 85
	○	●	●	○	○	○	●	○	●	●	●	●
	○	●	○	●	○	●	●	○	○	●	●	○
	●	●	●	●	●	●	●	○	●	●	○	●
	●	●	●	●	●	●	●	●	●	●	○[6]	●
	●[7]	○	○	○	○	○	●	○	●	●	●	●
	○	●	●	●	●	●	●	●	●	●	●	●
	○	●	●	○	●	●	●	●	●	●	●	●
	○	●	○	○	○	○	●	○	○	○	○	●[8]
	○	●	○	○	○	○	●	○	○	○	○	●
	○	●	●	●	○	○	●	○	●	●	○	●
	●[9]	●[10]	●[10]	●	●	●	●	●	●[9]	●[9]	●	●[8]
	●[9]	●[10]	●[10]	○	●	○	●	○	●[9]	●[9]	●	●[8]
	○	○	○	○	○	○[11]	○	○[11]	○	○	○	○
	●[12]	○	○	●[13]	●[13]	●	○	●[12]	●	●	●	●
	○	●	●	○	○	○	○	○	○	○	○	○
	○	○	○	○	○	○	○	○	○	○	○	○
	43.8	43.8	43.8	44.6	44.6	43.8	44.6	44.6	43.8	43.8	43.8	43.8
	9.5	9.5	9.5	9.8	9.8	9.5	9.8	9.8	9.5	9.5	9.5	9.5
	○	●	●	○	●	○	●	●	○	○	○	○
	○	●	●	○	○	○	○	○	●	●	○	○
	●	●	●	●	●	●	●	●	●	●	●	●
	○	●	●	●	●	●	●	●	○	○	●	○
	○	○	○	○	●	○	●	○	○	○	●	○
	○	●	●	●	●	○	○	○	●	●	○	○
	○	●	●	●	●	○	○	○	○	○	○	○
	36	12	12	12	12	12	12	15	12	12	12	12
	free	none	none	$80	none	none	$99[16]	none	none	none	free	varies
	2	2	2	2	1	2	3	2	none	none	2	2
	●	●	●	●	●	●	●	●	●	●	●	●
	●	●	●	●	●	●	●	●	●	●	●	●
	24	13	13	9	11	9	18	24	12	12	10	15
	●	●[18]	●[18]	○	●	○	●	●	●	●	○	○
	●	●	●	○	●	●	●	○	●	●	●	●
	●	●	●	●	●	●	●	●	●	●	○	●
	○	●	●	○	n/a	○	n/a	n/a	n/a	n/a	○	n/a
	n/a	●	●	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a	n/a
	●	●	●	○	n/a	●	n/a	n/a	n/a	n/a	●	n/a
	○	●	●	○	n/a	○	n/a	n/a	n/a	n/a	○	n/a
	○	●	●	○	n/a	○	n/a	n/a	n/a	n/a	●	○

[11] Optional. [12] PCMCIA modem. [13] Fax-modem. [14] Clip-on mouse. [15] Side mount. [16] On-site system replacement with data recovery if possible. [17] No toll-free number. [18] Saturdays only.

480

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4.5-Hr. Battery & AC Pack
MS-DOS,® InterLink,® MS Works™ for DOS

And 4DX-33 Mini Desktop*
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Windows Accelerated Video w/ 1MB
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124-Key AnyKey Keyboard, MS Mouse
MS-DOS, Windows & MS Works for Windows

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Simultaneous Video with 1MB
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6-Hr. NiCad Battery & AC Pack
1 Parallel/1 Serial Port
79-Key Keyboard & FieldMouse
MS-DOS 5.0 and Windows 3.1
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401

Deloitte & Touche

Suite 350N
1001 Pennsylvania Avenue, N.W.
Washington, D.C. 20004-2594

Telephone: (202) 879-5600
Facsimile: (202) 879-5309

October 7, 1993

Diane Howard
Office of Contracts
Agency for International Development
1100 Wilson Boulevard, Suite 1500D
Arlington, Virginia 22209

Re: Contract No. ANE-0002-C-00-0047-00 - Source Origin Waiver Approval Request for Xerox Photocopying Machines and Associated In-Country Warranty Services

Dear Ms. Howard:

In accordance with the above-referenced contract, your approval is requested to permit a waiver of U.S. Agency for International Development (USAID) regulations with respect to **Source Origin** of two (2) Xerox photocopying machines and associated in-country warranty services.

Discussion

The Hungarian State Property Agency (SPA) regulates and implements the Government's privatization policy. The SPA, in marketing its investment programs, requires additional photocopiers. The contractual agreement for this equipment is detailed in Amendment #3 of the above-referenced contract.

The American Manufacturers Export Group (AMEG), the subcontractor responsible for equipment procurement under this contract, has advised that the photocopiers with the correct electrical specification of 220V/50HZ are not manufactured in the United States. AMEG has also advised that Xerox, through its subsidiary in Holland, Rank Xerox, can provide local warranty service through Rank Xerox's Hungary agent, General Impex Foreign Representatives. Xerox is the only U.S. headquartered photocopier manufacturer which can service its equipment in-country. It is also the only manufacturer which sells and services the heavy duty, high speed machines which the SPA requires in-country.

This equipment will be purchased at AID certified pricing. Approximate value is US$140,000.

4020

Recommendation

On the basis of the above discussion, we recommend that the **Source Origin** requirement be waived for the purchase of two Xerox machines for the State Property Agency in Hungary.

_____ _____

Approved **Date**

If you have any questions, or if you require further information, please contact Lynne Damon at (202) 879-5386.

Sincerely,

Lizann Prosser
Senior Manager
Central & Eastern Europe

cc: Richard Burns
David Cowles
Chick Twyman

Deloitte & Touche

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1001 Pennsylvania Avenue, N.W
Washington, D.C. 20004-2594

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October 7, 1993

Diane Howard
Office of Contracts
Agency for International Development
1100 Wilson Boulevard, Suite 1500D
Arlington, Virginia 22209

Re: Contract No. ANE-0002-C-00-0047-00 - Single Source Waiver Approval Request for Xerox Photocopying Machines and Associated In-Country Warranty Services

Dear Ms. Howard:

In accordance with the above-referenced contract, your approval is requested to permit a waiver of U.S. Agency for International Development (USAID) regulations with respect to **Single Source** of two (2) Xerox photocopying machines and associated in-country warranty services.

Discussion

The Hungarian State Property Agency (SPA) regulates and implements the Government's privatization policy. The SPA, in marketing its investment programs, requires additional photocopiers. The contractual agreement for this equipment is detailed in Amendment #3 of the above-referenced contract.

The SPA purchased its original photocopying equipment in late 1991. At that time, various manufacturers were considered such as Canon, AGFA, and Olivetti. Based on equipment needs, costs, and other selection criteria, SPA chose Xerox equipment. To date, the Xerox equipment has worked well and the SPA would like to standardize their equipment and continue with Xerox.

The SPA requires that their machines be able to be serviced locally so that breakdowns can be serviced quickly. Rank Xerox is the only U.S. headquartered company which services equipment in Hungary. The two new machines will be covered under an umbrella warranty and service contract with the local dealer, General Impex Foreign Representations.

404

The SPA does a high volume of copying to handle all the paperwork required to sell a company or property. The SPA currently must send documents to outside copying services to be copied which is far more expensive than using in-house equipment. The additional in-house photocopying capacity will reduce the SPA's costs, increase the speed and efficiency of processing sales transactions, and allow the SPA to devote additional resources to hiring staff, etc.

The American Manufacturers Export Group (AMEG) is the subcontractor responsible for equipment procurement under this contract. AMEG has advised that Xerox is the only U.S. headquartered photocopier manufacturer which can service its equipment in-country. It is also the only manufacturer which sells and services the heavy duty, high speed machines which the SPA requires in-country. This equipment will be purchased at AID certified pricing. Approximate value is US$140,000.

Recommendation

On the basis of the above discussion, we recommend that you waive the open competition requirement in the procurement of the above items and authorize **Sole Sourcing** for the purchase of two Xerox machines for the State Property Agency in Hungary. This waiver request justification is based on special operational requirements, such as equipment standardization and in-country warranty, which are available only from one source.

Approved _____ **Date** _____

If you have any questions, or if you require further information, please contact Lynne Damon at (202) 879-5386.

Sincerely,

Lizann Prosser
Senior Manager
Central & Eastern Europe

cc: Richard Burns
David Cowles
Chick Twyman

Yes

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October 7, 1993

Diane Howard
Office of Contracts
Agency for International Development
1100 Wilson Boulevard, Suite 1500D
Arlington, Virginia 22209

Re: Contract No. ANE-0002-C-00-0047-00 - Single Source Waiver Approval Request for Personal Computer Equipment and LAN Peripherals

Dear Ms. Howard:

In accordance with the above-referenced contract, your approval is requested to permit a waiver of U.S. Agency for International Development (USAID) regulations with respect to **Single Source Negotiated Procurement** of personal computer equipment and LAN peripherals for the Technical Assistance to the State Property Agency of Hungary.

Discussion

The Hungarian State Property Agency (SPA) regulates and implements the Government's privatization policy. Under the Technical Assistance to the SPA, USAID has assisted Hungary's strategic economic objective to increase the efficiency with which Hungary's productive assets are managed. To achieve this end in a rapid but orderly manner, the Government of Hungary has launched an ambitious privatization program. The privatization program requires increasing the present computer-based management information system capacity. The SPA requires additional personal computers and LAN peripherals to increase their investment information storage and retrieval capability. (The contractual agreement for this equipment is detailed in Amendment #3 of the above-referenced contract.)

The SPA has identified this equipment as critical to the project. Informal competitive procedures requiring advertising will impair the objectives of the U.S. Foreign Assistance Program and would not be in the best interest of this project. Advertising would add a minimum of 30-45 days onto an already critical procurement schedule.

yab

When the original equipment was procured, open bidding and negotiation occurred and the equipment was chosen on a cost-competitive basis to be supplied by Computerware Inc. Computerware, Inc. remains cost competitive and it is through Computerware, Inc. that this additional equipment is proposed to be purchased.

The SPA currently has Comtech brand desktop computers and 3 Comm LAN peripherals. For reasons of **compatibility, capability, greater familiarity by operating staff, and standardization of maintenance and repair arrangements, any additional add-on equipment should be Comtech desktops, Texas Instruments Notebooks, and 3 Comm brand.**

The American Manufacturers Export Group (AMEG) is the subcontractor responsible for equipment procurement under this contract. AMEG has advised that the following criteria must be met in order for the equipment to be of the same capability and quality of the existing equipment:

1) Compatibility - The SPA currently operates a very sophisticated LAN system running Novelle software. The previous vendor, Computerware, Inc. (8480-1 Tyco Road, Tysons Corner, Vienna, Virginia 22182-2266) has proven to be a very reliable supplier of the last fifty-five (55) PC units purchased. Computerware, Inc. will ensure compatibility of proposed equipment with the existing equipment and software.

2) Source & Origin - The equipment, Comtech and Texas Instruments equipment, meets the Code 000 (U.S. only) source and origin requirements.

3) Voltage - All equipment proposed by Computerware is suitable for use on 220V/50HZ utility power without the use of 220V/110V stepdown transformers. The desktop monitors proposed are AC powered through the CPU thus enabling each desktop workstation to require only one (1) AC plug. The notebooks also operate on true 220V/50HZ utility power.

4) Warranty - Computerware Inc. provides a one (1) year warranty on all equipment. In the event of a breakdown or problem, the end user need only provide Computerware, Inc. a fax stating what equipment is defective or inoperative. Upon receipt of this notification, Computerware, Inc. will provide the defective part at no charge. The end user has thirty (30) days to return the defective equipment to Computerware Inc. This warranty has proven quite satisfactory in the past.

Recommendation

We request that the requirement for open competition be waived in the procurement of the above-described equipment and that authorization be granted for sole source negotiation with Computerware, Inc. for the purchase of Comtech, Texas Instruments, and 3 Comm computer equipment. The justification for this waiver request is based on the special design and operational requirements, such as equipment standardization, compatibility, and in-country warranty, which require products and services available from only one source.

Approved _____ **Date** _____

If you have any questions, or if you require further information, please contact Lynne Damon at (202) 879-5386.

Sincerely,

Lizann Prosser
Senior Manager
Central & Eastern Europe

cc: Richard Burns
David Cowles
Chick Twyman