

PD-ABJ-558

EN 9-332

**INTERNATIONAL FINANCE CORPORATION
FINAL FINANCIAL AND OPERATIONAL REPORT
USAID Grant CCN-0005-G-00-3036-00
Mass Privatization Program**

October 1994

MASS PRIVATIZATION IN RUSSIA

International Finance Corporation
Final Financial Report
October 1994

TABLE OF CONTENTS

Statement of Cash Receipts, Disbursements and Grant Balance 1

Financial Report 2

Equipment Inventory 5

FINANCIAL REPORT

GRANT #CCN-0005-G-00-3036-00 MASS PRIVATIZATION PROGRAM

1. **Total amount:** US\$3,250,000
Starting date: 01.15.93
Expiration date: 07.15.94
2. The grant was disbursed to IFC in two sums:

US\$1,625,000 (receipt on 03.25.93)

US\$1,625,000 (receipt on 07.19.93)

3. The final breakdown of the project costs is the following:

	Expense Category	Expensed US\$
1.	Consultant salaries	506,394.38
2.	Relocation, monthly housing and transport allowance	128,500.00
3.	Consultant travel	245,159.51
4.	Staff travel	335,060.72
5.	Consulting companies	1,516,017.74
6.	Moscow central	306,809.88
7.	Washington coordination	172,131.95
8.	Consultants' insurance	10,720.40
	TOTAL EXPENSES	3,220,794.58
	BALANCE	29,205.42

4. Here follows a brief explanation of the expense categories.

- a. Consultant salaries include salaries of 17 consultants (both long- and short-term, all US nationals) having worked on the project in the course of a year and a half.
- b. Relocation, housing and transport allowances were paid to long-term consultants living in Russia. The allowances were calculated taking COLA adjustments and security issues into consideration.
- c. Consultant travel includes long- and short-term consultant travel expenses as well as local operating costs such as translation services, local staff salaries, business communications.
- d. Staff travel includes the travel expenses of IFC Europe Department investment officers who worked on the project - Stephanie von Friedeburg (Rawlings) and Victor Paul, as well as one trip of Europe Department staff member Andrew Staples and travel expenses of 7 other IFC staff members from the legal, corporate relations and engineering departments assisting in the implementation of the project.

Travel expenses of Stephanie von Friedeburg and Victor Paul include local operating costs such as the purchase of computer equipment (see attached Equipment Inventory), translation services, local staff salaries, apartment rental, business communications, local staff travel and salaries. These costs were accumulated in the staff travel category because of internal IFC accounting system constraints concerning cash transactions in Russia.

- e. Consulting companies contracted to work on the project are the following:

<i>Company</i>	<i>Area</i>	<i>Paid</i>
Burson-Marstellar	public relations	\$576,838.82
Deloitte & Touche	voucher auction	\$903,420.69
Steptoe & Johnson	legal	\$35,758.23

- f. Moscow central office was set up in the course of project implementation. Moscow central office staff supported project implementation. Expenses incurred include local staff travel, local legal companies, local travel, equipment and other operating expenses.
- g. Washington coordination aspect includes support for post-privatization (1 US national) as well as consultants working on the project in Washington (1 Russian, 1 US national). It also includes equipment bought through Washington and sent to the field (Volgograd, Tomsk, Nizhny Novgorod, Yakutsk) and was transferred, together with the equipment bought locally, to local authorities when the work

was finished. (See attached Equipment Inventory.)

h. Consultants' Insurance consists of the health insurance contributions for long-term consultants.

5. The staff members directly involved in the project made a contribution of 181 staff-weeks which is the equivalent to \$1,808,000.

Name	Days	Contribution \$
Goldberg	23	46,000
Chib	15	30,000
Staples	58	116,000
Puri	25	50,000
Sullivan	5	10,000
Kasrai	16	32,000
Jones	17	34,000
Morgenstern	95	190,000
von Friedeburg	220	440,000
Paul	299	598,000
Doran	131	262,000
TOTAL	904 days (181 staff weeks)	1,808,000

In addition to the above, there were other IFC staff members taking part in the development of the program in the course of meetings, consultations and discussions. The work of IFC Europe Department support staff was also invaluable. The use of telephone, fax, mail services and other facilities are not included in the above figure and add significantly to the IFC contribution.

6. A detailed breakdown of expenses is available. The account where the US\$3,250,000 was managed, was audited in November 1993 by Price Waterhouse and is being audited now by the same company according to the World Bank internal auditing procedures. In addition, Earnst & Young was retained at IFC's expense to analyze various aspects of the USAID grant financial management. Results of the audits are available upon request.

Equipment Inventory

Volgograd

<i>Inventory Number</i>	<i>Item of Equipment</i>	<i>Stock Number</i>	<i>Project</i>	<i>TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	AT 386 Personal Computer	G/H 720500902	Large-Scale/ Volgograd	See attached invoice and also see SOE in Washington	02/04/93	\$2,250	Property Fund, Volgograd
2	AT 386 Personal Computer	G/H 720303576	Large-Scale/ Volgograd	See attached invoice and also see SOE in Washington	02/04/93	\$2,250	Property Fund, Volgograd
3	AT 386 Personal Computer	G/H 720304554	Large-Scale/ Volgograd	See attached invoice and also see SOE in Washington	02/04/93	\$2,250	Property Fund, Volgograd
4	Matrix Printer Hyundai HDP-920	12167587	Large-Scale/ Volgograd	See attached invoice and also see SOE in Washington	02/04/93	\$300	Property Fund, Volgograd
5	Matrix Printer Hyundai HDP-920	12167593	Large-Scale/ Volgograd	See attached invoice and also see SOE in Washington	02/04/93	\$300	Property Fund, Volgograd
6	Electronic Voucher Counters MFC-003 (2 items)	0252 & 0330	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased by Field Office	04/22/93	400,000 Rbl \$1 = 807 Rbl \$495	Property Fund, Volgograd

7	Magnetic securer detector VILDIC (5 items)	108,607,604, 558,74	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased by Field Office	03/26/93	177,000 Rbl \$1 = 735 Rbl \$240	Property Fund, Volgograd
8	Laser Printer IBM 4029-010	56-60186	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased by Field Office	03/24/93	\$2,150	Property Fund, Volgograd
9	Back-UPS 600 (3 items)	920836059, 920838690, 920849785	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased in Washington		\$251 x 3	Property Fund, Volgograd
10	IBM PC/2's Personal Computer	W920854274	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased in Washington		\$2,288	Property Committee, Volgograd
	including Monitor IBM 8512-004	72-000157					
11	IBM PC/1's Personal Computer	VB55-011YVIB	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased by Field Office	07/10/92	\$1,800	Property Committee, Volgograd
	including Monitor IBM	55-70006					
12	HP LaserJet III	3220J07722	Large-Scale/ Volgograd	Directly charged to Trust Fund, purchased in Washington		\$1,908	Property Committee, Volgograd

Nizhny Novgorod

<i>Inventory Number</i>	<i>Item of Equipment</i>	<i>Stock Number</i>	<i>Project</i>	<i>TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	AT 386 Personal Computer		Large-Scale/ Nizhny Novgorod	See attached invoice and also see SOE in Washington	02/04/93	\$2,250	Property Fund, Nizhny Novgorod
2	AT 386 Personal Computer		Large-Scale/ Nizhny Novgorod	See attached invoice and also see SOE in Washington	02/04/93	\$2,250	Property Fund, Nizhny Novgorod
3	Computer PC AT 386SX		Large-Scale/ Nizhny Novgorod	Directly charged to Trust Fund, purchased by Field Office	03/11/93	\$2,500	Property Fund, Nizhny Novgorod
4	Printer IBM 4021090	56-60189	Large-Scale/ Nizhny Novgorod	Directly charged to Trust Fund, purchased by Field Office	03/11/93	\$2,150	Property Fund, Nizhny Novgorod
5	Computer PC AT 286/287		Large-Scale/ Nizhny Novgorod	Brownell, N80739, Casey T00094	09/27/93	\$550	Property Committee, Nizhny Novgorod
6	Computer PC AT 286/287		Large-Scale/ Nizhny Novgorod	Brownell, N80739, Casey T00094	09/27/93	\$550	Property Committee, Nizhny Novgorod
7	Fax Canon 270S		Large-Scale/ Nizhny Novgorod	Directly charged to Trust Fund, purchased by Field Office	02/04/93	\$1,260	Property Committee, Nizhny Novgorod

Yakutsk

<i>Inventory Number</i>	<i>Item of Equipment</i>	<i>Stock Number</i>	<i>Project</i>	<i>TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	MSC, 286 Personal Computer including Wang VGA Color Monitor	9310123 9228301011	Large-Scale/ Yakutsk	Easter, 20674	07/09/93	\$864	Property Fund, Yakutsk
2	MSC 386 Personal Computer including Hyundai Super Color Monitor	4275032493023 MBWHE210304 203	Large-Scale/ Yakutsk	Easter, 20674	07/09/93	\$1,340	Property Fund, Yakutsk
3	AT 286 Personal Computer		Large-Scale/ Yakutsk	Dietrich, 17526	07/21/93	\$2,680	Property Fund, Yakutsk
4	AT 286 Personal Computer		Large-Scale/ Yakutsk				Property Fund, Yakutsk
5	Smart Link Modems (2 items)		Large-Scale/ Yakutsk				Property Fund, Yakutsk
6	VGA Color Monitors (2 items)		Large-Scale/ Yakutsk				Property Fund, Yakutsk
7	Smart One Modems (2 items)	3151445, 3150941	Large-Scale/ Yakutsk	Easter, 20674	07/09/93	\$188	Property Fund, Yakutsk

8	SLT 286 Personal Computer 2680		Large-Scale/ Yakutsk	Dietrich, 17526	07/26/93	\$1,512	Property Fund, Yakutsk
9	Printer HP LaserJet IIIp	3134JWODSP	Large-Scale/ Yakutsk	Dietrich, 17526	07/02/93	\$2,286	Property Fund, Yakutsk
10	Canon FC 330 Photo copier	PFV04820, F129100					

Tomsk

<i>Inventory Number</i>	<i>Item of Equipment</i>	<i>Stock Number</i>	<i>Project</i>	<i>TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	HP LaserJet IIIp	3128JUOK33	Large-Scale/ Tomsk	See attached invoice and also see SOE in Washington (Towers)	01/20/93	\$1,560	Property Committee, Tomsk
2	Computer IBM PC/2's including Monitor	MC20900438	Large-Scale/ Tomsk	Directly charged to Trust Fund, purchased in Washington		\$2,288	Property Committee, Tomsk
3	Xerox 5014 Photo copier	06U3206214154	Large-Scale/ Tomsk	Directly charged to Trust Fund, purchased by Field Office	11/06/92	\$3,360	Property Committee, Tomsk
4	Fax Canon 270S	Z9913035	Large-Scale/ Tomsk	Directly charged to Trust Fund, purchased by Field Office	11/06/92	\$1,450	Property Committee, Tomsk
5	Computer IBM PC/386 including VGA Color Monitor		Large-Scale/ Tomsk	See attached invoice and also see SOE in Washington (Tokolish)	02/17/93	\$1450	Property Fund, Tomsk
6	Computer IBM PC/386 including SVGA Color Monitor		Large-Scale/ Tomsk	See attached invoice and also see SOE in Washington (Tokolish)	02/17/93	\$2,058	Property Fund, Tomsk

7	Printer LaserJet IIIp		Large-Scale/ Tomsk	See attached invoice and also see SOE in Washington	02/17/93	\$1,692	Property Fund, Tomsk
8	Canon NP 1215		Large-Scale/ Tomsk			\$2,500	Property Fund, Tomsk

TABLE OF CONTENTS

PART ONE: Executive Summary	1
PART TWO: Overview	3
Rationale	3
Background	3
PART THREE: Mass Privatization Program	6
PART FOUR: IFC's Approach and Scope of Work	8
Introduction	8
Establishing Resident Teams	8
Building a Pipeline of Enterprises	9
Legal Documentation	9
Enterprise Information Distribution	11
Establishing a Bid Reception or Auction Center	11
Designing and Implementing a Public Relations Campaign	14
Registers of Shareholders, Handbooks and Seminars	17
Evidence of Share Ownership	18
Cash Sales	19
PART FIVE: Results	20
IFC Assisted Regions	20
Volgograd	20
Novosibirsk	21
Nizhny Novgorod	21
Tomsk	21
Yakutsk	22
The Russian Federation	22
The All Russian Auction System	23
Public Education	24
Evidence of Ownership	24
Regulatory Feedback	24
Share Registry Manual	25
Regional Depository System	25
PART SIX: Conclusions	27
Digrams and Annexes	
List of IFC Consultants	
IFC Project Locations	

PART ONE: Executive Summary

With the guidance of Anatoly Chubais and the Committee on the Management of State Property (GKI), privatization, particularly large-scale privatization, has become one of the most demonstrably successful economic reforms undertaken in the Russian Federation since the collapse of the Soviet Union in 1991. At the completion of the first phase of industrial privatization in June 1994, nearly 14,000 enterprises in 86 provinces and autonomous republics had been privatized. In total, 97.5 million privatization checks, or vouchers, were exchanged for shares in medium and large Russian enterprises, creating over 40 million new Russian shareholders and placing 17.2 million workers in the private sector.

The Mass Privatization Program, the official name for the first phase of industrial privatization, was designed in mid-1992 by Mr. Chubais and his colleagues and as such was Russia-specific though it did use elements from other programs underway in Eastern Europe. The objective was to create a privatization scheme which would achieve support of the population at large as well as a wide range of political groups, including those of enterprise managers, workers, and local governments. The vehicle by which shares in medium and large enterprises were to be sold to the general public was the voucher auction, utilizing the vouchers distributed to all Russian citizens in October 1992. In December 1992, in order to develop an overall auction strategy, a limited number of enterprises' shares were sold in pilot auctions in Moscow and Vladimir.

Immediately following these pilot auctions, with the goal of assisting the Russian authorities in developing detailed auction methodologies as well as standard procedures and formats for the Mass Privatization Program, IFC began early work in several Russian provinces to introduce industrial privatization. IFC's work was funded through a grant from USAID.

IFC based its approach on the grassroots principles it was using in its small-scale, trucking and land privatization. Resident teams worked alongside local officials, to recognize problems, identify solutions and work to create the local consensus needed to make privatization happen. IFC teams were established in Nizhny Novgorod, Volgograd, Tomsk, Novosibirsk, and Yakutsk. In addition to assisting in the corporatization process and running the bid reception and processing centers, the resident teams also undertook broad based public relations campaigns in each region. With the overall goal of giving the participants as full and comprehensive an information base as possible so that the process was fair and transparent.

On February 8, 1993, less than eight weeks after starting work on the project, the first voucher auction opened in the IFC assisted region of Volgograd with 20 companies offered for sale. Within a few weeks, multi-enterprise voucher auctions were taking place in the other IFC assisted regions. By June 1994, when the voucher scheme ended, IFC had assisted in the sale of over 1,100 medium and large enterprises in the five regions where its teams were resident, collecting nearly six million vouchers. This resulted in the transfer of 1.65 million workers into the private sector. The leading region was Nizhny Novgorod where over 400 companies were privatized.

For the two million shareholders created in the regions where IFC provided assistance in voucher privatization, IFC also began work on shareholder education and on systems of share trading and basic shareholder protection. Seminars were held and manuals distributed that laid out rights and responsibilities, as well as the simple mechanics, of what it meant to be a shareholder. Share certificates were printed and issued and share registry manuals were produced. In the area of corporate governance, the relationship between the shareholder, the board and the company's management received particular attention and work in this area is still ongoing.

Although the Mass Privatization Program has been completed, the transfer of medium and large enterprises from state to private hands continues by other means. In addition, attention is now being focused on the restructuring and financing needs of these newly-privatized enterprises. For example, following its grassroots approach, IFC is sponsoring a regional venture fund which will provide financing to these companies and has begun management training courses. The Corporation is also undertaking a capital markets program to assist local broker-dealers in establishing trading practices and in publicly issuing shares in a newly-privatized enterprise.

PART TWO: Overview

Rationale

Privatization is defined as the transfer of state-owned assets to the private sector. Over the last two decades, it has come to be considered throughout the world as the most effective method of putting under-utilized state-owned assets into productive use and thereby creating more efficient industries. This move towards private ownership recognizes the fact that state-owned enterprises are inefficient because they are often "politicized", or easily incentivized to pursue political goals such as high employment instead of economic goals such as the maximization of profit.

Following this logic, Russian authorities determined that the goal of privatization in Russia should be the depoliticization of enterprises. Although it was recognized that depoliticization in and of itself was not sufficient to make enterprises fully efficient, it was thought that depoliticization was an essential first step in the transformation process. Russian privatization was viewed by the authorities not as an end in itself, but rather as a means of transferring control of enterprise cash flows from politicians to managers in order to initiate necessary enterprise restructuring.

It was the politicians themselves that were responsible for establishing Russia's initial industrial privatization program, which, by necessity, had to satisfy the demands of a number of very powerful constituencies including local governments, workers, and enterprise managers. The result was a program which incorporated elements of similar programs enacted in Eastern Europe but which was quite unique to Russia.

Background

Following the success of small-scale privatization, in 1992 the GKI turned its attention to the creation of a framework for the privatization of medium and large state-owned enterprises by which enterprises in this category could be first corporatized, or turned into open joint-stock companies with 100 percent of the shares belonging to the government, and subsequently privatized using a combination of mechanisms including closed subscriptions by workers and managers, investment tenders, and voucher auctions.

As a result of the rationale outlined above and the existing hostile political environment in Russia, especially in the Parliament where the power of the industrial lobby was quite strong, the Russian government tailored a unique voucher privatization program rather than fully adopting models such as the Czech-style mutual

fund for several reasons. First, in using vouchers, Russian authorities found a way to popularize privatization by involving ordinary citizens directly in the process. Second, voucher privatization enabled the authorities to avoid the violent backlash that would have been the likely result had large shareholders been imposed on management as a result of a mutual fund scheme. Finally, there was a fear that such large shareholders could become easily politicized themselves, thereby subverting the entire process.¹

The legislative basis for converting state-owned property into open joint-stock companies to be privatized under the Mass Privatization Program was provided in three Presidential Decrees, No. 66 of January 29, 1992 "On Speeding Privatization of State and Municipal Enterprises," No. 721 of July 1, 1992 "On Organizational Measures to Transform State and Voluntary Associations of State-Owned Enterprises into Joint-Stock Companies," and the 1994 Privatization Program "On the State Program of State and Municipal Enterprises in the Russian Federation." A list of additional relevant privatization legislation appears in Annex One.

Under this legislation, any enterprise with book value fixed assets of not less than fifty million rubles or an employee base of more than 1,000 workers as of January 1, 1992 was subject to mandatory conversion into an open joint-stock company, followed by participation in voucher privatization. Companies with less than fifty million rubles but more than one million rubles in book value fixed assets or between 200 and 1,000 employees could be converted into open joint-stock companies and participate in the voucher process at the request of the workers' collective and the permission of the local property committee. The privatization options available to enterprises clearly reflect the prevailing balance of political power and are outlined in Part Three of this paper.

In October 1992, 150 million Russian citizens received vouchers through Sberbank, the national savings bank. The vouchers were to be used for the privatization of medium and large enterprises through direct acquisition of shares, investment in a voucher fund, or sale in the secondary market. The cost to each citizen was 25 rubles. These vouchers were bearer securities with a watermark and serial number, a validity period of one year and a 10,000 ruble nominal value. This value represented four months salary in August 1992 rubles.

In order to test the voucher framework, develop auction procedures, and to demonstrate the benefits of the program to voucher holders, the Russian authorities organized an auction involving a small number of pilot sales of enterprise shares using vouchers as the payment mechanism in December 1992. Following the successful completion of these pilot auctions, the authorities decided to implement voucher privatization on a wide scale by establishing a "first wave" of public offerings across ten provinces. It was at this time that GKI requested that IFC

and USAID work closely with the local authorities to assist in the "first wave" of public offerings in ten provinces. IFC with USAID funding was to work in five provinces and USAID directly in another five. The chosen IFC provinces were Volgograd, Tomsk, Nizhny Novgorod, Novosibirsk, and Chelyabinsk. Chelyabinsk was later substituted for the independent Republic of Yakutsk.

PART THREE: The Mass Privatization Program

The Mass Privatization Program called for a closed subscription of shares by employees, in accordance with a privatization plan filed by the enterprise no later than October 1, 1992. In order to prepare its plan, each enterprise was required to organize a working commission, with responsibility for drafting foundation documents and establishing property valuation reports for use in the privatization plan. The privatization plan was then voted on by the workers' collective. There were three privatization options available to the commission as highlighted below:

1. **Option One:** Employees were given free of charge non-voting shares worth 25% of the base capital. They were able to acquire an additional 10% of equity at a 30% discount from face value. Finally, top management was able to purchase up to 5% of equity at face value. Each employee could receive no more than an amount equal to six months' wages.
2. **Option Two:** An employee group could purchase 51% of voting shares at a price of 170% of face value. Each employee could receive no more than an amount equal to six months' wages.
3. **Option Three:** Employees were allowed a one-year lease on the enterprise with an option to buy 20% of the base capital at 70% of face value at the end of the year in return for "restructuring" the enterprise. This option was limited to enterprises with less than 200 employees and was rarely used.

All shares not distributed to workers' collectives, generally 49-60%, were made available for open sale. The majority of the open stock was to be sold for vouchers in specialized voucher auctions. Any enterprise with an employee base over 10,000 was considered federal property and the sale of the enterprise had to be coordinated with the Federal Fund in Moscow. Under GKI Ordinance No. 308-p concerning "Closed Subscription to Shares in Privatizing State and Municipal Enterprises," the Federal Fund was allowed to place shares totalling not more than 20% of the shares slated for voucher auction in a specialized voucher auction trust. Given much controversy over the percentage of enterprises to be sold for vouchers, a presidential decree was written on May 8, 1993, stating that 29% of shares must be sold for vouchers through specialized voucher auctions.

Under the GKI plan, a voucher auction model was envisioned whereby enterprises could be sold to the public through an open, silent bidding process. Each participant in a voucher auction was to deliver to an auction center an adequately completed application form and corresponding vouchers. There were two types of bids available to the potential investor, type one and type two, as described below:

1. *Type One:* An unrestricted bid which expressed willingness to invest in a particular enterprise regardless of the price per share. This bid was designed for the small investor. As an unrestricted bid, it was always met.
2. *Type Two:* A restricted bid in which the investor expressed the price (in shares per voucher) at which he would be willing to purchase shares in an enterprise. This bid was designed for larger investors and was satisfied by an equilibrium price².

Participants in voucher auctions could be natural persons or legal entities qualified as buyers. Initially, foreign entities were permitted to purchase shares provided that they invested via a wholly owned Russian subsidiary or obtained a license from the Central Bank and permission from the Ministry of Finance to purchase the share directly. However, the 1994 Privatization Program was changed to allow foreign investors to participate in voucher auctions, subsequently informing the Ministry of Finance of their actions.

In order to test the above voucher framework and demonstrate the benefits of the program to voucher holders, in December 1992, the Russian authorities organized a "model series" of early voucher auctions. In the "model series," there were six enterprises sold through voucher auctions in Moscow and in Vladimir. The auctions were carried out and helped define a foundation for adequate selling procedures.

Following these successful pilot auctions, the authorities decided to implement medium- and large-scale privatization by establishing a "first wave" of public offerings across many provinces, drawing on experience gained in the December auctions. GKI requested that IFC and USAID work closely with local property funds and committees to assist in the "first wave" of public offerings in ten provinces. IFC with USAID funding was to work in five provinces, USAID directly in the other five. IFC's chosen provinces were Volgograd, Tomsk, Nizhny Novgorod, Novosibirsk, and Chelyabinsk. Work in Chelyabinsk was later substituted for work in the independent Republic of Yakutsk.

PART FOUR: IFC's Approach and Scope of Work

Introduction

Upon the request of GKI and through funding from USAID, IFC agreed to establish voucher auctions in five of the "first wave" provinces. As in other privatization projects, IFC's approach to the Mass Privatization Program was to develop a pilot or grass roots activity which could be replicated by other provinces attempting to organize voucher auctions. Given the speed with which GKI was hoping to get the "first wave" provinces up and running, work in all of IFC's provinces began simultaneously.

IFC's technical assistance work was to start in the province of Volgograd where, with the support of USAID, IFC had already established a small-scale privatization program. Thereafter, IFC was to quickly establish similar voucher auction programs in Tomsk, Nizhny Novgorod, Novosibirsk and Chelyabinsk.

As local province (regional) property committees and local province property funds had responsibility for the privatization of medium and large enterprises in their provinces, these agents were to be the direct recipients of the technical assistance and those institutions with which IFC was to work most closely. Given that GKI had operational responsibility for the implementation of the overall voucher auction program, the work was structured such that difficulties and suggestions flowed back to GKI from the provinces.

As a result of strong local political opposition, IFC's work in Chelyabinsk was halted in mid-January. In May 1993, at the request of GKI and local authorities, the original commitment to a fifth province was fulfilled through direct IFC support for the independent Republic of Yakutsk. The nature of the work in Yakutsk was focussed on enhancement and expansion of the voucher process, based on IFC's direct experience in Volgograd, Tomsk and Nizhny Novgorod.

The overall objective of IFC's technical assistance work was the establishment of voucher auctions and the sale of enterprises in each of the five regions in continuous, on-going auctions. The detailed objectives of the work can be defined as follows:

Establishing Resident Teams

The first objective of the IFC voucher auction project was to assemble resident teams to live and work in the regions as a means of solving problems and actively building the consensus needed for the successful implementation of privatization. With the exception of Yakutsk, these teams were in place by the end of January,

1993. The Novosibirsk project was initially staffed by Deloitte & Touche consultants under IFC management, while the Volgograd, Nizhny Novgorod, Tomsk, and Yakutsk projects were staffed by IFC staff members and individual consultants.

Typically, each team consisted of at least three Russian-speaking foreigners including a field manager, an individual responsible for pipeline management and an auction center manager. The foreign consultants were complemented by two or three local staff, including a local lawyer. Over time, the IFC objective was to transfer responsibility to the local staff and the local authorities.

Building a Pipeline of Enterprises

Once established, the first objective of the resident teams was to build a pipeline of enterprises suitable for corporatization and subsequent sale at voucher auctions. It was recognized that, without a steady stream of enterprises from which to choose, it would have been extremely difficult to conduct continuous, multi-enterprise auctions with an adequate mix of size and sector. It was felt that such a mix was necessary, especially in the early stages of the process, in order to provide choice and to draw as many people as possible into the auction center.

Creating a pipeline of enterprises suitable for corporatization and subsequent sale at voucher auctions required the full attention of the pipeline manager working in coordination with the field manager and IFC's local lawyer. During the initial stages of privatization, legal questions that arose were addressed to IFC local counsel, the Moscow-based firm of White & Case.

When IFC teams arrived in the field, the process by which enterprises were corporatized and subsequently offered for sale at voucher auctions was unknown to the local officials responsible for its implementation. As a result, the first task of IFC consultants was to work closely with the Committees and Funds to define the steps in the process and to clearly delineate which body was responsible for each step. The approach adopted in Volgograd, which clearly outlined the steps in a simple chart, was an effective means of defining the process and also of tracking enterprises. An example of this 12-step pipeline chart is attached in Annex Two. Similar charts were used in other regions both to delineate the pipeline process and to track enterprise progress through it.

Legal Documentation

The local committee was responsible for all documentation related to the corporatization of enterprises, including the registration of the new joint-stock company and its shares. Following the approval of all documentation by the committee, enterprises were transferred to the fund for final approval and sale at voucher auc-

tion. In the early stages of the privatization process, IFC, working closely with the committees and funds, expended considerable effort to ensure that all documentation associated with the corporatization and sale of enterprises at voucher auctions was in order.

The two primary documents subject to IFC review were the privatization plan and the enterprise's corporate charter. The six main objectives of documentation review were the following:

1. To determine whether or not the enterprise was eligible for privatization by means of sale at voucher auction (e.g., to ensure that it was of the proper size or that it was not otherwise banned by the 1993 privatization program).
2. To review the privatization plan to ensure that it had been properly completed in accordance with the Model Privatization Plan. Special care was also taken to ensure that all calculations undertaken to determine the number and type of shares issued according to the chosen privatization variant were completed correctly.
3. To review the corporate charter to ensure that it has been properly completed in accordance with the Model Charter. Special care was taken to ensure that nothing in the charter restricted the rights of shareholders and that the information contained in the charter matched that in the privatization plan, especially with regard to the number and type of shares issued.
4. To ensure that the privatization plan was properly signed by the appropriate authorities and adopted by the workers' collective, that the privatization plan and the charter were properly registered with the appropriate authorities, and that all accompanying documentation was in order.
5. To ensure that the closed subscription for shares by the workers collective was carried out prior to the sale of shares to the public for vouchers.

6. To point out and carefully explain any problems to the appropriate authorities and to follow up to make sure that corrections were carried out in a timely manner. This step was an essential part of the process of training local authorities to take over the pipeline management process in the future.

Having worked closely with the IFC pipeline management team through the first few voucher auctions, the committees and funds in IFC assisted regions were increasingly able to produce the steady stream of enterprises necessary to carry out continuous, multi-enterprise auctions with reduced consultant support. Following the establishment of self-sustaining pipelines in IFC assisted regions during the early months of the voucher auction project, IFC expanded its work to include post-auction processes. Nevertheless, IFC continued to monitor the pipeline process and assist with legal and administrative questions related to the pipeline whenever they arose.

Enterprise Information Distribution

Once an enterprise had completed a review by the local authorities, an information sheet describing the document was prepared and an advertisement meeting all of the federal requirements for the sale of enterprises at voucher auction was placed in both local and national newspapers. Although the materials were not complete, it did provide potential investors with information on the size of an enterprise's assets and liabilities, the age of the company and its primary source of business. It also outlined the privatization option chosen by the enterprise's workers' collective.

Establishing a Bid Reception or Auction Center

Having identified a number of enterprises in each region suitable in all respects for sale at voucher auction, the next task of IFC teams in the field was to establish a process by which the public at large could bid for shares during continuous, multi-enterprise auctions using an open process.

IFC's first priority was to establish an auction center in the capital city of each region and to expand into the outlying areas of the regions by subsequently establishing a series of outlying bid reception points as highlighted in Diagram One. In some IFC assisted regions the auction center was staffed and managed directly by the fund. In others, an intermediary was hired for the task of running the center. In each of the five regions, IFC consultants played an integral role in establishing the auction center and the procedures according to which it was run, through the following steps:

1. **Site Selection and Preparation:** In each region a centrally located building that was easily accessible by public transportation and that had space available for long-term lease was chosen as the auction center. The precise manner in which each auction center was laid out varied from region to region depending on the size and shape of the facility. However, each contained certain functional units, a general description of which is provided below and highlighted in Diagram Two.

Information Posts: Each auction center was furnished with one or more information posts where highly trained Russian consultants were available to answer any questions posed by visitors to the center. These posts were also used to distribute various informational materials and application forms for potential bidders.

Application Tables: Tables where visitors could sit and fill out their applications or bids for shares were provided in each auction center. Each had examples of properly filled out applications on display so that bidders could check their applications for accuracy before submitting them with the appropriate number of vouchers attached. Visitors to the auction center were also welcomed to sit down at the tables to study the informational materials distributed at the auction center.

Teller Stations: Individual stations were provided for tellers to accept completed applications from bidders in the same way that bank tellers might accept deposits from customers. Specifically, it was the teller's job to: (1) check the application to see that it has been properly completed; (2) check personal data entered on the application against documents presented; (3) verify that the vouchers presented reflect the quantity entered on the application; (4) verify that the serial numbers of the vouchers presented match those entered by the bidder on the application form; (5) conduct a visual check of the authenticity of each voucher; (6) detach the bottom half of the application and return it to the bidder in the form of a receipt; and, (7) make the appropriate bookkeeping entries according to the system used by the auction center to account for vouchers and applications. Following the close of an auction, a special teller was also responsible for returning vouchers to unsuccessful type two bidders.

Controller Stations: Controllers responsible for supervising the work of the tellers, supervising the storage and handling of all vouchers and documents, securing vouchers for transfer to an off-site facility, and for disposing of all confidential materials were seated at controller stations that were in a separate room or at least partitioned off in some way from the main part of the auction center. Access to this space was restricted to authorized staff only.

Application Processing Unit: The application processing unit was responsible for accurately entering all data captured on application forms into computer data files and for storing these files safely. Following the completion of the bid reception period, the auction was carried out by the application processing unit, under the supervision of the fund, using the data files created during the course of the auction. As with the controller stations, this area was separate from the main room of the auction center and access to it is restricted to authorized staff only. Software for the computers was initially provided by GKI, although some regions developed software locally. Computers, printers, copiers and all other equipment used in the auction centers were supplied by IFC in accordance with the USAID grant.

Secure Storage Area: Each auction center was furnished with a secure storage area apart from the main room of the auction center to which access was restricted. Application forms and vouchers were stored in safes in this area until they were removed from the premises.

2. Hiring and Training the Staff: It was recognized from the outset that the auction center staff would impact greatly on the success or failure of the early auctions. As providing auction center visitors with a positive experience was an absolute priority, the hiring and training of staff was carried out with much care and attention. Job applicants were initially attracted by advertisements in the local press aimed at individuals with accounting, banking and/or computer skills. A diagnostic exam which sought to measure short and long-term memory, math skills, and the ability to follow instructions was used for the initial screening of applicants. Following successful completion of the exam, candidates were then interviewed. Those that were outgoing, friendly, and courteous were sought. Following selection, new staff were given reading materials describing the

overall privatization program as well as the voucher auction process. Next, they were trained in the specifics of their particular job. Auction center staff was encouraged to ask questions, and special care was taken to ensure that all questions were answered clearly and completely. The final day of training consisted of role playing.

When the voucher auction process expanded in the months following the initial auctions (as the number of bid reception points grew, new software was introduced, nation-wide auctions began, and evidence of ownership was introduced), care was taken to ensure that the auction center staff was kept abreast of all developments.

Designing and Implementing a Public Relations Campaign

Another important early goal of the IFC teams was to undertake extensive public relations campaigns in the regions designed to raise awareness and understanding of the privatization process in general and voucher auctions in particular. The firm of Burson Marsteller was retained by IFC during the initial stages of this effort, following which, public relations was handled by local IFC consultants in conjunction with local authorities. Involving local authorities in the process from the beginning and giving them steadily increasing levels of responsibility allowed IFC to play a secondary role in public relations effort following the initial few rounds of auctions. Again, the development of a public relations campaign followed several sequential steps, as follows:

1. **Research:** In order to determine the public relations need in the IFC assisted regions, Burson Marsteller, through the research firm, Validata Yenkolovich, conducted extensive quantitative and qualitative research on attitudes towards and knowledge of privatization in Russia. This research included an eight-week survey of people in IFC assisted regions as well as a series of interviews with specially targeted groups in Volgograd. In addition to this, exit polls conducted at the auction center during the initial rounds of voucher auctions were used as a means of determining which types of information people were responding to. The results of the Validata Yenkolovich's research are included in Annex Three. Based on the results of this early research, IFC worked with local authorities to create public relations campaigns with three basic goals in mind: (1) to raise general awareness about voucher auctions; (2) to raise understanding with regard to privatization in general and voucher auctions in particular; and, (3) to provide specific, practical information on the voucher auction process.

2. **The Campaign:** Although public relations campaigns varied from region to region based on local conditions, each was built around a framework consisting of the following aspects:

Auction Center as Information Center: In each auction center the goal was to create an atmosphere that was inviting rather than intimidating while at the same time providing as much practical information as possible in order to ensure that potential investors visiting the auction center understood the process and felt comfortable participating in it. The information available at the auction center consisted of the following: (1) Exhibits including colorful, poster-sized displays with information, including limited financial information and photographs, on specific enterprises being privatized; directions for filling out applications; samples of evidence of ownership; lists of up-coming auctions and enterprises to be privatized; results of previous auctions; and, flow charts leading shareholders through post-auction processes such as share registration and the distribution of evidence of ownership. (2) Trained experts available to answer any questions in a friendly and courteous manner. (3) Printed materials including the exit polls mentioned above as well as various other leaflets and booklets described below. (4) Videos showing the step-by-step process for submitting applications, ascertaining auction results, and participating in post-auction processes such as receiving evidence of ownership of shares.

Information Handouts: The following materials were distributed at auction centers and at various other locations throughout IFC assisted regions where large groups of people gathered. Distribution of information at points outside the auction center was emphasized in the early stages of the process when coverage by the local media was slight: (1) General Q&A and "how to" leaflets. Examples of the leaflets entitled "How to Become a Voucher Auction Participant" and "The Auction is Over but What is Going to Happen" are attached in Annex Four. (2) Enterprise profile leaflets. A copy of the leaflet for the Volgograd Tractor Plant is attached in Annex Five. (3) Voucher auction privatization booklets. Including a comprehensive introduction to the voucher auction process, extended versions of the Q&A leaflets, and contact numbers for getting more information.

Community Relations: (1) Public seminars held on a weekly basis and designed to address the various aspects of privatization and voucher auctions were the pillar of the early IFC community relations effort. These seminars, which were widely advertised in the local media, were led by local officials with the assistance of IFC consultants and lawyers. In a typical seminar, information was presented to the audience by a panel of experts and then the floor was opened for questions from the audience. (2) Radio and television call-in shows which followed the same format as the public seminars were also an important part of the early community relations effort. The goal of the radio and call-in shows was to reach out to potential investors who lived far away from the center of town or otherwise found it inconvenient to attend the public seminars. (3) Information hotlines manned by specially trained privatization experts were set up to take calls from the general public on questions related to privatization and voucher auctions. (4) Enterprise directors were drawn more actively into the process when they were included as members of the panel of experts or audience members during the weekly public seminars. Experience showed that well-informed enterprises are generally more positive towards the privatization process. (5) Employee relations were cultivated by creating and distributing materials which focussed on employees' rights as shareholders.

Media Relations: Every effort was made to interest the local media so as to provide "free" press for the voucher auction process. This was accomplished by making use of the following: (1) educational workshops for the local media explaining the mechanics of and the theory behind privatization, voucher auctions, and post auction processes including the distribution of evidence of ownership; (2) press conferences announcing the opening of the auction center, the results of early auctions, and the first distribution of evidence of ownership; (3) Media contests designed to encourage participation in the process by the press; (4) on-going liaison work designed to build media relations by arranging special interviews and enterprise/auction center visits with individual members of the local media.

Advertising: Media advertising, especially by radio, proved to be a very effective means of reaching a mass audience and drawing people into the auction center either to bid for shares or simply to obtain further information on the process. First and foremost, media advertising served as a means of announcing auctions and auction results as both such public announcements were required by law. In addition, however, the media was used as a means of the following: (1) announcing public seminars and call-in shows; (2) publicizing location and hours of operation of the auction center; (3) publicizing the hotline; (4) publishing Q&A leaflets in an advertising format; and, (5) announcing dates and times for evidence of ownership distribution. In addition to standard media advertising, IFC also assisted local officials in creating "infomercials" which took the viewers on a step-by-step tour of the auction center, showing the resources available and how to make use of them, and generally explaining the theory and practice of privatization. These infomercials were run on local TV.

Visuals: In all of the IFC assisted regions, visual materials using simple messages carrying basic factual information were used early in the voucher auction process to generate awareness. These frequent and colorful images around the city in the form of posters, banners, billboards and stickers helped to institutionalize the voucher auction process in the minds of the general public.

Registers of Shareholders, Handbooks, and Seminars

Following the successful completion of the first auctions in the IFC assisted regions, IFC teams in the field quickly expanded their activities so as to cover a range of post-auction processes. Specifically, IFC worked with local authorities to establish a share registration system for new shareholders and also to design, produce and distribute evidence of ownership as a means of lending legitimacy to the voucher auction process and encouraging secondary trading.

Under existing Russian legislation, ownership of shares does not transfer to the investor until the buyer's name is entered into the appropriate enterprise's register of shareholders. For this reason, IFC worked with local authorities and with enterprises to establish a process by which auction winners could be entered into the corresponding enterprise register in the shortest possible time frame following the completion of the auction.

In Tomsk, Nizhny Novgorod and Volgograd a procedure was adopted whereby the protocol confirming the auction results (and containing all relevant data on auction winners) could be easily adopted by enterprises as a separate volume of the register of shareholders immediately following the voucher auction. At the same time, IFC introduced a handbook on shareholder registry maintenance. The system described in the handbook was developed by IFC and tested in the regions prior to the initial distribution of handbooks in June of 1993.

In two regions, Nizhny Novgorod and Volgograd, a series of seminars based on the Shareholder Registry Handbook was also undertaken. In these two regions, IFC made blank registry materials (registry journals, certificate distribution journals, and shareholder index cards) available to enterprises at cost. The format for these materials is identical to that used in the IFC Shareholder Registry Manual, copies of which are available from IFC.

Evidence of Share Ownership

The decision was taken in two IFC assisted regions, Nizhny Novgorod and Volgograd, to distribute evidence of ownership to winners in the voucher auctions and also to workers who obtained shares during the closed subscription prior to the voucher auction. The distribution of evidence of ownership was seen as a means of lending legitimacy to the process and as a means of facilitating share trading.

Volgograd and Nizhny Novgorod began distributing evidence of ownership in the form of certificates to both auction and closed subscription winners via their auction centers in April, 1993. Following the adoption of the necessary agreements (most importantly the one that obligates the enterprise to adopt the voucher auction protocol as a part of the register), enterprises wishing to participate could obtain this service free of charge. The certificates were filled in by laser printer at the auction centers using the data base created during the auction and were distributed for a two-week period. Certificates not picked up by the end of the period (along with blank certificates for closed subscription winners) were turned over to the enterprises for future distribution.

According to the privatization legislation in effect during the initial stages of the voucher auction project, these certificates (which are securities according to Russian law), by virtue of the fact that they were issued as a result of privatization by voucher auction, were exempt from a number of cumbersome and very expensive security requirements. For example, they did not have to be printed at a licensed printer, they were not required to have watermarks and seals, and they did not have to be printed on high-quality paper.

New legislation appeared in July of 1993 that removed this exemption, creating two problems for the regions distributing certificates. First, the cost of production of the new certificates with all of the appropriate security checks at a licensed printer was prohibitively expensive as well as the fact that there were only four of such printers in Russia. Second, issuing certificates that might appear to have intrinsic bearer-type value was thought likely to confuse the already problematic issue of how shares are traded. That is, although a trade is not complete until recorded in the company register, it was thought that people were more likely to mistakenly trade the new certificates themselves. Following discussions with each of the province's Governors, the local administration decided to pursue the option of certificates (by obtaining a license for a local printer) while switching to register extracts. The register extracts differ from the original certificates in name only. However, this small change exempts them from all of the new requirements.

The local property funds and the intermediaries that run the auction centers have taken over full responsibility for certificate/extract production and distribution. Well over 500,000 certificates have been distributed to approximately 400 enterprises. Continued requests are being processed by the funds in both Nizhny Novgorod and Volgograd.

Cash Sales

In accordance with a May 1993 decree, local funds are permitted to sell an amount equivalent to five per cent of enterprise shares sold at the voucher auctions at subsequent cash auctions. Revenue raised through these sales must be used to finance future voucher auctions. IFC assisted regions' resident teams "kick-started" cash auctions by alerting the Funds to the benefits of holding cash auctions and by helping with the legal and logistical aspects of undertaking them. As of the end of February, IFC assisted regions had raised the following ruble balances through cash auction:

<u>Cash Sales</u>		
<u>Region</u>	<u>Ruble Balance</u>	<u>Average Share Price</u>
Nizhny Novgorod	R441,883,528	R 4,197
Novosibirsk	R147,156,730	R 10,297
Volgograd	R117,499,602	R 9,485
Yakutsk	R 55,284,900	R 2,639
Tomsk	R 33,509,850	R 10,297

PART FIVE: Results

IFC assisted Regions

As of the end of June 1994, shares in 1,119 enterprises employing 1.5 million workers had been sold for vouchers in the five IFC assisted regions, and 5.6 million privatization checks had been collected. A monthly breakdown of voucher auction results is provided in Annex Six. New shareholders are estimated at two million for IFC's five regions.

The first IFC assisted voucher auction opened in Volgograd on February 8, 1993, when shares in 20 enterprises were offered for sale. The Tomsk, Novosibirsk and Nizhny Novgorod auction centers opened on February 25, March 12 and March 13, respectively. The first IFC assisted voucher auction in Yakutsk opened on July 26.

By the end of June 1994, IFC had met its obligations and fulfilled its objectives with regard to the implementation of the voucher auction project and the subsequent development and implementation of post-privatization processes, including the production and distribution of evidence of ownership and the establishment of a manual share registration system.

Volgograd

Within IFC's five "first wave" regions, on February 8, 1993, the first voucher auction opened in Volgograd with 20 announced enterprises. On February 21, the initial seven offerings closed with 20,038 shares sold and 5,065 vouchers collected. The strike price for the auction was four shares per voucher and 12% of the applications represented type two bids. The largest single bid was received for the Volgograd Construction Materials Company. It was a type one bid with 500 vouchers.

As of end June, shares in 182 enterprises employing 234,000 workers were sold in continuous, multi-enterprise auctions. The average share offering represented 26.8% of each enterprise's charter capital. Average charter capital was R70 million and the average price per share was approximately three shares per voucher. In addition to the centrally located auction center which is run directly by the Fund, 11 other bid reception points were established throughout the region. IFC consultants were instrumental in setting up the first remote bid reception in the city of Mikhailovka, about 300 kilometers from Volgograd, ten days following the opening of the main center. The experience gained at this time was used to help set up a network of bid reception points in Volgograd and in the other IFC regions,

thereby allowing people living far from the center to participate in voucher auctions on an equal footing with those participants living in the region's capital city. In the four initial IFC assisted regions, applications for shares submitted at remote reception points were physically transferred to the main auction center for processing.

Novosibirsk

Novosibirsk did not group enterprises into specific auctions. Instead, a sort of "rolling admission" was used whereby enterprises were announced and added to the auction process as they became ready for sale. As of end June, shares in 342 enterprises employing 202,000 workers had been sold in Novosibirsk. The average share offering represented 19.9% of each enterprise's charter capital. Average charter capital was R26 million and the average price per share was approximately three shares per voucher. In the Novosibirsk region, there were 18 bid reception points in addition to the auction center.

Nizhny Novgorod

As of end June, shares in 448 enterprises employing 608,000 workers were sold in continuous, multi-enterprise auctions. The average share offering represented 23.9% of each enterprise's charter capital. Average charter capital was R62 million and the average price per share was approximately three shares per voucher. In addition to the centrally located auction center which is run directly by the Fund, vouchers were being collected at 35 outside reception points in Nizhny Novgorod. In an effort to give people a wider choice, Nizhny Novgorod officials also allowed voucher investment funds to be represented at the auction center. In this way, visitors to the auction center are afforded the opportunity to invest directly in a specific enterprise or to invest their vouchers into one of the various investment funds (which are similar to Western, closed-ended mutual funds). In February of 1994, 11 voucher investment funds were officially represented at the auction center by Fund Ltd., the intermediary which was hired to run the auction center on behalf of the Fund.

Tomsk

As of end June, shares in 104 enterprises employing 124,000 workers were sold in continuous, multi-enterprise auctions. The average share offering represented 20.7% of each enterprise's charter capital. Average charter capital was R99 million and the average price per share was approximately one share per voucher. In the Tomsk region, vouchers are collected at six outside reception points in addition to the auction center.

Yakutsk

Three regional auctions were held in Yakutsk by an outside investment company prior to IFC's arrival as the Republic's administration had not yet formed a property fund. Shares in fourteen enterprises were offered for sale. Following the third auction, responsibility for conducting voucher auctions was shifted to a newly-formed Fund and IFC was asked by GKI to provide technical assistance. The IFC team has worked closely with the Fund on the enterprise pipeline, the establishment of a public relations campaign and a computer bidding network. The first auction conducted by the Fund opened July 26 and closed August 9.

IFC began an intensive eight-week voucher auction assistance project in the Republic of Yakutsk on June 17th. The first IFC assisted voucher auction, which closed on August 9th, was the fourth regional auction in Yakutsk. As of end June, shares in 43 enterprises employing 114,000 workers were sold in continuous, multi-enterprise auctions. The average share offering represented 6.6% of each enterprise's charter capital. Average charter capital was R345 million and the average price per share was approximately nine shares per voucher.

IFC's greatest contribution in Yakutsk was to assist the Fund in setting up remote bid reception points that are electronically linked to the central processing point. This system obviated the need to physically transport bid applications to the auction center, thereby enabling the Yakutsk Fund to widen participation by setting up bid reception points in extremely remote regions throughout Yakutsk's vast territory.

The Russian Federation

According to information released by GKI, shares in 13,832 enterprises employing nearly 10.5 million people with average enterprise charter capital of 79 million rubles had been offered for sale by the end of June 1994. During this time, more than 94 million vouchers were collected in the participating regions. On average, 17.7% of enterprise charter capital was offered during the auctions.

As of June 30, there were 84 regions participating in voucher auctions throughout Russia, up from only 8 in December 1992. Of the 13,832 enterprises sold, 46% was sold in the top twenty provinces. The list of the ten leading provinces by number of enterprises sold is as follows:

Leading Provinces

<u>Rank</u>	<u>Province</u>	<u>Enterprises Sold</u>
1.	Moscow City	531
2.	Rostov	483
3.	Altai Krai	468
4.	Nizhny Novgorod	448
5.	Saint Petersburg	444
6.	Moscow Province	395
7.	Irkutsk	377
8.	Novosibirsk	342
9.	Stavropolsky Krai	303
10.	Kemerovo	288

The All Russia Auction System

The All Russia Auction System (ARAS), which makes it possible for people to purchase shares in enterprises located in different regions of the country, consisted of 77 participating regions as of the end of February 1994. Throughout its participation in the voucher auction process, IFC supported the inclusion of all IFC assisted regions in the ARAS as a means of: (1) providing a wider choice to potential investors; (2) promoting transparency by widening participation; and, (3) ensuring the absorption of shares of the very large enterprises at reasonable prices. Each of the IFC assisted regions became a member of the ARAS in the initial stages of its development.

The following enterprises from IFC assisted regions had been sold or announced for sale via the ARAS:

1. Gorki Automobile Plant (GAZ) in Nizhny Novgorod. Charter capital 5.9 billion rubles offering 50% of shares (3,006,000) for sale from December 20, 1993 to January 17, 1994.³
2. Tomskneft in Tomsk. Charter capital 5.6 billion rubles offering 18.25% of shares (1,027,295) for sale from February 7 to February 28, 1994.
3. Severstal in Volgograd. Charter capital 5.5 billion rubles offering 29% of shares (1,600,379) for sale from March 14, 1994 to April 11, 1994.

Public Education

IFC research indicates that as a result of the public relations and education campaign that formed a major part of the technical assistance effort, public awareness of voucher auctions increased from roughly 50% to over 85% in its four provinces between February and May. Correspondingly, the understanding of the voucher process has risen from below 40% in late February to over 55% by the mid-April.

Each of the voucher auction centers has been constructed to facilitate ease of information for new buyers and voucher bidders. Each center contains displays of company information, photos, examples of share certificates and other educational displays, making each a user-friendly place for citizens to visit. In addition to the centers themselves, twenty outside bid reception and application points have been opened, allowing greater access to the voucher auction process by offering alternative centers other than the province capitals for bid placement.

A seminar for each of the provinces' public relations directors was conducted in mid-June. Representatives from GKI, IFC and its PR consultants made presentations regarding upcoming direction from Moscow. In addition, lessons learned and techniques developed in each of IFC's four provinces were shared, generating some level of "cross-fertilization."

Evidence of Ownership

IFC began distribution of share certificates, designed as part of the technical assistance, shortly after the close of the first round of auctions in April 1992. Share distribution started in Nizhny Novgorod and now encompasses all four regions. This was done to ensure the spontaneous and transparent growth of secondary trading in shares purchased for vouchers. The certificates are being made available to employees and other closed tender investors as well as auction winners. An example of a certificate appears in Annex Seven.

Regulatory Feedback

Throughout, IFC has worked closely with GKI to enable lessons learned in its five provinces to be fed back into the regulatory environment. On evidence of ownership, it has begun writing legislation which will force local property funds to issue evidence of ownership in the form of share certificates or registry extracts for all auction winners. Additional legislation based on contracts drafted first in Tomsk and then replicated in the other provinces, which forces enterprises to recognize the voucher auction protocol as a book of the enterprise share registry, has now been adopted into law.

Throughout its involvement in the voucher auctions, IFC coordinated its efforts closely with GKI and other voucher auction advisors. The primary vehicle for such coordination and cooperation was the weekly meeting at the All-Russian Network Center for Check Auctions (ARNC). The group met regularly with attendance from a representative of each of the advisors to GKI on voucher auctions and a representative from USAID. The participants included the following: IFC, Price Waterhouse (national auction system), Deloitte & Touche (depositories), Bain Link (voucher auction support teams), Sawyer Miller Group (national advertising campaign), Ian Freed Consulting (telecommunications for the national auction system), KPMG Peat Marwick (share registry and transfer), EBRD (voucher auction implementation), Ernst & Young (national voucher auction software), and Steptoe & Johnson (Murmansk port privatization).

Share Registry Manual

A share registry manual, developed for privatized enterprises, has been published and given to all enterprises participating in voucher auctions in the four provinces. The manual was written in close cooperation with GKI. A second edition, including an explanation of a de-materialized system, is being drafted and will be distributed by the GKI throughout the whole of Russia. Enterprise seminars designed to augment the share registry manual have begun in both Nizhny Novgorod and Volgograd.

To date, over 400 enterprises have participated in share registry seminars in both Nizhny Novgorod and Volgograd and all of the 2,000 published manuals disseminated.

Regional Depository System

In order to centralize voucher processing and cancellation and to reduce the physical burden of bringing a large number of vouchers to an auction center or transporting them over long distances during national auctions, RDCs were established with the assistance of Deloitte & Touche consultants under a separate USAID contract. It was envisioned that the following services could be provided by RDCs on a non-commercial basis: (1) to act as a center for storing, canceling and destroying vouchers used at auctions; (2) to act as a center for storing "live" vouchers for investors with large volumes of vouchers (such as investment funds); (3) to ensure that voucher accounts of large investors are maintained and audited in accordance with regulations in force; (4) to facilitate participation of these large investors by enabling them to obtain voucher receipts that can be used at participating auction centers in place of actual vouchers; (5) to facilitate participation in the ARAS by establishing a voucher clearing system that eliminates the need to transport large

volumes of vouchers over vast distances; and, (6) to act as a third party register. With the help of IFC consultants in the field, Deloitte & Touche completed the necessary agreements and the installation of the depository "kits" (consisting of computer hardware and software) in Nizhny Novgorod and in Volgograd in the fall of 1993. Both of these RDCs are now operational from a technical standpoint. They have been, however, somewhat slow to attract clients as a result of poorly defined operating procedures and cost structures. Deloitte & Touche canceled plans to install a depository "kit" in Yakutsk following a dispute between the local property fund and Yakutsk Invest Service, one of the original signatories of the depository agreement. Novosibirsk, one of the "pilot" depository projects, has been operational from a technical standpoint since May of 1993. The Novosibirsk RDC has also had difficulty attracting clients and covers 90% of its costs by charging the local property fund 100 rubles per voucher and also by performing other unrelated services for the auction center. Tomsk was not included in the original list of 20 depositories eligible for Deloitte & Touche assistance.

PART SIX: Conclusion

The Mass Privatization Program was completed by the Russian authorities in June 1994 and is now being followed by a second wave of privatization, known as the post-voucher privatization. The some 14,000 enterprises and 40 million new shareholders created as a result of the voucher program give testimony to the fact that the Russian government has fulfilled the objective of transferring ownership at unprecedented speed on an equitable and fair basis.

IFC's early work funded by USAID in the "first wave" of voucher privatization coupled with follow-on corporate education and post privatization technical assistance served to enhance the overall Russian program, helping to establish operating procedures for other provinces as they began voucher privatization as well as providing feedback to the GKI in Moscow.

A valid question which must be raised in examining the Mass Privatization Program is whether spreading ownership amongst thousands of small shareholders by means of vouchers consolidated the power of existing management. The need to establish systems of corporate governance remains paramount whereby the new shareholders need to be able to exercise ownership control over the open joint-stock companies that emerged as a result of the privatization process.

In order to prevent a slow down in the transformation process as a result of this emerging pattern of ownership, two additional steps must be followed. First, an efficient and reliable secondary market must be created in order to establish share value, facilitate ownership consolidation and highlight the responsibility of management to shareholders. Second, and equally as important, modernization and rehabilitation of these newly-privatized enterprises must begin.

Following its grassroots privatization model, IFC has begun to address these next steps in the Province of Nizhny Novgorod. A capital markets project designed to assist broker-dealers in a public offering is underway and the IFC is sponsoring an enterprise fund which will invest in the region's newly-privatized companies. Finally, training courses for management are being conducted and are designed to introduce directors and mid-level managers to western business practices. As IFC's work in Nizhny Novgorod continues and others make similar contributions in additional provinces, the effects of the voucher privatization program will deepen, making the overall Russian reform process stronger and helping the Russian authorities achieve a peaceful transformation to a market economy.

Endnotes

¹ See Mass Privatization in Russia, by Maxim Boycko, Andrei Shleifer, and Robert W. Vishny, presented to the OECD Advisory Group on Privatization, Paris, 2-4 March, 1994.

² The equilibrium price (number of shares per voucher) was calculated using a simple algorithm and was determined so as to meet the following conditions: (1) all type one bids were fully met; (2) all type two bids agreeing to receive fewer shares per voucher than the equilibrium price were fully met; (3) type two bids in which the number of shares per voucher equaled the equilibrium price were partially met; (4) all winning bids, both type one and type two, were given an equal number of shares per voucher.

³ The results of the GAZ auction were canceled following the discovery of the use of state credits by enterprise managers to obtain vouchers. The auction will be held again.

DIAGRAM ONE

BID RECEPTION CENTER

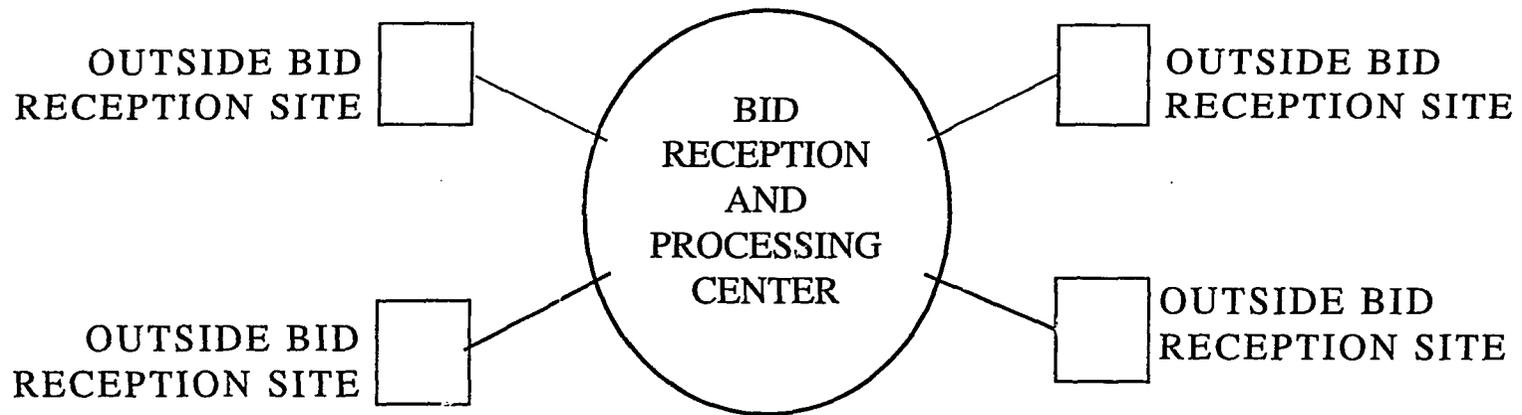


DIAGRAM TWO

BID RECEPTION AND PROCESSING CENTER

COMPUTER CENTER

CONTROLLERS

SECURITY BARRIER

TELLERS

VOUCHER RETURN
SHARE DISTRIBUTION

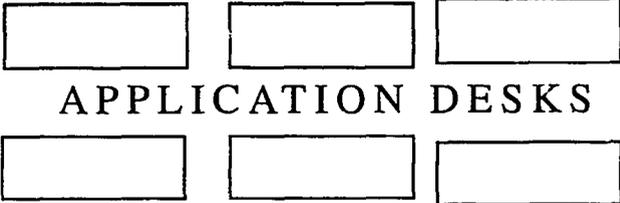
EDUCATIONAL DISPLAYS

COMPANY DISPLAYS

INFORMATION
DESK

INFORMATION
DESK

APPLICATION DESKS



ANNEX ONE

RUSSIAN PRIVATIZATION LEGISLATION

1. Decree No. 66 of the President of the Russian Federation "On Speeding Privatization of State and Municipal Owned Enterprises," January 29, 1992.
2. The State Program of Privatization of State and Municipal Enterprises, June 11, 1992.
3. Decree No. 721 of the President of the Russian Federation "On Organizational Measures to Transform State and Voluntary Associations of State-Owned Enterprises into Joint-Stock Companies," July 1, 1992.
4. Russian Federation Law No. 1531-1 of July 3, 1992 as amended and supplemented on June 5, 1992, and June 24, 1992, "On Privatizing State and Municipal Enterprises in the Russian Federation."
5. Ordinance of the Russian Federation GKI No. 308-p "On the Regulations Concerning Closed Subscription for Shares in Privatizing State and Municipal Enterprises," July 27, 1992.
6. Ordinance of the Russian Federation No. 1228 "On the Sale of Housing, Land Plots and Municipal Enterprises," July 27, 1992.
7. Decree of the President of the Russian Federation No. 1229 "On Developing a System of Privatization Vouchers in the Russian Federation," October 14, 1992.
8. Ordinance of the Russian Federation GKI No. 701-p "On Approving Regulations Concerning Specialized Voucher Auctions and Regulations Concerning the Sale of Shares in the Course of the Privatization Process," November 4, 1992.
9. Decree of the President of the Russian Federation No. 1392 "On Measures to Implement Industrial Policy in Privatizing State Enterprises," October 16, 1992.
10. Russian Federation Law No. 3929-1 "On the Insolvency (Bankruptcy) of Enterprises," November 19, 1992.
11. Decree of the President of the Russian Federation No. 1705 "On Expanding the Possibilities of People's Participation in Specialized Voucher Auctions," December 31, 1992.
12. Decree of the President of the Russian Federation No. 216 "On Measures to Regulate the Procedure of Using and Cancelling Privatization Vouchers," February 12, 1993.

13. Ordinance of the GKI No. 263-r, February 12, 1993.
14. Procedure of Forming the Corporatization Fund for the Employees of the Enterprise, March 9, 1993.
15. Decree of the President of the Russian Federation No. 640 "On State Guarantees of the Right for Citizens of Russia to Participate in Privatization," May 8, 1993.
16. Decree of the President of the Russian Federation No. 1108 "On Additional Measures to Protect the Right of Citizens of Russia to Participate in Privatization," July 26, 1993.
17. Regulation of GKI No. 1730-r "On Reporting in the Course of Voucher Auctions," October 1, 1993.
18. Decree of the President of the Russian Federation No. 1769 "On Measures to Guarantee Rights of Shareholders," October 27, 1993.
19. Decree of the President of the Russian Federation No. 2004 "On Payments Made in Privatization Vouchers in the Process of Privatization," November 24, 1993.
20. Decree of the President of the Russian Federation No. 2173 "Concerning Issues on Russian Fund of Federal Property," December 17, 1993.
21. State Privatization Program of Privatization of State and Municipal Enterprises in the Russian Federation, approved by Presidential Decree No. 2284 Of December 24, 1993.

ANNEX TWO

EXAMPLE OF PIPELINE MANAGEMENT
(VOLGOGRAD, NOVEMBER 1992)

PREPARATION STATUS	INDUSTRY	CONSTRUCTION	AGRICULTURE	TOTAL
AT ENTERPRISE	<u>29</u>	<u>24</u>	<u>20</u>	<u>73</u>
GKI RECEIVES AND CONSIDERS DOCUMENTS	<u>21</u>	<u>6</u>	<u>5</u>	<u>32</u>
CENTRAL GKI/ GOVERNMENT APPROVAL	<u>11</u>	<u>-</u>	<u>-</u>	<u>11</u>
ANTI-MONOPOLY COMMITTEE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FINAL APPROVAL BY REGIONAL COMMITTEE	<u>24</u>	<u>-</u>	<u>-</u>	<u>24</u>
COMPANY REGISTRATION	<u>9(4)*</u>	<u>15(7)</u>	<u>7(1)</u>	<u>31(12)</u>
SHARE REGISTRATION	<u>9(9)</u>	<u>5(5)</u>	<u>1(1)</u>	<u>15(15)</u>
CONSIDERATION BY FUND	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FEDERAL FUND APPROVAL	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
REGIONAL FUND APPROVAL AND PUBLICATION OF NOTICE	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
AUCTION PREPARATIONS	<u>1</u>	<u>-</u>	<u>-</u>	<u>1</u>
AUCTION	<u>1</u>	<u>1</u>	<u>1</u>	<u>3</u>
TOTAL	<u>105</u>	<u>51</u>	<u>34</u>	<u>190</u>

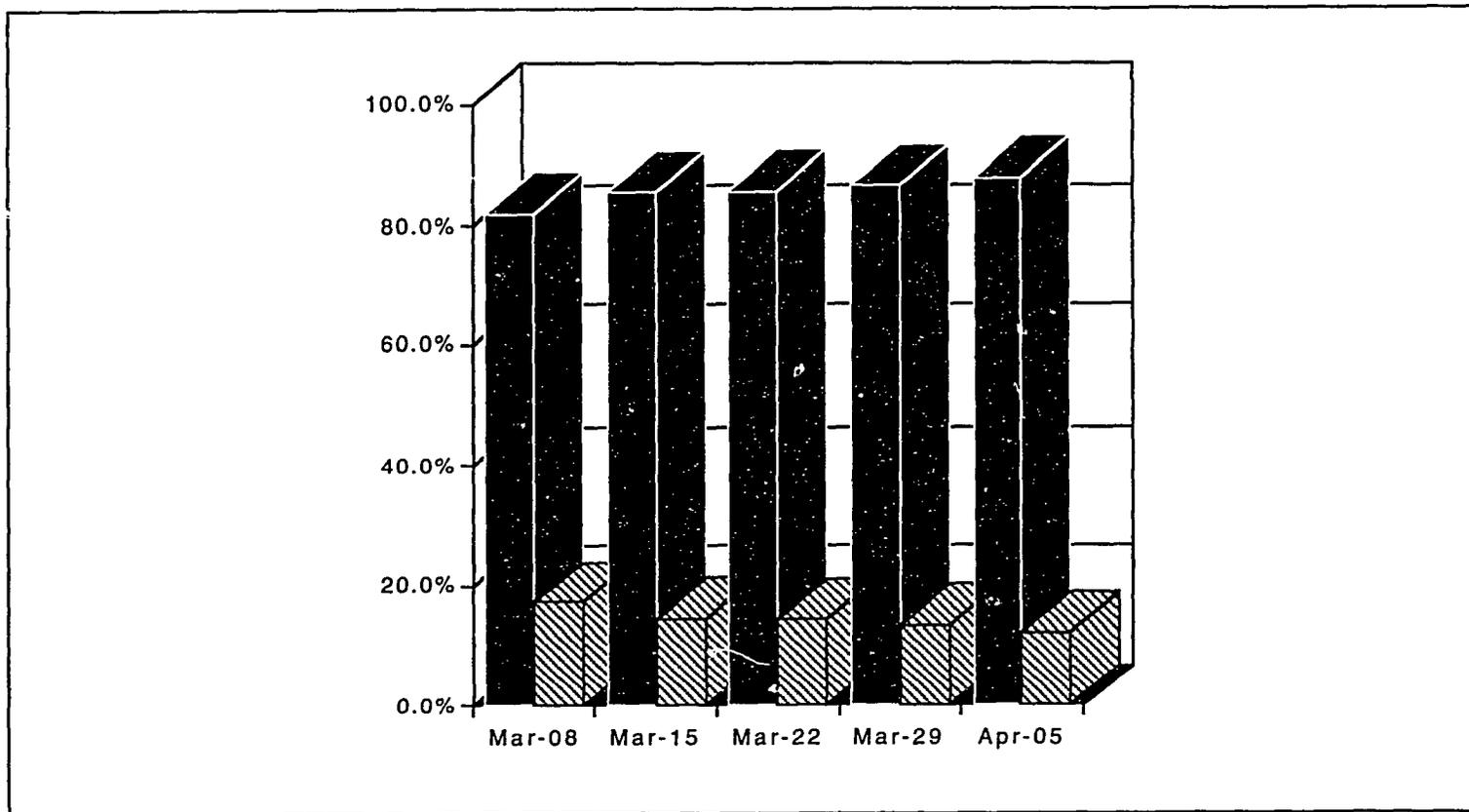
(*) POTENTIALLY MAY BE OFFERED AT VOUCHER AUCTION

4/20

ANNEX THREE

Do you know that voucher auctions are to be/being held in your town?

Four cities

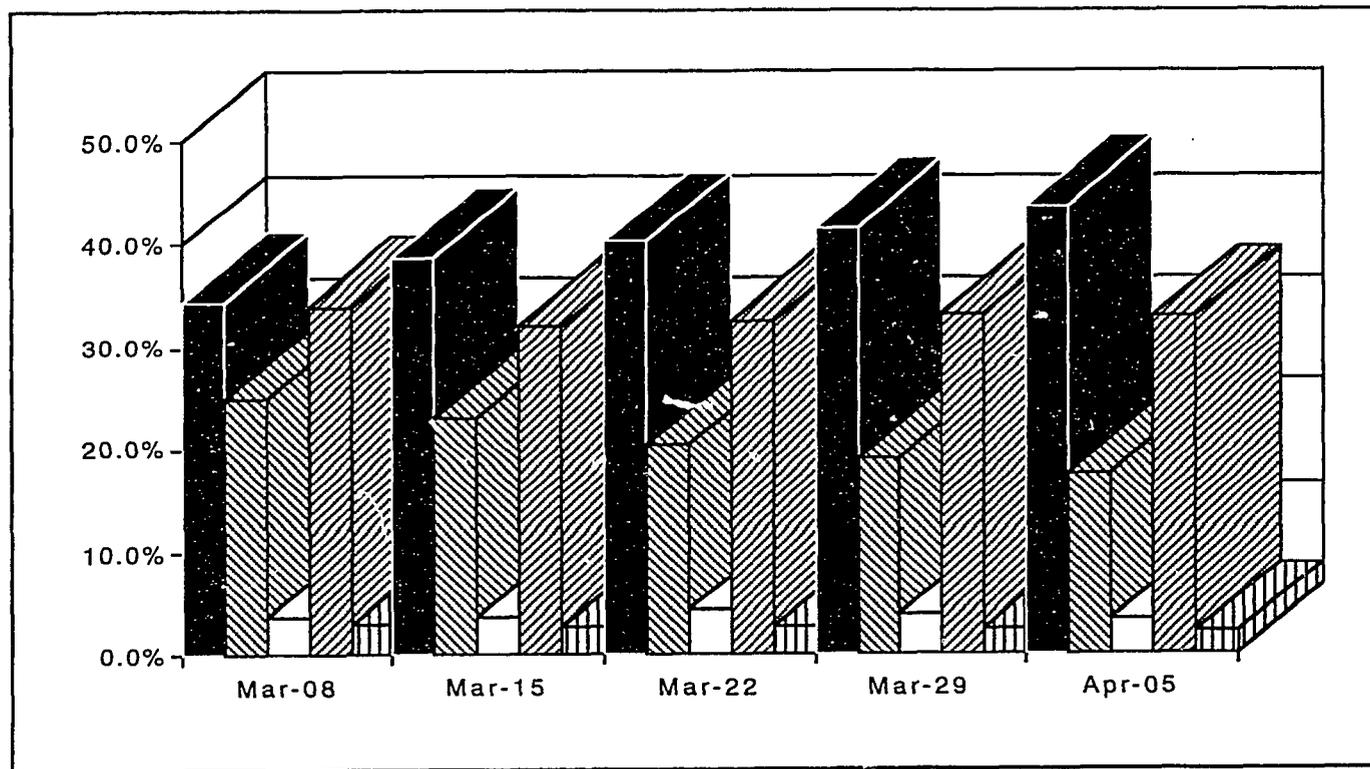


	March 8	March 15	March 22	March 29	April 5
yes	82.8%	85.4%	85.7%	86.6%	87.8%
no	17.2%	14.6%	14.3%	13.4%	12.2%

69

Do you think you understand what a voucher auction is?

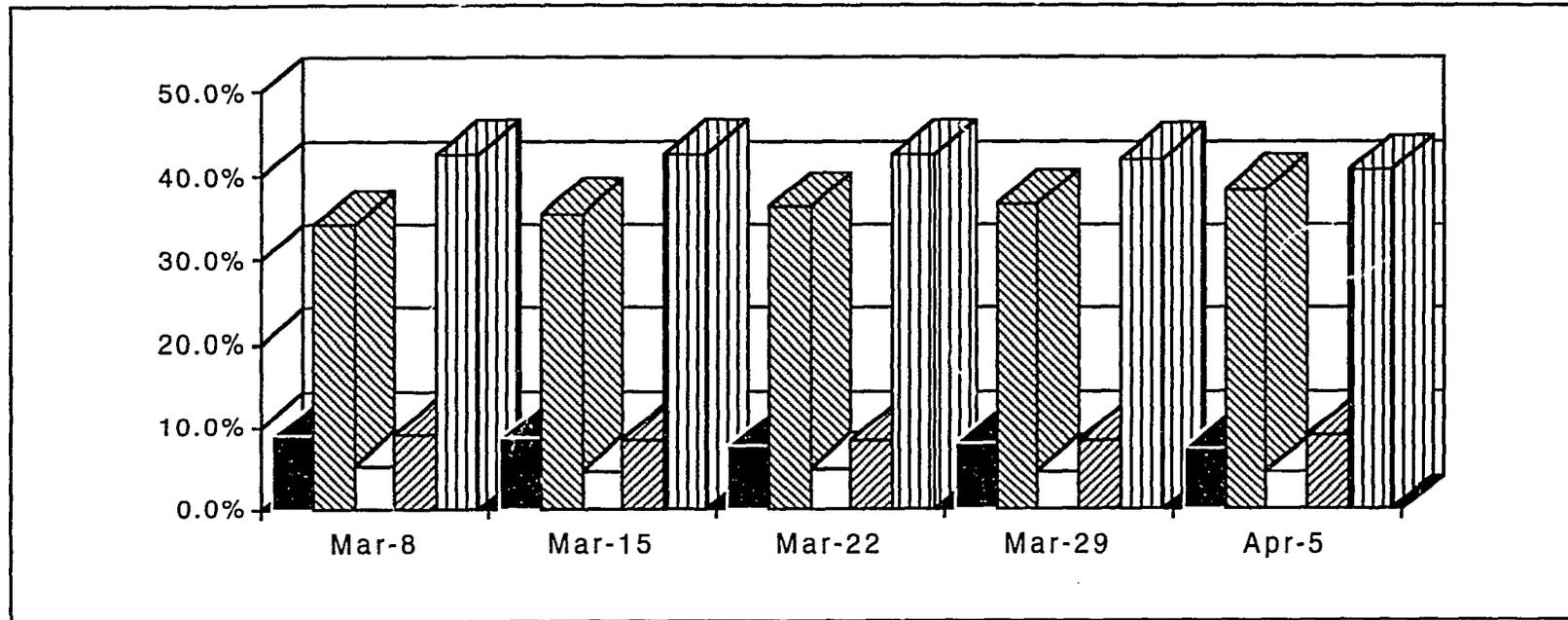
Four cities



	March 8	March 15	March 22	March 29	April 5
stocks for vouchers	34.4%	38.7%	40.2%	41.5%	43.7%
trading vouchers	25.0%	23.1%	20.4%	19.1%	17.7%
trading goods	3.7%	3.6%	4.3%	3.8%	3.4%
do not understand	34.0%	32.1%	32.6%	33.2%	32.9%
other	2.9%	2.6%	2.6%	2.2%	2.2%

Do you think voucher auctions are a good idea?

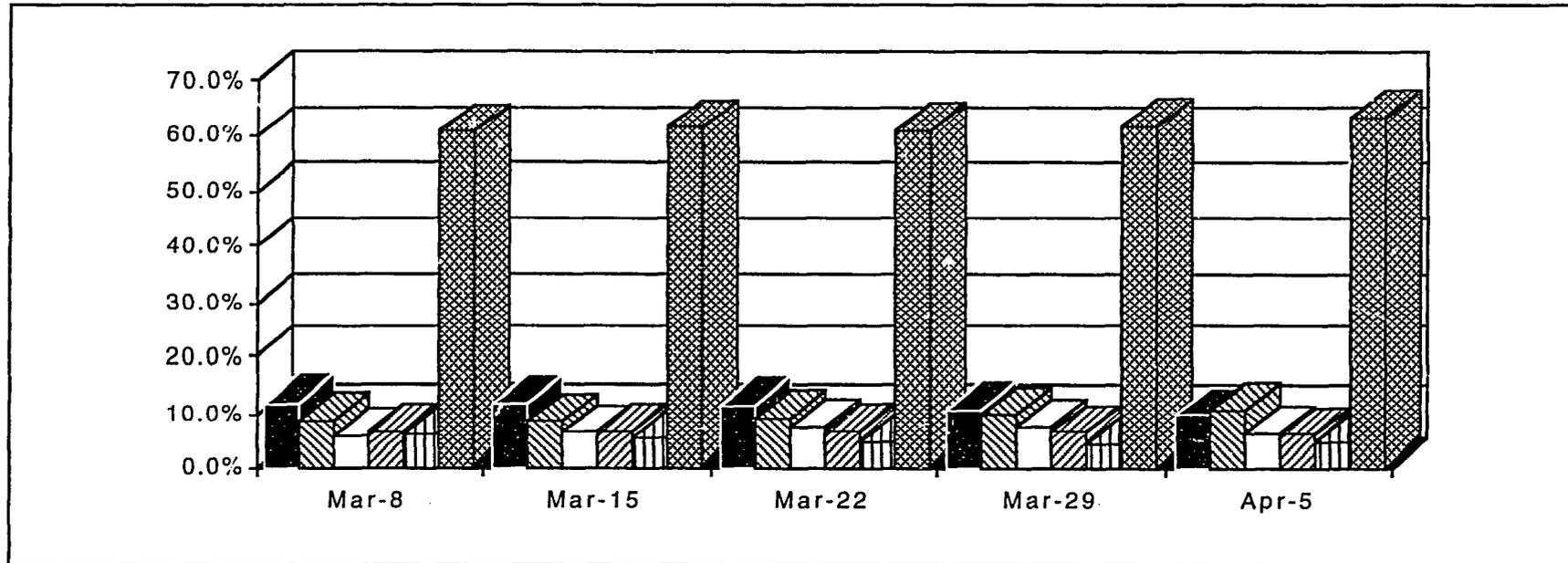
Four cities



	March 8	March 15	March 22	March 29	April 5
definitely good	8.9%	8.7%	7.8%	8.2%	7.6%
probably good	34.2%	35.5%	36.3%	36.6%	38.3%
definitely bad	5.4%	4.8%	5.1%	4.8%	4.6%
probably bad	9.1%	8.5%	8.3%	8.3%	9.0%
undecided	42.5%	42.5%	42.6%	42.1%	40.6%

(If not used) How will you use your voucher?

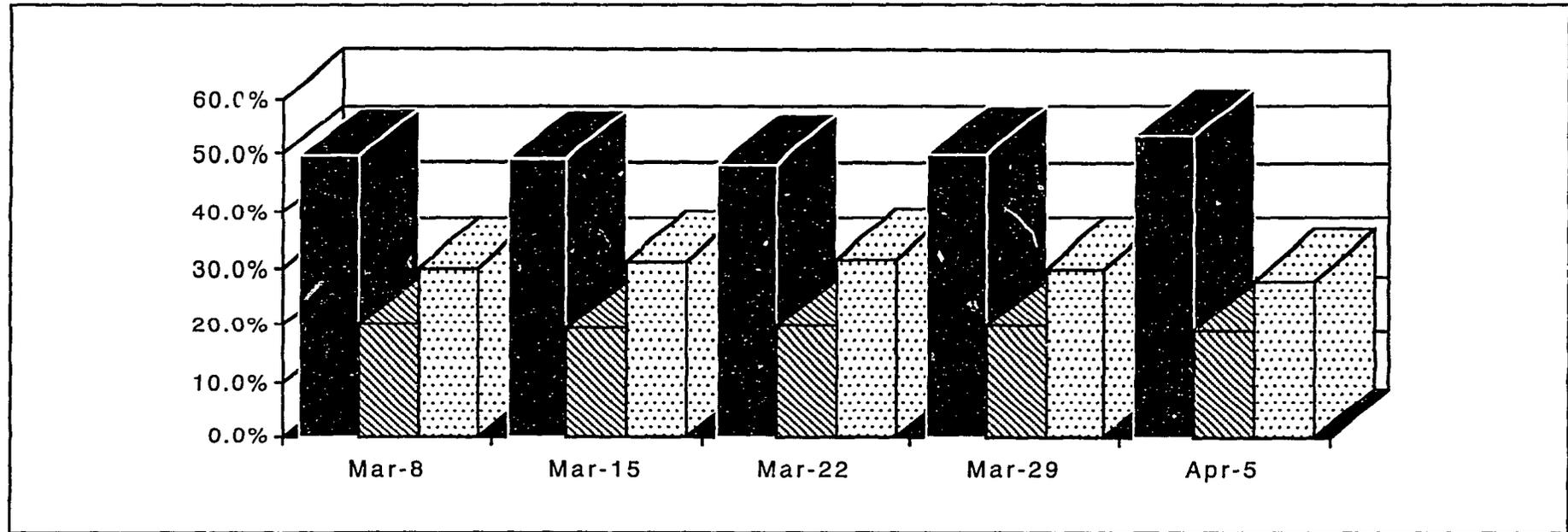
Four cities



		March 8	March 15	March 22	March 29	April 5
my enterprise	■	11.8%	11.7%	11.6%	10.8%	9.6%
other enterprises	▨	8.7%	8.5%	9.0%	9.6%	10.5%
investment funds	□	5.9%	6.4%	7.3%	7.5%	6.3%
sell for cash	▩	6.7%	6.6%	6.7%	6.4%	6.0%
other	▧	6.3%	5.4%	4.6%	4.0%	4.4%
undecided	▣	60.5%	61.3%	60.8%	61.6%	63.3%

What is your attitude towards privatization?

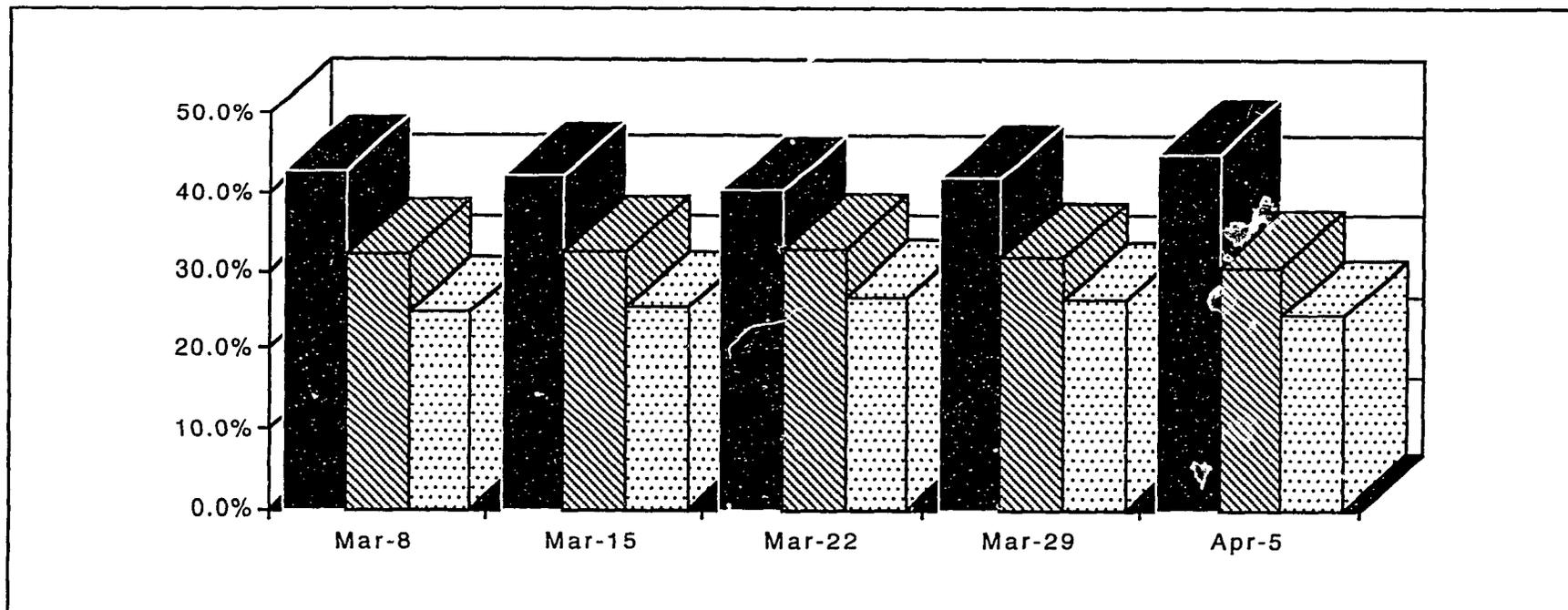
Four cities



	March 8	March 15	March 22	March 29	April 5
positive	49.8%	49.2%	48.6%	50.2%	53.3%
negative	20.2%	19.4%	19.7%	19.7%	18.7%
undecided	30.1%	31.4%	31.7%	30.1%	28.1%

What is your attitude to the issuance of privatization vouchers?

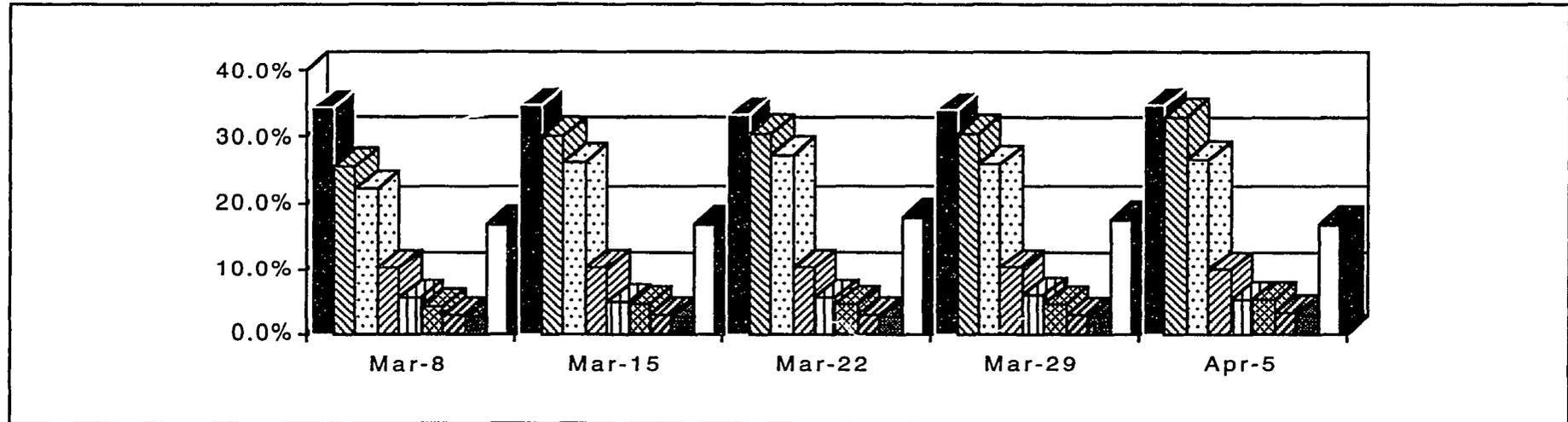
Four cities



	March 8	March 15	March 22	March 29	April 5
positive 	42.9%	42.1%	40.2%	41.7%	45.0%
negative 	32.2%	32.4%	32.8%	31.7%	30.6%
undecided 	24.9%	25.6%	27.0%	26.6%	24.5%

Who, to your mind, is going to gain the most from the distribution of vouchers?

Four cities



		March 8	March 15	March 22	March 29	April 5
mafia	■	34.3%	34.4%	33.2%	34.0%	34.5%
private entrepreneurs	▧	25.6%	30.1%	30.6%	30.6%	33.0%
enterprise directors	□	22.4%	26.2%	27.4%	26.1%	26.7%
state administrative	▨	10.3%	10.1%	10.1%	10.1%	10.0%
nobody	▩	5.4%	4.7%	5.4%	5.7%	5.2%
foreigners	▤	4.0%	4.6%	4.4%	4.4%	5.1%
everybody	▩	2.8%	2.6%	2.7%	2.7%	3.1%
ordinary workers	■	2.4%	2.5%	2.3%	2.3%	2.6%
undecided	□	16.6%	16.8%	17.7%	17.3%	16.7%

ANNEX FOUR

HOW TO BECOME A VOUCHER AUCTION PARTICIPANT

To participate in a voucher auction you should come to the auction center with your passport and vouchers. Once there you will fill in an application form that will give you the right to purchase shares of privatized enterprises in the voucher auction.

An explanation of terms, instructions for filling in the application, and answers to questions you may have during the voucher auction are given below.

"Application-Agreement" - The application form is divided in to two parts: the top - the application itself; and the bottom - the receipt. You will fill in the form and transfer it to the registrar. The registrar will retain the application and will return to you a stamped receipt with his or her signature and your application number. The receipt certifies that you have submitted your vouchers.

"Name of the Enterprise" - In this row, write the name of the enterprise whose shares you want to acquire.

"Completing Type 1 and Type 2 Bids"

The application form gives you two types of bids from which to choose. If you decide to submit a Type 1 bid, cross out the square marked "Type 1" and then write out in words the number of vouchers you are attaching to the application.

If you choose the Type 2 bid, cross out the relevant square and write down the minimal number of shares you want to receive for one voucher. Mark the number of vouchers you are attaching to the application.

"Receipt" - Fill in the same information here that is recorded in the application at the top of the form.

"Duplicate of the Application-Agreement" - Record the same data as in the top (front) part of the Application-Agreement. The Duplicate is necessary to ensure the additional safe-keeping of your data during the voucher auction. Don't forget to put down the date and your signature on the reverse of the Duplicate.

"Reverse Side of the Application" - On the reverse of the application there is a text of the agreement concluded between you and the person conducting the auction. Sign and record the date. In the noted squares, point out the series and numbers of your vouchers.

If you have more than ten vouchers, fill in "The Annex to the Application-Agreement."

“Annex to the Application-Agreement” - If you wish to make a bid in the interests of a third person, i.e. buying shares not for yourself but for children, relatives, neighbors, or anyone else, you must fill in the Annex of the Application-Agreement. Record the data of the person for whom you are making a bid: full name, address, data of the document (passport or certificate of birth - for children). Your application will not be accepted by the registrar if you do not have any documents.

Note! A person whose name is mentioned in the Annex will become a shareholder.

HOW TO DECIDE BETWEEN A TYPE 1 AND TYPE 2 BID.

You should submit a Type 1 bid if it is important for you to purchase shares of a specific enterprise. The law guarantees that you will receive these shares as all Type 1 bids are fulfilled. However, the number of shares purchased for one voucher will depend on the results of the auction.

You should submit a Type 2 bid if it is important to you to purchase a certain number of shares per voucher. For this type of bid, the bidder records in the application form the minimal number of shares he/she wants to get for one voucher. If according to the auction rate, the number of shares per voucher is less than the number recorded in the Type 2 bid, the participant who made the Type 2 bid will not be recognized as a winner. As such, receiving shares under a Type 2 bid is not guaranteed.

If, according to the results of the voucher auction, the number of shares allocated per voucher is not a whole number of shares, will I acquire a portion of a share?

No, it won't. You may only receive a whole number of shares. In the above-mentioned case, there will be a share split. The split doesn't mean that the value of the enterprise diminishes. This is merely a technical procedure, but to understand it we should start from the beginning.

Each company has what is known as authorized capital that is theoretically equal to the value of the entire enterprise. If you add the value of all the buildings and equipment of the enterprise and subtract debts and credits from this sum, you will get the amount of the authorized capital.

Each share represents a portion of the authorized capital. To define how many shares will be issued, the authorized capital is divided by the nominal value of one share (usually - 1,000 rubles, but it might be lower or higher, don't forget that the nominal value is merely an arbitrary figure). This means that if the authorized capital is 4,000,000 rubles and the nominal value is 1,000 rubles, the authorized capital consists of 4,000 shares.

At the end of the auction it may turn out that the auction rate totals 2.5 shares for one voucher. In order to provide the winner a whole number of shares, each share will be split into two shares. The authorized capital remains 4,000,000 rubles but now will consist of 8,000 shares, each with a nominal value of 500 rubles. This process is called a share split. It allows the winner to receive 5 shares per voucher at a nominal value 500 rubles each.

The share split will also be necessary if the demand for shares is so high that the auction rate will total 1/5 of a share for each voucher. Therefore each share will be split into 5 new shares at a nominal value of 200 rubles. Every winner will receive one share per voucher.

Are there any difficulties filling in the Type 2 bid form?

Type 2 bids offer an auction participant the opportunity to identify the minimum number of shares that he/she would like to get for one voucher. If you believe that the demand for shares will be high and that it will be impossible to purchase one share for one voucher, thus resulting in a share split, you should divide the minimal number of shares less than one, for example, 1/2, 1/3, 1/5 etc. However, for numbers above 1, you may only select a whole number.

How do you confirm your ownership of shares?

The results will be published in a newspaper after the auction is over and finalized. The paper will inform you as to how you will receive confirmation of your ownership of shares.

Does the auction rate vary for participants submitting Type 1 and Type 2 bids?

No, it doesn't. The auction rate (number of shares per voucher) for shares is the same for all the auction winners regardless of what kind of bid was submitted. For example, assume the auction rate totaled 2 shares for one voucher. All the participants who made the Type 1 bid, get 2 shares. Participants who made a Type 2 bid and specified, for example, that they were willing to receive one share for one voucher, also become winners and get two shares for one voucher.

What happens if my bid is unsuccessful?

After the auction is over, the date when you can come to the auction center and pick up vouchers will be announced in a newspaper. Vouchers are returned only if you show the receipt and your passport.

Does success depend on the time of bidding?

No, it doesn't, because the auction rate is calculated after the bid reception is over. Most importantly, you must make your bid within the terms mentioned in the announcement.

LEAFLET FOR PARTICIPANTS OF VOUCHER AUCTIONS

“The auction is over but what is going to happen?”

As a shareholder shall I have influence on the management of the enterprise? The administration of the enterprise is responsible for the determination of tasks and the enterprise's activity as well as for its routine management. Meanwhile, being a shareholder you will take part in the election of the Board of Directors at the annual general meeting of shareholders. This Board will analyze the activity of the enterprise, hire the administrative staff and will decide how to distribute the profit. You also will have the possibility to express your point of view at the annual meeting of shareholders.

If the enterprise is profitable, shall I be guaranteed to get a dividend? No, you shall not. The general meeting of shareholders will make a decision on the use of the profit, taking into consideration the decisions of the Board of Directors. The profit can be paid as a dividend or can be invested in the enterprise for its further development. If the decision to pay a dividend is made, an equal sum will be given to each type stock, common or preferred, owned by the shareholder.

What kind of information shall I receive from the enterprise? You can obtain information about the enterprise and its activity including its constituent documents, documents reflecting its financial situation, the registry of shareholders, minutes of the Board of Directors' sessions and of the general meetings of shareholders. The enterprise will notify you in written form about the time, place and agenda of the general meetings (the information can also be sent by a registered letter or announced in a newspaper).

What is the current price of my shares? Will it change further? The price of your shares depends upon the price which other people are ready to pay for them from the perspective of the development of the enterprise and this industry as a whole.

How do I learn if I purchased shares? The Property Fund publishes the results of the voucher auction no later than 40 days after the end of the auction (of receiving application for the participation in the auction). The announcement regarding the results of the auction will be published in the newspaper. There also will be information on where and when you can receive the property certificate if you succeeded to purchase shares or unused vouchers.

What can I do with my shares? As a shareholder you can transfer them to another person any time you like. You have four options of transferring the property right for shares including: selling your shares through an intermediary; finding a buyer yourself; giving them away; and transferring your share by inheritance.

What will happen with my vouchers after they have been offered at the auction? After vouchers have been offered at auction, they will be withdrawn from circulation. After announcing the results, the winning vouchers will be cancelled, and the others will be returned to their owners.

What is the registry of shareholders? The registry of shareholders is an official document of the enterprise listing those persons who possess its shares. You are not an owner of the enterprise if you are not entered in its registry of shareholders. In accordance with Russian legislation, the registry must contain basic data on all the shareholders and all the operations connected with the transfer of property rights for shares. So, this document must contain the information about all the shareholders who received shares in result of both a close-end subscription and an auction. The enterprise will use the registry for the registration of its shareholders and of the number of shares belonging to each of them as well as for paying them dividends and notifying them about general meetings of shareholders.

How do I learn if I have been entered in the registry of shareholders? The enterprise will confirm that you have been entered in the registry of shareholders. Many enterprises will make this confirmation in the form of a share certificate or excerpt from the registry. The certificate or excerpt from the registry will contain basic data on the shareholder, enterprise and the number of shares of the enterprise belonging to the holder of the certificate. While receiving the certificate or excerpt from the registry you can get acquainted with the rules of its usage for transferring the property rights for shares.

If I want to sell my shares or a part of them to another person, what should I do? You can transfer the property right for all your shares or a part of them through an intermediary or yourself any time you like. The law determines the following procedure of transferring the property rights for shares: a contract of sale must be concluded, this act of transferring the property rights for shares must be registered by a financial department having a relevant license and the relevant tax must be paid. Most importantly, changes reflecting the transfer of shares to a new holder must be entered in the registry of shareholders. The property right is not considered transferred until such changes are entered in the registry. In practice this procedure will be simple and clear. The information necessary for the transfer of the property right of shares will be given to you when you receive a share certificate. If you transfer the property right for only a part of your shares, you ought to receive a new certificate for shares, of which an owner you continue to be. Please note that you are not obliged to sell your shares for their nominal value.

The voucher auction center is open Tuesday, Wednesday, Thursday and Friday from 9:30 until 17:30 and on Saturday from 9:30 until 15:00, lunch break from 13:00 until 14:00. The center is closed on Sunday and Monday. If you need more detailed information please come to the Voucher Auction Center at the following address: Krasnoarmeyskaya Street, 126 (the Sports Palace) or call the Property Fund of the Tomsk Oblast at 22-49-22.

And remember, YOUR PROPERTY AWAITS YOU!

ANNEX FIVE

JOINT-STOCK COMPANY "VOLGOGRAD TRACTOR PLANT"

Open-end joint-stock company (JSC) "Volgograd Tractor Plant" has the following address:
Volgograd, Dzerjinskii Plaza.

The Volgograd Tractor Plant is one of the three largest tractor manufacturers in Russia and the CIS (Commonwealth of Independent States). 45% of all agricultural production in Russia is performed with tractors manufactured at the Volgograd Tractor Plant. The plant produces a wide range of consumer goods as well, including thermoses, juicers, and meat-choppers.

As of 1/10/92, proceeds from the sale of goods was 4,825,255 thousand rubles; profit was 763,183 thousand rubles.

Authorized capital is 1,312,280 thousand rubles. It is divided into 1,312,280 shares with 1000 rubles face value. The plant issued 925,490 shares in equity, 180,346 preferred shares of Type A stock and 206,444 preferred shares of Type B stock. The shareholder is the Property Fund of Volgograd Oblast. Preferred shares of Type B are automatically converted into equity at the moment of their sale by the Property Fund.

288,761 shares are put up for auction, or 22% of authorized capital.

The Volgograd Tractor Plant possesses shares in capital in the following enterprises and organizations:

Joint-venture "Novikov"	10%
JSC "Keratek"	.7%
Limited partnership "Decom"	51%
JSC "Volgolin"	23%
Association "Volgar"	54.5%
Plant JBI-2	76%
Republican goods exchange	200,000 rubles
Russian commodity exchange	100,000 rubles
Small enterprise "Volgogradbiocomplex"	250,000 rubles
JSC "Avtobank"	300,000 rubles
JSC "Avtoselkhoz mashholding"	2,500 thous. rubles
Russian JSC "Tractorexport"	300,000 rubles

The land area of the plant is 370 hectares.

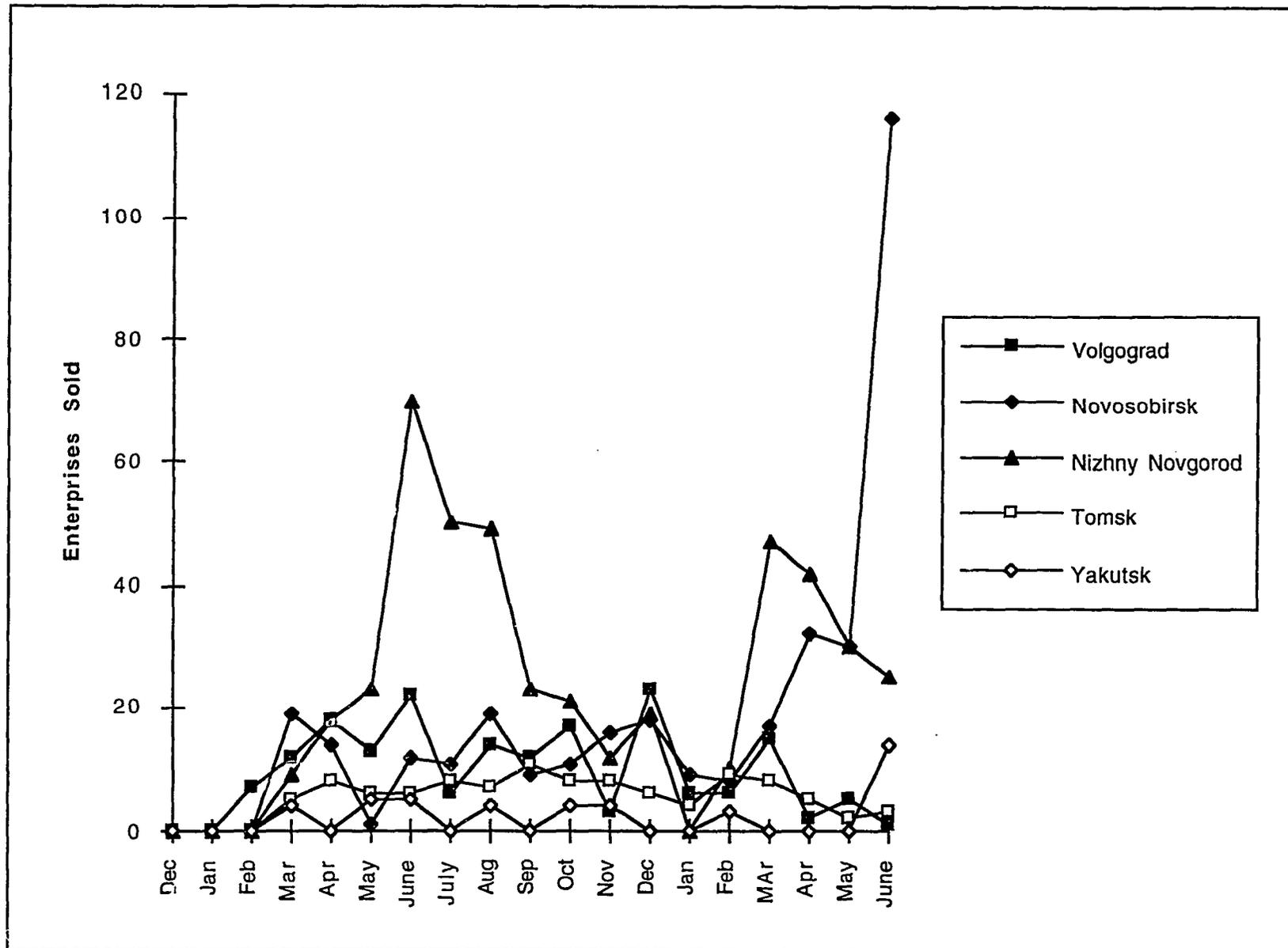
The number of employees is 26,417

The JSC has the following balance structure (thous. rub.)

Assets		Liabilities	
Main resources and investments	\$15,145,066	Equity	\$15,790,226
Expenditures and reserves	2,219,149	Borrowed Funds	1,740,719
Monetary resources and other assets	2,855,237	Other liabilities	2,688,507
Receivables	1,280,442	Payables	2,688,507
Balance	\$20,219,452	Balance	\$20,219,452

ANNEX SIX

MONTHLY AUCTION RESULTS



AUCTION RESULTS

IFC ASSISTED REGIONS

Months	Yolgorat			Novosibirsk			Nizhny Novgorod		
	Number of Enterprises Sold	Number of Employees (000's)	Vouchers Collected (000's)	Number of Enterprises Sold	Number of Employees (000's)	Vouchers Collected (000's)	Number of Enterprises Sold	Number of Employees (000's)	Vouchers Collected (000's)
December	0	0	0	0	0	0	0	0	0
January	0	0	0	0	0	0	0	0	0
February	7	3	5	0	0	0	0	0	0
March	12	41	80	19	14	42	9	10	37
April	18	9	139	14	18	62	18	20	36
May	13	13	125	1	0	0	23	25	95
June	22	9	36	12	9	33	70	65	269
July	6	3	10	11	3	7	50	40	95
August	14	16	98	19	11	43	49	40	119
September	12	5	31	9	3	13	23	37	134
October	17	12	96	11	4	12	21	27	160
November	3	16	29	16	21	27	12	15	63
December	23	20	41	18	20	79	19	21	18
January	6	3	10	9	10	12	0	0	0
February	6	8	13	8	27	39	10	28	166
March	15	26	172	17	46	56	47	30	58
April	2	14	35	32	29	20	42	17	55
May	5	29	184	30	23	15	30	120	646
June	1	7	12	116	44	91	25	113	340
TOTAL	182	234	1116	342	282	551	448	608	2291

AUCTION RESULTS

IFC ASSISTED REGIONS

Months	Tomsk			Yakutsk			All Russia		
	Number of Enterprises Sold	Number of Employees (000's)	Vouchers Collected (000's)	Number of Enterprises Sold	Number of Employees (000's)	Vouchers Collected (000's)	Number of Enterprises Sold	Number of Employees (000's)	Vouchers Collected (000's)
December	0	0	0	0	0	0	18	43	158
January	0	0	0	0	0	0	107	186	155
February	0	0	0	0	0	0	197	200	611
March	5	2	5	4	7	2	446	549	2274
April	8	12	19	0	0	0	614	815	4156
May	6	9	21	5	2	2	577	588	4306
June	6	3	4	5	2	2	919	813	4346
July	8	9	26	0	0	0	915	768	6871
August	7	9	52	4	3	2	902	818	4494
September	11	4	11	0	0	0	814	814	4895
October	8	16	25	4	12	1	964	916	4615
November	8	11	20	4	1	2	962	860	3033
December	6	7	15	0	0	0	1043	1040	3516
January	4	2	2	0	0	0	668	624	3023
February	9	29	1145	3	9	3	705	1217	4156
March	8	6	9	0	0	0	932	1047	9198
April	5	1	3	0	0	0	866	1152	13642
May	2	1	1	0	0	0	838	1040	7596
June	3	3	149	14	198	100	1355	2934	13842
TOTAL	104	124	1507	43	234	114	13824	16381	94729

ANNEX SEVEN

14



Сертификат N _____

Акционерное общество открытого типа
Регистрационный номер _____

Адрес А/О: _____

Уставной капитал на _____ руб.

Реестр акционеров хранится по месту
нахождения Акционерного общества

Выпуск акций на _____ составляет _____ обыкновенных,
_____ привилегированных типа А и
_____ привилегированных типа Б акций.

Настоящим удостоверяется, что

_____ является зарегистрированным акционером и держателем _____

_____ полностью оплаченных _____ акций вышеуказанного акционерного общества.

Номинальная стоимость каждой акции составляет _____ рублей.

Председатель правления А/О

Дата

Главный бухгалтер А/О



1. Настоящий Сертификат является именной ценной бумагой, которая удостоверяет право собственности ее владельца на указанное в Сертификате число акций.

2. Моментом перехода права собственности на акции является момент внесения соответствующей записи в Реестр акционеров Акционерного общества.

3. Дивиденды по акциям, удостоверяемым настоящим Сертификатом, выплачиваются в порядке, предусмотренном Уставом Акционерного общества.

4. В случае потери, кражи, а также ветхости настоящего Сертификата надлежащим образом зарегистрированный акционер может получить новый Сертификат, обратившись в Акционерное общество и представив необходимые доказательства и гарантии.

ПЕРЕДАТОЧНАЯ НАДПИСЬ

(Заполняется в случае передачи права собственности на акции, удостоверяемого настоящим сертификатом)

Если Вы хотите передать права на ЧАСТЬ принадлежащих Вам акций, укажите в рамке число акций, которое Вы оставляете у себя. Не пишите ничего в рамке, если Вы передаете права на ВСЕ принадлежащие Вам акции, удостоверяемые настоящим Сертификатом.

Число акций, не подлежащих передаче (цифрами)	Число акций, не подлежащих передаче (прописью)
---	--

Я (мы), держатель (держатели) настоящего Сертификата, имя (имена) которого (которых) указано (указаны) на его лицевой стороне, посредством данной передаточной надписи передаю (передаем) право собственности на акции, удостоверяемое настоящим Сертификатом, на _____ (число цифрами)

_____) акций _____
(число прописью)

_____ (фамилия, имя и отчество или наименование приобретателя)

соответствии с _____ (основание для передачи права собственности: договор купли-продажи, договор дарения) _____ надлежащим образом зарегистрированным _____

_____ (наименование инвестиционного института) под номером _____ с уплатой налога на операции с ценными бумагами _____

_____ (наименование организации, принявшей уплату налога) . Ценные бумаги приобретены по цене _____ за одну акцию (заполняется (цифрами)

_____ (наименование организации, принявшей уплату налога) . Ценные бумаги приобретены по цене _____ за одну акцию (заполняется (цифрами) в случае передачи права собственности по договору купли-продажи). Я (мы) настоящим обращаемся в Акционерное общество с просьбой внести соответствующие изменения в Реестр акционеров.

Каждый из акционеров, поименованных на лицевой стороне Сертификата, должен поставить свою подпись на отдельной строке. Фамилия, имя и отчество представителя акционера - **ОРИДИЧЕСКОГО** лица должны быть написаны разборчиво, и после его подписи должно быть указано основание представительских полномочий (например, "Директор").

Дата _____

Подпись _____

Ф.И.О. _____

Подпись _____

Ф.И.О. _____

LIST OF IFC CONSULTANTS AND STAFF

Consultants

Boboshko, Michael
Casey, Lukas
Collison, Paul
Crow, Andrew
Crum, Roy
Dasaro, Michael
Dick, Gwendolyn
Dietrich, Derek
Grutz, Rebecca
Heller, Anne
Lardner, Sam
Lawrence, Julie
Malloy, Elizabeth
Pratt, Susan
Tokolish, John
Towers, Maureen
Winterton, Humphrey

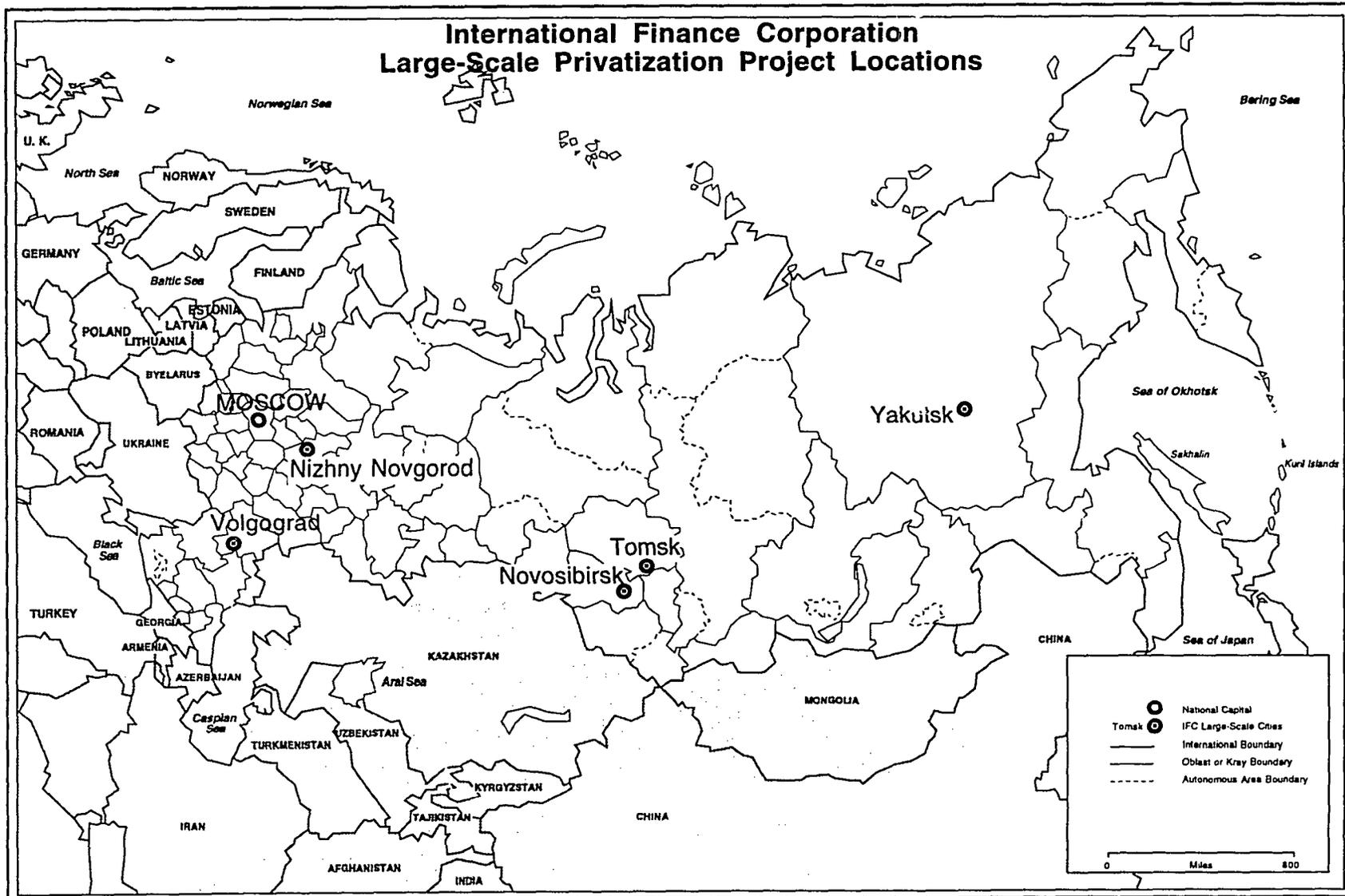
IFC. Russia Department Staff

Doran, Anthony
von Friedeburg (Rawlings), Stephanie
Paul, Victor
Staples, Andrew

Staff of other IFC Departments

Morgenstern, Claudia
Puri, Gopi
Sullivan, Jennifer
Kasrai, Bibi
Jones, Kirby
Goldberg, Itzhak
Chib, Lalit

International Finance Corporation Large-Scale Privatization Project Locations



11