



*Public Information Program
in Support of Russian
Mass Privatization*

August 1, 1993 - February 28, 1994

Final Report

with Robinson Lake Lehrer Montgomery/
Sawyer Miller Group



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**FINAL REPORT PRESENTED TO US AID:
PUBLIC INFORMATION PROGRAM IN SUPPORT OF RUSSIAN
MASS PRIVATIZATION
(AUGUST 1, 1993 - FEBRUARY 28, 1994)**

EXECUTIVE SUMMARY

Public Information

SMG generated a steady flow of information and news coverage regarding privatization in the central and regional press. Coverage included "success stories" about successful privatized enterprises, Privatization News Flashes with the latest statistics and auction results, auction charts, analytical articles on technical topics, news on major new national auctions, etc.

Three regional newspaper supplements on privatization were also supported by SMG with financing and information. These newspapers run national and local auction charts and news from GKI. An agreement was also concluded to finance a 12-week national newspaper supplement in *Arguments and Facts*. SMG organized "privatization pages" in major central newspapers and privatization programs on radio. Additional information was provided to the free media through press briefings, press conferences, press releases, etc.

Regional Outreach

Through Privatization Days organized by SMG in Irkutsk, Chita, Novosibirsk, Omsk, St. Petersburg, Yekaterinburg, Perm, and Krasnoyarsk – with crowds ranging from 600 to 2,500 – the information campaign was taken to the grass roots level. Educational seminars on privatization and shareholder rights demonstrated GKI's commitment to openness and helped create local grass roots networks. Privatization Days also generated positive regional press coverage, focused attention on local success stories, and encouraged local officials to keep up the pace of privatization auctions.

Regional offices in Vladivostok, Krasnoyarsk, Yekaterinburg, and Volgograd helped track press coverage in the regions, provided advance support for Privatization Days, and further expanded the information campaign at the regional level.

Corporate Governance/Shareholder Rights

This project aimed to educate Russian citizens regarding their rights as shareholders. Qualitative public opinion research identified key concerns among shareholders, workers, investment fund managers, and enterprise managers.

"Public Committees for Shareholder Rights" were organized in three pilot regions: Moscow, St. Petersburg, and Yekaterinburg. Organizational meetings were held in 6 other regions. These committees serve as local watchdog groups which monitor corporate governance practices at privatized enterprises. They serve as the regional arm of the public education campaign, promoting good corporate governance

and publicizing shareholder rights. Training sessions for committee leaders were provided by Institutional Shareholder Services. Shareholder hotlines were organized in the three pilot regions.

Television Programming

SMG helped produce long-form television programming on privatization which aired during popular prime time programs. Such public affairs programs as "Red Square," "Politburo," "Tema," "Person of the Week," "Public Opinion," and others carried special broadcasts on privatization using information, materials, and guests provided by SMG. Regional television networks also carried documentaries on privatization "success stories" produced for SMG.

Advertising

The advertising campaign promoted the National Auction System, publicized large national auctions, publicized Privatization Days, publicized local voucher auctions, and promoted the overall mass privatization program using television, radio and print ads in the central and regional media. Qualitative research guided the design of the campaign.

National Auction System ads included "Fast Forward," "Island," and "Horse," which used humor to focus public attention on the otherwise drab list of upcoming national auctions. Specialized ads on the oil and gas auctions were produced and aired to promote energy sector privatization. Ads listing auction dates were run in 27 regional newspapers. Collateral materials were also produced to support the National Auction system (a brochure), Privatization Days (pins), and media relations (press folders and press release stationary).

Recommendations

- Expand the release by GKI of detailed official information and statistics on privatization on a frequent and routine basis
- Dramatically increase the exposure of GKI officials to the general public through an aggressive grass roots regional outreach effort and increase accessibility of these officials to the press
- Remove Russian Government and GKI from direct financial or other involvement with Public Committees for Shareholder Rights
- Develop television programming which provides information and analysis for investment decisions and protection of shareholder rights
- Expand advertising campaign to publicize basic shareholder rights

INTRODUCTION

Between October 1, 1992 and July 31, 1993, SMG conducted a massive public information campaign on behalf of the Russian Government intended to educate the Russian public about the privatization process and sustain support for mass privatization in the face of strong political opposition. The successful early stages of that campaign are detailed in the final report filed with US AID at the conclusion of that contract period.

At the request of GKI, SMG's contract was renewed and later extended to cover the period from August 1, 1993 to February 28, 1994. This final report describes the activities undertaken during that contract period in performance of the project's scope of work and seeks to provide some critical analysis of the project's history as well as recommendations for the future.

By August of 1993, privatization had survived repeated attacks from the anti-reform forces. Hundreds of medium and large-scale enterprises were moving to auction along the privatization "conveyor belt" every month. According to SMG's 5th nationwide poll, taken that month, 49% of Russians thought privatization was irreversible versus 20% who said it could be stopped – a key success of the communications campaign. Fifty-two percent thought "privatization is a necessary step in Russia's transition to an effective and stable economy" versus 24% who disagreed.

It was remarkable how well privatization had weathered the stream of invective offered up against it by members of the reactionary Parliament. Asked the bellwether question, "What is your attitude toward privatization – positive or negative?" 53% said positive versus 20% negative. In fact, throughout the intense political struggle over privatization, overall support for privatization never dropped below 50% according to SMG tracking polls.

Some 40% of Russians had already invested their privatization vouchers (either directly in enterprises or through voucher investment funds). Three out of four Russians recalled seeing GKI's SMG-produced ads promoting privatization and the National Auction System auctions.

At the same time, there was strong continuing skepticism about the government officials and agencies involved in privatization and the general suspicion that they were corrupt. Fifty-six percent said "most of the officials involved in privatization are corrupt" versus 11% who said they were not corrupt. Focus group results suggested continued widespread fears that the government was hoarding information so that apparatchiks or the "Mafia" could buy up all the best enterprises. Their support for privatization notwithstanding, too many Russians doubted there would be direct benefits for "people like me."

So while privatization seemed to have built up a strong immunity to attack, some clear vulnerabilities still existed. As long as GKI and the Russian reformers in general resisted the kind of openness which Russian citizens demanded, the public would remain anxious and suspicious.

Moreover, privatization was about to enter a new phase, raising new potential sources of confusion and lines of attack. During the so-called "post-privatization" period, the law requires privatized firms to establish share registries, distribute stock certificates, hold annual shareholder meetings, hold elections for the board of directors, distribute annual reports, etc. Organized stock exchanges would begin to emerge, with procedures for trading of shares. Millions of new Russian shareholders were mostly ignorant of these rules and procedures. While they owned shares, few understood the nature of share ownership or the rights to which they were entitled.

Without carefully preparing the public, the coming battles over corporate governance and shareholder rights -- and later the likelihood of widespread bankruptcies -- could create a backlash against privatization. Lingering suspicions about the nature of privatization and the inevitable scandals growing out of violations of the privatization laws could -- in the worst case -- permit opposition forces to portray privatization as a failure and a sham.

PUBLIC INFORMATION

Objectives

SMG was charged with continuing and expanding its public information efforts to provide more information on auctions, expand coverage of "success stories," monitor the media, support GKI press efforts, develop "privatization pages" and a newspaper supplement, and enhance information dissemination through such vehicles as the Privatization News Flash.

Success Stories

Understandably, GKI officials were eager to show that privatization was a success. Accordingly, SMG's scope of work called for promoting privatization "by identifying specific enterprises which have been successfully privatized through the voucher auction process and placing stories about these enterprises in newspapers, on radio, and television shows."

The success stories project became a major focus of SMG's public information campaign. Working through regional SMG offices, regional property funds/GKIs and other sources, a database of "successful" privatized enterprises was developed. Because of GKIs focus on medium and large scale enterprises, most of which had only been privatized a few months before, the definition of a success story had to be relatively modest. It was therefore a significant challenge to persuade objective journalists that small indications of progress deserved to be considered vindication of the privatization process as a whole.

Nevertheless, a series of press trips were arranged in which reporters for major central media toured privatized enterprises and interviewed management and workers. Several enterprises, such as Preobrazhensky Cold Storage, showed clear signs of

progress and were consequently afforded high visibility. During his visit to Moscow, Treasury Secretary Lloyd Bentsen and Russian reporters were led on a tour of Preobrazhensky advanced by SMG and its success stories team.

As part of the success stories project, each "Privatization Day" organized by SMG included a tour of local privatized enterprises in the region where the Privatization Day was being held. Typically, such visits would generate a dozen or more local news stories and national coverage on Radio Russia and Russian State TV.

Because of the inherent difficulty of arguing that privatization was already demonstrably a success at the enterprise level, there were frequent changes in GKI's approach to the definition of a success story. There was also a tendency to shift between a strategy of quantity over quality (many success stories, with less stringent standards) and one of quality first (find a few good success stories and stick with them).

In addition to enterprises covered on Privatization Day tours, 59 large and medium scale enterprises were eventually included in the central data base, along with 56 national press news clippings generated by SMG regarding these "success stories." There were also many television and radio reports.

The success stories team arranged for regular coverage of success stories by the following news organizations:

- *Mercury* (weekly) published success stories in every issue
- *Rossiskiy Vesti*
- *Segodnya*
- Russian TV
- ITAR-TASS
- Radio Mayak

Press Monitoring and Database

SMG continued to monitor central newspapers in order to track and report upon the progress of privatization. A weekly press review was supplied to GKI summarizing information published in the press. These reviews highlighted trends and developments in privatization news coverage. Given the time pressures facing GKI officials, the press summaries provided a time-saving method of following the news. The news summaries were also provided to other US AID privatization consultants.

SMG designed and operated a clippings database. Clippings on privatization gathered by SMG and the GKI Information Department were annotated and coded according to a list of themes. These annotations were entered into the database along with the title and author of the article and the name and date of the publication. The database could then be used to quickly obtain articles on a given topic or date or relating to a specific public figure.

SMG also provided important English language clips to GKI.

Privatization News Flashes:

In April, SMG started producing Privatization News Flashes. These news bulletins included information about GKI press conferences, voucher and cash auctions, the various dynamics of privatization in different regions, and statistics about investment fund activities. SMG gathered this information through contacts at the Moscow property fund, Ural Stock Center, Association of Investment Funds, the League of Investment Funds, and relationships with regional correspondents.

Among the most successful public information devices employed by SMG, information from the Privatization News Flashes was regularly carried on Channel 1, Radio Russia, Radio Echo Moscow, and Open Radio and published, *verbatim*, in the following publications: *Delavoi Mir*, Economic News Agency, *Kuranty*, *Moskovskaya Pravda*, *Izvestia*, *Business MN*, *Economic i Zhizn*, and *Financial Izvestia*. The News Flash was also used by Minister Chubais and other senior GKI officials to make official announcements or respond publicly to the changing political climate.

The News Flash was distributed by overnight fax modem to 50 major central television, radio, print and foreign news organizations using a continually updated computer database.

Writing Projects

In an effort to generate more sophisticated press coverage of privatization, SMG hired an economics journalist to draft and place specialized articles in mass circulation publications. Examples included:

- "The Moscow Government wants to Regain Control of the 'Cosmos' Hotel."
Published: *Business MN*, N 34 (8/22/93) -- The article was based on interviews with the following persons:
 - Boris Veretennikov, Chief of Service Dept., GKI
 - Nikolaj Nikolayev, Chief of Hotel Dept., Moscow local GKI
 - Sergei Smirnov, Chief of Service Dept., Moscow local GKI
 - Vladimir Bushev, Chief of Moscow Property Fund
- "Holdings - Myths and Reality (on the experience of Japan)"
Published: *Financial Izvestia* (9/17-23/93) -- The article was based on interviews with the following persons:
 - Elena Leontyeva, head of the Japanese department, Institute of International Economics and International Relations
 - Maxim Boycko
- "Can We Trust Investment Funds?"
Published: *Argumenti i Fakti* (N 36, September 93) -- Based on an interview with Rostislav Sizov, Economic Advisor to GKI.
- "You Can Trust Investment Fund Commercials, But Be Careful"

Published: *Chas Pik* and *Smena* (St. Petersburg, 9/22/93) -- Based on an interview with Rostislav Sizov, Economic Adviser GKI

- "Differences in Government are Evident -- The Choice is Up to the President" Published: *Izvestia* (9/17/93) -- Based on an interview with Sergey Vasilyev, Head of the Center for Economic Reform in the government.
- "Advertising Policy of Investment Funds" -- Broadcast: Radio Echo Moscow (10/1/93)

Articles prepared by the writing staff at the request of GKI included:

- A brochure devoted to Entrepreneurship and Small Businesses based on a Chubais speech which was rewritten and re-edited.
- For *Moskovsky Komsomolets*, GKI comments about attempts by the Supreme Soviet to stop privatization.
- An appeal by the Association of Private and Privatized Enterprises to the Supreme Soviet.
- An official statement by GKI in conjunction with the activities of the Russian Parliament.
- A press release about privatization and GKI's/Russians expectations and hopes for the G-7 Summit.
- GKI's official response (press release) to the results of the G-7 Summit in Tokyo.
- Chubais greeting to the readers of a Saratov newspaper, "privatization for Everybody."
- Chubais address to the readers of the magazine "The Owner."
- Chubais article for a Spanish newspaper about the development of Russian privatization.
- Official appeal of GKI about Investment Fund abuses.
- Chubais' response to a query about the Russian Mafia's involvement in privatization (for Forbes Magazine).
- Official statement by the Russian government in conjunction with Yeltsin's decree about privatization.
- GKI's response to Yeltsin's decree about the privatization of the military industry.

- An appeal by the Association of Private and Privatized Enterprises.
- Chubais' response to questions from the Czech. newspaper *Central European Business Weekly*.
- A brochure on investment funds.

On a regular basis, SMG also wrote and placed articles in major central and regional newspapers about specific voucher and cash auctions.

Specialized PR Campaigns

In August, SMG launched a PR campaign about the privatization of the vegetable wholesale industry. The Boston Consulting Group in conjunction with GKI found a pilot wholesaler in Perm which it assisted to restructure in an effort to eliminate massive waste in the industry and improve a virtually non-existent distribution network. SMG generated press coverage of the project.

SMG also designed and presented a communications plan for the privatization of LOMO in St. Petersburg, the first large-scale military conversion enterprise to be privatized. After negotiations between SMG and LOMO's director, the plan was accepted by LOMO management.

A special communications campaign was also planned and executed for Neft Ugansk, the first major oil enterprise to be privatized. The wide publicity generated by this communications campaign led to the first major surge in the price of the voucher on secondary markets, as investors saw that the Government was serious about selling off profitable oil enterprises.

Voucher Auction Tables and Charts

SMG arranged for voucher auction tables to be published on a regular basis by *Delovoy Mir*, *Rossiskie Vesti*, *The Financial Times*, *The Moscow Times*, and *privatization*, a supplement to *Trud*, and *Ekonomika i Zhizn*. Three different layouts were designed and delivered according to editors' requirements. In addition, statistical charts on the progress of privatization were produced whenever reasonably accurate data was available from GKI. These charts were published in free media organs including *Financial Izvestia*, *Delavoi Mir* and *Rossiskiye Vesti*.

Press Briefings and Conferences

Three major press briefings on the progress of voucher auctions were held as data became available. The briefings were attended by approximately 50 leading economics and business reporters for major central press organizations. The briefings generated some 45 major news stories in the central press.

Privatization Pages

SMG negotiated arrangements with several major newspapers to print regular "privatization pages" using information provided and packaged by SMG. Participating newspapers included *Kommersant Daily*, *Financial Izvestia*, *Komsomolskaya Pravda*, *Ekonomika i Zhizn*, *Delovoi Mir*, *Rossiskiy Vesti*, *Business MN*, and the *Moscow Times*. These pages came to be regarded as standard features of many of the above newspapers.

Feature Interviews

In addition to starting a weekly privatization radio program on Echo Moscow Radio which is broadcast to the Moscow and St. Petersburg regions, SMG arranged numerous nationwide radio interviews with GKI officials and experts. Several interviews were conducted on Radio Russia, Mayak, Open Radio, and Echo Moscow with Vasiliev, Boycko, Evstafiev, Lipkin, Shleifer, and Chubais.

Regional Newspaper Supplements

Four pro-privatization newspapers in key regions were identified by the GKI for support. In return for financial assistance to improve technology, expand circulation and train staff, these papers agreed to publish official auction charts, statistical graphs provided by SMG and GKI, materials supporting the Shareholders Rights program, announcements of Shareholders Rights meetings, and other relevant information. The four newspapers were *Delovaya Zhizn* (St. Petersburg), *Privatizatsiya Dlya Vsekh* (Saratov), and *Aktsiya* (Chelyabinsk).

National Newspaper Supplement

SMG identified a popular and very widely read weekly newspaper, *Arguments and Facts*, in which to publish a national privatization supplement. SMG research showed that roughly half of Russian citizens read this publication every week. Detailed and lengthy negotiations were held between SMG, GKI, and *Arguments and Facts* to conclude a contract. However, signing of a contract was delayed by political considerations regarding exactly which organizations' names would appear on the contract. Direct discussions between US AID and GKI eventually led to a contract allowing for publication of a privatization supplement produced by *Arguments and Facts*. A successor contract was supplied to Burson Marsteller for overseeing the production of the supplement.

Research

A nationwide poll and focus groups were conducted in August, 1993, to help refine both the message and tactics of the communications effort. After the scope of work was revised in October, no further quantitative research was conducted by SMG. However, qualitative research (both focus groups and in-depth interviews) was utilized in support of the advertising and shareholder rights activities.

Assessment and Recommendations

From the start, the overriding challenge encountered in pursuing the public information campaign was the difficulty of obtaining reliable information. While GKI officials clearly understood the need to have a public relations capability, they were reluctant to release the kind of specific information which the public demanded. Moreover, the tendency -- common to all bureaucracies around the world -- to want to sugar coat all public information was especially pronounced among privatization officials. Thus, the innate skepticism of the Russian public was reinforced by a lack of objective information about privatization flowing out of the Government.

So, for example, GKI held public briefings only very infrequently, and only after substantial prodding. Information about upcoming developments was often closely held and therefore of limited use in planning long-term communications strategy. The communications campaign had to contend with a general culture of distrust toward the free flow of information at GKI. While the systems were in place for disseminating information, the information itself was sometimes not available or not cleared for release. Nevertheless, as the public information campaign became institutionalized as part of the privatization process, this hesitation gradually subsided. The level of detail in GKI news bulletins and the availability of GKI officials to the public increased.

The success or failure of future public information efforts will depend in great part on their ability to provide an information-starved public with vastly more detailed information about future stages in the privatization process and about individual enterprises, investment funds, stock markets and other such institutions. The challenge now is less one of developing the means to disseminate information in Russia -- very effective means having already been developed and proved -- and more one of better developing the kinds of information to be disseminated.

REGIONAL OUTREACH

Privatization Days

Building on successful experiments during the prior contract period, SMG organized and conducted "Privatization Days" in Irkutsk, Chita, Novosibirsk, Omsk, St. Petersburg, Yekaterinburg, Perm, and Krasnoyarsk between August 1 and October 31, 1993. Crowds at these events ranged from a low of 600 in Yekaterinburg to a high of more than 2,500 in St. Petersburg. The St. Petersburg Privatization Day was also taped and televised on the popular nationally televised public affairs program, "Red Square."

Privatization Days featured two public seminars ("How to Become and Entrepreneur" and "Shares: Questions and Answers") and a private seminar for managers of privatizing or privatized enterprises ("How to Attract Investment"). In addition, there was usually a public concert or cultural event. Speakers at the seminars included the dean of the Moscow School of Business, an economist from Moscow State University, U.S. Peace Corps volunteers with professional and academic experience in business, and the CEOs of two major U.S. corporations (American Data and Telephone and the Griffin Group).

Privatization Days were preceded by intensive local advertising campaigns utilizing local state television, cable television, and distribution of between 1,000 and 10,000 posters and between 10,000 and 100,000 leaflets at each site. On Privatization Day itself, thousands of copies of informational brochures on issues ranging from foreign investment to entrepreneurship were made available to attendees (these included materials prepared by Privatization Day guest speakers and also USIA Russian-language publications).

A major objective of Privatization Days was to generate positive local press attention for privatization and for GKI, both to better inform the Russian public about the mechanics of privatization and to reassure them that GKI cared about reaching out to answer the questions of average citizens. Public opinion research -- particularly focus groups -- consistently showed anxiety among the public that privatization was being carried out for the benefit of select groups of powerful individuals and that insufficient information was being made available to the Russian public. The aggressive grass roots outreach approach of the Privatization Days concept was intended to help alleviate this concern by highlighting the GKIs commitment to openness.

The eight Privatization Days held during this contract period generated more than 200 favorable news articles in regional and local press in addition to regional television and radio coverage and reports on national television and radio. Considerable effort was devoted to press events surrounding each Privatization Day. SMG organized press trips from Moscow to regional Privatization Days for the central press. At each Privatization Day, press tours were conducted at local privatized enterprises as part of the "Success Stories" project (see "Public Information" section of this report.)

Privatization Days received praise from all regionally-based Property Funds that were involved in helping plan and stage the events (letters of support are included with deliverables to US AID).

Regional Offices

As part of the effort to expand the public information campaign more effectively at the local level, regional offices were established in Vladivostok, Krasnoyarsk, Yekaterinburg, and Volgograd. Through the end of October, when GKI instructed SMG to cease operation of these offices, they provided a vital two-way informational link to Moscow. The offices were each staffed by a public information specialist (usually a

journalist) and a regional field organizer. They compiled a complete and up-to-date list of all newspapers and radio and TV stations in more than 40 regions, assisted with local planning for Privatization Days, provided weekly regional press summaries and clippings and essential political intelligence regarding regional anti-reform activities.

Regional offices were able to provide GKI with early reports on the increasingly radical campaign speeches of privatization opponent Aleksandr Rutskoi, who later led the Parliamentary rebellion in October of 1993, and reports on the growing regional activism of Vladimir Zhirinovskiy.

Regional offices also identified and helped publicize local privatization success stories and supported the Corporate Governance project by compiling information on which privatized enterprises were paying dividends to shareholders and on planned shareholder annual meetings.

Assessment and Recommendations

In a country as vast as the Russian Federation, it is difficult to carry off an effective long-term communications effort without a grass roots component. Therefore, as the larger national campaign took hold, SMG increasingly focused resources on extending the campaign's reach to key regions of the country from St. Petersburg to Siberia and the Far East. The main vehicle of this campaign -- Privatization Days -- allowed average citizens to question the experts, including GKI officials, about privatization.

Privatization Days served two basic purposes. First, they provided accurate information on privatization directly to government officials, journalists, community leaders, and the general public in key population centers. Second, they fostered the impression that GKI and Russian Government officials were interested in openness and not inclined to withhold information. SMG deemed this second purpose absolutely essential given continued research evidence that the public remained suspicious of GKI and its true motives. An incidental bonus effect was that GKI officials who attended Privatization Days were able to hear first hand the frustration of average Russian citizens and the deep resentment many of them felt toward GKI and the Government reformers in general.

Privatization Days routinely generated intense regional publicity, almost uniformly positive in nature. The notion of the Government reaching out directly to the people was a novelty for most Russians, especially in some of the more isolated regions where Privatization Days were held, such as the far-off but critical Yuzhno-Sakhalinsk area. Privatization Days also helped create local networks through which information could be gathered and disseminated. A database of Privatization Day attendees was used to guide distribution of a monthly direct mail newsletter with privatization news.

SMG's regional outreach efforts provided a vital new dimension to the public information campaign. In addition to achieving programmatic objectives, regional activities created a two-way information flow to and from the grass roots of Russian society which helped SMG refine the campaign's overall strategic message. SMG

strongly recommends that any further communications efforts in support of privatization rely heavily on grass roots events as a necessary complement to the larger national campaign.

CORPORATE GOVERNANCE/SHAREHOLDER RIGHTS

Objectives

This project was developed by a number of officials at the GKI, US AID and SMG who by mid-summer, 1993, began to recognize the critical role that corporate governance structures would play in determining the ultimate success of Russian privatization.

Corporate governance, in its broadest sense, can be defined as including the following:

- the rights and responsibilities of and interaction among all the interests within a corporation;
- the legal and regulatory framework in which corporations operate;
- the de facto behavior of key market players.

In Russia, each of these elements of corporate governance are in a state of flux. In the summer of 1993, the GKI began to receive numerous anecdotal reports of managers of newly privatized firms acting to take advantage of the absence of strong governance structures at the expense of their new shareholders. Reported anti-shareholder actions included threats against employee shareholders to force support for management positions at annual meetings, manipulation of share registries to prevent shareholders from freely buying and selling shares, and the issuance of shares with special rights to managers and their associates.

Efforts to build public support for shareholder rights were viewed as particularly important in Russia, because of the continuing lack of strong corporate laws. This project sought to use communications and grassroots organizing to ensure that Russian shareholders could exercise their rights to protect their investments and influence management's use of these investments. Specific objectives included:

- To organize shareholders rights associations as independent public organizations which act as "watchdogs" and advocates for shareholder rights.
- To educate the public on their rights as shareholders and on the importance of protecting these rights.
- To help provide the public with information and basic skills essential for making intelligent investment decisions.

- To educate managers as to why it is in their interest to adopt principals of good corporate governance and respect shareholder rights.

Governance Research

At the beginning of the project, we conducted a qualitative research program to assess the attitudes of voucher fund managers, enterprise managers and enterprise employee shareholders in Moscow and St. Petersburg. This research included in-depth interviews with managers and focus groups with employee shareholders.

Major findings of this research included the following:

- Confusion and uncertainty characterize the environment within which corporate governance policies are evolving -- within the context of rapid change all parties are struggling to maintain or establish control.
- Existing laws are viewed by all sides to be deficient. Even these are not enforced.
- To a large extent, the annual meeting has become the exclusive focus for expectations for shareholder participation in enterprises. Few other possible forums and methods for insuring management accountability to shareholders are known at this point.
- The common shareholder has focused his expectations for return on investment exclusively on dividends. Funds and enterprises both fear that shareholders hold unrealistic expectations for dividends.
- Given the lack of legal infrastructure and appropriate enforcement mechanisms, change in the behavior of enterprises is largely dependent on changing management attitudes.
- Defusing the conflict between funds, enterprises, and stockholders is essential if widespread adoption of more responsible corporate governance procedures is to be achieved.
- Voucher Investment Funds are the only viable forces for change among Russian shareholders. Because of the rule limiting Funds to owning no more than 10% of the shares of an one enterprise, real influence depends on VIF's forming coalitions among themselves.
- VIF's and enterprise managers do share some common interests:
 - improving financial performance of enterprises
 - attracting domestic and foreign investment to viable enterprises
 - managing shareholder dividend expectations
 - cutting tax burdens on enterprises

- Where possible, VIF coalitions should be encouraged to engage in a reasoned dialogue with enterprise managers on performance and governance issues, based on common interests rather than "rights" and control struggles.
- The first VIF coalition approach to any enterprise should be through a closed door meeting where VIF's appeal to management's self-interest. This will be easiest on the issues of auditors and registries and most difficult on secret ballot. Where partnerships emerge and succeed, they should be vigorously promoted in the media.
- VIF coalitions should reserve the right to publicly campaign on governance principals at annual meetings of recalcitrant companies. Again, chances of success will be greater when the campaign is based on principal rather than an attempt to grab control.
- Secret ballot, one-share, one-vote and other issues closely associated by management with challenges to their control will be extremely problematic until they are established by law. VIF coalitions should be encouraged to direct their political resources towards these issues, as well as towards establishing strong enforcement mechanisms.
- Individual shareholders are desperate for two distinct types of information. Sustained public education efforts should be considered in both areas:
 - information necessary for making investment decisions
 - information on how to exercise the rights of share ownership
- Employee shareholders hold enormous potential power but at present are the single group most resistant to change. All public communications should address the specific concerns of this group.
- We also conducted qualitative research to test the content of the shareholder rights pamphlet. Findings are discussed below in the subsection on the pamphlet.

Shareholder Rights Organizing

"Public Committees for Shareholder Rights" were organized in three pilot regions: Moscow, St. Petersburg and Yekaterinburg. Organizing meetings were also held in Nizhny Novgorod, Saratov, Voronezh, Perm, Khabarovsk, and Krasnoyarsk. (While the project scope of work originally called for organizing in 23 regions, during the course of the project the GKI instructed us to focus our efforts on a smaller number of regions with the best long-term potential for significant stock market development.)

Public Shareholder Rights Committees are regional non-profit organizations which are explicitly independent of the government. Their objectives are to:

- Conduct public information campaigns to educate shareholders and managers on shareholder rights and good corporate governance practices.
- Negotiate with individual enterprises to gain adoption of protections for key shareholders rights.
- Lobby national and regional officials and members of parliament to enact laws and decrees in support of shareholder rights.
- File lawsuits to set legal precedents to protect shareholders rights (virtually none exist now.)
- Provide positive publicity for companies which protect shareholders and negative publicity for companies which violate rights.
- Organize telephone hotlines for public to ask questions related to share ownership and lodge complaints.

These groups were organized by the SMG governance organizing staff. Their public relations activities were carried out with intensive assistance from the SMG public information group.

Our governance organizing and public relations efforts for Public Committees for Shareholder Rights produced the following results:

- Shareholder rights committees attracted the active involvement of many of the leading Voucher Investment Funds in all of the cities named above. Hundreds of individual investors have also participated, especially professionals involved in the emerging stock markets.
- We developed an extensive packet of materials to present the shareholder rights association concept to potential members and the press.
- The formation of these committees generated extensive press coverage in most of the regions named above. Many journalists are particularly eager for leads on companies violating rights so that they can write their own "investigative" stories.
- Training sessions for Moscow and Yekaterinburg association leaders were conducted in conjunction with Institutional Shareholder Services (ISS), a leading American proxy vote advisory firm.
- Shareholder hotlines were organized in Moscow, St. Petersburg, and Yekaterinburg. Our Moscow hotline received and answered approximately 60-70 calls per day from individual shareholders. Weekly columns reporting answers to best questions received by hotlines were placed in one newspaper in Moscow and St. Petersburg, respectively.

- Organizing meetings in Nizhny Novgorod attracted the participation and public support of leading political figures, including the city mayor and oblast governor.
- The general director of Uralobuv "Ural Shoes," one of the largest enterprises in the Ural's region, attended the first press conference of the Yekaterinburg group and said his company would adopt the principals advocated by the group.
- Trade union organizations in Moscow and Saratov asked to join the Public Committees in those regions in order to work for better protection of the rights of employee shareholders.

Management Education

While the project scope of work called for the production of a governance guidelines manual for managers and the sponsorship of management conferences, during the course of the project the GKI asked us not to complete these activities. Officials of the GKI informed us that these activities had been assigned to Price Waterhouse.

However, our work did result in managers receiving some exposure to good corporate governance principals through the placement of articles in newspapers read by many managers including *Trud* and *Arguments and Facts*. The Yekaterinburg Public Committee also provided positive publicity for one large enterprise manager who has adopted principals of good corporate governance (Mr. Abramov of Uralobuv.)

Monitoring and Reporting

Our staff collected information on annual meeting dates and dividend payments from more than 250 enterprises in more than 34 regions of Russia. This information was periodically circulated to GKI and to the leadership of the Public Committees for Shareholder Rights. We had just begun to arrange for the publication of data in selected national and regional newspapers when our project work was terminated at the end of January.

Shareholder Rights Pamphlet

We developed and printed a pamphlet designed to explain the concept of shareholder rights to the public. This pamphlet explained how shareholder rights are generally protected in developed economies around the world, current protections under Russian law, common tricks that managers can play to violate shareholder rights and answers to commonly asked questions about share ownership. An early draft of the pamphlet was tested through focus group research, which found a need to better clarify the meaning of certain terms and to provide more tangible examples of the exercise of shareholder rights.

While this document was originally conceived as a pamphlet, GKI officials suggested that it could more effectively reach more people as a newspaper supplement.

Thus, while a small pamphlet printing was carried out to provide hand-out materials for Shareholder Rights Committees, the majority of resources for this project were devoted to inserting the text as a supplement to *Arguments and Facts* and several regional newspapers.

Assessment and Recommendations

The significant energy that financial institutions, individual investors and the media have devoted to organizing Shareholder Rights Committees during this project is the best evidence of strong interest in shareholder rights and corporate governance on the part of the new Russian shareholders. While these committees were only at the beginning of their lives during our project, they demonstrated an ability to capture the attention of the media and public and enterprise managers.

SMG strongly recommends that US AID support for independent shareholder rights committees be continued. As the first concrete steps are taken by managers and the government to restructure the many privatized but crippled Russian enterprises, it is essential that shareholders be organized and able to defend their rights and interests.

However, as the committees mature, we recommend that the funding structure be changed to remove GKI and the Russian Government from any involvement. We make this recommendation for two reasons. First, the continuing involvement of the government threatens the public credibility of these organizations. They have been presented to the public as independent organizations. If they become viewed as merely a mouthpiece for GKI, their public credibility will be much less. Second, the continuing involvement of GKI handicaps these committees in their ability to conduct their activities. Several times in the course of the project, we were forced to wait several days to issue a press release that had been approved by committee's leadership in order to secure the approval of the GKI press advisor. No ostensibly independent group should be forced to submit to such an approval process simply because it is receiving US AID funding.

As these organizations mature, they will require professional staffing. Each local committee should have the following staff: executive director, legal counsel, press secretary, 1-2 company analysts, 1-2 hotline specialists, 1-2 data managers, and a secretary. Most committees will also need retainer relationships with outside legal counsel. "Company analysts" could develop reliability ratings while they protect shareholders rights. These analysts could also comment on the financial health of the company and the reasonableness of the company's business strategy (when the information necessary for such analysis is available.)

These organizations also deserve continued support because they have great potential to become financially self-sustaining relatively soon. It is very likely that the activities of the shareholder rights committees will eventually be funded by contributions from voucher funds, other financial institutions and individual members, much in the same way that funds have been raised for shareholder organizations in Western countries.

If support for privatization and free market economics is to survive what is likely to be a period of intense restructuring, it will also be necessary to expand public communications about the rights and responsibilities of shareholders. Possible tools could include:

- Development of a series of "How-To" pamphlets and newspaper supplements which could be made available to the public through shareholder rights associations and the media. Examples of possible topics:
 - How to buy and sell shares of stock.
 - What to expect at your company's annual meeting.
 - How to decide how much your shares are worth.
 - Information you should know if you own shares in the company where you work (targeted to employee shareholders.)
 - Case studies of Russian enterprises that have successfully restructured.
- Communications that reach Russian students with information about how private business works and the rights and responsibilities of shareholders:
 - Development of a series of textbooks for students of all age groups.
 - Support for the newspaper "Children's Business."
 - Placement of regular features on how to teach business to children in the teacher's newspaper First of September.
 - Placement of features and stories in the newspaper Family.
 - Formation of a network of student business clubs in major city universities.
- Development of television programming to provide information and analysis necessary for investment decisions and protection of shareholder rights. We recommend the production of two separate shows:
 - A daily business news and analysis show focused on private business and the private sector economy.
 - A weekly educational show that would teach viewers about some aspect of private sector business and shareholder rights in Russia.

The publications and television programs listed above would also have strong potential to become financially self-sustaining by attracting commercial sponsors.

TELEVISION PROGRAMMING

Objectives

In order to provide more detailed information on the privatization program -- especially "success stories" -- SMG was charged with producing long-form television programming. Making use of existing popular prime-time programming, SMG would

assist and finance production of special editions of these shows focusing on privatization.

Popular TV Programming

SMG negotiated a contract with a major Russian television production house, VID-TV, to produce a series of prime-time shows dealing with privatization. The existing shows utilized for this purpose included "Person of the Week," "Politburo," "Dialogue Live," "Tema," "Red Square," and "Business People." SMG also routinely provided informational materials and technical advice to a number of other popular programs.

Regional TV Documentaries

Fifteen regions were identified for distribution of documentary pieces on privatization produced by VID-NETS, an association of regional broadcasting systems. These regions included St. Petersburg, N. Novgorod, Ekaterinburg, Volgograd, Vladivostok, Irkutsk, Krasnoyarsk, Kemerovo, Tiumen, Perm, Voronezh, Rostov-Don, Stavropol, Belgorod, and Ulyanovsk. The first four regions were the sites selected for filming of the documentaries.

Success Stories

A series on business people was aired on Russian State Television featuring profiles of managers of privatization "success stories" such as the manager of the Konstantinov Poultry Factory. Similar success story profiles appeared on "Person of the Week," VID-NETS, and other programs.

Chubais Appearances

On two occasions, SMG helped produce special programming featuring Minister Chubais explaining and defending the privatization program. These included the program "How Are We to Live?" and "Public Opinion." "How Are We to Live" featured reports (produced with SMG assistance) on privatization in the regions of Yekaterinburg, Archangel, and Ulyanovsk.

ABC's of the Proprietor

SMG provided technical assistance and story ideas to GKIs weekly informational broadcast on privatization, "ABC's of the Proprietor." This program (duration: 10 minutes) featured success stories such as the Liskinsky Metal Construction Works in Voronezh and the Saratov Trolleybus Plant.

Assessment and Recommendations

SMG research conducted in August of 1993 identified Russian viewership patterns and assisted greatly in targeting of privatization television programming. The ability to tap popular prime time television programming allowed GKI's information

campaign to reach tens of millions of people very cost-efficiently. The long-form programming also allowed for the kind of detailed reporting necessary to address some of the more complicated aspects of privatization. This helped address the notion emerging in focus groups that the government was not making enough detailed information available. In one program, for example, Dimity Vasiliev, Deputy Chairman of GKI, appeared at length to describe cases of privatization fraud and corruption being prosecuted by GKI.

Long-form prime-time programming proved its worth and should continue to be a major aspect of GKIs public information efforts as long as it is possible to secure time cheaply relative to standard paid advertising rates.

ADVERTISING

Objectives

At the end of July, 1993, SMG's task order was renewed with the following objectives for the advertising program:

- Promoting the National Auction System and providing information on upcoming national auctions and their locations
- Publicizing cash auctions
- Promoting investment funds and the Moscow Inter-Regional Auction Center
- Publicizing Privatization Days
- Promoting privatization success stories and the overall privatization campaign
- Supporting regional advertising by local GKIs
- Producing general collateral materials for distribution at press conferences, Privatization Days, etc.

Strategic Planning

To develop the advertising campaign we undertook a strategic planning process. This involved six steps:

- The 'Crunch' – Developing a better understanding of the Russian population
- Identifying the main problems or obstacles preventing the Russian people from supporting the privatization process
- Discovering the 'Breakthrough' – through critical insight into emotional and rational factors defining what creates positive attitudes and behavior

- The creative strategy -- Defining the driving factor to encourage people to support the privatization process and the advertising tone-of-voice
- Execution -- Creating the commercial
- Feedback -- A continual learning process to further develop the advertising

We commenced the continuation of the advertising program with a qualitative research program designed to assist with development of new advertising work. Focus groups examined the concept and methodology of advertising in general, and its effect on the Russian people. In addition to achieving the objectives outlined in our task order, we were anxious to better understand the Russian population and to discover how to make the advertising component of the public education and information campaign more effective.

Advertising has rapidly developed over the past three years in Russia. The very idea of advertising is alien to Russians, and the media for conveying advertising were virtually non-existent until only a few years ago. However, the Russian population has been subjected to ideological propaganda for tens of years. Consequently, although the advertising market is in embryonic form, the Russian 'consumer of advertising' is highly sophisticated in interpreting communication messages.

During our focus groups we examined different advertising styles in an attempt to learn how our communications could be more effective. That is, identifying the tone in which we should communicate to people. Given the fact that the commercial advertising market was rapidly developing, we had to create impact for the public information campaign against a backdrop of commercial advertisers with large media spends. Therefore, understanding the tone-of-voice for our advertising was critical to its success.

Creative Brief

The results of the focus groups enabled us to determine the following for our six step strategy methodology:

The Crunch:

Convince the Russian population that privatization is the only way for the economy to move forward and that in order for privatization to succeed, it needs their support.

Breakthrough:

The Russian people need reassurance that stability is being restored, and that privatization will bring a better standard of living.

To reassure people that privatization will rebuild the Russian economy, they require concrete evidence of the benefits privatization is bringing to society and to them personally.

Leverage:

Privatization is the only way to restore stability in Russia.

Tone:

Honest, realistic, reassuring.

Competitive Frame:

Privatization supporters want to move the country forward, not back to the past.

Support:

Newly privatized companies are improving the standard of living within the community by:

- building new roads
- reducing pollution with new technology
- purchasing medical equipment, supporting health centers
- financing community policing
- paying for upkeep of schools, teachers' salaries
- creating new jobs

Creative Work

The above strategy led to the development of the 'realism' or 'new life' advertising. This campaign was an extension of the 'success stories' advertising, which showed real people experiencing the effects of privatization on their lives. This new series of ideas for television, radio and newspaper advertising, differed slightly from the previous 'success story' advertising, in that people realistically confirmed that the path of privatization was not all easy. We specifically included comments from, or footage of people honestly evaluating the effects of privatization. This created a credible and realistic picture of both the successes and the difficulties of management and enterprises alike in their struggles to join the new market economy.

The advertising produced was 'Lyuberetsky Covry'" and 'Trade House Preobrazhensky'. This was completed in August 1993, and the campaign including radio and press began to run early September, 1993. Additional creative work was developed to continue this campaign.

In examining motivating factors within the Russian psyche, emotion stood out as an important part of the Russian character. We determined, therefore, that this 'realism' campaign would not be sufficient in itself to achieve the objective of driving support for

the privatization process, as there appeared to be a lack of emotional incentive. A second campaign was developed to provide the missing emotional key. This campaign was called 'The Winds of Change.' It used an extremely emotive piece of music called 'The Winds of Change,' and showed a countryside turning from lifeless black and white images to a life full of color. It was received extremely well in research and appealed to people to work together and help create a decent future for themselves and their families.

The above two campaigns were developed and researched, but only produced in part. This was a result of a combination of factors. The political events in Moscow during October of 1993 hindered production processes. Also, given the amount of advertising produced for Stage I and II of the information campaign, GKI and ourselves were keen to re-examine fully the existing materials and only produce new materials once we were fully satisfied that the new advertising would build upon the existing campaigns in order to answer both the given objectives and the long-term objectives for privatization support in 1994.

Consequently, we reviewed, adapted and aired several existing executions, namely the commercials 'Train' and 'Fast Forward.' With these television commercials, we re-ran the 'success story' newspaper and radio advertisements, completed in July 1993, as they had had very little media exposure.

Our advertising mission was then terminated by GKI/US AID before the newest ads could be fully produced and aired.

National Auction Advertising

In addition to encouraging broad-based support for privatization and economic reform in general, another objective was to create awareness for companies being auctioned and to continue to educate the population on the investment opportunities available to voucher-holders.

From August 1993 onwards, a large number of enterprises began to be auctioned through the National Auction System. We, therefore, had to devise an advertising mechanism that could not only advertise the Local Property Funds where people could go and invest their vouchers in any number of auctions taking place both regionally and nationally, but also name the enterprises being auctioned and give specific information connected with these auctions.

In order to achieve this objective, it was vital that we develop memorable advertising which would attract the close attention of Russian viewers, giving them a chance to focus on and absorb the specific auction information after repeated viewing. In testing the style and tone-of-voice of previous advertising used to announce auctions, we determined that humor was an ideal mechanism for presenting factual information to the Russian public.

The previous execution 'Fast Forward' which had been developed as a 'shell' advertisement to announce names of companies being auctioned through the National

Auction System, proved extremely successful. Consequently, we developed a series of ads for the National Auction System using 'Fast Forward', 'Horse' and 'Island' which ran the names of new enterprises passing through the National Auction System. We also produced new National Auction press advertising. These ads were rotated and the names of new auctions were regularly substituted.

In addition to the generic national auction advertising, we also developed more industry specific auction advertising, when natural resource enterprises began to be auctioned off. We produced a television, radio and press campaign for advertising Oil and Gas companies entering the auction system ('Oil and Gas' TV, 'March' radio and "Do You Know" press).

Campaign Summary

All three campaigns mentioned above achieved different objectives by the combined use of realism, emotion and humor. Firstly, the 'Winds of Change' campaign was intended to create positive emotion towards the changes taking place and emphasize that something good is coming from these changes. This advertising would build support for the process of change. Secondly, the 'New Life' realism advertising was designed in order to show that privatization is real and that the future of Russia depends on success of privatization. This advertising would have show tangible evidence of this 'new' life. Thirdly, the national auction advertising was designed to encourage participation in the privatization process. By showing that thousands of enterprises across the country were being privatized, the advertising communicated that privatization is an irreversible process.

Regional Advertising

The scope of work contained a brief to produce and place regional advertising as we had done April - June, 1993 to support the local Property funds and assist with advertising local auctions. The research conducted in August of 1993 found that only 33% of Russians knew where voucher auctions were being held in their home towns. The regional advertising program was designed to publicize information about local auctions through local media.

We researched the media costs involved in repeating a similar campaign to that completed earlier in the year, with the objective of expanding the number of regions receiving support. Several Property Funds that participated in the previous program were anxious to have this support continued. However, it was determined by GKI that the regional support would take the form of regional newspaper supplements and regional auction advertising. This was incorporated into the task order for the Public Information group.

Ad space was purchased by SMG in some 27 regional newspapers selected by GKI in consultation with the GKI's preferred media buyer "Journalist." SMG provided "Journalist" with national auction lists which it then distributed to the regional newspapers for publication along with local lists generated by local property funds and GKI (under GKIs supervision).

Cash Auction Advertising

Working closely with the National Auction Center, we designed advertising targeted towards cash investors. We also examined newspaper circulations and readership profiles in order to determine the best way to target this audience in the media.

As the Cash Auction system was still in the developmental stages by the time our advertising program was terminated, no advertising appeared.

Collateral Materials

In addition to the above-the-line advertising produced, we also planned, designed and printed the brochure for the National Auction Center. Working closely with the center, we designed their image logo and color scheme which co-ordinates with the privatization colors. We redesigned the press folders and pins and produced 2,000 and 25,000 respectively. In addition, we produced new press release stationary.

Media Planning & Buying

We reviewed media planning and costs from several media buying organizations and then bought against a cost-effective media plan designed to create maximum impact and frequency nationally, given frequent media cost increases and hyper-inflation.

The advertising program was terminated in early November, 1993. We completed a successful hand-over by supplying original artwork, masters of television and radio commercials already produced, story boards of work in development and media schedules.

Assessment and Recommendations

Following on the earlier advertising with its emphasis on promoting the concept of privatization and establishing it as an irreversible force, the new advertising focused more on providing information about specific auctions. The ads featuring National Auction System auctions were especially important to expanding participation in the NAS. And GKI was also able to use the prospect of advertising support for the auctions as an incentive for very large enterprises to put their shares up for early bid.

The regional advertising responded directly to the problem of insufficient information about local auctions by publishing lists of these auctions in local and regional newspapers. The use of advertising for straightforward informational purposes helped alleviate the impression that GKI was withholding information from the public.

The use of humor in ads produced during this period (i.e. "Horse," "Island," "Fast Forward") was a significant and successful departure from the more serious and

dramatic spots run earlier. As the emphasis of the ad campaign shifted toward catching the viewers' attention to flag upcoming auctions and away from more explicit message-oriented ads, a more light-hearted approach implicitly carried the message that privatization was now an accomplished fact and was no longer the source of political crisis and controversy.

As the privatization process unfolds, advertising will need to explain to millions of new shareholders their rights and their new role and reassure Russians that the inevitable turbulent restructuring of privatized enterprises is another step forward, not a sign of rising chaos. It remains essential that new advertising be forthright and balanced rather than propagandistic. While realism in message-oriented advertising is often hard to sell to the Russian Government officials who must approve the ads, it is essential for the ads to be taken seriously by the public.

CONCLUSION

During a period of turbulent debate over privatization, the mass privatization program remained remarkably popular with the general public. This base of popular support allowed the Yeltsin Government to move forward with privatization auctions while denying the opposition the kind of mass constituency it needed to stop the auctions. GKI's public information campaign played a critical role by disseminating accurate information about the voucher program and responding to disinformation. The responsiveness to public concerns and anxieties regarding privatization helps account for the fact that privatization remained the only genuinely popular element of the Yeltsin Government's reform program.

While the technical and logistical challenges of carrying out a nationwide communications campaign in Russia were great, the most serious obstacle to its success was the discomfort of many senior Government officials with the openness required for any public information effort. While anxious to allay public concerns and head off a political backlash against their program, some officials remained generally allergic to regular contact with the press and steadfastly opposed to acknowledging mistakes or flaws in the conduct of privatization. To a cynical Russian public which desired most of all straight talk from its leaders, the often sugar-coated version of events presented by the Government was sometimes not credible.

As noted above, the all-important grass roots dimension of the campaign, which GKI officials heartily endorsed in theory, was eventually eliminated by GKI officials after they were subjected to unusually harsh public questioning at a Privatization Day seminar in St. Petersburg. Officials complained of being "cursed" by the public, although the questioning consisted largely of the sorts of questions Russians raise every day at the dinner table.

Nevertheless, over time GKI expanded the flow of information available for the information campaign and grew more accustomed to and adept at working with the press. Moreover, dozens of Russian nationals who participated in the information

campaign gained valuable experience in the techniques of modern communications and ultimately provided GKI with a strong talent base on which to draw.

That is important because as the next stages of the privatization effort unfold, the need for a public information effort will only grow. With millions of Russians now owning shares in privatized enterprises and investment funds, the newest challenge is to provide basic education on shareholders rights, an effort which began under this contract. Soon, the next great challenge will arise: widespread bankruptcies of privatized enterprises. These bankruptcies are likely to provoke fear and confusion among shareholders and could possibly breathe new life into anti-privatization forces. The Russian public will need to be prepared for this inevitable development.

One way in which shareholders will be reassured regarding bankruptcy is the emergence of secondary stock markets where shares are openly traded and third-party registries needed to make stock markets function efficiently. When shareholders are able to trade shares and diversify their holdings, the likelihood of being wiped out by a single bankruptcy is reduced. Educating shareholders about participation in secondary markets and providing accurate information on the functioning of these markets will go a long way toward heading off a panic as the bankruptcies begin to garner press attention.

There is now an entire class of Russians -- outside of the Government -- with a deep interest in seeing privatization succeed. As attention turns from voucher auctions and the distribution of shares to restructuring of privatized enterprises, the arguments for expanding the public information and education efforts are compelling. But the opportunity is also now available to by-pass the Moscow-based ministries and channel US AID support in this field -- as in others -- through non-governmental entities. Given the bureaucratic difficulties of carrying out a public information campaign through a Russian Government agency such as GKI, experience suggests future such efforts might be best executed through emerging private sector institutions and the privatized enterprises themselves.