

**Information Note for Assistance to the Privatisation Agency in Preparation of Companies for Privatisation**

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## **1. BACKGROUND INFORMATION**

### **1.1 Beneficiary country**

Republic of Serbia

### **1.2 Contracting Authority**

Privatization Agency of the Republic of Serbia (PA)

### **1.3 Relevant country privatisation background**

During the past period of ten years of sanctions, Socially-Owned Enterprises (SoEs) in Serbia have generated large financial losses totalling a substantial amount in relation to official GDP and quasi-fiscal deficits which burden the economy and the financial sector. The disposition of SoEs, primarily through privatisation, is a keystone of the Government's overall economic reform.

The Law on Privatisation<sup>1</sup> provides the overall framework for the privatisation of Serbia's state and socially-owned enterprises, as well as detailed techniques by which privatisation can be carried out. These techniques are: (a) privatisation following restructuring, (b) public tenders or public auctions, (c) capital markets operations, mainly through auctions procedures, by which the Government is selling share blocks in companies that were partially privatised under earlier privatisation laws.

The PA is the implementing organisation for all of these activities. Some 150-200 medium to large-sized enterprises, many of them at least partly socially owned, have been identified as being suitable for direct international tender privatisation. About 4,000 more enterprises (primarily small to medium-sized) are destined for the auction privatisation track. In addition, about 50 enterprises have been identified as needing restructuring prior to privatisation, and have thus been designated as on the "restructuring/privatisation" track. The Government's minority share holdings in some 780 enterprises is also being offered for sale through the capital markets.

The PA was established in July 2001. By the end of 2003, as work on the various privatisation tracks has substantially increased, the staff has expanded to some 200 employees.

Substantial progress has been made in tender and auction privatisation, as well as selling state owned share packages through the capital markets. More than 1.2 billion Euros has been realised so far. The success rate of privatisation in general was high and, more specifically, impressive results were achieved in public auction privatisation.

The competition in public auction privatisation is very high and reaches an average number of three interested investors in each auction case. The interest of strategic investors who acquired majority of companies through public tenders in 2002 also showed a very high level of competition, attracting between two and three interested bidders.

Further information about the current state of affairs of the PA can be obtained from <http://www.mpriv.sr.gov.yu/>.

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<sup>1</sup> "Privatisation Law", published in "Sluzbeni glasnik RS" No. 39/2001, on 29 June, 2001, and revised on 28 February 2003.

#### 1.4. Current state of affairs

In the choice of two basic models of privatisation, the free distribution of capital and the sale of capital, Serbia has opted for the model of sale mainly because of the adverse effects of the voucher system and the free distribution of capital in the countries of Central and Eastern Europe.

In this model the sale of capital is carried out directly to the strategic investors, thereby:

Shortening the time span of the company's structural adjustment by establishing a clearer link between ownership and management;

"Attracting" credible partners on the market, which has a positive effect on the inflow of direct investment to the country, in general;

Raising the technical and technological level of the economy by means of investment in new equipment and the transfer of technology.

Privatisation should always have social acceptability as its guiding principle. At the same time, this is also one of the biggest challenges of privatisation in our situation. It can be achieved, in part, by optimising the trade off between the transaction price and the requirement that the buyer of the capital should participate in resolving the problem of surplus employees in companies. However, it is impossible to solve this problem in the short term by privatisation, because privatisation did not create it. It must be resolved in a parallel process by means of the state's social policy, a policy encouraging direct investment, a policy for developing small and medium-sized companies, and other measures which serve the function of encouraging the labour force to become mobile.

The concept of privatisation in Serbia focuses mainly on strategic investors and, consequently:

It contains only competitive methods for the sale of capital;

It emphasises the procedural issues of the process of the sale of capital;

It insists on the public openness of the work of institutions and the transparency of the system of decision-making in the sale of capital;

It contains the mechanisms for judging beforehand whether an investor qualifies as a candidate;

It has built-in mechanisms to optimise the transaction price of capital

In practice, in the industrially developed countries and especially in the countries in transition where the model of sale has demonstrated outstanding results (Latvia, Estonia, Poland, and Hungary and the Czech Republic in the later stages of privatisation, and recently Slovakia), the methods of tenders and auctions have mainly been used. Both methods meet all the previously mentioned conditions. Procedurally, they have been worked out in detail, investors clearly recognise them and they have been accepted by the majority of international financial institutions that take part in financing privatisation projects.

For the purpose of implementation of privatisation projects the Agency utilises its own human resources as well as outsourced consulting services, which are required in the process of preparing companies for privatisation and marketing and implementation of privatisation transactions.

The Analysis and Planning Department of the PA (APD) is in charge for analysis of the companies assigned for privatisation and defining the privatisation model for each SoE. Based on information received from the companies the APD prepares recommendations to the management of the PA on which privatisation method will be applied.

There is no doubt that the success of each privatisation case to a considerable extent depends on the quality of the preparatory phase in general and selection of the most suitable strategy to attract potential buyers specifically. Therefore, it is essential to strengthen the capacity of the APD and to raise the quality of the preparatory phase for privatisation. Local experts are needed to assist the APD to assess companies and sectors with the aim of identifying their ownership structure, financial and organisational status and will recommend the most suitable method for privatisation. Based on the results of the assessment, the PA will be able to adjust more efficient strategy for further privatisation and apply the most suitable methods of ownership change.

## 1.5 Related programmes and other donor activities

The World Bank, USAID, DFID, GTZ and IFC are now financing consulting and advisory work in the PA for other projects.

The European Agency for Reconstruction (EAR) is funding a number of other related contracts dealing with assisting the privatization process.

Funds allocated under this grant will cover the following activities:

- Management Consulting Services in the field of preparation of the companies for privatisation;
- Environmental Audit;
- Financial Advisory Services in the field of corporate restructuring (including debt-settlement) and Capital Markets;
- Strengthening Compliance Monitoring Capability and, Financial Audit.

This gives rise to a series of service contracts being let in parallel with this contract

The World Bank is also financing consulting and advisory work in the PA for environmental assessments.

## 2. CONTRACT OBJECTIVES & EXPECTED RESULTS

### 2.1. Overall objectives

The overall objective of this project is to strengthen the capacity of PA to implement its privatisation program. It focuses on the following elements ie the pre-privatisation assistance to PA in preparing the analysis of SoEs and undertaking post-privatisation analysis.

**A maximum budget of 48,000 Euros** has been allocated to provide technical and financial assistance to the PA to help with the hiring of **four additional local senior consultants for a period of 12 months** at a unit price of 12,000 Euros net of taxes, social security and related contributions. EAR grant funds will be used for the net proceeds to the consultants, while PA will cover taxes, social security and other employment related payments from its own budget.

These consultants will be hired on an individual basis and will strengthen the capability of the APD in pre-privatisation analysis and preparation for privatisation as well as the post-privatisation analysis.

## **2.2. Specific objectives**

The objectives of this contract are to provide to the APD the services of these experts to:

Carry out analysis of individual SoEs subject to privatisation before and after the sale of socially owned capital

Form a database of groups of privatised enterprises classified by industries and geographical regions and carry out analysis by industrial sector and geographical region of company performance and of the economic impact of privatisation

Such other related duties relevant to APD activities as may be required by the Head of the Privatisation Support Centre (PSC). One expert will provide legal inputs to the APD's decisions on the most effective route to privatisation of companies.

## **2.3. Principal results to be achieved by the Consultant**

Regular reports which include:

Recommendations based on analysis of the financial, organisational and legal issues in companies identified as candidates for privatisation, resulting in decisions about the most effective route for privatisation for each company

Recommendations based on analysis of company performance and of the economic impact of privatisation which will affect the future planning process in further privatisation of the strategic SoEs, and for restructuring and privatisation in different industries and regions

These technical reports will be submitted in Serbian.

## **3. ASSUMPTIONS & RISKS**

### **3.1. Assumptions underlying the project intervention**

Stable political situation.

Government continued commitment to reform.

Increased attractiveness of Serbia to investors.

Ministry of the Economy and Privatisation and PA motivated to lead the reform.

Parallel progress on the institutional support and development of the PA's Regional Centres (RCs).

*Risk of the above assumptions not being valid is estimated as very low.*

## **4. SCOPE OF THE WORK**

### **4.1. General**

The scope of the work will include both pre and post privatisation analysis. The individual consultants will be responsible for producing the results shown in 2.3. The APD will assist the Consultants in conducting diagnostics of the companies concerned. Therefore the activities of the Consultants, with assistance of current employees of the PA, will focus on the following tasks:

Implement the agreed methodology for pre-privatisation analysis by conducting desk research and where appropriate undertaking site visits to the SoEs. This will include verifying and amending where necessary the individual privatisation files for each SoE. It will result in recommendations about the most effective route for privatisation for each company

Implement the methodology for assessment of post-privatisation performance of individual SoEs as well as the economic impact of SoE privatisation on industrial sectors and geographical regions. The assessment will identify the pre and post-privatisation ownership structure, financial standing and organisational status of SoEs. The SoE performance analysis will be undertaken by industrial sectors and by geographical regions;

Advise the APD on the most effective privatisation case studies to assess impact of privatisation on company turnover, financial costs, employment level, investment and debt in individual companies etc;

Prepare and distribute periodic reports to the management of the PA based on the above work;

Co-ordinate activities with the International Management Consultancy firm assigned through the same institutional support programme to the APD and ensure that their tasks are compatible;

Co-ordinate activities with the consultants appointed to the RCs to undertake pre-privatisation analysis to facilitate acquisition of supporting documentation for analyses;

The consultants will, however, need to be sufficiently flexible to undertake other related tasks reasonably assigned to them by the PA within the general responsibilities of the APD.

### **4.2. Specific activities**

The consultants will have the following common responsibilities:

Quick pre-privatisation assessments of SoEs with the aim of making recommendations to the PA on the most effective privatisation methods.

In the case of the Finance Consultants, contribute to the assessment of the impact of privatisation by analysing groups of the SoEs according to industrial sectors and geographical regions in post-privatisation analysis.

Ensure that all the information on SoEs is processed in a matrix by industrial sectors and geographical regions of Serbia.

Contribute to assessment of future approaches to privatisation based on the conclusions of the post-privatisation studies.

Make recommendations for possible future approaches to restructuring of SoEs prior to their privatisation.

Co-ordinate activities with the International Management Consultancy firm which will be assigned through the same institutional support programme to the APD and ensure compatibility of work.

Co-ordinate the team's activities with the advisers for strengthening the capacity of the PA's Corporate Restructuring Centre and Capital Markets Centre as well as the advisers for strengthening the capacity of the RCs operating under the same programme of EAR support to PA.

Co-ordinate acquisition of the relevant documentation through the Regional Centres, the employees of which will be approaching SoEs for information on behalf of the PA.

Prepare and present appropriate reports to PA and obtain timely PA management approvals for them.

Ensure efficient communication and exchange of information with APD and other PA departments.

More specifically, the consultants will be performing the following activities:

The responsibilities of the three **Full-time local Financial Consultants** would be to:

Undertaking assessments of the financial performance and situation of individual SoEs with the aim of identifying the most suitable privatisation plan for each SoE. This will involve *inter alia* analysing their turnover, profit and loss accounts, profit margins, outstanding obligations, fixed assets and other indicators which may impact on the privatisation programme.

Undertaking studies for the PA on the financial impact of privatisation, analysed by industrial sector.

Assessing the investment performance of individual companies before and after privatisation. This includes, *inter alia*, analysis of levels of investment, nature of investment, cost of capital, rate of return etc.

Preparing reports for the PA on the impact of privatisation on investment analysed by industrial sector and geographical region.

The responsibilities of the **Full-time local Legal Consultant** would be to:

Assisting APD in assessing the ownership and organisation structure of SoEs with a view to identifying their legal status. This will involve *inter alia* analysing their registration documentation and related internal legal acts which may impact on the privatisation program for SoEs

Assisting APD to co-ordinate acquisition of the relevant documentation through the PA's Regional Centres

Assisting APD in recommending the method of sale of capital and identifying the key issues associated with the sale.

Co-ordinating activities with PA staff and other consultants working on pre-privatisation analysis

### 4.3. Project management

#### Contracting Authority:

**Privatisation Agency of the Republic of Serbia**  
**Terazije 23**  
**Belgrade 11000 - Serbia and Montenegro**  
**Tel. ++ 381.11.3020.801 Fax ++ 381.11.3248.375**

The consultants will work throughout the period of the contract under the direction of **Snezana Dabovic, Director of the Privatisation Support Centre**, the PA Project Manager for this project.

## 5. LOGISTICS AND TIMING

### 5.1. Location

Belgrade, Republic of Serbia and such other locations within the Republic of Serbia as are necessary to undertake proper SoE assessment (including short trips to the decentralised PA offices, if needed).

### 5.2. Commencement date & period of execution

**The currently intended commencement date is early 2004 and the period of execution of the contract will be 12 months. The consultants will be engaged full time during the entire period of execution of the project.**

The PA retains the contractual right, should the need arise during project execution, to ask the Consultants to extend the project in duration and/or scope, to the benefit of the PA. Such extension would be subject to availability of funding and to the satisfactory performance of the Consultants in terms of progress and results, and would be executed by means of a Contract Addendum. The intervention of events outside the contracting parties control should also be taken into consideration.

### 5.3. Selection process

Consultants will be engaged on individual basis and selected through a two stage competitive selection:

Stage 1: Individual Curricula Vitae in the prescribed form attached in the Appendix to this Information Note and with required supporting documentation are called for from interested individuals. The short list will include the interested individuals with the skills and capabilities fitting best the selection criteria and job description.

Stage 2: Interviews will be called for with the short listed candidates.

Interested individuals should also note that no meetings other than the formal interviews with the PA are envisaged as part of the process of hiring.

Only short listed candidates will be contacted.



## **6. REQUIREMENTS**

### **6.1. Personnel**

#### **Consultant 1, 2 and 3: Full-time local Financial Consultant**

##### *Qualifications and skills*

A local expert with the profile of a junior adviser with a minimum 2 years of professional working experience preferably in the privatisation field and ideally in Serbia, the Balkans and/or other Eastern European countries

University degree in accounting, finance, economics, management or a related academic discipline

Relevant experience in enterprise assessment, identification of ownership structure, financial and organisational status and methods of privatisation

In depth knowledge of the Serbian financial accounting rules

Ability to organise, execute and document the above analyses

Proficiency in using MS Office tools

Fluency in written and spoken English

Ability to work as a team member.

##### *Duration of stay*

The experts will be based full time in the PA for the twelve months of the period of the project implementation, except for standard vacation periods

#### **Consultant 4: Full-time local Legal Consultant**

##### *Qualifications and skills*

A local expert with the profile of a junior adviser with a minimum 2 years of professional working experience, preferably in the privatisation field, ideally in Serbia and/or the Balkans and/or other Eastern European countries

University degree in law

In depth knowledge of Serbian tax system, financial accounting rules, corporate law, bankruptcy and liquidation procedures, corporate registries and relevant experience in enterprise operations

In depth knowledge of legal and organisational issues associated with SoEs and relevant legislation

Ability to organise, execute and document analyses associated with the above tasks

Proficiency in using MS Office tools

Fluency in written and spoken English

Ability to work as a team member

##### *Duration of stay*

The expert will be based full time in the PA for the twelve months of the period of the project implementation, except for standard vacation periods.

## **6.2. Office accommodation**

Office accommodation of a reasonable standard and of approximately 10 square metres for each expert working on the contract is to be provided by the beneficiary. The beneficiary will also ensure that experts are adequately supported and equipped. In particular it will ensure that there is sufficient administrative and secretarial provision to enable experts to concentrate on their primary responsibilities.

## **6.3. Incidental expenditure**

None

## **7. MONITORING AND EVALUATION**

### **7.1 Monitoring process**

Monitoring of services and supplies contracts signed under this contract and corresponding grants to the PA will be monitored jointly by the EAR and PA.

This contract will be monitored by the PA's Project Manager according to the following:

- planning meeting after project initiation to assess individual project requirements in more detail;

- set programme of site visits, if necessary, depending on PA priorities;

- agree due dates for draft and final progress reports; and,

- regular progress meetings to discuss the programme, and any difficulties that arise.

EAR reserves the right, as deemed necessary, to participate in progress meetings, as well as, if the need arises during project implementation, exercise ex-ante approval of all reports prepared under the contract.

Further monitoring and evaluations could be undertaken by specialist consultants contracted separately, the decision on which remains at discretion of the EAR. The EU Court of Auditors may inspect any EAR project as and when deemed necessary.

### **7.2 Monitoring indicators**

The contract will be monitored in a systematic way in accordance with the objectives for the contract and the results to be delivered by the consultants as set out above

The precise indicators used to monitor the contract will be determined by the PA's Project Manager at the beginning of the contract

**APPENDIX : FORM OF CV**

**Proposed role in the project:**

1. **Family name:**
2. **First names:**
3. **Date of birth:**
4. **Nationality:**
5. **Civil status:**
6. **Education:**

<i>Institution</i>	
<i>Date : from</i>  <i>To</i>	
<i>Degree(s) or Diploma(s) obtained</i>	

<i>Institution</i>	
<i>Date : from</i>  <i>To</i>	
<i>Degree(s) or Diploma(s) obtained</i>	

<i>Institution</i>	
<i>Date : from</i>  <i>To</i>	
<i>Degree(s) or Diploma(s) obtained</i>	

7. **Language skills:** Indicate competence on a scale of 1 to 5 (1 - excellent; 5 - basic)

<i>Language</i>	<i>Reading</i>	<i>Speaking</i>	<i>Writing</i>

8. **Membership of professional bodies:**

9. **Other skills:** (e.g. Computer literacy, etc.)

10. **Present position:**

11. **Years within the firm:**

12. **Key qualifications relevant for the project:**

**13. Specific experience in Serbia or other Central and East European countries in transition:**

Country	Date from – Date to	Project

**14. Relevant professional experience**

Date from - Date to	Location	Company	Position	Description

**15. Short summary (no more than 200 words) of issues and challenges which you expect to find in the job if appointed**

**16. Other relevant information** (eg, Publications)