STANDARD SUMMARY PROJECT FICHE

Project Number: **RO9906-03**

Title: **Acceleration and Streamlining of the Privatisation Process**

Sub-Programme: **RO-9906 - Strengthen the Capacity to withstand Competitive Pressures**

Geographical Location: **Romania, State Ownership Fund**

Objectives

The wider objective of the project is to promote the development of a sustainable, competitive corporate environment by transferring the majority of the State Owned Enterprises (SOE) to the private sector, and fostering hard budget policies through work-out and restructuring.

The immediate objective of the project is to accelerate the privatisation process of commercial companies by:

- Providing access to privatisation transaction expertise in order to strengthen the State Ownership Fund's (SOF) capabilities and accelerate the process (complementary to the IBRD loan).
- Supporting new legal provisions (Law #99) pertaining to restructuring, sales of assets and liquidation.
- Reinforcing hard budget policies by restructuring core, "unsaleable" but operationally viable companies (necessary follow up to failed tender efforts).

Description

In accordance with above-stated objectives, submitted projects have been defined in relation to a) anticipated progress in implementing Phare 98 projects and b) the recently negotiated World Bank conditionalities, which will be the driving force behind the 1999/2000 privatisation programme.

The Phare 99 project support is geared to:

- Support & expand new capabilities/programmes negotiated under the new privatisation law (e.g.: privatisation agent mandates, added flexibility in restructuring & liquidation follow-up, increased buyer indemnification on environmental liabilities).
- Anticipating on the fact that the timing of Phare 99 will correspond with the second phase of World Bank conditionalities (20% in loss reduction in 1999; 80% left in 2000), hard budget policies (right-sizing and liquidation) will increasingly have to be tackled.

This will entail both on an acceleration of the actual privatisation of companies that are feasible to be sold as well as on providing a road map facilitating the restructuring of operationally viable companies that are offered for sale.

1. Framework Contracts for retaining fee-based professional expertise in order to accelerate the privatisation of saleable companies (MEUR 2.75)

Rationale & Objectives: The initial World Bank accelerated privatisation programme was to include 250 pooled companies and 5 major work-out/liquidations. It has subsequently been scaled down to a pool of 50 companies, and the actual liquidation of earlier (longer list) candidates is no longer part of the IBRD financed Terms of Reference.

The privatisation of the longer list of companies remains an urgent necessity for the government's overall economic reform programme. Public Institutions involved must therefore retain a variety of privatisation experts, independently from the concepts of privatisation agents or consortium which apply to the pool of 50 companies. Whereas a consortium can provide a mix of skills to handle a package of companies or a large, complex transaction under donor financing, standard industry practice is to select a bank. In addition, the seller (SOF), in consultation with the bank, must retain the additional professional expertise required by a specific transaction. Banks will require a retainer and a success fee. Professionals, such as environmental experts, lawyers or auditors, will require the payment of fees.

The impact of past EU support in this area has been limited, as the support was complementary to transactions with prohibitively low retainer fees. Reputable investment banks were simply not interested. The current environment is considered far more conducive of results (volume of sale, flexibility of law, procurement experience at SOF, higher retainer fees, ties to IFI's conditionalities)

Phare will finance these fee-based services through 3 separate contracts, hence complementing the retainer fee the banks will require. This will allow SOF to finance more mandates, as well as to significantly strengthen resources during negotiations.

- Lawyers on Retainer – up to 4 firms under one contract (1 MECU)
- IAS Auditors – up to 4 firms under one contract (0.75 MECU)
- Environmental auditors – up to 4 firms under one contract (1 MECU)

2. Restructuring/Turn-around Component (MEUR 3.0)

Rationale & Objectives: As Romania privatises its most "saleable" companies, it will increasingly be left with the hardest cases to sell. Hardest case will mean a combination of inadequate production capacity/unproductive operations/financial distress. No industrial turnaround should be attempted without an effective mechanism, and willingness to remedy the debt issue. As the new privatisation law increases flexibility in restructuring companies (negotiations with budgetary creditors/sale of assets by the Boards) true restructuring action can take place.

This sub-project is complementary with the Enterprise Restructuring and Employment Conversion Programme (RICOP)also proposed for 1999 Phare support, which can only succeed to the extent that companies are actually restructured.

The World Bank conditionalities include reducing state losses by 20% this year and 80% afterwards. Phare 99 would take effect as Romania starts tackling these 80%.

Proposal Description: Under this sub-project, companies will be restructured following a four-module methodology, which allows for adjustments in-between modules, based upon findings, progress & decisions made. Consultants and industrial experts will be working with the companies' boards & senior management, in line with new legal provisions. A comprehensive step by step approach has been developed to guide both consultants and management on the scope of the effort. This modular approach can be adapted as a follow up of failed sales efforts in 99 i.e. Module II and III may be put into place, once the sale tender has confirmed that a company is not "saleable" as is but investors might be interested in specific business units.

The MEUR 3.0 proposed is designed to handle 2 to 3 large restructuring over an estimated 18 month programme. It is a very replicable project: a) under Phare 2000, as Romania cannot be expected to handle all the World Bank-mandated 80% restructuring efforts in one year, but also; b) within SOF. Once the methodology is understood & successfully applied to a few projects, it can also be applied to other cases under alternative financing.

Phare support under the Full-fledged Restructuring/Turn-around component is provided subject to the condition that the assistance will lead to the break-up or liquidation of unviable enterprises, and an end to the state's subsidies to and participation in those enterprises. This objective will be achieved through the sale of physical assets, privatisation of any potentially viable business units within the loss-making enterprise and measures to deal with enterprise debts in a manner consistent with EU state aid policies.

3. Related Technical Assistance

Limited technical assistance will be supplied related to implementation of the above two sub-projects.

Institutional Framework

Under the new law, several Public Institutions Involved will be privatising SOE's. The SOF remains the institution with the greater number of medium to large companies to privatise (63 out of 64 companies under current privatisation conditionalities) and hence, the most likely to benefit from framework contracts. The restructuring budget should be earmarked for 2 or 3 of the SOF held companies that fail to be privatised following the accelerated tendering effort.

Budget (MEUR 6.0)

Sub-Project	Investment	Institution Building	Total Phare	Recipient	IFI*	Total
	DIS	DIS				
1. Framework Contracts · Environmental experts (1) · Lawyers (1) · IAS auditors (0.75)		2.75	2.75			2.75
2. Full-fledged Restructuring		3	3			
3. Related Technical Assistance		0.25	0.25			0.25
Total		**6**	**6**			**6**

** Under the IBRD Loan, the accelerated programme will not allocate more than $80,000 for large companies in the pool of 50 and $200-400,000 for large conglomerates. The EU framework contracts will be needed to complement low retainers (e.g. financing of environmental experts during negotiations for large chemical companies - critical in light of a new law with extensive buyer indemnification provisions) and right-sizing/restructuring follow up whenever sale efforts failed.*

Implementation Arrangements

The Central Finance and Contracting Unit will be the Implementing Agency and, thus, responsible for tendering, contracting, payments and financial reporting.

The Implementing Authority responsible for sub-projects is SOF, on behalf of the Public Institutions Involved (term used under the new privatisation law for institutions having executing privatisation responsibilities).

Implementation schedule

All the Terms of References (ToR) for this Phare 99 programme have been prepared under the short-term Privatisation/Liberalisation framework project and, subsequently, approved by the SOF Executive Director.
The three framework contracts can be launched upon signature of the Financial Memorandum. The two-part full-fledged restructuring ToR has also been approved by SOF. It includes the underlying methodology to be applied, as well as the cover portion that needs to be completed with company-specific information. Actual tenders will be based upon the selection of the firms earmarked for restructuring (vs. obvious need for liquidation). Cases selected should be difficult but have an operational raison d'être as a) the budget will only cover approximately 3 companies and b) future funding can be expected on the basis of demonstrated results. The specific ToR will provide relevant information on the company and size the different modules accordingly. Some short-term TA will be required to ensure the full-benefit of this project (company selection, financial restructuring mechanism put into place, input of company-specific information in the prepared ToR).

All projects are expected to be completed by the end of the last quarter of 2001

Line items	Start of Tendering	Start Project Activity	Completion
Three Framework Contract	Signature FM (est. 12/99)	3/2000	9/2001
Restructuring	2/2000	5/2000	11/2001
Technical Assistance	12/99	1/2000	11/2001

Environment: N/A

Rates of Return: N/A

Investment Criteria: N/A

Conditionality and Sequencing

In view of the conditionalities already set forth under PSAL, it is required that the Accelerated Programme be duly launched on the initial group of companies, as the proposed 99 programme is geared to re-enforce, complement and follow-through the accelerated privatisation programme.

Annex 1 of the Project Fiche

LOGFRAME PLANNING MATRIX FOR PROJECT: STRENGTHEN THE CAPACITY TO WITHSTAND COMPETITIVE PRESSURE AND PROMOTE THE DEVELOPMENT OF A HEALTHY INTERNAL MARKET				Date Of drafting	June 1999
				Planning Period	January 2000 December 2001
Project Number	RO9902-03	Project Title	**Strengthen the capacity to withstand Competitive Pressure and Promote the development of a healthy Internal Market**	Total Budget of Project	6,000,000 EURO
Wider Objectives		**Indicators of Achievement**	**How, When and By whom Indicators will be Measures**	**Assumptions & Risks**	
Promote the development of a sustainable & competitive corporate environment as follows: • Transfer the majority of commercial companies to the private sector, • Institutionalise corporate governance practices, • Institutionalise a domestic liquidation capability for non-viable entities.		Ability to meet World Bank conditionalities for Privatisation tranche release. Ability to utilise 1998 programmes in support of bank and insurance privatisation	International donors monitoring of loan related conditionalities	Continued Government commitment to privatisation and economic reform	
Immediate Objectives		**Indicators of Achievement**	**How, When and By whom Indicators will be Measures**	**Assumptions & Risks**	
The immediate objective of the programme is to accelerate privatisation of commercial companies as follows: • Provide access to privatisation transaction expertise in order to strengthen current capabilities and accelerate the process. • Provide support to decentralised institutional structure (local SOF, increased restructuring activities to be carried out by the Boards of Administration) • Reinforce hard budget policies by restructuring key, unsold but operationally viable companies		Finalisation of norms related to new privatisation law and subsequent development of an institutional structure & procedures to support accelerated process. Demonstrated willingness to accelerate privatisation via implementation of the accelerated privatisation programme.	• Execution by SOF and other Public Institutions Involved • Facilitating, promotional and coordination role by RDA • Willingness to promote the spirit of Law 99 (market-driven & increased flexibility) by the Ministry of Finance and other budgetary creditors.	Maintained commitment by SOF to the acceleration of privatisation. Ability to the new structure (SOF, other Public Institutions Involved, RDA) to operate efficiently towards increasing pace of privatisation.	

Results of Project	Indicators of Achievement	How, When and By Whom Indicators will be Measured	Assumptions & Risks
- 2 to 3 large companies restructured - Restructuring methodology tested and, hence, replicable by other Institutions Involved and/or later programmes - Maintenance of privatisation momentum past the initial 64 companies earmarked under the World Bank program - Effective negotiations with buyers on environmental liabilities and other areas clearly open to large buyer indemnification under Law 99 - Demonstrated willingness to deal with problem companies.	- Follow-up on large companies that may be unsold after the current wave of accelerated privatisation - Effective handling of the 2-3 restructuring candidates at the end of the restructuring effort i.e. Module IV (full or partial privatisation, new technological partnerships in place, disposal of non-viable assets, ties to social protection measures) - Expansion of initial pilot program; use of methodology & know how acquired for other projects - Utilisation of framework contracts to support investment banks retained by SOF on additional companies. - Contain "surprises" on longer-term indemnification be the Government and its budgetary impact.	Reports provided by the Short term TA in place who will provide assistance in both implementing and monitoring/correcting the programme, as required. SOF privatisation and restructuring results, as compared to prior years.	Maintain momentum regarding privatisation. Appropriate political and institutional support to privatisation and restructuring. SOF ability to retain trained staff.
Inputs			
Phare grant for 6 MEURO to cover TA contracts Success fees during the last restructuring modules (privatisation, sale of assets) paid by SOF			

Strengthen the Capacity to withstand Competitive Pressure and Promote the Development of an Healthy Internal Market														
CUMULATIVE CONTRACTING SCHEDULE (million)														
Date:														
	30/9/99	31/12/99	31/3/00	30/6/00	30/9/00	31/12/00	31/3/01	30/6/01	30/9/01	31/12/01	31/3/02	30/6/02	30/9/02	31/12/02
Sub-project 01		1,750	2,750											
Sub-project 02			3,000											
Sub-project 03		0,250												
TOTAL		**2,000**	**6,000**											
NB: *all contracting should normally completed within 6-12 months and must be completed within 24 months of signature of the FM*														

Sub-project 01 **Framework contracts for retaining fee-based professional expertise in order to accelerate the privatisation of saleable companies**

Subproject 02 **Full-fledged restructuring/turnaround of hardest state owned companies**

Sub-project 03 **Related technical assistance**

Strengthen the Capacity to withstand Competitive Pressure and Promote the Development of an Healthy Internal Market

CUMULATIVE DISBURSEMENT SCHEDULE (million)

Date:

	30/9/99	31/12/99	31/3/00	30/6/00	30/9/00	31/12/00	31/3/01	30/6/01	30/9/01	31/12/01	31/3/02	30/6/02	30/9/02	31/12/02
Sub-project 01			0.250	0.250	0.350	0.450	0.450	0.500	0.500					
Sub-project 02				0.300	0,300	0.400	0.400	0.500	0.550	0.550				
Sub-project 03				0.060		0.060		0.060		0.070				
TOTAL			**0.250**	**0.860**	**1.510**	**2.420**	**3.270**	**4.330**	**5.380**	**6.000**				

NB: *all contracting should normally completed within 6-12 months and must be completed within 24 months of signature of the FM*

Sub-project 01 **Framework contracts for retaining fee-based professional expertise in order to accelerate the privatisation of saleable companies**

Subproject 02 **Full-fledged restructuring/turnaround of hardest state owned companies**

Sub-project 03 **Related technical assistance**

Strengthen the Capacity to withstand Competitive Pressure and Promote the Development of an Healthy Internal Market

CUMULATIVE CONTRACTING and DISBURSEMENT SCHEDULE (million)

Date:

	30/9/99	31/12/99	31/3/00	30/6/00	30/9/00	31/12/00	31/3/01	30/6/01	30/9/01	31/12/01	31/3/02	30/6/02	30/9/02	31/12/02
Contracted		**2,000**	**4,000**											
Disbursed			**0.250**	**0.860**	**1,510**	**2,420**	**3,270**	**4,330**	**5,380**	**6000**				

NB: 1. a*ll contracting should normally be completed within 6-12 months and* ***must*** *be completed within 24 months of signature of FM*
2. *all disbursements* ***must*** *be completed within 36 months of signature of the FM*

Annex 3 of the Financing Proposal
BUDGET (total: 6 million)

STRENGTHEN THE CAPACITY TO WITHSTAND COMPETITIVE PRESSURE AND PROMOTE THE DEVELOPMENT OF A HEALTHY INTERNAL MARKET

	Phare budget in MEURO: 6 million		Total Phare	Recipient*	IFI*	Total
	Investment	Institution Building				
			(I+IB)			
Framework contracts for retaining fee-based professional expertise in order to accelerate the privatization of the saleable companies		2.750	2.750	SOF		**2.750**
• Environmental aspects		1.000	1.000			1.000
• Lawyers		1.000	1.000			1.000
• IAS auditors		0.750	0.750			0.750
Full-fledged restructuring/ turnaround of hardest state owned companies		3.000	3.000	SOF		**3.000**
Related technical assistance		0.250	0.250	SOF		**0.250**
TOTAL		**6,000**	**6,000**			**6.000**

* In case of co-financing

Relation of project with previous PHARE activities And with ongoing projects financed from other sources (including government budget)

Recently, the Government of Romania has applied for a Public Institution Building Loan from the International Bank for Reconstruction and Development (IBRD).

The objectives are to enhance the private sector's role in the economy through the transfer of the state-owned assets, the placement of state-owned banks on a sound financial footing, and the creation of an environment conducive to private sector growth and development. Success will be indicated by a reduction in the public sector deficit (associated with loss-making state enterprises), thriving banks, and the increase in volume and profitability of private sector economic activity.

Key performance indicators for measuring the project's success in meeting their objectives are: state divestiture from enterprises and financial sector assets, and rationalization of the economic framework.

Within this context the State Ownership Fund has important tasks and responsibilities in privatizing state owned companies from its portfolio as well as in privatizing state owned banks and insurance companies.

The Project proposal anticipates that the timing of Phare 1999 will correspond to the second phase of World Bank conditionalites (20% in loss reduction in 1999; 80% left in 2000)-a time when hard budget policies (right-sizing and liquidation) will increasingly have to be tackled.

This will entail 1) accelerating the actual privatisation of companies that are saleable as well as 2) providing a road map/facilitating the restructuring of operationally viable companies that could be made saleable.

Should also be mentioned that based on the Financing Memorandum signed on 24th December 1998 between the European Union and the Romanian Government, am amount of 6 million EURO has been allocated for the acceleration of the privatisation of the banking and insurance sectors. Under this programme, the State Ownership Fund benefits from an allocation of 3 million EURO for recruiting privatisation advisors for Banca Agricola, Bancorex and Romanian Commercial Bank and of 2,25 million EURO for the state owned insurance companies Asirom, Astra and Carom.

Annex 5 of the Project Fiche

Reference to feasibility/pre-feasibility studies

Not available

LIST OF RELEVANT LAWS AND REGULATIONS

1. Romanian Law 99/1999 on Modification and Completion of Emergency Ordinance 88/1997 regarding Company Privatization and in support of economic reform and accelerated privatization.

2. Methodological norms for the implementation of the above mentioned Law 99/1999.

Annex 7 of the Project Fiche

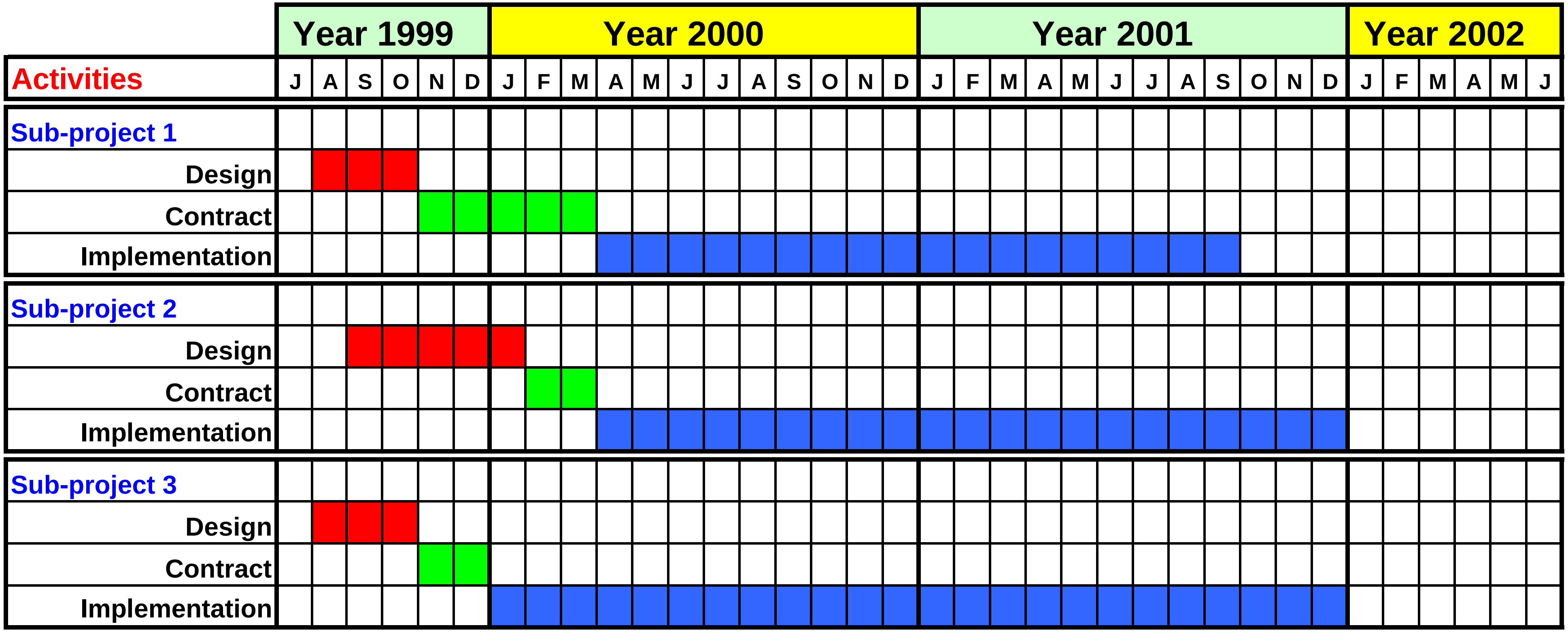
Reference to relevant Government Strategic plans and studies e.g. Institution Development Plan. Business plans. Sector studies.

Not available

Annex 2d of the Financing Proposal
time implementation chart

Acceleration and Streamlining of the Privatisation Process
RO-99XX-03

strengthen the capacity to withstand competitive pressure and promote the development of an healthy internal market



Sub-project 1	Framework contracts for retaining fee-based professional expertise in order to accelerate the privatisation of saleable companies
Sub-project 2	Full-fledged restructuring/turn around of hardest state owned companies
Sub-project 3	Related technical assistance

= design = contracting = implementation