1. Basic information
1.1. Désirée number: PL01.01.07
1.2. Title: Municipal privatisation
1.3. Sector: Privatisation
1.4. Location: Priority regions identified in the Preliminary National Development Plan

2. Objectives:
2.1. Wider objective
Improving competitiveness of municipal SMEs in view of their future functioning in the Common Market.

2.2. Immediate objectives
To prepare small and medium-sized municipal enterprises from the regions identified as priority regions in the Preliminary National Development Plan for privatisation.

2.3. Accession Partnership and NPAA priority
The project is in line with the AP and the NPPM and addresses short-term priorities of the AP. In the short-term the priority is defined under the heading “Economic criteria” as “continuation of privatisation of state-owned enterprises”. The NPPM confirms the above mentioned priority and states moreover that “Privatisation has crucial meaning for the process of transformation of the Polish economy and is a necessary condition of assuring the appropriate functioning of the market economy in Poland. The direct objective of privatisation is the increase of adaptation skills of the state entities to the market rules and improvement of competitiveness resulting in the increase of efficiency of management. Indirectly privatisation causes long-term and fast economic growth, which gives the improvement of living standard for the citizens. The European Commission instructions enclosed in the new version of Accession Partnership gave priority to the process of continuation of privatisation of state companies”.

3. Description
3.1. Background and justification
Modernisation of economy and its subsequent restructuring is the prerequisite for improved economic growth. It is also essential for introducing free market mechanisms in sectors which will be immediately affected by competition on the EU internal markets. For that reason the Polish government considers privatisation of state and municipal enterprises a basic condition which must be met to complete Poland's transition to market economy and meeting the Copenhagen criteria related to Poland's future EU membership. The main task that privatisation faces is improvement of efficiency and of competitiveness of companies on both domestic and foreign markets. Privatisation process contributes to the regular growth of the private sector in the Polish economy. The private sector is characterised by higher activity and flexibility of performance than the public one. At present, 70% of GDP is generated in the private sector, which employs about 72% of the total labour force. In 1990, these data amounted to 30.9% and 48.9% accordingly. As a result of privatisation and liquidation procedures, the number of state-owned enterprises has declined from 8453 in 1990 to merely 2319 at the end of September 2000. At the same time the majority of enterprises left in the state hands underwent privatisation, liquidation, restructuring, winding-up or bankruptcy procedures. The approaching integration of Poland with the EU makes it necessary to accelerate preparation of state and municipal enterprises to function under the framework of the EU Common Market. These enterprises will undergo a direct privatisation process in the coming years, so one of the most important elements of their competitiveness will be provided. However, it is also essential to provide state and municipal SMEs with additional knowledge and information, which will fully prepare them to compete on the Common Market. In 1990 Poland underwent a system reform of the local bodies reviving the institution of territorial self-government. In the amended Constitution gminas (the basic units of territorial self-government having a legal personality) were guaranteed ownership right and other property rights defining them as municipal property. The model for gmina's range of operations and tasks was defined in the law of 1990 on territorial self-government and the law of 1996 on municipal economy. Gminas needed to choose a proper legal and organisational form for economic activities necessary to realise gminas' tasks. In the case of majority of gminas the choice of legal and organisational form of activity was not carefully planned or was based on short-term advantages resulting from its adoption. Restructuring of municipal services sector also remained unresolved, including creation of competitive environment in that sector. Privatisation of municipal enterprises was not pursued to a large extent, and was usually replaced by their commercialisation. As a
result, in the municipal sector we come across different legal and organisational forms (budget companies, municipal companies, gmina corporations, entities with mixed ownership form) not always well matching gminas’ activities. The analysis of activities undertaken by gminas and of the structural and ownership transformation processes in the municipal sector, clearly requires support for this process from the Ministry of the Treasury in order to accelerate privatisation and restructuring activities necessary to create market environment in the municipal sector. An important issue is also the need to base local authorities’ policies within particular municipal services areas on the general principles worked out by the EU member states. This is relevant especially in the case of heating and public transport. It is important to stress that the Ministry of the Treasury is the only public administration institution which is responsible for initiating the policy of ownership transformations in the municipal sector. The basic laws which are the basis for initiation by the Minister of the Treasury of state policy concerning ownership transformations in state and municipal enterprises are: The Law of September 4th, 1999 on government administration activities (Journal of Laws No 82/99, poz. 928; with later amendments); The Law of August 30th, 1996 on commercialisation and privatisation of state enterprises (Journal of Laws No 118/96 with later amendments); and Ordinance of January 16th, 1998 on the range and procedures for submitting information concerning ownership transformations and privatisation of municipal property (Journal of Laws No 12/98, poz. 52).

3.2. Linked activities
Even though privatisation was financed mainly from the means provided by the state budget, PHARE funds had also a considerable share in the execution of privatisation projects. Since 1990 PHARE, co-operating with other benefactors such as World Bank, USAID or the British Know-How Fund, has supported the realisation of many privatisation projects which are essential for further economic development of Poland. There are many examples of these: National Investment Funds Program, sector studies, pre-privatisation analyses in capital privatisation, Regional Privatisation Initiative program, Municipal Enterprises Privatisation Support program. Collectively, the funds from the PHARE fund which were allotted for support of privatisation of state owned enterprises in Poland, have amounted to approximately 40M€ (under the PHARE allocation 1990, 1991, 1994 and 1996). It should be emphasised that, so far, financial assistance from PHARE designated to support privatisation in Poland have been primarily used for financing projects involving small and medium-sized enterprises. For example, the Regional Privatisation Initiative program, aimed at preparation for privatisation of small and medium-sized enterprises in the regions, has included approximately 410 state owned enterprises. A similar program involving communal enterprises included 90 entities. Moreover, under the framework of Phare 2000 allocation a project on development of small and medium-sized enterprises is financed whose one sub-project is “Fit for Europe”, devoted to training courses for so-called employee-owned companies which prepares these companies for operations on the EU Common Market. This project is closely related to the above activities undertaken under the framework of earlier PHARE allocations and constitutes a follow-up to the Municipal Enterprises Privatisation Support project, financed under the PHARE 1996 allocation. Under the PHARE 1996 allocation the Municipal Enterprises Privatisation Support project was carried out in following regions: Lubelskie, Podkarpackie, Podlaskie, Pomorskie, Kujawsko-Pomorskie, Łódzkie. The results of PHARE 1996 are as follows: Under the framework of PHARE 1996 allocation the Regional Privatisation Initiatives (RPI) program included approx. 420 small and medium-sized state enterprises. A similar program involving communal enterprises included 90 entities. Implementation of both programs increased the awareness level among employees concerning the transformation processes carried out in Poland. As a result the employees started to perceive the privatisation processes as opportunities, not threats. Management training, as well as training provided for employees and founding bodies organised under the framework of the programs contributed to knowledge transfer regarding economic&financial and managerial aspects of companies' operation under market conditions. Boards of companies participating in the programs, while expressing positive opinions as regards consulting firms and co-operation with them, emphasised the opportunity of practical application of many economic&financial instruments proposed by the advisory firms in the current operations of their enterprises. From the standpoint of efficiency of the RPI and MEPS programs proved to be extremely useful, either supporting or, in some cases, even initiating restructuring and privatisation processes. Financing of privatisation documents preparation under the program is also of great importance as enterprises do not have to engage their own resources in the process. RPI and MEPS programs involved consulting firms from Poland (both firms operating locally and internationally) and from abroad. Co-operation of local advisory firms (as sub-contractors) with foreign firms contributed to the development of local domestic firms which are part of the necessary infrastructure for the
economic growth through rendering specialist assistance services in management of companies under market economy conditions. The Municipal Enterprises Privatization Support project financed from PHARE 1996 means created a good basis for the next edition of the project. Positive experiences collected during its implementation have induced other municipal enterprises to declare the willingness to participate in the project. The project is connected with government programs concerning the energy sector and introduction of the electric energy market as well as with transport policy program.

3.3. Results
In the result of the project the participating 150 municipal enterprises will be prepared for privatisation processes. Under the framework of the project the following results will be achieved: pre-privatisation analyses (documentation which is the prerequisite for their privatisation), strategies, operational efficiency analyses.

3.4. Activities
Under the framework of the project activities will be carried out aimed at preparation for privatisation of small and medium-sized municipal enterprises. Municipal enterprises (mostly from heating and public transport services) will receive advisory assistance strictly aimed at their restructuring and privatisation. Municipal enterprises will be selected from the heating and public transport sector from the regions identified as priority regions in the Preliminary National Development Plan (Lubelskie, Podlaskie, Podkarpackie, Warminski-Mazurskie, Slaskie, Swietokrzyskie, Kujawsko-Pomorskie, Opolskie, Lubuskie, Malopolskie, Łódzkie) with the co-operation of the Union of Polish Towns and Cities, Municipal Development Agency and municipalities; all municipal enterprises are involved and willing to be privatised. While qualifying enterprises for the project the following criteria will be considered (defined in the law on commercialisation and privatisation): Employment level below 500 persons. Sales value for goods and services does not exceed the PLN equivalent of 6M€. Amount of own assets does not exceed the PLN equivalent of 2M€.

Conclusion of one contract is envisaged as far as technical assistance is concerned: for 150 municipal enterprises: advisory assistance for gminas management and municipal entities regarding privatisation and restructuring which precedes the privatisation process, finding investors for participating municipal entities, preparation and realisation of privatisation transactions, advisory services during negotiations with investors; moreover training for municipal entities employees as well as representatives of gmina management on topics covering functioning of municipal economy in the context of the law (approx. 6000 people), analysis of possibility for municipal entities to undergo privatisation and restructuring, comparative analysis of solutions concerning municipal economy existing in EU countries. Municipal enterprises participating in the project will be selected with the co-operation of the Union of Polish Towns and Cities and Municipal Development Agency. The estimated amount of the contract (co-financed from PHARE and national budget sources): 2,67M€. The recipient (municipal enterprises) will cover all costs connected with the organization of the training, i.e. lecture-rooms, equipment, copying, accommodation of the lecturers. The financial contribution of the recipient will amount to 0,33M€. As far as training is concerned, the Contractor, in the initial phase of his work, will organize for each enterprise a workshop training or other types of consultations which will allow the enterprise employees and authorities to better understand the proposed privatization method against other available possibilities. This work will be performed by the Contractor with the support of the Regional Coordinating Group and in co-operation with the enterprise management. It should be pointed out that the workshops and similar consultations carried out in an enterprise will serve both the enterprises and the Contractor to better understand the existing situation and the effects of the concrete privatization concept. The time chosen by the Contractor to carry out the workshops is of great significance. All enterprises participating in the project will be privatised along the direct privatisation path through one of the following methods: sale of enterprise, bringing of the enterprise into a company, giving of the enterprise for consideration.

4. Institutional framework
Supervision over implementation of the project will be carried out by the Ministry of the Treasury with the co-operation of its regional offices. In the course of realisation of the project the Ministry of the Treasury will closely co-operate with self-government units (gminas), which are responsible for municipal firms. Regional offices of the Ministry of the Treasury represent the interests of the Treasury in the regions (there are 13 of them). They play a big role in the implementation of the Treasury’s policy in the enterprises at the regional level. Therefore the regional offices will play a very important role during project implementation, especially in the field of co-operation with self-government units. The self-government units are formally the owner of the municipal enterprises and therefore it is a key issue to
establish strong and lasting co-operation between the Treasury and gminas during the implementation of the project. Therefore it is envisaged to establish a Coordinating Group which will consist of representatives of the Ministry of the Treasury, its regional offices and gminas. The results of the project will not lead to a change in the institutional framework described above.

5. Budget (M€):

<table>
<thead>
<tr>
<th>Contracts</th>
<th>PHARE</th>
<th>Co-financing</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Investment</td>
<td>IB</td>
</tr>
<tr>
<td>TA</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>TOTAL</td>
<td>2</td>
<td>2</td>
</tr>
</tbody>
</table>

The co-financing funds for the project implementation will be available.

6. Implementation arrangements
6.1 Implementing Agency
The CFCU will be the Implementing Agency for the project. The CFCU is responsible for handling tendering, contracting and payments of contracts on behalf of the Ministry of the Treasury which itself shall be responsible for preparing the project and managing its technical implementation. PAO: Pawel Samecki, Undersecretary of State, Office of the Committee for European Integration, Al. Ujazdowskie 9, 00-918 Warszawa, Tel.: (4822) 455 52 41, Fax: (4822) 455 52 43. CFCU: Wojciech Paciorkiewicz, Director, Foundation “Co-operation Fund”, 6/12 Nowy Swiat St., 00-400 Warszawa, Tel. (4822) 661 76 86, Fax (4822) 661 72 26.

6.3. Non-standard aspects
During realisation of the whole project procedures defined in DIS will be followed.

6.4. Contracts: One contract (TA) is envisaged to be signed valued at 3M€.

7. Implementation schedule
7.1. Start of tendering: 01/2002
7.2. Start of project activity: 06/2002
7.3. Project completion: 09/2003

8. Equal opportunity: All actions of the project will respect equality between men and women.
12. Conditionality and sequencing:
Implementation of the project is not conditional on any other activities. The sequencing of project implementation can be presented as follows: elaboration and signing of the detailed contract concerning realisation of the project; beginning of realisation of the project by Consultant selected in the tender procedure: organisational and logistic preparation, co-ordination of activities with possible sub-contractors; realisation of the project supervised by the Ministry of the Treasury; acceptance and termination of activities.
Most important milestones of the project in terms of impact are as follows: selection of the municipal enterprises which will participate in the project and acceptance of the self-government units for their participation; definition of the privatisation strategy and privatization documentation; privatization of the municipal enterprises.
### Annex 1: LOGFRAME PLANNING MATRIX FOR PROJECT

<table>
<thead>
<tr>
<th>Programme Nr.</th>
<th>Project title</th>
<th>Preparation of small and medium-sized municipal enterprises for privatisation</th>
<th>Total budget: 3.0 MEURO</th>
<th>Phare budget: 2.0 MEURO</th>
</tr>
</thead>
</table>

#### Wider objective

**Indicators of achievement**: Improvement of the competitive edge of municipal SMEs through their consistent restructuring and privatisation, therefore preparing them for operation on the EU Common Market.

**Sources of information**: Economic indicators and analysis of ownership structure, i.e.: Share of private sector in GDP; Share of total labour force employed by the private sector.

**Assumptions and risks**: Government policy papers; National and international surveys; Statistical reports; Continuation of governmental policy in line with EU accession; Implementation of the governmental privatisation policy; Implementation of priorities stated in AP & NPAA.

#### Immediate objectives

**Indicators of achievement**: To prepare small and medium-sized municipal enterprises from the regions identified as priority regions in the Preliminary National Development Plan for privatisation.

**Sources of information**: The number of municipal enterprises participating in the project privatised. Data from Regional Offices of the Ministry of the Treasury concerning the privatisation status of enterprises participating in the project; reports from project realisation.

**Assumptions and risks**: Funds available and necessary to finance projects; Active participation of enterprises in the absorption of advisory assistance and in the implementation of privatisation recommendations; Increasing activity of investors in the privatisation process of companies.

#### Results of project

**Indicators of achievement**: Small and medium-sized municipal enterprises ready for privatisation.

**Sources of information**: Number of gmina resolutions approving the privatisation; Number of privatisation projects approved by the Ministry; Number of municipal enterprises participating in the project privatised.

**Assumptions and risks**: Funds available and necessary to finance projects; Active participation of enterprises in the absorption of advisory assistance and in the implementation of privatisation recommendations; Increasing activity of investors in the privatisation process of companies.

#### Outputs

**Indicators of achievement**: For 150 municipal enterprises (gminas) – pre-privatisation analyses, strategies, operational efficiency analyses.

**Sources of information**: Number of pre-privatisation analyses for municipal enterprises and strategies ready; Number of employees and gmina representatives trained. Reports from project realisation.

**Assumptions and risks**: Readiness and ability of the consultant to fulfil tasks envisaged in the project; readiness of the participating enterprises to co-operate under the framework of the project.

#### Activities

**Inputs**: Advisory assistance for gminas management and municipal entities regarding privatisation and restructuring which precedes the privatisation process.

**Sources of information**: Technical assistance (pre-privatisation analyses, strategies), training. Reports from project realisation.

**Assumptions and risks**: Readiness and ability of the consultant to fulfil tasks envisaged in the project; readiness of the participating enterprises to co-operate under the framework of the project.

---

### Annex 2-4: Cumulative implementation, contracting and disbursement schedule

<table>
<thead>
<tr>
<th>Date of drafting</th>
<th>IV Q 2001-III Q 2003</th>
</tr>
</thead>
<tbody>
<tr>
<td>Implementation</td>
<td>D</td>
</tr>
<tr>
<td></td>
<td>C</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td></td>
<td>I</td>
</tr>
<tr>
<td>Contraction</td>
<td>2</td>
</tr>
<tr>
<td>Disbursement</td>
<td>0,2</td>
</tr>
<tr>
<td></td>
<td>0,4</td>
</tr>
<tr>
<td></td>
<td>0,87</td>
</tr>
<tr>
<td></td>
<td>1,4</td>
</tr>
<tr>
<td></td>
<td>1,8</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
<tr>
<td></td>
<td>2</td>
</tr>
</tbody>
</table>