

**Bain & Company**

PD-ABS-814

91604

**Bain Link**

Scherbakovskaya Ulitsa 40-42

105187 Moscow, Russia

Telephone: (7) (095) 369-0386, -2333, -2351, -2643, -5948, -5950

Facsimile: (7) (095) 369-5947, 166-6867

**FINAL REPORT**

**REGIONAL VOUCHER AUCTION MANAGEMENT**

**PHASE II**

**AUGUST 15, 1994**

**CONTRACT NUMBER:**

**USAID MOSCOW: CONTRACT CCN-0005-C-00-3108;**

**TASK ORDER NUMBER: 8-0030-KPMG**

## TABLE OF CONTENTS

I. Background and Overview.....	005
A. General Situation.....	005
B. Project Background.....	005
1. VASG's Objective.....	005
2. Phases of Activity.....	006
3. VASG Structure and Activities.....	006
a. Centralized Support.....	006
b. Regional Activities.....	007
i. Technical Support.....	007
ii. Financial Support.....	007
c. Central GKI Reporting.....	008
II. Summary of Deliverables.....	009
A. Highlights from Phase I.....	009
B. Results Achieved in Phase II.....	009
1. Voucher Auctions.....	009
a. Supply Equation.....	010
i. Number of Enterprises Sold.....	010
ii. Size of Enterprises.....	010
iii. Share Package Sold.....	010
iv. Results - Number of Enterprises and Total Charter Capital Sold.....	010
b. Demand Equation.....	011
i. Accessibility.....	011
ii. Publicity.....	011
iii. Quality of Assets Offered.....	011
iv. Results - Number of Vouchers Collected.....	012
2. Other Privatization.....	012
a. Privatization Delegations.....	012
i. Armenian Delegation.....	012
ii. Ukrainian Delegation.....	012
iii. Georgian Delegation.....	013
b. GKI/RPC Ad-hoc Requests for Analysis.....	013
i. Cash Auction Analysis.....	014
ii. Investment Tenders.....	015
iii. Privatization Progress Analysis.....	016
3. Post Privatization.....	017
a. Post Privatization Manual.....	018
b. Murmansk Share Registry Pilot Project.....	018
c. Post Privatization Seminars.....	019
d. Market Development Monitoring.....	019
4. Regional Disbursement.....	019
a. Contractual Obligations.....	019
b. Results Achieved.....	020
c. Regional Disbursement Process.....	021
5. Institution Building.....	021
a. Organizational Structure.....	021
b. Hand-off to RPC Management.....	022
III. Lessons Learned.....	023
A. Coordination Issues.....	023
1. Client Definition: Region's vs. Center's Requirements.....	023
a. Center's Desire for Data vs. Regional Suspicion.....	023
b. Continuity of Support vs. Flexible Response.....	024
2. Client Definition: GKI vs. RPC vs. USAID.....	024
3. Coordination with Other Advisors.....	026
4. Coordination Within the Client.....	027
B. Managing Performance.....	028

1. Developing Incentives.....	028
a. Self Financing Mechanisms as Incentive.....	028
b. Direct Financial Aid.....	029
2. Ensuring Results.....	030
a. "Tied Aid": Defining Conditions.....	030
b. Developing Memoranda of Understanding.....	031
c. Mandates and Sanctions: Marshaling GKI Support.....	031
d. Bench Marking Performance.....	032
C. Institution Building.....	032
1. Leveraging Aid Dollars.....	033
2. Recruiting, Training and Managing Local Hires.....	033
a. Staff Mix.....	034
b. Increasing Regional Hires.....	034
c. Recruiting Cannot Be Hurried.....	034
d. Work Planning.....	035
3. Retaining and Sharing Experience.....	035
a. Retaining Experienced Staff.....	035
b. Developing Transferable Product.....	035
4. Regional Selection.....	036
D. Voucher Auction Implementation Techniques.....	036
1. Managing the Supply of Assets.....	037
a. Central-Regional Dynamic.....	037
b. Political Reluctance.....	037
c. Lack of Enterprises.....	037
d. Inadequate Information Management Capabilities.....	037
2. Stimulating Demand.....	038
a. Logistical Issues.....	038
b. Cost Issues.....	038
c. Ignorance of Successful Approaches Adopted Elsewhere.....	038
d. Internal Political Opposition.....	039
e. "No Voucher" Syndrome.....	039
3. Developing Relations with Regions.....	039
a. Operating in "Macro Regions".....	039
b. Demonstrating Commitment.....	039
IV Final Report for Each Supported Region.....	041
A. Altaisky Krai.....	041
B. Arkhangelskaya Oblast.....	046
C. Belgorodskaya Oblast.....	050
D. Republic of Buryatia.....	055
E. Chelyabinskaya Oblast.....	059
F. Chitinskaya Oblast.....	064
G. Republic of Dagestan.....	069
H. Irkutskaya Oblast.....	074
I. Ivanovskaya Oblast.....	079
J. Republic of Karelia.....	083
K. Kaliningradskaya Oblast.....	088
L. Republic of Komi.....	092
M. Kemerovskaya Oblast.....	097
N. Khabarovsk Krai.....	101
O. Krasnoyarsky Krai.....	104
P. Leningradskaya Oblast.....	110
Q. Lipetskaya Oblast.....	115
R. Magadanskaya Oblast.....	121
S. Murmanskaya Oblast.....	125
T. Republic of North Osetia.....	130
U. Novosibirskaya Oblast.....	135
V. Orenburgskaya Oblast.....	139
W. Penzenskaya Oblast.....	143

X. Rostovskaya Oblast.....	147
Y. Samarskaya Oblast.....	152
Z. Saratovskaya Oblast.....	158
AA. Tomskaya Oblast.....	162
BB. Tulskaia Oblast.....	167
CC. Republic of Udmurtia.....	170



## INTRODUCTION

This document is intended to serve as the final report on Bain and Company's Regional Voucher Management Program (USAID Contract CCN-0005-C-00-3108; Task Order 8-0030-KPMG). The project began in March 1993 (under USAID Contract CCN-0005-C-00-3062), the current task order is a continuation of the original work and began November 1, 1993. This report will highlight the achievements of the first contract, but will focus primarily on the second contract. This report is divided into three broad areas. The first area focuses on the work performed including the project background, activities and deliverables. The second area focuses on lessons learned that will be valuable to any future work of this kind. The third section summarizes each of the regions that VASG supported and highlights any outstanding issues in these regions.

## I. BACKGROUND AND OVERVIEW

### A. General Situation

Although small scale privatization had been started earlier, large scale privatization was launched with the distribution of more than 146 million vouchers to the Russian population in October 1992. At that time, it was envisioned that shares of large and medium sized enterprises would be offered to the public at Voucher Auction. This seemed the most simple and direct mechanism for a Russian citizen to participate in privatization and become a shareholder. The first auction took place in December 1992. Although it proved the viability of the concept, it was very expensive and labor intensive to run. Central GKI, working with various funding agencies selected a variety of consultants/advisors to help further pilot the initial auctions. Price Waterhouse was selected to coordinate National Auctions: auctions of the very largest enterprises. Other advisors, not including Bain Link, began piloting regional auctions. These auctions are fairly difficult to run, as they require a major effort in setting up bid reception points, equipping necessary facilities, training personnel and running a public information campaign. By March it became clear to central GKI that they needed a coordinating group and an innovative and lower cost mechanism to roll out the program nationwide.

The Voucher Auction Support Group was founded by Bain and Company at the request of the GKI/RPC in March 1993. Its mission was to coordinate and support regional voucher auctions, and it was decided that this could best be accomplished by creating a Russian staffed organization that could support regional privatization, both from the center and locally. Being a Russian staffed organization was seen not only as cost effective, but potentially as the most acceptable advisors to the regions. VASG is a 27 member organization, funded by USAID, and managed by a core team of Bain consultants.

### B. Project Background

#### 1. VASG's Objective:

The objective of Bain/VASG was to accelerate the privatization of Russian enterprises and the redemption of vouchers to meet the voucher program completion date of June 30, 1994.

The three major components of this objective were:

1. To ensure that a significant majority, if not all, enterprises subject to privatization, under the current program, within a supported region were successfully auctioned in compliance with Federal legislation; and

2. To generate demand for auctions through the establishment of auction centers, the expansion of bid reception networks, and the effective use of public information campaigns; and

3. To provide central support to the GKI/RPC in managing the voucher auction process.

In addition, Bain/VASG was meant to serve as a general catalyst to support the development of post privatization systems in the regions, specifically

4. To provide limited post-auction support to regions to ensure continued support for the overall privatization program.

## 2. Phases of Activity:

The activities of Bain/VASG can be broken into two phases.

- **Phase I**, from March to June 1993, was conducted under the original USAID sole source contract (Contract CCN-0005-C-00-3062). This period included the initial set-up of the organization and the piloting of regional voucher auction support. During this period 10 Bain consultants worked on the project. The primary activities of this period were the creation and recruiting of the VASG organization, and the initial support of five regions.
- **Phase II**, from July 1993 to June 1994. This phase began under the sole source contract until October 31, 1993 (Contract CCN-0005-C-00-3062), and continued under the omnibus contract (Contract CCN-0005-C-00-3062; Task Order 8-0030-KPMG). After the process of regional support was piloted in phase I, it was then rolled out in phase II. This phase saw the ramp-up of regional activities to 29 regions. At the start of this period 7.25 Bain consultants worked on the project. The Bain management of the project was reduced to 5.25 consultants (3.25 being expatriates) in December 1993.

## 3. VASG Structure and Activities:

Bain/VASG structure and activities were split between centralized support and field regional support.

**a. Centralized Support:** Central support for all regions consisted of the following activities:

- **Central Product Development.** The publication of *The Voucher Auction Manual*, *Managing A Joint Stock Company* and creation of other implementation guides like *Bid Reception Network Development* and *Regional Public Information Campaigns*.
- **Central Database Management.** Bain/VASG designed and produced the weekly management reports from the GKI performance database, and provided ad-hoc support to key GKI/RPC personnel through database analysis. The database was supported by one analyst and one data entry clerk.
- **Monitoring Group.** Two Bain/VASG employees maintained regular telephone contact with each of the 88 regions to track the progress of voucher auctions, cash auctions, and the development of financial services infrastructure. The Monitoring Group tracked financial, technical and consulting requests from regions and this information was used to make centralized resource allocation decisions, both for Bain/VASG's and other advisor's regional assistance programs. This group also assisted in numerous ad-hoc requests.

- *Legal Hot Line.* Bain/VASG maintained a full time lawyer available to answer telephone inquiries from regions on legal questions pertaining to privatization and post privatization issues.
- *Ad-Hoc Request Support.* The Bain/VASG organization maintained a certain amount of flexibility to be able to respond to short term requests by the GKI and RPC.
- In addition three VASG staff support the organization (an office manager, secretary and travel coordinator), and one staff member worked directly at the GKI supporting all voucher auction regional disbursements (not just for Bain/VASG supported regions).

**b. Regional Activities:** Bain/VASG maintained four teams that provided support to selected regions. Each regional team provided technical, financial, and legal advice to between six and ten regions. Each team consisted of one Bain consultant, a team leader, a lawyer and two to three analysts. Regional selection was done, together with the GKI, based on a series of criteria, the most important being under-performance relative to potential. Bain/VASG actively supported 29 regions; a further 8 regions received diagnostic visits. Although the support provided varied by region, depending on the specific demands of that region (please see section III of this report for highlights of each region supported), typical assistance included the following:

**i. Technical Support:**

- *Developing the Pipeline/Pipeline Management.* Pipeline management included: identifying the enterprises to be sold; accelerating the auction timetable; maximizing the size of share packages to ensure the 29% and 80% rules were followed where applicable; prioritizing large or perceived star enterprises first; and identifying regions/enterprises for ARAS participation.
- *Creation/Upgrading of Auction Center.* This included: reviewing location and design; preparing budgets; negotiating with subcontractors; and training staff.
- *Expanding the Bid Reception Network.* This included: reviewing the existing network and working to expand this network through contracting with local banks, post offices and Rayon Committees; ensuring expansion into rural areas (with mobile bid reception points if necessary); and building bottoms-up cost models to ensure reasonable subcontractors pricing.
- *Developing/Improving the Public Information Campaign.* This included: reviewing existing campaign effectiveness; providing materials, proposing improved campaigns; negotiating with media suppliers for favorable rates; and proposing targeted public information campaigns for discrete audiences.
- *Providing Legal/ Technical Assistance.* This included: convincing regional decision makers on the need for privatization and the voucher auction process; reviewing compliance with legislation (including extraordinary local legislation, reviewing enterprise privatization plans, share packages offered, and foreign investor participation); advising on software/hardware improvements; advising on cash auction methodology and best practices; and monitoring voucher storage and cancellation.
- *Monitoring Post-Privatization Development.* In this area Bain/VASG's role was limited to collecting information on market developments and publicizing the resources of other advisors.

- The exception was in Murmansk Oblast where the GKI asked Bain/VASG to pilot the development of a community registrar, and in the creation of a post privatization guide, entitled *Issues in the Governance of Joint Stock Companies*, which was provided to all supported regions.

## ***ii. Financial Support***

- ***Regional Disbursements.*** Bain/VASG worked with each supported region to develop a budget to kick-start the auction process. These budgets were signed by the regional fund, regional committee and the central GKI. Upon the signing and the submission of a Bain/VASG prepared pipeline, money was sent to the region. The money was usually sent in two installments, with the second installment contingent on the meeting of certain pipeline targets. After the money had been spent in the regions and proper receipts provided to the center, Bain and Company reimbursed the GKI from funds provided by USAID.
- ***Regional Financial Management.*** This included helping regional funds maximize revenues (effective cash auctions, effective public information campaigns for private investors and investment fund), minimize costs (spreading fixed costs, leveraging commercial support like banks and stock exchanges, and best utilizing existing resources), and manage cash flows (creating an aggressive and continuous cash auction pipelines).

## ***c. Central GKI Reporting***

For both central and regional activities, key reports were provided to the GKI/RPC by Bain/VASG including the following:

- ***Summary reports.*** Provided at least monthly: Summary management reported on all activities; and a report on progress of regional disbursements was provided.
- ***Database reports.*** Weekly report on voucher auction progress were generated from GKI performance database.
- ***Trip reports.*** Summarized all activities in the regions visited after each diagnostic or regional trip.
- ***Enterprise Passports.*** Inputs to GKI performance database were collected by regional teams to speed up data entry and increase accuracy of database.
- ***Ad-hoc reports.*** Provided as required.

## II. SUMMARY OF DELIVERABLES

### A. Highlights from Phase I

Phase I included the initial set-up of the organization and the piloting of regional voucher auction support. The primary activities of this period were the creation and recruiting of the VASG organization, and the initial support of five regions. Highlights during this phase included:

- The hiring of 25 VASG employees and set up of the organizational structure.
- The development of *The Voucher Auction Manual* based on successful auction practices.
- The creation of the voucher auction database.
- The piloting of regional assistance in the 5 regions: including the establishment of auction centers; bid networks; and public information campaigns. Specific regional accomplishments included: the restarting of the voucher auction process in Chelyabinsk Oblast (a region that had halted voucher auctions and thrown out previous foreign advisors), the piloting of a systematic pipeline procedure in Krasnoyarski Krai, and the conducting of the first cash auctions in the Republic of Karelia.

### B. Results Achieved in Phase II

Bain and Company has completed its contractual deliverables within the period of performance, and indeed in many areas significantly over delivered beyond contractual requirements. The results of the project will be discussed under five headings: voucher auctions, other privatization, post privatization development, regional disbursements, and institution building. Specific contract deliverables will be reviewed in each section.

#### **1. Voucher Auctions**

Contractually Bain was to support the voucher auction process both in selected regions and centrally. Specifically Bain was to *Supervise and maintain four regional teams to provide technical and financial assistance to at least 24 regions, and to Monitor and support voucher auctions in the remaining regions throughout Russia*. As described above (see Section I - Activities), the VASG organization was split with a core group supporting all regions from the center, and four regional traveling teams capable of either in-depth regional support (providing the full range of technical and financial assistance), diagnostic capabilities (a single regional trip to assess future resource requirements), or quick response to GKI/RPC requests (either for data collection or for regional assistance).

*Central Support:* The central support team documented lessons learned for wider distribution in manuals and implementation guides, manned the legal hot line to answer telephone questions from regions on legal issues, monitored auction infrastructure development and supported analysis for GKI/RPC ad-hoc requests. One of the most important activities of this group was the development and production of management reports from the GKI performance database. Contractually Bain was to create *A database with all historical voucher auction information throughout Russia*. Weekly reports were created to allow for tracking of the auction process throughout the federation. These reports, over 50 pages in length, allowed for the tracking of progress by month, region, charter capital, employee size, vouchers collected and industry. In addition a summary report was created for distribution to the press or other interested parties. All responsibility for the database was transferred to the RPC on July 1, 1994.

*Regional Support:* In Phase I of the project, pilots were conducted to best determine how to roll out the technical and financial support process nationwide. In Phase II, Bain and Company over delivered by providing technical support to 29 regions and

direct financial support to 27 regions. Regions to be supported were selected by Bain and the GKI/RPC based on a regional selection methodology which combined performance relative to potential, with a willingness to participate in voucher auctions and other political considerations. All VASG regions were significantly under performing relative to potential at the start of regional support. Throughout the project regional support continued to evolve as experience increased, as lessons were shared between regions, and as the process itself evolved from setting up the voucher auction process, to monitoring results, to providing post auction support. Through a combination of rolling the implementation to additional regions, and downsizing the Bain Consulting staff required to manage VASG, Bain has lowered the professional fees required to support a region per month from \$44,000 in the pilot phase to approximately \$5,000.

In order to maximize Bain/VASG's impact on the voucher auction process, an analytical framework had to be developed which could drive activities and be used to monitor progress. This construct, developed by Bain and referred to as the "supply and demand" framework, enabled Bain/VASG to focus on the most leveraged activities. In this framework, successful privatization was defined as the sale of shares in the maximum number of the most significant enterprises (variously defined in terms of charter capital or share of employment, as measures of "value") in the largest achievable share packages (meeting or exceeding legal minimums), while simultaneously stimulating demand and ensuring free and fair access to the widest number of people in order to attract the maximum number of vouchers. This framework will be discussed below in more detail, with activities, deliverables and results highlighted under the supply and demand headings (see also Section III, Part B - Lessons Learned: Managing Performance).

**a. Supply Equation:** Supply refers to the assets put up for sale or privatization. The primary success measure on the supply side of the framework is total charter capital sold. Total charter capital sold is a function of the number of enterprises auctioned, the size of these enterprises, and the share packages of these enterprises sold at auction.

**i. Number of enterprises sold:** Bain/VASG worked in each region to ensure that *the vast majority, if not all, of the enterprises subject to mandatory voucher auction privatization, were auctioned.* In each region, pipelines (auction timelines and schedules) were developed for 3 to 6 month periods. Financial assistance was conditional on, not only developing, but following the auction timetable. Because no central register exists in Russia of all companies subject to voucher privatization, it was often difficult to determine the full list of companies to be included in the pipeline. This was complicated because, for political reasons, many regions were reluctant to put all property up for sale which should have been legally sold. By a careful review of all privatization documents at the regional funds and committees, combined with appropriate incentives and penalties, Bain/VASG worked to ensure that as many companies as possible were auctioned.

**ii. Size of enterprises:** Although the size of an enterprise is fixed, the order in which enterprises were to be auctioned was not predetermined. By working with regions to auction the largest (and often best known and most attractive) enterprises first, it was hoped that excitement and support of privatization could be generated. In each supported region, Bain/VASG worked with regional officials to target these enterprises for privatization toward the beginning of the process.

**iii. Share package sold:** For most enterprises 29% of shares were to be sold through specialized voucher auction, and 80% of shares were to be sold for vouchers (although legal requirements differed by industry and Republican status). Bain/VASG reviewed all auctions and pipelines to ensure that legal minimums were met if not exceeded. Where share packages sold did not meet legal requirements, Bain/VASG was usually successful in convincing regions to include secondary share packages in future auctions.

**iv. Results - Number of Enterprises and Total Charter Capital Sold:** As one of the three drivers of charter capital sold is enterprises auctioned, it is an important measure for evaluation. As of June 30, 1994 over 12,000 companies have been privatized through voucher auction (note: results are estimates due to reporting lag time, however standard Bain/GKI methodology has been used throughout). Over 3,650 of these enterprises are from Bain/VASG regions post Bain/VASG initial support. This represents almost 31% of all enterprises sold in the federation since the beginning of Bain/VASG regional support (excluding Moscow/St. Petersburg). The percentage of companies auctioned to the total, continued to grow to the point where over 50% of all auctions taking place in March, April, May and June 1994 were in supported regions. Of the top twenty regions ranked by number of enterprises sold (excluding Moscow/St. Petersburg), ten regions were Bain/VASG supported regions including: Rostov, Altai, Irkutsk, Novosibirsk, Murmansk, Kemerovo, Samara, Chelyabinsk, Lipetsk and Ivanovo. Given that these regions were under performing at the start, and in the case of Chelyabinsk had stopped the auction process completely and thrown out the previous advisors, these are impressive results. The total cost to privatize one company, including regional disbursement, was approximately \$1,240.

Total charter capital sold is the optimal success measure as it combines the number of enterprises auctioned, the size of enterprises sold, and the share package offered into a single measure. It is along this dimension that Bain/VASG performed the strongest. Since the start of Bain/VASG regional work nearly 40% of all charter capital sold (excluding Moscow/St. Petersburg) has come from supported regions. This is particularly high given that, on a monthly basis, Bain/VASG was only supporting 24% of the regions in the Federation on average. In two months of the period over 50% of all charter capital sold at voucher auction was sold in supported regions. In addition, of the top twenty regions ranked by total charter capital sold (excluding Moscow/St. Petersburg), eleven regions were Bain/VASG supported regions including: Samara, Chelyabinsk, Irkutsk, Kemerovo, Rostov, Saratov, Lipetsk, Krasnoyarsk, Altai, Tomsk and Ivanovo.

**b. Demand Equation:** The ultimate success measure on the demand side of the framework is the number of vouchers collected. Bain identified three factors which could directly influence demand: accessibility, publicity and the quality of assets offered.

**i. Accessibility:** Accessibility to a voucher collection point can obviously impact the number of vouchers collected. Many Russian regions are huge geographical areas, often the size of major European countries. When Bain/VASG first arrived in regions often only a handful of places to redeem a voucher existed. Contractually Bain was to establish *Auction centers in 24 regions*, and work to ensure that *bid reception networks were expanded to a minimum of 10 points per region on average*. Auction centers managed the entire process and tended to be utilized for voucher bidding by institutional investors. A centrally located, easily recognized and accessible auction center, operating in accordance with federal legislation and open long hours was the target in each supported region. Bain/VASG also worked to expand the bid reception networks by negotiating subcontracts with rayon committees, banks and post offices, as well as where necessary recommending mobile bid reception points to reach remote or rural geographic areas. By June, 1994 most supported regions were operating between 25 and 70 bid reception points (for specific activities by region see the Auction Center and Bid Reception Networks sections in each Regional Final Report - Section IV)

**ii. Publicity:** A well organized and orchestrated public education and information campaign could generate demand and result in additional vouchers collected. In each supported region Bain/VASG analyzed the current PI campaign and made recommendations for improvement. Contractually Bain worked to ensure that *the*

*public information and education campaigns were expanded beyond mandatory announcements.* This often included negotiating with newspapers, radio, and television media to secure favorable rates and adequate coverage. For most regions, over 50% of financial assistance was used to fund increased P! campaigns. Information campaigns were designed to teach the general public about the uses of a voucher and to publicize upcoming auctions (for specific activities see the public information campaign sections in each regional final report - Section IV).

**iii. Quality of Assets Offered:** This refers to the inherent attractiveness of any enterprise to an investor. Bain/VASG could do little to influence the attractiveness of an enterprise within the scope of this contract so activities and resources were focused elsewhere. Any region with predominantly unattractive assets, faced difficulty in collecting vouchers because knowledgeable investors would not invest in companies which would likely go bankrupt or not generate a return. Future enterprise restructuring and support will ultimately impact the inherent attractiveness of enterprises to secondary market investors, but little could have been done within the short time frame of voucher auctions.

**iv. Results - Vouchers Collected:** As of June 30, 1994 an estimated 132 million vouchers had been redeemed, with over 94 million redeemed at voucher auction (note: results are estimates due to reporting lag time, however standard Bain/GKI methodology has been used throughout). Bain/VASG supported regions collected over 22.7 million of these vouchers post Bain/VASG assistance. Excluding Moscow/St. Petersburg this represents 32.2% of all vouchers collected in the Federation since the start of VASG regional work. In two months over the period, over 50% of all vouchers collected were in supported regions (December 1993 - 58.9% and February 1994 - 74.2%). In addition, of the top twenty regions in terms of vouchers collected (excluding Moscow/St. Petersburg) ten regions (Chelyabinsk, Samara, Irkutsk, Rostov, Kemerova, Saratov, Tomsk, Krasnoyarsk, Leningradskaya, and Karelia) were supported by Bain/VASG.

## 2. Other Privatization

Contractually the Voucher Auction Support Group only had to provide privatization technical assistance on Voucher Auctions. However, in reality Bain/VASG assisted GKI/RPC on many aspects of privatization and reform, in an attempt to be flexible and responsive. These were covered in the contract with the statement *Support other GKI/RPC initiatives in the regions as agreed upon by GKI/RPC, the contractor, and USAID.* The two primary activities here included the hosting of visiting privatization delegations and responding to GKI/RPC ad hoc requests for analysis or resources.

**a. Privatization Delegations:** Bain/VASG hosted three high ranking privatization delegations from the NIS. These delegations came to Russia to understand the state of privatization in general, and the voucher program specifically. They were invited by the GKI and financed by either USAID or the World Bank. Bain/VASG participated both by presenting at Moscow seminars, and by bringing the delegations to representative regions for a closer look at the process in action.

**i. Armenian Delegation:** A senior Armenian delegation was hosted by Bain/VASG from the 4th to the 7th of March. This delegation, sponsored by USAID, visited Tula and Krasnoyarsk and heard presentations from senior figures both in the government and commercial sectors about their experience in privatization.

In Tula, the delegation had the opportunity to meet with the Head of the Fund and Committee and with a Deputy in the Regional Administration. There were several meetings with companies involved in secondary market activities and with one privatized enterprise which had already raised secondary capital.



In Krasnoyarsk, the delegation met with all the senior members of the Administration and the property fund with the exception of the regional governor who was in Moscow. There were also meetings with contractors to the Fund and to one of the most sophisticated all Russian depository systems.

The officials were particularly interested in post privatization issues and the methodologies developed to process privatization documents. The Armenian delegation also included several individuals who were primarily interested in small scale privatization. Bain/VASG was able to arrange meetings at the municipal level for these delegates. Resolving the question of social assets was the primary focus of these members of the delegation.

**ii. Ukrainian Delegation:** In April 1994, VASG hosted, at the request of the GKI, a delegation of Ukrainian privatization officials on a regional visit to the Republic of Komi. The visit was sponsored by the World Bank. The delegation consisted of 8 members, including central Property Fund, Ministry of Economy and Government officials, as well as the leader of the Republican Sberbank, and a representative of the World Bank.

The Republic of Komi was chosen, not only due to its success in creating an efficient voucher auction infrastructure and its secondary securities market program, but also because the republic had adopted a number of specialized legal acts, which affected the course of privatization and voucher auctions. The trip included a number of on-site visits to privatized companies, representing different industries and privatization options, as well as training sessions with the Committee, Fund, VASG and privatized companies' experts.

Although both Large and Small scale privatization in the Ukraine are underway, the Ukraine is facing the second wave of privatization, and vouchers (coupons) were to be distributed to the population. The issues of auction infrastructure and continuous pipeline management were of extreme importance for the group and the trip was greatly appreciated by the delegation.

**iii. Georgian Delegation:** In April 1994, VASG hosted a USAID sponsored delegation of Georgian privatization officials on a four day visit to the Republic of Karelia. The delegation consisted of 7 members, including central Privatization Ministry and Government officials as well as the heads of Privatization Ministry regional agencies responsible for both large and small scale privatization. Small scale privatization in Georgia is well underway. Large scale privatization is planned to follow the Russian program, and privatization vouchers will be soon distributed throughout the country.

The purpose of the trip was to educate the Georgians with the Russian mass privatization methods, to acquaint them with the national voucher auction system, and to demonstrate the specifics of regional privatization. Karelia was chosen not only because of its success in voucher collection, but also because the relationships between the federal and local authorities in the issues of allocating property and adopting local legal acts are more visible in a Republic of the Russian Federation than in an oblast. The Karelian privatization authorities were open and honest in revealing not only their privatization knowledge, but some of the problems of the process which could be avoided.

**b. GKI/RPC Ad Hoc Requests for Analysis:** Because Bain/VASG produced the management reports from the GKI performance database, and had feet on the ground in 29 regions, Bain/VASG was uniquely suited to undertake analysis of many aspects of the privatization program. These request varied in time and intensity from involving the entire VASG group for over a week, as in the case of the investment tender research, to involving a single Bain consultant for a few days. A partial list of GKI/RPC requests would include the following:

- analysis of cash auctions and investment tenders which helped influence subsequent policy decisions;
- the setting up of databases to track legal irregularities,
- the setting up of a database to track all GKI regional voucher auction disbursements;
- the processing for publication in local press of regional pipelines for 58 regions;
- the collection of information for the securities industry contacts data base;
- the support of post-privatization regional and enterprise selection;
- the lending of analysts to support the anti-monopolies project;
- the analysis of the relationships between local privatization bodies;
- the training of EBRD regional teams;
- the analysis of enterprises excluded from the current program in one region; and
- the support of add-hoc requests from USAID and the World Bank.

Three requests should be highlighted because of their contribution to the overall reform process: (i) the analysis of cash auctions, (ii) the analysis of investment tenders, and (iii) the estimation of the degree of completeness of privatization in Russia by the end of the Voucher Auction Program.

#### ***i. Cash Auction Analysis:***

**Background:** Decree # 1705 *On Offering Larger Opportunities for the Population to Participate in Specialized Voucher Auctions* (dated 16 December, 1992) allowed for the cash sale of up to 5% of the share capital sold at voucher auction. These funds were intended to finance the costs of the voucher auction program. However, formal GKI regulations on the conduct of these cash auctions were not finally published until February, 1994. Between these dates regions drew up and followed their own procedures on the conduct of cash auctions; VASG developed its own interim guidelines and provided these to regions it supported. In October, 1993 GKI requested an analysis of the revenues from cash auctions in comparison to the costs of voucher auctions, and recommendations on improving the process.

**Analysis:** Bain prepared a database of cash auction results, with information sourced from regions supported by VASG, regions contacted by telephone by the VASG Monitoring Group and information from regions that the IFC were then supporting. An initial data-set of 614 auctions from 44 regions was screened to ensure that the analysis looked only at regular 5% cash auctions, rather than other irregular cash sales. The final data set was 337 auctions in 35 regions: this was not an exhaustive list of auctions held by that time, but was considered representative and statistically significant.

The three key results can be summarized:

- The analysis proved that voucher auctions could be self-financing. Cash auctions generated, on average (in nominal terms) 425 rubles for every voucher redeemed at voucher auction; otherwise expressed this was 169 rubles for every 1,000 ruble of share capital auctioned. Costs over a similar period were reckoned at 200-300 rubles per voucher and 100-150 rubles per 1,000 ruble share sold.
- At two months, the interval between voucher auction and cash auction was too long. The average interval between voucher and cash auction was 63 days, and the trend was toward longer rather than shorter delays. Obviously, this was unacceptably long -- especially in the context of high inflation. Moreover, auctions had been held with less than a week's interval, proving that markedly better performance was possible. Lastly, this was only one aspect of the span time between the accrual of voucher auction costs and receipt of revenues -- the post auction settlement period ranged between two and twelve weeks.

- Shares sold at cash auctions typically commanded a premium over the implied price at voucher auction. Using the market price of the voucher and the auction rate achieved at voucher auction it is possible to imply a cash equivalent price for the shares sold (since the voucher was freely tradable, those that invested it at auction were forgoing cash in favor of equity). This implied price was usually exceeded by the actual cash price paid for shares at cash auction. This can be attributed to 1) fiercer competition – most bidders at cash auction sought to add to an existing holding. 2) "Certainty Premium" – shares were sold in predetermined lots, hence the investor knew exactly the share package that could be accumulated at these sales. By contrast, the voucher auction – which struck a price that cleared all vouchers bid – always left some uncertainty about the amount of shares a bidder would accumulate. Both these considerations could be used to the sellers advantage to maximize revenues at cash auction by the careful packaging of lots and analysis of the previous voucher auction results.

**Recommendations and Results:** The original plan was to distribute the findings of this analysis directly to the regions, together with an accompanying text urging adoption of best auction practices, and some basic advice on maximizing revenues, minimizing costs and aggressively managing cash flow. This communication was delayed by GKI. In the end, Bain coordinated with Price Waterhouse to ensure that its main recommendations were incorporated into the regulations that were finally published in February. Bain contributed its methodology, additional analysis and its interim guidelines to a report drafted by Price Waterhouse on the progress of cash auctions through the All-Russian system. This resulted in the formal GKI regulations of February, 1994. The key points of these regulations were, (with the exception of the increased package), consistent with Bain's recommendations:

- Clear definition of how many shares could be sold. Up to 10% of share capital auctioned at voucher auction could be sold for cash, with two explicit conditions: 1) that the cash auction must follow the voucher auction, and that the shares sold should be those remaining after the striking of the voucher auction sale price (i.e. no packages could be set aside for cash sales before voucher auction). 2) that at least 29% of share capital had been offered for sale at voucher auction.
- More aggressive time frames. Voucher auction results should be published within 15 days of approval of auction protocol (results). Cash auctions should be held within five days of publication of voucher auction results, implying that maximum of 20 days should pass between end of voucher auction and subsequent cash auction. The original regulations (dated 2 February) contained an internal contradiction that Bain was responsible for highlighting to GKI. As originally published they named a publication deadline of 20 days in one place and 15 days elsewhere. This ambiguity was formally amended to read 15 days consistently by GKI Ordinance #342-r which dealt with investment tenders – see below.
- Clear guidelines on the announcement of cash auctions. Seller made liable for any discrepancies.
- Tighter guidelines on post-auction contracts and settlement procedures.

## ***ii. Investment Tenders:***

**Background:** By late 1993, there was a series of piecemeal rulings on the conduct of investment tenders. However, there were gaps and contradictions in this regulatory framework and, in practice, the conduct of investment tenders was widely regarded as poorly regulated, lacking in transparency and suspected of corruption. In particular, there had been several highly publicized scandals in the press: Krasnodar Tobacco Factory, *Izhorskiye Zavod* in St. Petersburg, and Moscow Hotel among them.

Moreover, notwithstanding this lack of procedural transparency, there were wider questions about the role of investment tenders during the mass privatization program. As a method of sale they demand more resources to organize – both technical expertise and time. They also require investors with significant capital. The hypothesis was that they were delaying voucher auctions without achieving their own goal of investment.

**Analysis:** Bain/VASG focused most of its resources on an intensive examination of the role of investment tenders in the Federation. The regional teams were redirected to regions where investment tenders were known to be significant; extra resources were assigned to the Monitoring Group to interview other regions with a detailed questionnaire; interviews were conducted with the major Moscow voucher investment funds and extensive literature searches of the Russian and English language press were conducted. In total, the analysis drew on information and interviews with 30 different regions, as well as more detailed case studies.

The problems identified can be summarized, as follows:

- *No defined procedure for adjudicating the winning tender:* There was a confusion between the conditions of the bid and the criteria for deciding the winner. Moreover, there was a financial incentive for Funds to chose bids that paid most for the shares themselves (as opposed to the investment committed) since they received a percentage of this purchase price. Bain recommended that the purchase price be a fixed condition, and that the sole criterion for judging between the rival bids be the net present value of the committed investments.
- *Overuse of Investment tenders:* Bain recommended that during the mass privatization phase investment tenders should be considered an exception rather than a rule. The hope (rather than the likelihood) of investment, and the financial incentives of the Funds, led to many privatization plans to include allocations of shares to investment tenders without a there being any developed investment program, or any real probability of significant investor interest. This was slowing down the sale of property. Bain specifically recommended that aggressive time frames should be applied for both the development of programs and their implementation; otherwise sales should default to voucher auction. It was further argued that attractive investments would attract capital in any circumstances, and that the emerging capital markets would allocate this scarce resource more efficiently in a post-privatization context.
- *Restricted access:* Bain recommended that all tenders be open to all bidders, and that clear requirements for information disclosure be adopted.
- *Compliance with committed program:* Bain highlighted the need for auditing the compliance with committed investments and the need to deter all but *bona fide* investors. Scandals had involved shell vehicles being established by enterprise management solely to win control of shares, with no intention of implementing the committed investments.
- *Need for single set of regulations:* Bain highlighted the confusion and contradiction in the existing regulatory framework and recommended the publication of integrated regulations rather than the issue of a series of amendments.

**Results and recommendations:** This analysis had a direct impact on the 1994 Privatization Program (where the requirement for the discounted present value of investment commitments was first introduced) and on subsequent regulations. The final regulations were approved by GKI Ordinance #342-r, dated 15 February, 1994 and incorporated many of Bain's specific recommendations:

- *Decision criterion:* share price was made a fixed condition: payable at nominal value in vouchers only. The only acceptable decision criterion became the value of investment committed, discounted to present value at the discount rate established by the Central Bank of Russia, as of the date of tender. The regulations also gave a detailed example of how to discount investment flows, for those unfamiliar with such analysis.
- *Freedom of Access:* all tenders were made open to all bidders. There was a clear enumeration of which information should be published with tender announcements and the chairmen of the tender commissions were made personally liable for fulfilling this requirement.
- *Aggressive time frames:* regulations required that all privatization plans including investment tender allocations should incorporate a defined investment program. Property Committees were given one month to revise outstanding privatization plans, and were empowered (up until April 15) to reallocate investment tender packages to voucher auction. Moreover, all investment tenders were required to take place within 20 days of voucher auction, or the shares would be reallocated to an additional voucher auction.
- *Realignment of incentives:* investors required to pay 20% of investment within one month of winning the tender, hence deterring all but *bona fide* investors. Moreover, Fund and Committee each received 0.25% of the total investment commitment, thus aligning their incentive with the approved decision criterion.
- *Promulgation of coherent regulations:* GKI Ordinance #342-r specifically invalidated all previous GKI regulations on investment tenders where they contradicted the latest regulations. These earlier regulations were individually enumerated.

### **iii. Privatization Progress Analysis:**

**Background:** This analysis took place in several stages. At the specific request of Maxim Boycko of the Russian Privatization Center it is to be continued after the June 30 contract end, under separate funding arrangements. Inadequate property inventorying systems, inconsistent reporting standards and the dispersal of information across various agents (different departments at GKI, Federal Fund, state statistical bodies) meant that the managers of privatization in Moscow had only an unreliable idea of how much property had been transferred to the private sector relative to potential. While the GKI Performance Database maintained by Bain/VASG had comprehensive information on privatization through voucher auction, it was a record of results rather than potential: it recorded what was sold but had no information on what was not yet sold. Moreover, voucher auctions, while the most significant, were not the only permissible method of privatization: investment tenders, leased- buyouts and tenders/auctions for non-incorporated enterprises were also allowed. There were also special rules governing the sale of enterprises in the agro-industrial complex which meant that their sale was more or less "invisible" to the voucher auction database. Bain set out to analyze how much of the Federation had been privatized, by region and by industry sector, relative to the potential available.

**Analysis:** The analysis begun in March and examined the progress of privatization in Krasnoyarsk. This established both the enormous practical difficulties of this exercise and the basic methodology. This analysis examined all privatization activity – rather than just voucher auctions – and from it a ratio of voucher to non-voucher auctions was estimated by industrial sector. Sources consulted included the Property Committee, the local statistics committee and tax authorities. Non-voucher activity appeared to be greatest in the lighter industrial sectors, transport and construction. This was subsequently applied to the Federation in later analysis. Other estimates included the lag time between corporatisation and subsequent voucher auction.

Simultaneously, various sources were used to build up a picture of employment in the Federation by region, by industry sector adopting standard Goskomstat industrial classification codes. Applying the factors estimated from the Krasnoyarsk analysis to the known voucher auctions from the GKI Performance Database, adjusting for predicted voucher auctions and additional corporatisation activity, allowed an estimate of total privatization, weighted by employees. Analysis also looked at the percent of shares that had been alienated from state ownership. Hence privatization was defined according to two measures: the percent of property that had begun to be sold (partially or completely) as well as an estimate of the total percent of property (weighted by employees) that had been sold by the state.

**Results and Recommendations:** The analysis indicated that – on the first and broadest measure of privatization – some 61% (estimated as of June 30, 1994) of the industrial workforce now works for privatized or partially privatized enterprises. This figure excludes small-scale privatization, which should be considered insignificant in industrial sectors. A detailed commentary on the limits of the methodology was written; the principle weakness is the dependence on the GKI Voucher Auction Performance Database, and the need to estimate non-voucher activity solely on the basis of voucher performance. There is an obvious if unavoidable circularity to this logic.

As noted, as a result of this analysis RPC has requested further work be done to push to the next level of detail. One of VASG's first activities under RPC project management will be to contribute to this important analysis. Bain will continue to act as an adviser under separate funding, while day-to-day project management will be the responsibility of RPC.

### 3. Post-Privatization Development

One of the goals of Bain/VASG was *To support post auction development in regions to ensure continued public support for the overall privatization program.* In this area Bain/VASG was to distribute materials developed by other advisors, monitor the development of secondary market institutions, and act as an overall catalyst in market development. Two post auction areas were to be supported: share registry development, and corporate governance support including share holder meeting assistance. Contractually Bain was to (1) *pilot the development of a community registrar in one region,* (2) *support shareholder meetings and sponsor seminars on post privatization and* (3) *distribute the lessons learned on share registries and shareholder meetings to each supported region (the post privatization manual).*

**a. Post-Privatization Manual:** Bain/VASG was asked by many regions to provide assistance in the areas of share holder meetings and share registry. Very often the teams found that the questions from one region were the same as those of the next region and it was therefore thought useful to prepare a manual covering these and other issues of good corporate governance. The aim was to write a practical manual which addressed specifically those difficulties that teams had heard in the regions, and to explain to the enterprise why what may seem like unreasonable or demanding legislative requirements are actually things that a progressive company, seeking investment, should regard as routine. The guide, therefore, covers the expectations of strategic investors and explains how, in matters of investment, it is easier to discourage than to attract.

The manual *Managing a Joint Stock Company* is divided into five main sections:

1. Introduction to managing a joint stock company and six golden rules about good corporate governance
2. Legal aspects of holding shareholder meetings
3. Organizational questions of arranging shareholder meetings
4. Why third party share registry is important

## 5. Reprints of all relevant legislation for quick reference

The manual was over 150 pages in length and has already been welcomed by several regions. It was available in Russian for GKI review in the first week in June, and then ten copies were distributed by post to regional officials of each of the 29 supported regions (for additional information please see *Managing a Joint Stock Company* supplied to USAID Mission and Washington DC. in July).

**b. Murmansk Share Registry Pilot Project:** At the request of the GKI, Bain/VASG piloted the development of a community registrar in Murmansk Oblast. Although other advisors were piloting the development of large national or inter-regional registrars (supporting over 1,000,000 shareholders), little work had been done in the area of a regional or community registrar (supporting 150,000 to 180,000 shareholders in a relatively remote geographical setting).

The pilot's major activities included:

- *Assessing the current situation:* Bain/VASG began by investigating the current level of registrar activity in Murmansk. This involved analyzing companies operating as registrars, assessing the needs registry needs of local joint stock companies, and creating various scenarios for share registry development. A questionnaire was developed and all joint stock companies legally required to utilize third party registrars were interviewed. Most companies had not begun thinking about, much less utilizing third party registrars. Entities offering registry services were visited and interviewed. Five companies were offering registry services, although none were large enough to service more than a few enterprises, and three of the companies were not independent registrars.
- *Arranging a seminar on registrar issues:* In the enterprise interviews it was obvious that few enterprises understood existing legal requirements and that enterprises had many questions on share registry. A seminar was organized by VASG and all regional enterprises were invited. The seminar included topics such as: the legal basis of share registry, functions of the registry department of a joint stock company, methods of share registry keeping on paper versus computer, dividend policy at a joint stock company, and the registry experience of one large Moscow company.
- *Creating a legal operating structure:* The investigation of the current situation highlighted the need for expanded registrar capacity in the Murmansk market. The current players were small and registry services were viewed as unprofitable without scale. In addition, because of the regions relative geographic isolation it was felt that it would be a long time before national registrars would be operating in the region. Working with the local Administration it was felt that the best solution was the development of a coordinated stock center that would be able to handle regional registry needs. The *Murmansk Regional Stock Center (MRSC)* was created and registered as a legal operating entity. The center has four founding parties: the Regional Property Fund (20%), a bank *Eurokosmos* (10%), a local registrar *Triada* (50%), and a Moscow based registrar *Olma* (20%).
- *Developing an operating budget:* Bain/VASG worked with the MRSC to establish an operating budget and business plan through year end 1994. Analysis was done of projected cost and revenues based on the experiences of Moscow companies and the local Murmansk conditions (as the city is well above the Arctic circle many operating expenses are quite expensive).
- *Providing financial and technical assistance:* To complete the project Bain agreed to provide up to \$40,000 in operating expenses to the center to fund start up and operating expenses until June 30, 1994. These included money for salaries, rent and basic operations. Bain also agreed to provide equipment (including computers, fax and photocopy machine) worth up to \$40,500 for the center's set up. Bain worked with the GKI and USAID Mission to secure humanitarian aid status for the equipment.

For a more in-depth review of the process and lessons learned in the pilot project see *Final Report on the Murmansk Share Registry Project*, provided to the GKI, RPC and USAID Mission on June 28, 1994. Key lessons were also incorporated in the VASG Post Privatization Manual.

**c. Post Privatization Seminars:** Where needed or requested by a region, Bain/VASG held seminars discussing post privatization issues. The length, topics and audiences varied according to regional needs. Most seminars were targeted at enterprise directors and included information on voucher auctions, third party share registry, shareholder meetings and market development. Seminars were held in Krasnoyarski Krai, Chelyabinsk Oblast, Rostovskaya Oblast, Samaraskaya Oblast, Murmanskaya Oblast, Kaliningradskaya Oblast and the Republics of Komi and Karelia. In addition, Bain/VASG participated in or attended seminars hosted by other advisors both in Moscow and the regions.

**d. Market Development Monitoring:** Throughout the process Bain/VASG monitored the development of secondary market institutions in supported regions, which were regularly reported to the GKI/RPC in trip reports after each visit. In addition, Bain/VASG regularly contributed to Price Waterhouse's Funds Monitoring Unit's market development database. The information collected included the names, addresses and key contacts of banks, auction centers, voucher investment funds and brokers. Bain developed a questionnaire and format to collect this information, which was subsequently adopted by Price Waterhouse as the standard format.

The VASG pipeline database also tracked enterprise post auction development. For each company that went through voucher auction, fields were included to track any known information on share registry usage and initial share holder meeting dates.

#### 4. Regional Disbursements

A major component of Regional assistance included financial advice and monetary assistance. Financial aid was disbursed to kick start infrastructure development and to support specific regional initiatives (for example an advertising campaign). This section discusses the contractual obligations, results achieved, the disbursement process (additional materials on regional disbursement have been provided see *USAID Regional Disbursement Documentation*).

**a. Contractual Obligations:** Contractually, Bain was required to provide financial support to 24 regions. This included:

- 1) Developing reasonable budgets;
- 2) Overseeing submission of requests for financial aid;
- 3) Providing advice on financial management (revenue enhancement, cost reduction, and aggressively managing cash flows); and
- 4) Providing direct financial aid through the central GKI.

The total budgeted dollars available for regional disbursement were \$300K from the sole source contract (USAID contract CCN-0005-C-00-3062) and \$1.52M from the omnibus contract (USAID contract CCN-0005-C-00-3108; Task Order 8-0030-KPMG). These amounts were based on an exchange rate at the start of the contract of 1000 rubles to the dollar. By the time the regional disbursement mechanism was approved by the GKI, USAID and Bain the exchange rate had risen to almost 1900 rubles to the dollar. As such the regional disbursement line item was modified downwards to \$775K in a revision to the second contract in May.

**b. Results Achieved:** Twenty-seven out of twenty-nine supported regions have received direct financial aid in the course of the project. The total funds actually disbursed were 1.3 Bln rubles, or an average of 48.1 MM rubles per region supported. This represents 40% of



the total funds that the Central GKI disbursed to conduct regional voucher auctions nationwide.

The amount of aid needed for each region was identified by the Bain/VASG team working in that region. Aid was typically correlated with the number of enterprises and the amount of charter capital that had to be sold through voucher auctions. In addition, availability of local financial sources, as well as aid previously provided to the region by the GKI or other advisors, was considered in the decision. The largest aid recipient, Krasnoyarski Krai, received 98.6 MM rubles; the smallest, Republic of Komi, - 14.5 MM rubles. In the typical budget over 55% was spent on the development of the regional public information campaign, 40% on financing voucher auction operating expenses, and 5% on the auction infrastructure establishment. However, budget breakdowns varied according to regional needs.

Two regions, Orenburgh and Kharbarovsk, were not interested in financial support for two reasons. First, both regions had enough cash from cash auctions to finance their operations; second, Kharbarovsk did not want to be tied to the performance conditions attached to financial aid disbursements.

Funds provided for the public information campaign were used not only for publishing mandatory announcements of the voucher auctions in the local press, but also for organizing TV and radio programs about voucher auctions as well as printing posters and other advertising materials. Typical operating expenses included auction center staff salary, auction center rent and maintenance payments, as well as similar payments for the local bid reception network. In several regions all operating expenses were replaced by payments to subcontractors, who took responsibilities for organizing auctions in these regions.

The only post auction support disbursement approved was for the pilot development of the share registrar in Murmansk Oblast. Bain/VASG approved operating expenses for the pilot of \$40,000 to fund salaries, rent and basic operations. In addition, \$40,500 for capital equipment (including computers, photo copier and fax) was approved and purchased for the facility.

As regions had until June 30 to spend aid moneys, and because of the receipting lag time, Bain has until September 30 to reimburse the central GKI. As of July 15, 1994 the following results should be noted:

- The amount of financing GKI had provided to the region, eligible for reimbursement was 1,294,498,000 rubles.
- The value of receipts provided to Bain was 1,283,428,000 rubles.
- Bain had wired to the GKI over 831,594,000 rubles, with a final wire transfer for the remainder (less any disallowed receipts) expected to be sent the last week of July.

In addition to financial disbursement Bain/VASG provided financial advice to the regions. These financial management techniques employed by Bain/VASG in supported regions are discussed at length in the lessons learned section of this report (see part III, section B - Managing Performance).

**c. Regional Disbursement Process:** Each Bain/VASG regional team worked with the local authorities, primarily the Property Fund, to develop a budget for the voucher auction process for a period of 3 to 6 months. The goal of these budgets was to assist the local organizations in identifying the needs for funding the entire voucher auction process and to cover the costs that the region itself could not cover from its own sources, such as cash auctions.

After the budget was prepared and approved by the regional Property Fund and Committee, it was then submitted to the Central GKI for approval, accompanied by a

memorandum from the team outlining auction results to date and explaining the financial needs for future auctions. As a necessary condition for receiving financial aid, the region had to sign an agreement with the GKI which obliged the aid recipient to follow the federal legislation, and certain reporting procedures.

After the budget was approved by Mr. Vassiliev, GKI Deputy Chairman, the money was sent to the region directly from the GKI. Simultaneously, Bain and GKI signed an agreement to reimburse GKI for this aid upon being provided with appropriate receipts. At this stage, in accordance with Bain's USAID contract, Bain disallowed reimbursement for capital equipment. During subsequent visits to the regions, VASG teams collected and reviewed receipts, then submitted these to the central GKI for further processing and audit. After the receipts were audited by Bain, Bain reimbursed the GKI.

Establishing this GKI reimbursement mechanism took significant time and effort over the course of the project. Bain would have liked to reimburse the central GKI in dollars, however, the GKI could not accept reimbursement in dollars and would only agree to receive payment in rubles in the amount indicated in the Bain/GKI Agreement. Actually transferring the funds to the GKI required the establishment of a wire transfer mechanism. To establish this wire transfer mechanism, Bain had to find a reliable Russian partner that would agree, for a small commission, to receive the dollar wire transfer, order its bank to buy rubles at the currency exchange and then forward this fixed amount of rubles to the GKI account. According to Bain investigations, this was the only way to legally provide foreign technical assistance to the Russian Governmental organization without applying for special permission from the Central Bank. This mechanism allowed the GKI to avoid tax payments on the aid money based on the tax exempt clauses of the 1994 Privatization Program.

## 5. Institution Building

The Voucher Auction Support Group was designed to be a low cost vehicle to roll out the implementation of voucher auctions across the federation. By creating an all Russian organization, Bain was able to keep the cost of the program low, while at the same time providing assistance in a politically acceptable way to sensitive Russian regions.

Contractually Bain was to not only create the VASG organization, but also to *Continue the management of VASG until June 30, 1994, creating a process to ensure that beyond Phase II VASG will operate as an organization reporting to the GKI or RPC with limited or no Western Management.*

**a. Organizational Structure:** The VASG organization was designed to support both the regional and centralized voucher auction activities (for a detailed discussion please see Section I. B. 3. *VASG Structure and Activities*, and Section III. C. *Lessons Learned: Institution Building*). In phase I of the project the initial staff was hired and trained to support the initial pilots. In phase II, recruiting continued as staff were added to augment existing capabilities. In addition, training and experience sharing between the teams continued, so that by the end of the project all staff were computer literate (word processing, spreadsheets and database management), and could be used flexibly to support the various aspects of voucher auction management (technical and financial advice, receipt review and collection, data collection and analysis). By the end of the project team leaders had developed work planning skills and most regional trips in the final three months were conducted unaccompanied by Bain staff. Although the contractors were well skilled in voucher auction techniques, any future non voucher auction implementation projects will require additional training and management especially in the initial or start-up phase.

**b. Hand-off to RPC Management:** In February 1994 Bain initiated discussions with the GKI/RPC regarding the future of VASG post June 30, 1994. Bain provided to GKI/RPC

various alternatives both for the management of the group and for the substance of the work to be performed by the group. Because of the group's training and experience all parties wanted to find a way to keep the group supporting privatization and reform after the end of voucher auctions and completion of the Bain contract. By mid-April it was agreed that Bain would transition the group to direct RPC management with a July 1, 1994 hand-off, and that the group would become a department of the RPC. Maxim Boycko planned to use the group to roll-out the regional implementation of privatization and reform projects after pilots were completed by various Western advisors.

In early May RPC interviewed all VASG team leaders, lawyers and central operating staff and extended job offer letters to all but two. In addition, the RPC began negotiations to lease the VASG Kolpachny office space, and discussions were held with the USAID Mission regarding the eventual transfer of all VASG equipment to the RPC. In early June the RPC interviewed the remaining staff and made job offers to all of the VASG analysts. VASG staff were slow to sign and return the RPC offer letters because RPC was slow to name a start date or to enumerate the projects the group would be working on (Bain and Company frequently highlighted to the RPC the urgency to resolve these issues), but by June 30 the majority of the VASG contractors had accepted the RPC offers.

It is planned that funding for VASG will be from USAID as part of the overall RPC funding grant. As this grant will not begin until mid August, it was agreed by Bain, GKI and USAID that Bain would continue to pay the VASG contractor's salaries and operating expenses (less the rental of facilities) for July and August. In a letter dated June 21, 1994 RPC confirmed to USAID that beginning July 1, 1994 it would assume responsibility for all aspects of the groups management.

### III. LESSONS LEARNED

This section focuses on the lessons learned on this project that may be applicable for future work of this kind.

#### A. Coordination Issues

The work that Bain & Company and the Voucher Auction Support Group undertook was obviously one part of a wider support and reform program that is ongoing and in which there are many constituencies. These constituencies do not automatically have the same agenda or priorities: this section discusses some of the coordination issues that were apparent during the project. From Bain/VASG's (or another contractor's) perspective this issue was often a question of defining the client and recognizing that the work involved multiple clients with various needs.

However, it is not just the consultant that needs to be mindful and respectful of these competing constituencies. Indeed, the more cooperative and responsive the consultant becomes to uncoordinated requests from different "clients", the more the potential for a conflict of priorities increases. Ultimately, finite resources – rather than a failure of will or attitude – will limit flexibility. Coordination, therefore, needs to exist between these clients themselves. A balance needs to be resolved between the rival needs and expectations of various central clients (GKI versus RPC, for instance, or different representatives of these organizations), of the competing needs of the regional authorities versus those of the central authorities, and the different emphases of the Funding agency and the counter-party. (It is, of course, possible to extend the range of these antiphonies seeking coordination between different funding agencies, or between rival consultants).

Two themes emerge out of the following discussions.

- Coordination can only really be achieved once the competition between these constituencies has been explicitly recognized and the need for negotiation acknowledged. We have found various vehicles useful for "negotiating" agreement, including: meetings that include all parties, memoranda of understanding, client mapping, and allocating staff directly to GKI.
- Ultimately strong project management is needed to coordinate and adjudicate between rival calls on scarce resources. This project management needs to understand the concerns of all parties, and to have the incentive to do so.

**1. Client Definition: Regions' vs. Center's Requirements:** This is no place to review the complexity of federation and the complicated relations between the regions and Moscow. However, Bain/VASG effectively had two distinct clients with different needs and priorities: the regions supported and the Central GKI/RPC.

**a. Centre's Desire for Data vs. Regional Suspicion:** There was a fundamental conflict between VASG as "auditor" (relaying information on results, calling for corrections of legal irregularities, etc.) and its role as trusted advisor to the regions. While Bain/VASG could work to neutralize this tension it never completely owned the workplan, nor could it resolve the lack of coordination between authorities in Moscow which further contributed to the regions' unease.

For central GKI, VASG was significant as a conduit of information – a good set of eyes and ears in the regions that could supplement information available from other sources. The corollary of this from the region's perspective was that there could be a degree of suspicion toward VASG as another agent demanding data and accountability, without necessarily providing support. Also, with little or no coordination between different Moscow authorities each requesting information from the regions,

there was also a danger of duplicative effort and a failure to present a united front. The lack of coordination between Moscow authorities (sometimes different parts of the same organization, as was the case with various departments in GKI) meant that not only was data dispersed in a sub-optimal fashion, but that the requests to the regions could appear arbitrary, unplanned and piecemeal -- with a consequent loss of credibility.

**b. Continuity of Support vs. Flexible Response:** Where GKI often valued VASG as a source of information and a resource to be deployed flexibly across as many regions as possible, the regions themselves valued VASG most when it developed a genuine and ongoing relationship over a period of months (e.g. Krasnoyarski Krai, Cheliabinskaya Oblast and Kaliningradskaya Oblast). The challenge for VASG was always to leverage its role of go-between into one of effective advisor, able to provide real assistance to the regions as well as satisfying the center's requirements for information. At times therefore, there was a tension between the continuity of support preferred by the regional "client" and the flexible response and wide geographical coverage valued by Central GKI. With finite resources it was not possible to expand both the functional "depth" of support given and simultaneously the geographical "breadth". While VASG tried to provide full service support to the regions for which it assumed responsibility, the push to increase the number of those regions (beyond the contracted 24) meant that relationships could not be developed to the same extent in all regions. This was compounded by the wide geographical spread of the supported regions; had neighboring regions been selected for support (see later discussion on macro regions) this tension could have been minimized.

The development of good relationships with the regions, in turn raised conflicts of interest and priorities. Hence, while VASG's flexibility to respond to GKI's short-term requests may have been valued by GKI, it often meant compromising commitments made to the regions themselves: the same flexibility satisfied GKI, but frustrated the regions. Moreover, as regions developed their own programs there was a natural call for more attention and resources. VASG was always aware that any region was in competition with others for the allocation of finite resources; from the perspective of any given region, however, its needs were always the highest priority.

2. **Client Definition: GKI vs. RPC vs. USAID:** If there was a tension between the role of VASG valued by the regions and that valued by the center, there was a similar disjunction between the priorities of GKI/RPC (the "taskmaster") and those of USAID (the "paymaster"). There were also competing "clients" within GKI/RPC, and these became more apparent as RPC continued to establish itself -- as planned -- as an independent and organizationally distinct entity.

Work planning around this complexity devolved entirely to the consultant, and often resulted in repeated "crunches" to ensure that competing demands were satisfactorily met. We believe that much of this effort resulted in consistent over-delivery beyond contracted deliverables. However, given the multiple nature of the client and their different agenda, it is possible to imagine a response that exploited this conflict of perspectives by "gaming the system". Moreover, the absence of tripartite meetings between consultant, "taskmaster" and "paymaster" meant that formal negotiations over changes to workplan tended to be inefficient and protracted affairs; once again the consultant was often cast as go-between. Introducing clearer accountability into reporting relationships, a clearer definition of "who owns the resources", and greater coordination and communication between the functions of "taskmaster" and "paymaster" would not only reduce the stress on consultants who seek to satisfy all constituencies simultaneously, but also reduce the scope for those adept at playing one constituency off against another. It would also free up the maximum amount of the consultants time to concentrate on substantive issues rather than procedural complexity.

On the one hand, GKI/RPC quite properly were concerned most with results and with getting access to information from the regions that was accurate, comprehensive and up-to-date. Moreover, the political volatility and the uncertainty that characterized much of the context of privatization over the life of this contract, meant that they had an interest in reserving as much flexibility as possible as to work plans and priorities. On the other hand, USAID's contracting requirements, however, demand clearly defined tasks and expected deliverables and results. At times it seemed that there was an inherent contradiction between GKI/RPC's desire for flexible response and USAID's requirement for fixed contract deliverables, known and agreed months in advance. Indeed, while GKI/RPC concentrated on the results (the "what"), USAID's reporting and auditing requirements seemed more focused on compliance with the process itself (the "how"). While commitments susceptible to audit are necessary, care should be taken not to mistake the means for the ends themselves: for instance, delivering a promised "level of effort" is not always the same as adding value to the privatization process.

In these circumstances, the more communication and coordination that can exist between the "taskmaster" and the "paymaster" function the better. Yet, at times neither of these constituencies seemed to appreciate fully the priorities of the other. GKI/RPC was unconcerned about some of the contractual implications of its decisions (e.g. proposals for using funds budgeted for regional disbursement for a program to acquire computer equipment for share registries)<sup>1</sup>, while USAID's representatives seemed at times slow to approve amendments intended to bring deliverables closer in line.

For its part, GKI's understandably insistent desire for results could lead to the situation where effort was duplicated, as was the case with the parallel development of rival GKI software packages by different consultants (Price Waterhouse and Ernst and Young) and supported by different funding agencies. GKI's justification for this parallel effort was that it resulted in faster software development. However, it introduced a confusion over standards in the regions that persisted for some time, which was further supported by the partisan championing of each standard by the rival developers. It ultimately, also, did little to foster a spirit of cooperation between the two consultants.

Likewise one could argue that the resources represented by the Voucher Auction Teams funded by the EBRD that finally (after repeated delays) were deployed in the final quarter of 1993 could have been better expended elsewhere, perhaps -- as commented at the time -- in an enhanced and expanded VASG. GKI/RPC can scarcely be criticized for gathering as much funding as possible, yet there is little doubt that better coordination between the funding agencies would in these cases have eliminated redundant or duplicated effort. Similarly, aligning the function of "taskmaster" with that of "paymaster", by giving GKI/RPC control over and accountability for its budget for consultants would remove the incentive to duplicate effort and cost in pursuit of speed. Were GKI/RPC given more direct ownership and accountability for the allocation of resources then the incentive to duplicate effort in pursuit of speed would be held in check by the recognition that resources are finite and that spending more on one project necessarily depletes the funds available for others. At the same time, however, it would be easier for it to shift resources between projects, or to redefine deliverables, as changing circumstances dictated.

These related issues resolve themselves into the questions "who owns the resources?" and "to whom are they accountable?". The reporting structure of VASG was in fact quite complicated. The contractors were managed by Bain & Company, and indirectly funded by USAID. In turn, Bain & Company reported to both USAID and to RPC/GKI, although Bain & Company never fully "owned" either the resources or the workplan.

---

<sup>1</sup> The recent negotiations to extend the funding for VASG on Bain & Company's task-order, without the professional services of Bain, provide another example of this.

Thus, certain contractors, while continuing to be funded through Bain's contract, were at times "seconded" to work directly for RPC/GKI – a re-deployment of resources that caused some confusion to work plans and to the balance of staff on the VASG teams. Likewise, Bain/VASG settled into the habit of redirecting the work streams of the VASG contractors and Bain consultants to comply better with the changing requests of RPC/GKI. Hence, scheduled visits to regions had to be reorganized to accommodate sudden requests to visit additional regions, thus prioritizing the needs of the central GKI over the ongoing relationships we sought to establish with a defined set of regions. Similarly, we tried to maintain the flexibility to accommodate any request from RPC/GKI – be it the need for a few analysts to process auction schedule data at short notice for GKI, or to support the effort to gather data on enterprises being considered for post-privatization assistance or the need for the whole of VASG to concentrate short-term on understanding the relevance and progress of investment tenders in the Federation. At times, these requests were difficult to accommodate with the ongoing commitment to particular regions. At times, they were not well communicated even by those that authorized them (for instance, the GKI Ordinance that specifically required Bain/VASG to provide support to the auction of *A0 Tomskneft* in Tomskaya Oblast was never directly communicated to Bain/VASG, and was only registered through our monitoring the publication of new privatization law.) And at other times the volume of work required by simultaneous uncoordinated requests from different clients within GKI/RPC reached unsustainable levels, resulting in serious problems maintaining the morale of the contractors and the consultants themselves.

Ultimately many of these issues could have been resolved through a more clearly defined relationship with project management at RPC, and giving that project management more involvement in contractual/budget issues. However, as the VASG contract matured, the group in fact required and received less and less attention from project managers at RPC. It became a resource that was expected to deliver results, but in which little RPC management time was invested. While this was indeed part of the original conception of developing VASG into a standalone institution to be handed over to RPC, it should be remembered that any resource not managed with regard to sustainability will soon be exhausted.

- 3. Coordination with Other Advisers:** The contract rightly calls for "unusual coordination and team work" between consultants, who should "work in a collaborative spirit, sharing information and lessons learned". It will be acknowledged, however, that this idealistic state of cooperation is somewhat removed from the usual competitive stand-off between consultants in other markets. Due consideration should be given, therefore, to measures that can foster this alien habit of cooperation.

There has been much rewarding collaboration between Bain/VASG and other consultants on this project. In particular, we have consistently exchanged information with Price Waterhouse and the National Coordinating Center: on enterprises that regions should enter in the ARAS, on cash auction methodologies and procedures and Bain/VASG has contributed information from its regions to the Securities Industry Contact Database maintained by the Funds Monitoring Group. At times, Price Waterhouse audit teams accompanied VASG teams to the regions. More particularly, Bain Link consultants were responsible for training the EBRD funded Voucher Auction Teams that were deployed in the last quarter of 1993, sharing with them methodologies and approaches that we had developed, as well as database formats. Later, Bain assisted GKI in debriefing the teams at the year end. Equally, Bain/VASG has made information on regional privatization progress available to subsequent teams of consultants (KPMG, Deloitte Touche, Arthur Andersen and British Know-How Funded banks) who have begun to work developing capital markets infrastructure and have needed assistance in either region or enterprise selection. We have also benefited from close cooperation with KPMG and the Share Registry Support Center in our work establishing an independent share registry in Murmansk.

However, the following observations can be made on how to encourage further cooperation and what the reasonable limits may be expected to be:

- Much of the cooperation has depended on working relationships established between individuals at different firms and the personal obligations that they have felt to support each other. These have definitely benefited from the regular coordination meetings that have been held on Mondays at the National Coordination Center, a forum originally established by the consultants themselves. However, since the original impetus for this forum was the shared responsibilities these contractors had on the voucher auction program, it cannot be expected that these will continue beyond June 30. Indeed, the forum is already moribund. Consideration could be given to formalizing ongoing meetings between contractors working in related areas. Not the least of the advantages of these meetings has been the ease with which new contractors (either firms or individuals) can be introduced to useful contacts at a single forum. It has also provided a useful way for USAID to communicate with its contractors; indeed the USAID connection has tended to take over from the "voucher auction work stream" as a unifying theme for these meetings. In this respect, USAID could consider continuing to bring its contractors together in order to cross-share experience.
- Coordination at these meetings might well have benefited from the consistent presence of a representative from GKI/RPC. This would have made it a forum where all three partners – consultants, "paymaster" and "taskmaster" – were present. In a similar way that it was a useful forum for introducing new consultants, it might also have provided new project managers at RPC with useful background on various consultants' activities and introductions to contacts.

Moreover, representation from GKI/RPC (together with that from USAID) would have encouraged still further cooperation between consultants. The presence of client representatives, rather than just (rival) consultants will usually moderate a better discussion.

- Coordination and cooperation between consultants is obviously easier when they are working on related but independent projects, rather than in direct competition. The example of the problems associated with the development of similar software by two different firms has already been cited. It is best to acknowledge the limits of the extent to which habits of competition can be suspended, and work within them. This will require strong project management by RPC.

The initial pilot projects on voucher auctions were split across a number of firms. This had the benefit of building a knowledge base and capability across a wide front and of mobilizing greater resources than any one firm could commit. It also encouraged the competitive development of appropriate models and approaches. The problem came subsequently in ensuring that the lessons learned were adequately pooled and collated at the end of these projects. When VASG started, Bain-Link was considerably less advanced in its understanding of the voucher auction process than other firms, and it should be confessed that some of the experience that had been gained on these other projects was not easily pooled into the new entity that was VASG. The contract may caution against the "unnecessary duplication of past efforts" but two steps are essential in order to minimize this redundancy.

- a. First, adequate time should be allocated in work-plans to codifying lessons learned and developing hand-off materials. To do this well does take time, and the funding agencies and the client counter parties should not immediately assume that this is mere padding in consultants' work-plans. It is, obviously, most critical where resources have been only temporarily assigned to the country, and may at the end of the contract be scattered elsewhere in the world.



b. Second, and perhaps more importantly, it requires strong project management -- most likely, in this context, from the RPC. Project managers who are up to speed with the development of the consultants' work, and who are authoritative enough to ensure the proper hand-off of that work. Ultimately, only strong project management can coordinate between firms and require the necessary collaboration. It is better to continue to develop the RPC management hub, than it is to expect consultants to be spontaneously cooperative. This will be even more significant as competition between firms for private sector clients continues to increase.

**4. Coordination Within the Client:** The comments above have already glanced at disjunctions within the "client": distinctions between the expectations of USAID and those of GKI/RPC, and the distinction between the regional clients and the center. However, it was apparent that there were major problems with coordination between parties within GKI. This was, of course, to be expected in such a political context. The continued development of RPC as a cohesive organization with a common purpose and a clear mandate should be encouraged as the most satisfactory solution to these internal conflicts.

## B. Managing Performance

Obviously, managing performance depends first on establishing an analytical framework within which to evaluate relative performance, and then using both incentives and sanctions to improve the performance thus defined. Developing the correct performance measures, and then identifying their drivers, also served to prioritize the activities of the teams in the regions. The leveraged activities focused on by Bain/VASG were governed by the "supply-and-demand" framework explained elsewhere in this report and briefly recapitulated here. Successful privatization is thus defined as the sale of shares in the maximum number of the most significant enterprises (variously defined in terms of charter capital or share of employment, as measures of "value") in the largest achievable share packages (meeting or exceeding legal minimums), while simultaneously stimulating demand and ensuring free and fair access to the widest number of people in order to attract the maximum number of vouchers.

Once a framework of performance measures has been defined, incentives, sanctions and comparative bench-marking can all be used to manage that performance.

**1. Developing Incentives:** Obviously, incentives were an integral part of the design of the privatization program. Various incentives (both positive and negative) were developed during the implementation of privatization and were quite clearly incorporated into the 1994 Privatization Program. These included: establishing the personal liability of heads of Administrations, Property Committees and Property Funds for the execution of privatization programs, allowing performance bonuses to be paid from the proceeds of privatization to the staff responsible for its implementation; making financial aid to the regions conditional on privatization performance; giving preference to enterprises that are at least 75% owned by the private sector in allocating foreign technical assistance and credits; and giving preferential treatment to authorities that have exceeded minimum share package requirements ("29%") when drawing up the state budget. What we wish to highlight here are those incentives that were critical to the pattern of performance management that Bain/VASG evolved in its work with the regions.

**a. Self-Financing Mechanisms as Incentive:** Obviously, organizing the sale of enterprises through auctions involved considerable cost on the part of the regions. This cost, if not somehow reimbursed, served as a disincentive to successful implementation. It might impair all privatization performance, either quantitatively or qualitatively: regions might be slow to sell property because of financial constraints

(e.g. unable to afford sufficient manpower to process documentation), or they might be unable to optimize aspects of their performance (unable to fund advertisements or develop bid reception networks). Or it might serve to focus privatization activity on mechanisms of sale that involved cash receipts (investment tenders, non-voucher auctions), thus detracting from the voucher auction program. Ultimately, this shift of focus could lead to legal irregularities as regions ignored the legal framework: for instance, the initially irregular mixed auctions in Ivanovskaya Oblast and Cheliabinskaya Oblast, or Samarskaya Oblast's irregular selling of only 24% of shares, 15% for cash and a mere 9% through voucher auction. Such irregularities may just indicate regional recalcitrance, however they may indicate a policy designed without due regard to logical, internal incentives to encourage its proper implementation.

Self-financing allowed by the 5% (and subsequently 10%) cash auctions made the incentive integral to the process itself: only by selling required packages at voucher auction could subsequent cash receipts be generated. Initially, however, this mechanism was often ignored by the regions for two reasons. First, official GKI directives on the conduct of these cash auctions were a long time in development, which left the regions without guidelines on how to realize this part of the privatization program. To overcome this, Bain/VASG developed a temporary protocol for the conduct of these auctions, and used this as a basis of its advice to the regions it supported. Second, regions were often skeptical that the mechanism could be used to generate significant revenues. To overcome this, Bain/VASG used analysis of the revenues of cash auctions relative to the number of vouchers redeemed at voucher auctions to prove that the marginal cost of redeeming vouchers was more than covered by the anticipated revenue.

In turn this analysis led to other benefits. Regions were encouraged to view all aspects of the financial management of voucher auctions as an integrated activity. Effective financial management involved minimizing costs (amortizing fixed costs across maximum amount of auction activity, negotiating aggressively with suppliers, and seeking agreements with subcontractors that made costs fully variable with the number of vouchers redeemed), maximizing revenues (through selling maximum packages at cash auctions, in lots calculated to generate the most competitive bidding) and managing cash flow. Cash flow management was especially important in the context of high inflation and was in general a concept less familiar to the regional officials. One important aspect was ensuring a steady sale of shares at cash auctions as quickly as possible after the voucher auction. Ultimately this good practice was mandated by regulations on cash auctions when they were finally published.

Lastly, the incentives provided by cash auctions could be passed down by the regional Funds to their subcontractors. This was part of a wider attempt to encourage commercial/ market principles in the conduct of voucher auctions -- what has been called "privatizing the privatization process". Rather than establish high fixed cost bases in developing bid reception networks, for example, Bain/VASG encouraged regions to subcontract these activities to agents, and to remunerate them on the basis of a fee per voucher collected, thus aligning incentives. In the most developed examples, relations were commercialized further so that the contractor was not paid a fixed fee per voucher collected at voucher auction, but one that was a function of the results of the cash auctions themselves. Moreover, the contractors receivable dates were linked to the cash auction schedule. Thus used, incentives encouraged the integration of the whole auction system, and sought to minimize "agency cost" by aligning the interests of all parties.

**b. Direct Financial Aid:** As can be expected, the prospect of financial aid was a powerful incentive for the regions and one that gave Bain/VASG considerable leverage. It also required considerable responsibility and restraint. The effective

approach was to base disbursements on identified and properly costed need, rather than allocating fixed amounts to each region or agreeing to regions' own assessment of their financial need without critical analysis. Moreover, as discussed below, financial aid was always tied to specific performance objectives. The mechanism developed by Bain Link also ensured that GKI's approval was necessary for all disbursements. Crucially, this meant that GKI could coordinate Bain Link's disbursements with other subsidies, and that Bain/VASG was always operating in accordance with GKI's agenda and priorities in this area. This systematic cooperation was further enhanced by seconding a VASG contractor to work permanently with D.V. Vasiliev's department on these issues. It is important to note that the system developed by Bain Link (and to be adopted by USAID in its projects in Moldova) placed maximum emphasis on coordination and accountability. By contrast, other aid has been disbursed by consultants in the regions that has not involved coordination with central GKI.

Disbursing financial aid in this fashion required budget analysis so as not to interfere with the self-financing incentives discussed above. The requirement was not only to provide the necessary funds to prevent privatization being slowed, but also to avoid breeding a "dependency culture", and canceling any incentives for the aggressive financial management discussed above. Other examples of financial aid – notably the generous aid that Tomskaya Oblast had received from IFC – were not considered as effective at promoting the commercialization of the process, nor indeed would "rent-rolling" have been appropriate for a broad roll-out project such as VASG. Generous financial aid may be appropriate when reforms are still being developed, and success stories rather than economy are needed; mass roll-out projects, however, to be sustainable must minimize outside financial aid and rely on internal incentives where possible.

Detailed budgeting not only involved an anticipation of likely cash auction receipts, but also allowed funds to be focused on different line items at different times in the life cycle of voucher auctions, effectively prioritizing the use of funds for the regions. Hence, early in the cycle, financial aid focused on ensuring an adequate infrastructure was developed that would serve the ongoing program. At this stage, before receipts from cash auctions were available, compensation was provided for operating expenses as well as for fixed start-up costs. In effect, financial aid was used to kick start the process. Later in the program, financial aid tended to focus much more on public information campaigns, in order to stimulate as much demand as possible. This was especially so in regions where authorities were skeptical about the value of advertising; discretion to fund particular line items, therefore, effectively allowed the consultants to override the philosophical bias of the regions<sup>2</sup>. Marketing is, after all, an essential aspect of free markets.

Financial aid was, therefore, a powerful tool variously used to coax regions to run effective programs; flexibility was key to its implementation. At times (for instance, Irkutsk) the proper approach was to use analysis to reduce the level of financing requested to a reasonable level, and thus to stimulate self-financing measures. At other times (as in the case of subsidies directed specifically at advertising) the approach was to improve particular aspects of the regions' programs, which might otherwise have remained underdeveloped. At times, the aid was used to kick-start the process (e.g. Republic of Dagestan) or to prevent the halting of auctions (e.g. Magadanskaya Oblast, where self-financing was truly impossible and where Bain/VASG approved funds were the only support the region received). One approach is never justified, however, in a roll out program. Aid should not be used by the consultant "to buy" better relationships with the regions: the end was always the

<sup>2</sup> In Lipetskaya the refusal to spend money according to the budget developed meant that the second stage of funding was not reimbursed – the region had refused to spend the money on public information as agreed.

improvement of privatization performance rather than the amelioration of the consultant's working relationships.

The last point broaches another issue. The discretion allowed the consultant in determining aid disbursement means that the consultant's own incentives have to be such as to encourage the cost-effective use of that aid. In the end, Bain and Company did not distribute the full budget allocated for regional disbursement. In effect, its conservative attitude to funding the regions in order to keep them "lean" and to encourage the development of self-financing, resulted in money saved<sup>3</sup>. Contracts need to be designed such that it remains in the consultant's interest to save money where possible. While the preparation of accurate initial budgets should be encouraged, it is ridiculous to remove any incentive to realize cost under runs where they do become possible. This is especially true in the case of discretionary spend.

**2. Ensuring Results:** Having prioritized which areas should be the focus of its work in order to maximize its impact on auction results, and understanding from the start that leveraging incentives would be important, Bain/VASG continued to learn from experience how best to improve its effectiveness in the regions.

**a. "Tied Aid": Defining Conditions:** Bain/VASG worked to ensure that as far as possible all aid (both direct financial aid and technical assistance) was conditional on meeting clearly defined targets. Indeed this approach sought to coordinate various incentives into an explicit contract. Hence, all requests for financial aid were accompanied by a detailed schedule of enterprises that were to be sold during the forthcoming quarter. Aid was then usually disbursed in two tranches, with part payment in advance and the balance payable when targets had been met and the use of funds duly accounted for.

However, aid was tied not only to the commitment to sell a given number of enterprises but to a series of other stipulations, as necessary. Hence, agreements required compliance with the requirement that at least 29% of share capital was sold at voucher auctions, except in cases subject to special legislation. Where necessary regions (e.g. Altaisky Krai) were required to offer a given number of enterprises, within a given period, for sale on the All Russian Auction System. In Lipetskaya Oblast financial aid was withheld until a particularly significant enterprise – Novolipetsky Metallurgical Plant – was satisfactorily registered for sale on ARAS. Sometimes the focus fell on guaranteeing the quality of the process by ensuring that specific legal irregularities (e.g. Belgorodskaya Oblast's restrictions on outside participation in its auctions) were corrected, or that procedures were revised to comply with regulations (most often, that the auction center operate in compliance with the regulations issued by GKI). Where necessary, protocols were signed locally which detailed the specific steps necessary to achieve these improvements. Conditions could also be agreed that concentrated on the demand side: commitments were made to open a given number of bid reception points or to retire a given percentage of vouchers.

There were cases, however, notably Khabarovski Krai where regions were unwilling to accept aid with conditions attached. The region was confident that its financial

<sup>3</sup> Exchange rates also contributed here: because Bain only reimbursed money retrospectively, after it had been adequately receipted and conditions had been met, the decline in the rouble's value effectively discounted Bain's dollar commitment. The GKI could only receive reimbursement to the amount stipulated in the original contract between Bain and GKI before incurring taxes on the additional funds. Consideration, in future, should be given to including an adequate inflation reserve in the original contracted figure so that the GKI could be compensated for the effects of inflation without incurring a tax liability.

needs could be met without external assistance and "tied aid" was, therefore, not an effective strategy in this case. Clearly other approaches were needed as well.

**b. Developing Memoranda of Understanding:** In addition to the specific agreements that governed the disbursement of financial aid, Bain/VASG habitually signed "Memoranda of Understanding" with the regions supported. The purpose of these agreements was to define clearly the mutual expectations of each party and thus to establish a "contract" that would govern the working relationship.

Typically these documents outlined what the consultants would do to assist the region and committed the region to providing all necessary data and the support required to implement the recommendations that resulted from the analysis of auction procedures. These Memoranda were signed by not only the Property Fund and Property Committee in each region, but also the Heads of the Legislature and the Administration.

While not establishing the formal conditions necessary to receive financial aid, these memoranda were considered useful for three reasons. First, they allowed VASG to meet with and gauge the potential support of the senior political figures in each region. Second, they signaled a clear commitment by the consultant to assist, rather than merely monitor, the region's performance. Third, by establishing "operating principles" for the relationship between consultant and region, they could be referred to at a later date if either party felt that the promised cooperation were not forthcoming.

As implied previously in the discussion of coordination issues, the effectiveness of these memoranda could have been increased if they had been counter-signed by the Central GKI<sup>4</sup>. This would have established a framework for cooperation between region, Moscow and consultant that would have at least recognized explicitly the expectations of each of these parties. From Bain/VASG's perspective this would also have meant that a clear mandate from Central GKI for their work could have been established at the outset. However, GKI was reluctant to enter into this standard commitment, and Bain/VASG had to rely more on ad hoc support from GKI in response to specific requests.

**c. Mandates and Sanctions: Marshaling GKI Support:** Where the conditional promise of financial aid was not enough to effect the required commitment to change in a region, Bain/VASG did indeed seek the support of authorities at GKI to threaten sanctions, if necessary.

Usually, this took the form of a letter/telegram from GKI (signed by either D.V. Vasiliev or A.B. Chubais) requiring specific corrective action or risk sanctions. Hence, in the case of Belgorodskaya Oblast's legal irregularities (restrictions on outside participation in auctions and the granting of improper privileges to investment funds), Chubais' letter was drafted to outline specific actions and consequences, including prosecutions, annulment of all auction results and the replacement of heads of privatization authorities.

Obviously, there is a limit to the number of such threats that could be requested without debasing their effect on the regions. Similarly -- as was the case with Belgorodskaya Oblast -- the threats are of little consequence if the regions doubt that they will or can be acted upon. The volatile political context of much of 1993 should be remembered: the struggle between the legislative branch (to which the Funds reported) and the executive branch (to which the Committees reported) and the tensions between Moscow and the regions made it relatively easy to contest authority with impunity. In the end it was often a passage of time and the shifting

<sup>4</sup> This did happen in the case of the early visits to Krasnoyarski Krai and Cheliabinskaya Oblast

power balance, rather than the execution of specific threats, that saw the worst irregularities annulled or fall into abeyance.

However, such support did bolster VASG's credibility in the regions: it at least established a connection with significant sponsors in Moscow. What served to undermine VASG's credibility, on occasions, was the tardiness with which some expected letters from GKI were dispatched to the regions. Often (e.g. Irkutskaya Oblast, or Arkhangelskaya Oblast) the local committee would specifically request a communication from GKI supporting a particular stance or sanctioning the contest of local legislation. The problems encountered actually getting these letters delivered could not but undermine VASG's credibility.

These breakdowns in communication highlights the degree to which VASG's mission would have benefited from the specific authority and mandate of GKI. The best example of this was the GKI Ordinance signed by Chubais that mandated that Tomskaya Oblast receive assistance, at short notice, from VASG. VASG's work in the regions would have benefited from more explicit "air cover" of this sort.

**d. Bench-marking Performance:** Another effective approach was to ensure that regions were aware that performance was being monitored, and to impress upon them that resources were limited and that priority would be given in the allocation of future aid and technical assistance programs to those regions that performed well in primary privatization. This approach made explicit the incentives of the Privatization Program itself.

While Bain/VASG never claimed an influence over this allocation process that it did not have, and certainly never made promises it could not keep, it did try to foster competition between the regions by bench-marking them against each other, and reminding them that their performance was being monitored in just such a fashion in Moscow. Not only was it hoped that this would be a spur to better performance, but it also had the result of justifying why regions should be diligent in reporting their performance on a regular basis to Central GKI.

Since Bain/VASG was responsible for producing many of the management reports used to track regional progress, it could speak with authority about this process, and was insistent that good performance was worth little to the region's future prospects if it was not clearly flagged in the appropriate reports. Moreover, Bain/VASG's access to comparative statistics on the progress of privatization throughout the Federation meant that it could challenge region's self-justifying assertions with hard data, where necessary.

### C. Institution Building

One of the primary justifications of the VASG project has been to develop an institution that could be handed off at the end of the consultant's contract as an ongoing resource for RPC. Two principles were adopted here. First, that by hiring and training Russian staff, the VASG project could add implementation capacity to the privatization program at a cost significantly lower than that required to support Western Consultants. Second, by establishing a permanent entity (with properly developed management systems), experience could be retained on an ongoing basis, rather than disappear as shorter term contracts expired. Hence, the institutionalization of experience in VASG sought both a cost and a quality advantage over the deployment of imported consultants. Moreover, while the group has developed considerable expertise in voucher auctions, and related activities, it is believed that certain skills and capabilities can be transferred to the roll-out of other developed initiatives.

**1. Leveraging Aid Dollars:** The first voucher auction held in Russia is reported to have cost in the region of \$1 million. The initial attempts at supporting the regions met with mixed success and were also expensive. These attempts involved several professional services firms mobilizing experienced project managers and some limited Russian resources in a select number of regions. There was no attempt, either by GKI or RPC, or indeed by the respective funding agencies to coordinate between the various projects. Bain/VASG thus inherited voucher auctions at a time when there were several unstandardised approaches and no consolidated pool of experience. Transferring responsibility for the regional roll-out of voucher auctions to any one single consultant would have answered this emerging need for coordination and standardization of product. However, only the leveraging of lower cost Russian resources involved in the VASG model addressed the cost issues: technical assistance, while necessary, would have been unsustainable at the same cost of those initial pilots.

The voucher auction process was designed to be technically simple and thus executable on a mass scale. Indeed, the primary objective was the speed of transition<sup>5</sup> of enterprises to the private sector: to facilitate this a framework had evolved that was mandatory and formulaic, aiming to remove complexity and discretion from the process. While the regulatory base continued to evolve further in this direction over the life of the project, an evolution to which feedback from the field could contribute, the main difficulties were in logistics, organization of work streams and sharing experience between regions. Using relatively low cost Russian resources, managed by an organization with extensive Russian market and project management experience, immediately addressed both the cost issue and the project needs.

VASG as a low cost implementation unit could play an important role in privatization in Russia. Future initiatives may fall into distinct phases. The development of models and initial pilot projects may still require (western) specialists in particular disciplines. However, once standard approaches have been developed and piloted, the success of wider roll-outs will depend on other factors. Partly success will be determined by how well defined the procedures and any enabling legislative framework is. Yet within this framework the wider roll-out will depend on the quantity of resources available (a cost issue), proven project management skills and the capability to implement standardized product at a regional level.

There are two issues that need to be resolved moving forward: keeping the group motivated and continuing to recruit and train new members to the Group. Motivation will require that the group has access to training and support so that their personal development issues are met. Paying attention to these development and training needs was vital to the success of keeping VASG to the heavy travel schedule that was demanded. It will also be important that a recruitment policy is maintained which allows new people to be brought into the group and be trained on an on-going basis to compensate for normal staff attrition.

**2. Recruiting, Training and Managing Local Hires:** There were several lessons that were learned in recruiting, training and subsequently managing the Voucher Auction Support Group. Bain/VASG was fortunate in being able to recruit many very talented and hard working individuals who were responsible for the many successes of the project and to whom much credit is due. Their success is in itself a vindication of the policy of seeking to replace high-cost Western consultants with locally hired resources.

Despite this, some aspects of recruiting process used by Bain Link could be improved, and our reflections on this, together with training and management issues, are included for the benefit of future initiatives that might embark on similar projects. Comments are

---

<sup>5</sup> At this time over 11,000 enterprises have been privatised through voucher auctions since December 1992 – a mass privatisation programme of unprecedented scope.

also included that are specific to the future of VASG, as it moves under RPC's management:

**a. Staff Mix:** In Russia, it is easier to find enthusiasm and the will to travel and work hard in the young than it is in those with more experience. These are very valuable qualities and some of the work of an implementation group (e.g. collecting data) require these qualities above all others. Experience showed, however, that regional officials were often reluctant to deal with or patronized younger members of the group. Russian organizations typically have a very strict hierarchy, which will often privilege age and tenure over ability and to which the consultant needs to defer. This means that the consultant is required to present a structure to the regional client which may differ from how the regional team might be organized for its own purposes.

In terms of the immediate future of the VASG group itself due consideration needs to be given to the most suitable ongoing staff mix and configuration of the teams. This will depend on the nature of the projects assigned to it by RPC. However, it is possible to imagine some implementation projects – particularly those involving extensive negotiations – that might be better served by senior staff at VASG only. These could be supported by ad hoc local hires of analysts where necessary.

**b. Increasing Regional Hires:** There are many highly qualified individuals who live in the regions of Russia: Bain/VASG successfully recruited lawyers from Volgograd and an analyst from Krasnoyarsk. These people offer significant advantages to the consultant and the contracting agency (USAID). USAID benefits because these people typically have much lower salary expectations than those with equivalent qualifications based in Moscow, where there is more competition and where the regional travel requirement may command premium rates. In addition to this cost saving, AID money is helping to develop regional human resources and capabilities. Local hires benefit the consultant because they bring local knowledge; and the salary offered is sufficient to make these individuals extremely enthusiastic.

On future projects junior staff could be recruited in the chosen regions -- this would greatly reduce the travel burden of a large percentage of the group. Perhaps the most important advantage, however, is that the consultant group could demonstrate that they are not just some "Moscow based" lackeys of central Government but a group engaged to serve the needs of the region and committed to developing local resources.

It is, however, important to recognize the trade-offs with regional hires. They can, of course, be inflexible resources when much travel is required. This is obviously opposed to the principle of developing easily transferable experience and knowledge. Moreover, if they are unable to travel, and on-the-ground management is not permanently in place, the situation may arise where local talent is insufficiently utilized for lack of direction. This certainly seemed to be the case with some local support developed by the IFC in the regions they supported early in the process.

**c. Recruiting Cannot Be Hurried:** Recruiting is vital to the success of any implementation project and it is important to get the right mix of staff and the best quality people available. Bain & Company was fortunate in having significant experience in recruiting in Russia and, therefore, was able to lever these contacts and sources in the staffing of VASG. This allowed a critical mass to be built quickly, whilst a standard recruiting drive was organized. In the early days of the project, however, notwithstanding some very swift hires, there was significant pressure from the GKI and RPC to gear up quickly and this did lead to the occasional sub-optimal recruitment decision. It is important that all parties involved in similar future projects understand that these recruitment issues will be critical to future success and that --



within reason -- delays in recruiting may actually be of positive value to the overall project.

Having recruited particular staff, Bain/VASG was severely restricted in maintaining an ongoing recruiting policy to try to improve the quality of resources. High turnover among qualified staff is a common problem in Moscow, and deliberately churning staff in pursuit of quality is a high risk strategy. Moreover, to attract people initially twelve month contracts had to be offered, which could not easily be terminated. And as the project progressed it became increasingly difficult to attract the very best people because shorter and shorter contracts had to be offered. One of the strongest arguments for incorporating VASG into RPC is that it can continue to attract and retain the best talent<sup>6</sup>, while being able to manage under-performers more aggressively over a longer term. Since Bain & Company's contract required a minimum number of contractors to be maintained at all times, and replacing staff was hampered in the short-term by the end-of-contract horizon, staffing had to focus more on retention and development than on tapping new talent.

**d. Work Planning:** Work planning in Russia is very difficult, because of the many logistical hitches (canceled flights, etc.) which the consultant may encounter. This was additionally complicated by the competing demands of the various clients on the time of the consultants (discussed above). Managing a group of inexperienced consultants in this environment requires that the consultant think not about what he wants to happen but about what he cannot allow to happen and plan accordingly. Contingencies should be built into work-plans to compensate for this unpredictability.

**3. Retaining and Sharing Experience:** As discussed one of the principles of the VASG project was that experience should be retained and shared across as many regions as possible. This involves developing both people and product and two points should be noted. First, having recruited and trained VASG it is important to retain as many of those people as possible. Second, while retaining experienced staff is critical, it is important to codify experience and lessons learned into transferable standard products that can address a wider audience.

**a. Retaining Experienced Staff:** VASG organized regular experience sharing sessions within its own group to ensure that there was as much debate and cross-fertilization of ideas as possible. However, on so long a project, with the heavy travel burden demanded, continued motivation and retention of staff needed to be addressed. Several techniques were used.

- The staff contract allowed for a bonus of up to 40% of total salary after a year of service; this was a powerful financial incentive.
- In addition a special hardship bonus was paid to those consultants who had to travel through the winter in Siberia and the Far East.
- Regular performance reviews and skill-planning sessions were conducted with each contractor. As far as work plans allowed, tasks were assigned with due consideration to the contractors' development objectives. Obviously, this not only helped to motivate staff but improved the overall capabilities of the group.
- Teams were increasingly configured more flexibly. As the work became increasingly familiar to the consultants, the chance to work with other team leaders in regions with perhaps slightly different issues, could stimulate renewed interest. This policy also allowed for further experience sharing between individuals in the group.

---

<sup>6</sup> As contractors, USAID was unable to fund any fringes on base salary. While this made the VASG contractors very economical hires, it meant that paid vacation, health and even travel insurance could not be paid. RPC will be able to offer these fringes once the VASG staff are permanent employees.

**b. Developing Transferable Standard Products:** In the early stages of the project VASG looked to identify the activities that would be most leveraged in the regions. Thus a standardized framework for approaching work in the regions was developed. The next step was to codify experience as standard products. Some of these manuals and documents were made available to the regions, while other frameworks were for internal purposes only. The work began with the drafting of "The Voucher Auction Manual", and over the course of the project documents on cash auction procedures, public information campaigns, bid reception networks, and most recently shareholder meetings and corporate governance were drafted and made available to the regions. Similarly, in making these materials available to and helping to train the EBRD-funded teams, Bain/VASG sought the widest possible dissemination of these techniques.

This standardization of product responded to the demands of the mass privatization program as it developed in Russia. Just as the legal and regulatory framework mandated a standard approach (formulaic asset-based valuations, standard contracts, standard privatization plans and corporate charters etc.), so Bain/VASG sought to develop product and procedures that were widely transferable between regions.

**4. Regional Selection:** Another aspect of this systematization and standardization was the development of a disciplined, and data-driven, approach to regional selection. By defining and tracking key performance measures, a framework was developed through which to recommend regions for support. This sought to objectify decision criteria that had previously appeared arbitrary or discretionary. While GKI remained the decision maker in regional selection, and while political considerations could always intrude, Bain/VASG's recommendations on regional selection were increasingly accepted without further discussion. Indeed, the regions finally selected for the EBRD teams, although they were finally sanctioned and modified by D.V. Vasiliev, were largely those recommended by Bain/VASG.

The decision criteria themselves were not revolutionary. Performance relative to potential was measured (in terms of both vouchers redeemed and assets sold), as well as the state of development of voucher auction infrastructure and the level of assistance previously provided by other consultants. Also monitored was the willingness of regions to accept external assistance: technical assistance was always more effective where regions were ready rather than reluctant to receive support from outsiders. Two general principles emerged from this work:

- "Self-selection" in this regard should continue to be an important factor in allocating future aid resources. The most willing are often the most worthy recipients. Consideration should be given to ways in which commitments can be exacted from the recipients as a guarantee of good faith cooperation. Such commitments were made explicit in Bain/VASG's memoranda of understanding (discussed above) and in the context of post-privatization assistance to enterprises could include the promise of senior management allocation to the project or even nominal co-payment by the enterprise.
- The development of clear criteria introduces transparency into the decision-making process. As with the selection of enterprises for post-privatization assistance (work in which Bain/VASG assisted), fierce competition for limited resources demands that the "selection rules" are clearly communicated to the competitors and are seen to be followed. Apparent arbitrariness can lead to accusations of foul-play on the part of unsuccessful applicants: clear communication and open competition are the best way of managing the downside of this frustration.

#### **D. Voucher Auction Implementation Techniques**

As discussed, stimulating the auction process requires the consultant to pay attention both to the supply of and the demand for assets. The problems faced in regions depended often on the imbalance of these factors – i.e. the balance between population (latent demand) and the amount of enterprises (the supply of shares to be sold at auction). In some regions (e.g. Republic of Kareliya), the population is relatively small and there was a quantity of attractive enterprises, which meant that work focused on capturing as much of the demand as possible and extending the catchment area for sale through national and inter-regional auctions. In other regions (e.g. Lipetsk) the consultants had to focus much more attention on ensuring that the enterprises in the region were sold at all, and that the legal requirements to sell 29% at voucher auction and 80% in total for vouchers were met.

**1. Managing the Supply of Assets:** There were four common reasons for obstructions to the supply of enterprises. It is expected that these would be encountered in similar privatization efforts elsewhere.

**a. Central-Regional Dynamic:** There were several regions supported by Bain/VASG that had significant amounts of Federal Property relative to that in local ownership (e.g. Irkutsk and Krasnoyarsk) and this often resulted in long delays in the preparation of documents and consequently in the sale of these assets. In some instances, the Central GKI in Moscow was very slow at processing<sup>7</sup> decisions, in others it was the Federal Property Fund that either delayed the sale or in some cases even sold the enterprise through its own agents without the participation of the region in which the enterprise was located (e.g. *Kramz* in Krasnoyarski Krai). Bain/VASG was able to draw long processing delays to the attention of the GKI in trip reports and to act as courier on letters so that receipt was ensured. The political environment in which the project was implemented did not allow for a strong relationship to be maintained with the Federal Property Fund and this meant that Bain/VASG was unable to accelerate the sale of these enterprises.

**b. Political reluctance:** Bain /VASG encountered frequent political resistance to the voucher auction program. This varied from philosophical objection to privatization in general to arguments against the program as adopted in Russia: e.g. that inappropriate valuations were used or that there was not enough attention to the investment needs of the enterprises. This did not necessarily come from the local government, in many instances there was a powerful lobby from enterprise directors who were able to put obstacles in the way of the auction process. Since the corporatization process depended at least on the tacit acquiescence of the enterprise director (because of the need to produce a valuation) the enterprise director who wanted to delay the process could do so relatively easily.

In these cases, Bain/VASG was able to address this by responding to some of the concerns of the regional enterprise directors: seminars were organized in several regions, ad hoc advice and explanations were tendered concerning what western financial investors regard as critical. These approaches allowed some enterprises to be forced through the system somewhat quicker. They also highlight Bain/VASG's approach of explaining the ends of the privatization program and elucidating its wider context. This approach was codified in the guide on principles of corporate governance and shareholder relations that Bain/VASG wrote in response to the regions' request.

**c. Lack of enterprises:** Bain/VASG served many regions (e.g. Chitinskaya Oblast, Republic of Buryatia) which both did not have many enterprises to offer for auction

<sup>7</sup> For example: in Murmansk the documents of *Murmanski Khledokombinat* have been under consideration at the Federal GKI for two years, and no decision has yet been reached on its privatisation. In Rostov-on-Don the documents of two enterprises (Rostov Electromechanical Appliances Bureau and Beriev Design Bureau) were considered for two years: the only result was a contradictory determination of the stakes that should remain in state ownership (38% vs. 25.5%)

and those that were available had a low capitalization relative to the number of vouchers issued in the region. Bain/VASG addressed such situations by persuading the regional authorities to offer the largest share packages possible in these enterprises and to increase the supply of enterprises available locally by aggressive participation in the National Auction System as agent.

**d. Inadequate Information Management Capabilities:** In many regions the quality of information available to the local Committee or the information systems maintained by the Property Fund were insufficient to ensure that enterprises were sold within the time constraints set by legislation. There was no clear list of enterprises to be privatized during the voucher auction process and there was often confusion about what should happen with enterprises that had either been leased to employees or that were in the agro-industrial complex and thus subject to special legislation. In the absence of adequate inventorying and tracking systems, managing the pipeline of assets for sale bordered on ad hoc in the worst cases.

Moreover, without proper inventorying systems it is difficult to establish and then track to aggressive (or even mandated) targets. Worse still enterprises disappear from view. Hence, in Krasnoyarski Krai, (where Bain/VASG carried out a special piece of analysis for the GKI) it became evident that there were enterprises which had not re-registered when the determination of property ownership had taken place. These were, therefore, not on any inventory of assets subject to privatization. In many regions, where authorities were less diligent in abiding by legislation than Krasnoyarsk, the number of enterprises not appearing on the privatization radar screen could be much higher.

Bain/VASG's response was to maintain databases of enterprises subject to privatization in the region. These not only (although they were never all-inclusive) served as basic inventories, but they allowed tracking of privatization status: how much share capital had been sold out of state hands and how much had been acquired for vouchers. This sought to track all share sales: closed subscription, FARP reserves, voucher auctions, cash auctions and investment tenders. This allowed Bain/VASG to argue that not only new enterprises, but supplementary share packages (in order to meet the 29%-at-voucher auction and 80%-for-vouchers minimums) were put up for sale. Subsequently, these databases were expanded to include information on enterprise contact numbers and compliance with corporate governance issues (shareholder meetings and use of third party registrars).

Bain/VASG is handing these databases (incorporating information on over 5,000 enterprises) to the RPC. It is hoped that they will be integrated into the evolving information management systems of that organization.

**2. Stimulating Demand:** There were five issues that were frequently encountered on the demand side of the equation:

**a. Logistical Issues:** Many regions in Russia are bigger than countries in Europe and have relatively poorly developed communications. The deadlines on the publishing of voucher auction results intimidated many regions, inexperienced in organizing auctions, to the degree that they were not prepared to expand the number of points at which they collected vouchers to cover the most remote rural regions for fear of falling victim to logistical problems when the time came to sum up results. Additionally, there was significant confusion in the early stages of the voucher auction process about the procedures that should be adopted in handling the voucher. This confusion meant that the Funds in turn were hesitant to delegate responsibility for voucher auctions to sub-contractors which could otherwise have been used to expand the geographical coverage of bid reception points.

**b. Cost Issues:** The most common response to Bain/VASG argument to increase the number of bid centers in any particular region was that the Fund could not afford this. In practice, Bain/VASG was able to leverage their experience to 1) identify potential service providers; 2) negotiate service contracts on a fee-per-voucher basis (thus, an entirely variable cost). In most instances, this arrangement was significantly cheaper than the price that the Funds had been paying to existing contractors (almost always on a fixed payment basis) or the cost that Funds had incurred in conducting this work themselves.

**c. Ignorance of Successful Approaches Adopted Elsewhere:** In many regions, the Fund and Committee were simply unaware of some of the initiatives which had been implemented successfully even in neighboring regions and how this could be repeated. Most regions, for example, were aware that Sberbank was the easiest way to set up a bid center network, yet if this failed they did not necessarily think to approach alternative service providers: post offices, other commercial banks or the local committees which had become less busy with small scale privatization. This was a major problem in many regions because relations between Sberbank and the local committees were often soured by disputes about payment for the work undertaken in distributing the vouchers in the first place.

**d. Internal Political Opposition:** Bain/VASG encountered some situations where the lack of a consensus over voucher privatization at a local level resulted in the Fund finding it difficult to find space for auction centers or not being able to rely on political support in negotiations with contractors or media suppliers. Often this problem could be reduced to one of cost, and was resolved when analysis could be produced that proved that the marginal cost of improving the program could be met from the proceeds of cash auctions.

**e. "No Vouchers" Syndrome:** In many regions where the assets to be sold were both few and unattractive, (e.g. the Republic of Buryatia) there was tendency to respond that there were few vouchers left in the region and, therefore, establishing systems to collect them was an unnecessary expense. This argument was rarely substantiated when analysis of the actual number of vouchers collected was conducted – especially since the regional funds rarely had results of surveys or other analysis justifying their contention that vouchers had been invested outside the region.

**3. Developing Relationships with Regions:** While a developed framework to approach the work is necessary, success also depends on the strength of relationships established with the regions. At all costs the consultant must avoid being regarded as the Government inspector who should be flattered for a short period and dispatched back to Moscow with the minimum of information. The following should be considered:

**a. Operating In "Macro-Regions":** By "macro-region" we understand those groups of oblasts that are geographically close and may be expected to share general characteristics as well as have close communications with each other. These may or may not exactly correspond with the standard 13 groups of regions commonly used by the Russian administrative bodies. Where the original voucher auction support teams were assigned individual regions, VASG came to support some 29 regions (chosen for various reasons, at various times) and to share experience across these regions. Future projects that involve several teams working in multiple oblast would be best focused on these macro-regions. As well as logistical synergies, relationships will benefit from the contact between officials in these areas and the strength of word of mouth recommendations. VASG certainly benefited from these recommendations in its work in Siberia, where personal contacts between the officials in Krasnoyarsk and other regions meant that VASG was invited to assist other regions on specific issues.

- b. Demonstrating Commitment:** The consultant should be careful to demonstrate its commitment to helping the region. This is particularly important where the consultant has been sent rather than invited. Particularly important is the time that the consultant spends on the ground: frequent traveling to and from the region serves only to emphasize the Moscow-region divide.

Obviously, the geographical spread of VASG's regions made frequent travel unavoidable, but this should never intrude on the working patterns of the host region. At times this will make extraordinary demands on the consultant – frequent "red-eye" flights (especially with the time zones in Russia) and weekend work. However, such commitment is invariably appreciated and does much to establish credibility and trust.

The consultant should also be sensitive to the region's own concerns. As discussed, VASG encountered a frequent conflict of agendas between the priorities of the region and those of Moscow. The consultant should be careful not to exacerbate this tension by making commitments that cannot be kept, or fall prey to future changes in workplan. One of the key tools for establishing credibility is to deliver on all promises: financial aid, promised materials, additional effort. Often the regions we visited were skeptical of this ability to deliver (e.g. Irkutskaya Oblast, Magadanskaya Oblast) – a skepticism hardened by previous broken promises. In this respect, consultants should never forget that others will have to come after them: broken commitments will merely breed suspicion of future assistance efforts.

## ALTAISKY KRAI: FINAL REPORT

## TRIP DATES

July 22-23, 1993  
 August 3-12  
 August 16-20  
 September 13-17  
 December 13-17  
 February 15-18, 1994  
 March 28  
 May 25-27

## AUCTION RESULTS

The basic statistics on the auction performance of Altaisky Krai are outlined below. These statistics do not however tell the whole story on the involvement of the Voucher Auction Support Group in the region. Although the region was progressive in terms of the number of companies that were sold, little attention was paid to maximizing the share package that was offered at voucher auction. This is best demonstrated by the 47% average packet offered after VASG's work with the region. This compares very favorably, not only with existing legislation but also with the performance of other regions.

	Total In 1993/4	Prior To VASG	Post VASG
Number Of Companies	305	74	231
Number Of Voucher Auctions (incl. Repeat sales)	461	81	380
Charter Capital (000s R)	5,175,316	1,428,298	3,747,018
Offered For Sale (000s R)	1,999,873	239,000	1,760,873
Percent Of Charter Capital	38.64	16.73	46.99
Charter Capital Sold	1,934,339	347,890	1,586,449
Percent Of Charter Capital	37.38		
Vouchers Collected at Voucher Auction	601,872	260,992	340,880
Auction Rate	3.21	1.33	4.66
Vouchers collected at Closed Subscription	412,859		
Vouchers Collected By Other Means	279,290		
Vouchers Collected ARAS	22,071		
incl: Krai based Companies	9,230		
Non Krai Companies	12,841		
Vouchers Collected Total	1,293,044		

## ENTERPRISE PIPELINE

The first visit to Altaisky Krai was a particular success. The Voucher Auction Support Group was invited to the region to work on the development of an auction center, but was able to focus significant attention on establishing a pipeline of enterprises. There was a considerable tension between the Property Committee and the Property Fund in the region-based not on differences on the need for reform, but rather on how reform should be

brought about. Perhaps unusually in the pre-October period, it was the Property Fund who were attempting to follow Federal legislation to the letter.

VASG, Territorial GKI and Property Fund jointly developed VA schedule valid until December 3, 1993 which became the basis for financial assistance. In Altaisky Krai, VASG also pioneered the use of staged financial assistance making the bulk of financial assistance dependent on performance.

This schedule included:

Number of auctions	276 (including companies previously offered at VA)
Charter Capital ('000s. R.)	4,087,818
Offered For Sale at VAs ('000s.R.)	1,204,477 903
Percent of Charter Capital	29.47%

#### AUCTION CENTER

As stated above, the primary reason for VASG being invited to the region was to work with the regional Property Fund to establish an auction center. Prior to the arrival of VASG, bids were accepted on the fourth floor of the Administration building in Barnaul.

VASG helped to find and renovate a building and opened the Auction Center on September 17, 1993. This involved negotiating the release of space by its current occupant, planning the lay out of the center and supervising the renovation work.

The Auction Center was established as a structural subdivision of the Property Fund.

The primary function of the Auction Center is to registers bids and receive privatization vouchers. In addition, because of the excellent security at the Center, staff cancel vouchers, enters data on submitted bids and vouchers, calculates results and sets auction rate, notifies winners and losers, returns vouchers on losing bids.

The Voucher Auction Support Group also provided training to the staff of the local Property Fund on the recruitment process and provided standard tests for use at these interviews. 19 people were recruited to the Auction center to work in shifts. the Auction center works from 9 a.m. until 8 p.m. from Mondays to Fridays and to 6 p.m. on Saturdays.

#### NETWORK OF BID CENTERS

In total, before the arrival of VASG in Altaisky Krai there were technically six places where a citizen or an investment fund could tender vouchers. The huge geographical area of the region and the very poor internal infrastructure meant that in winter the opportunity for the significant rural population of the Krai to tender their vouchers would be very limited.

##### VASG role:

VASG was able to lever the possibility of financial assistance from GKI to the region into a commitment to open a wide network of bid centers. A network of bid centers was set up at all district GKIs, jointly with Territorial GKI and Administration. The VASG team lawyer prepared and organized the signing of 70 agreements between Property Fund and district GKIs. In addition, The Altaisky team was able to agree with the Savings Bank that they should also participate in the auction process. This allowed for the opening of several more centers within Barnaul, which increased the convenience of tendering vouchers in the capital city.

VASG was able to persuade both the regional Property Fund and the contractors that remuneration should be on the basis of the number of vouchers received, thereby ensuring that all contractors were incentivized to maximize the number of vouchers retired. the



problem of inflation was addressed by concluding contracts which allowed remuneration to go up at a rate of 10 percent a month.

### ADVERTISING CAMPAIGN

#### Situation prior to VASG visit:

Before VASG arrived, the Fund would place only mandatory legal notice and published the *Sobstvennik* bulletin.

#### VASG role:

Again, VASG was able to lever the region's desire to receive financial assistance by insisting that a significant proportion of any aid received would be spent on publicizing the voucher auction program. Information and publicity spending was fixed at 26,700,000 rubles in the budget that was submitted to GKI for approval.

The VASG team was able to ensure compliance with the terms of this budget by concluding contracts with *Altayskaya Pravda* (a daily newspaper), the local radio and the local TV.

In addition the team worked with the advertising specialist of the Fund to arrange the installation of two billboards; advertisements were also painted on trams and trolleys buses. Barnaul was also the first region in which VASG prepared flyers about the opening of an Auction Center. VASG designed, arranged the printing and distributed these through the Post Office.

### LEGAL ASPECTS

#### Situation prior to VASG visit:

Prior to the arrival of VASG there were several major violations of law and good practice in the auction process in the Krai. The most blatant violations included:

- failure to comply with Decree 640 on sales of 29 percent of shares at VAs;
- failure to comply with Decree 1229 on sales of 80 percent of shares for vouchers;
- shares never sold at VAs at rates lower than face value;
- closed subscription payment in vouchers - less than 50 percent.

The region had almost been given up by GKI as one where observance of good auction practice was unlikely. GKI had themselves issued an order which allowed the region "to adapt the auction process to the specifics of the Krai" in a form of "direct investment". No further definition was available but its principles as outlined by the local Committee head contradicted good auction practice.

#### VASG role:

Prior to agreeing to work in the region, VASG concluded a Memorandum of Understanding with the Krai which set targets of the number of companies that should be sold and agreed that the Krai would move to good auction practice as defined by legislation and what had been successful in other regions. VASG was able to take steps to eliminate the violations listed above both by negotiation and in return for processing the region's financial request.

The VASG lawyer worked closely with the Fund and the Committee to develop a series of documents which acted as guides for the actions of privatization officials in the region.

ALL RUSSIA AUCTION SYSTEM
---------------------------

Situation prior to VASG visit:

Prior to VASG's visit to the region, Altai Krai had never participated in national auctions either as a provider of companies or as a seller.

VASG role:

Property Fund established contact with National Coordination Center and began to participate in all national auctions.

In addition, the Krai submitted two companies to national auctions (also a requirement of VASG assistance):

Company	Closing Date (000s Rubles)	Charter Capital	Submitted to VA
Altrakt	October 13 562,123		163,015.7
Melanzhist	October 13 325,411		94,369

CASH AUCTIONS
---------------

The region frequently greeted VASG with complaints about being hard up and not being able to finance the voucher auction process. VASG carried out an analysis of cash auctions in the region. This showed that these auctions were more than capable of financing the auction process in the Krai, but that the region was not organizing them quick enough after the voucher auction. VASG was able to design a process for the Krai which allowed the cash auction to take place one week after the close of the voucher auction. This not only accelerated the receipt of proceeds by the Krai Fund but also saved on advertising costs.

	Total In 1993/94	Prior To VASG	Post VASG
Number Of Auctions	283	26	257
Total Revenue	338,390,660,000		
Revenue Per Voucher	1046.77 Rubles		

AID AREAS
-----------

VASG role:

VASG recommended and administered the provision of financial aid to the region on the basis of a budget submitted to GKI.

This budget included spending amounting to 55,237,000 Rubles. This budget was approved, and included an initial payment of 27,618,000 Rubles, the balance being contingent on performance.

VASG negotiated the following terms for release of the second aid installment:

- a minimum of 150 companies to be sold by November 15th
- companies to be sold at VAs with 2 billion-Ruble total CC;

POST-PRIVATIZATION ASPECTS
----------------------------

VASG role:

VASG also tried to provide as much assistance as possible to enterprises going through the privatization process. VASG consulted the Deputy Director of Economics Department and Securities Department Head, AltaiTransMash joint-stock company, and representatives of Alfoks investment company, which is a registry for Altaikoks joint-stock company.

Further steps recommended:

VASG believes that in common with other regions, Altai will need technical assistance in:

- shareholder meetings; (met by the issue of the VASG manual)
- share registers;
- management of joint-stock companies;
- setting up the infrastructure for a secondary security market.

CURRENT PRIORITIES
--------------------

Continued attempts on the part of the local government to interfere with the process of privatization in Altai Territory, will require GKI to maintain permanent control over compliance with legislation.

## ARCHANGELSK OBLAST: FINAL REPORT

## TRIP DATES

May 2, 1993  
 August 26 - September 7, 1993  
 November 21 - December 3, 1993  
 February 21-25, 1994  
 April 26-28, 1994  
 June 20-21, 1994

## AUCTION RESULTS

Archangelsk was very slow in beginning the voucher auction process mainly because of political differences between the Committee and the Fund. VASG's first reconnaissance visit to Archangelsk gave the impression that there was little leverage in assisting or trying to assist this region. Respect was hard earned in Archangelsk and it was only the release of financing from the GKI and significant assistance in developing the infrastructure, in post-privatization advice and in cash flow management assistance that allowed VASG to gain real credibility. Notwithstanding this, the before and after of VASG assistance does show that there were significant benefits to according the region technical assistance.

	TOTAL IN 1993-1994	PRIOR TO VASG	AFTER VASG
Number of companies	151	37	114
Number of lots	210	37	173
Charter Capital (r.)	4,511,765,000	500,796,000	4,010,969,000
Submitted to VA (r.)	872,758,000	119,824,000	752,934,000
Percent of Charter Capital	19.34	23.9	18.77
Sold at VA (r.)	837,107,000	113,946,000	723,161,000
Percent of Charter Capital	18.55	22.75	18.02
Vouchers collected, VA	505,728	111,491	394,237
Auction rate	1.66	1.02	1.8

VOUCHERS COLLECTED IN THE REGION	NUMBER OF VOUCHERS
VA	505,728
Closed subscription	170,328
Otherwise	48,576
Total	724,632

## ENTERPRISE PIPELINE

Pre VASG

Auctions were proceeding very slowly as a result of delays in processing at the Committee because of political opposition from the management. There were also delays at the Fund. The Fund was strongly influenced by the local legislature which was sympathetic to the left wing in Moscow. This resulted in large stakes being retained in enterprises "for emphasis".

Post VASG

VASG was able to work with the region in order to put together the first pipeline of auctions. VASG was able to act as an intermediary between the Fund and the Committee and

ensure that documents were transferred in a timely and efficient way and that the auction timetable truly reflected the date at which documents were passed to the Fund. The auction schedule that was drafted for the period between September 20 and December 23, 1993 comprised 61 companies with a total Charter Capital of 3,480,640,000. The total charter capital offered was 467,077,000 rubles, or 13.42 percent of the Charter Capital. The low average share packet is explained by special legislation on the privatization of timber and shipping companies. There are Ordinances of Central GKI restricting the amount available for sale in both these industries. This is a particular issue in Archangelsk oblast as these are the two main industries.

VASG was able to keep a momentum behind the sales by additional assistance to the Oblast. Between December 24 and April 2, 1994, a further 69 companies went through Voucher Auction with a total Charter Capital of 1,320,590,000 Rubles. The charter capital that was offered for sale amounted to 162,907,000 (12.33 percent) 58,077 vouchers were collected at an auction rate of 2.72, during this period.

#### **AUCTION CENTER**

##### Pre VASG

Prior to VASG arrival there was no auction center. There was a room on the fourth floor of a commercial bank building that served as a bid point. This was poorly sign-posted and also served as a point where individuals could sell their voucher for cash. What's more the bid point kept very restricted hours and had poor security.

##### Post VASG

VASG was able to negotiate with the Committee to ensure that space was made available for an auction center. VASG recommended the Fund to sign a contract with its previous contractor, INGA investment company to manage all Voucher Auctions in Archangelsk Region, to run this auction center and the bid center network. The Fund signed a contract which replaced the fixed cost deal that INGA received with an incentive based scheme based on payment for every voucher received.

#### **BID RECEPTION NETWORK**

##### Pre VASG

Prior to VASG arrival, the region had only the one bid center described above. Additional centers were set up on an as needed basis at the sites of privatizing enterprises.

##### Post VASG

VASG drafted a contract to open bid reception centers with Rosselhozbank branches, and in local Committees and investment agencies. This contract was between INGA and subcontractors, therefore establishing INGA as general subcontractor. INGA was incentivized to maintain this network by receiving a commission on each voucher received through the network although they had only to account for these to the Fund.

As in most regions, bids are still mainly received in the Auction Center and through a handful of points in larger towns but the region now has 26 operating bid reception centers – a significant improvement on what was available prior to VASG assistance.

#### **ADVERTISING CAMPAIGN**

##### Pre VASG

As in most regions the Fund believed on saving money on advertising and that it brought little real benefit. As a result there was no publicity about auctions except that minimum which was prescribed by law.

#### Post VASG

VASG used the advantage that being able to provide financing offered to show the region why advertising paid. The budget that was drawn up by VASG ensured that the Fund spend 18,932,700 on advertising. This brought benefits in the cash auctions and the subcontractor once properly incentivized soon began to spend money on advertising.

VASG also assisted in planning a "round up" publicity campaign on voucher privatization by drafting an extra plan boosting promotional adverts in the newspapers, in radio and TV. The focus was on local press and prime time media: reports were featured 5 days a week in all morning radio shows, and three days a week in the evening TV shows

VASG also arranged and organized 8 billboards with information about the Auction Center location.

### LEGAL ASPECTS

#### Pre VASG

There were a series of legal violations in Archangelsk:

- failure to abide by Ukaz 640- 29% minimum at voucher auction
- failure to abide by Ukaz 1229- 80-% for vouchers
- auction center violations
- processing delays
- information requirements not being met
- retaining a minimum 20% state interest
- auction rate not allowed to fall below 10

#### Post VASG

VASG was able to draft auction timetables which took account of the Ukazes on minimums to be sold for vouchers. In addition VASG worked with the Committee to draft a letter from the Oblast Committee to central GKI requesting that shares retained in state enterprises in Federal enterprises be allowed to be sold for vouchers.

### ALL-RUSSIA AUCTION SYSTEM

#### Pre VASG

The region was slow to realize the benefits that could be received by participating in ARAS either as an agent or as a principal.

#### Post VASG

VASG was able to persuade the region that there were advantages to participating in ARAS. The region has become quite active in ARAS both as an agent and as a principal. Five regional companies with a total Charter Capital of 2,124,600,000 were submitted to ARAS, including the two highest profile regional companies: Northern Shipping Lines (957.9 million rubles) and Archangelsk Paper Plant (708.2 million rubles).

### CASH AUCTIONS

Pre VASG

There was no schedule for holding cash auctions and the Fund preferred to complain about how many financial problems it had rather than use the mechanism which had been set up by GKI to address this issue.

Post VASG

VASG was able to use analysis of the financial position of the Fund and the potential that cash auctions offered to ensure that the Fund began to place a lot more weight on holding cash auctions quickly. Ten-percent cash auctions are now held 4-5 weeks after Voucher Auction results are finalized, and their ads are placed along with Voucher Auction ads. 132 cash auctions have been held raising 296,662,538 Rubles for the Fund. The average revenue per voucher received is 714 rubles for each voucher.

<b>CURRENT PRIORITIES</b>
---------------------------

Local privatization agencies plan to continue supporting privatized enterprises through facilitating direct investment and offering advice on managing a JSC.

VASG believes that the region will require additional technical assistance in the following areas:

- shareholder meetings;
- shareholder registers and third-party registries;
- JSC management;
- setting up secondary securities market infrastructure.



## BELGORODSKAYA OBLAST: FINAL REPORT

## TRIP DATES

August 31-September 12, 1993,  
November 16-19, 1993,  
December 14-17, 1993,  
April 5-8, 1994,  
June 1-3, 1994.

## AUCTION RESULTS

Before the VASG's first visit to Belgorodskaya Oblast, six voucher auctions were held to sell 48 enterprises with total charter capital of 354 million rubles. The average share package offered at the voucher auctions was 14.8%. This was due to a decision of the Oblast Soviet of People's Deputies *On Measures to Ensure Equal Conditions for Voucher Sales with Respect to the Persons Needing Special Social Protection as well as the Budget Sphere and State Enterprise Workers* dated May 18, 1993. VASG succeeded in persuading the Administration to cancel the above decision. This positively affected the voucher auction process in the region, as share packages of not less than 29% were then offered for sale at voucher auctions. In addition, the voucher auction process was considerably intensified. In accordance with Resolution #269 of the Head of Administration of Belgorodskaya Oblast dated May 19, 1994 *On Measures Concerning Completion of Voucher Privatization and Guaranteeing the Use of Vouchers by the Population*, the State Property Control Committee developed a pipeline. In accordance with the Resolution, the share packages of another 80 enterprises with total charter capital of about 320 million rubles, and 90 enterprises of the agro-industrial complex were to be sold at specialized voucher auctions before June 30, 1994.

Belgorodskaya oblast is a region with surplus vouchers compared to the quantity of assets for sale. In addition, some of the local decisions decreased the amount of property offered for voucher auctions at the beginning of the process. The reluctance of the local administration to cancel its decision and strained relationship between them and the federal authorities for a long time made it impossible for the region to obtain GKI aid.

By June 1, 1994 179 enterprises with a total charter capital of 4,228,445,000 rubles were sold at 25 local voucher auctions; 931,053 one-thousand-ruble shares were sold in 199 lots. The average share package offered for sale was 23.5%. On average, 2.3 auctions per month were held. The regional privatization bodies did well in establishing their own pipeline management tools which allowed them to increase the pace of the process and reduce costs.

Legal, but irregular, share packages of three large enterprises were offered at voucher auctions:

*Belenergomash* - total charter capital of 357,456 thousand rubles, 3% of shares offered at voucher auction;

*Belgorodvitaminy* - total charter capital of 275,000 thousand rubles, 5% of shares offered at voucher auction;

*Belgorodnefteproduct* - total charter capital of 157,702 thousand rubles, 8.2% of shares offered at voucher auction.

A major share package in *Belgorodvitaminy* was assigned to the State. Shares of the other two enterprises were sold in accordance with legislation governing the sale of enterprises of the energy, fuel and oil complex.

By June 1, 1994 a total of 850,000 vouchers (60% of the vouchers distributed in the region) had been collected using all privatization means: closed subscription, investment funds, and specialized voucher auctions. Of these 212,170 vouchers were redeemed at voucher

auctions (25% of the total). The auction price varied from 0.4 to 12 one-thousand-ruble shares per voucher. Another 220,000 vouchers were collected in closed subscription. Other methods brought in 44,815 vouchers. By June 1 212,170 vouchers had been canceled and 168,400 destroyed.

#### INVESTMENT TENDERS

During the period two investment tenders were held in Belgorodskaya Oblast. Shares of the *Schebekinskyi Chemical Factory* were offered in two share packages - 13,629 and 13,630, or 10% of the charter capital were sold. Twenty percent of the charter capital in *Belenergomash* was sold at the other tender. The amount of investment for *Schebekinskyi Chemical Factory* was 100 million rubles, and three million dollars for *Belenergomash*.

The company *Zelenogradinvest* was the winner of the *Schebekinskyi* tender. The conditions of the investment tender were as follows:

- During the first two years to provide regular deliveries of paraffin in order to produce 25,000 tons of synthetic fat acids;
- In 1994 to finance lithium lubricants production worth 100 million rubles;
- For three years to preserve the line of business profile of the enterprise and the number of employees;
- To provide a credit (not less than two billion rubles) bearing no interest for five months in order to replenish working capital and support production development.

The firm *Mardima Company LTD* (British Virgin Islands) was the winner of the *Belenergomash* tender. The conditions of the investment tender were as follows:

- For two years to provide orders including 35% of the total volume of production for export;
- To finance the buying of import lines of gas-dense panels (the contract approximately totals three million dollars)

The region does not plan to hold additional investment tenders in the near future.

#### ENTERPRISE PIPELINE

The VASG's role in pipeline management was to bring the share packages offered for sale at voucher auctions into compliance with the law. The Committee and Fund developed a sophisticated computer pipeline management system, which allowed them to ensure a steady flow of companies for voucher auctions as soon as all legal issues were resolved.

Between June 1 and June 30, 1994 fifty eight enterprises were slated for sale at voucher auctions. These documents were at the Fund. The documents of another 20 enterprises were at the Committee about to be transferred to the Fund.

There are a total of 389 corporatizing and corporatized enterprises in the oblast remaining to be sold. It is estimated by VASG and the Committee and Fund that the total charter capital of the enterprises to be sold equals 1,265,082,000 rubles.

#### AUCTION CENTER

The auction center in the region is the central bid collection point in Belgorod. Although it was opened before the VASG's first visit, VASG worked out recommendations on staffing levels and internal procedures at the center for the Fund.

Vice-chairman of the Fund S. S. Lytvynov is in charge of this center. At present, the work procedures at the center fully correspond to the legal requirements. There are seven

employees working under contract. They collect bids and vouchers and consult bidders. The center is located in the heart of the town and is easy to get to. The results of voucher auctions are calculated at the Fund. GKI Software 4.1 had been received before VASG's first visit to the region, but VASG provided GKI software training.

After voucher privatization the main function of the auction center will be to handle cash auctions.

#### BID RECEPTION NETWORK

During the first VASG visit there were six permanent bid collection points in the oblast. VASG called attention to the insufficient capacity of the operating points, and worked to expand the network. Since March 1994, a network of 26 bid collection points is operating at rayon committees and funds (there are 22 rayons in the oblast, and each has a bid collection point. In addition, there are four bid collection points in the capital city of Belgorod). At present, some of the rayon points also operate mobile collection points. Bid points are paid 100 rubles per voucher collected.

#### INFORMATION CAMPAIGN

Before VASG arrived, the PI campaign was limited to mandatory announcements. VASG recommended using more mass media to provide information about voucher auctions. VASG developed a plan for the PI campaign and distributed advertising materials. The newly appointed management of the Committee was very receptive and cooperative in implementing the VASG recommendations.

The regional fund set aside 20,320,000 rubles (the first tranche of the financial aid package) and 24,486,000 rubles (the second stage of financial aid) for the information and advertising campaign in accordance with the three-party Cooperation Agreement. Much advertising was done in the paper *Belgorodskaya Pravda* (in every issue), on TV (three times a week when the local station goes on the air), and on radio, every morning at seven o'clock. In addition, the Fund concluded an Agreement with the Post Office to distribute voucher auction posters urging people to invest their vouchers before June 30, 1994.

### LEGAL ISSUES

During VASG's early visits, local legislation substantially contradicted the federal law and had a negative influence on the privatization process in the region. VASG repeatedly called to the central GKI's attention the legal irregularities in the region and tried to get the local privatization bodies to stop their illegal practices.

A Decision of Belgorod Oblast Soviet of People's Deputies *On Measures to ensure equal voucher Sale Conditions with Respect to the Persons Needing Special Social Protection as well as the Budget Sphere and State Enterprise Workers* dated May 18, 1993 approved a list of privatizing enterprises, containing 53 enterprises in federal ownership and 33 enterprises in oblast ownership. Their shares subject to public sales were reserved for sale for citizens who need particular social protection, including employees of state institutions. In accordance with the above decision, the Belgorod Oblast Fund was to sell 15% of the total charter capital of the enterprises on this list to voucher investment funds of social security at the price of closed subscription.

The Decision of the Maly Soviet #145 of July 9, 1993 also contradicted the federal privatization legislation. It envisaged that only physical and legal entities which live or are registered on the territory of Belgorodskaya Oblast could take part in voucher auctions to sell local assets.

In the recommendations for the Committee and Fund, VASG analyzed these decisions and pointed to the necessity of their urgent cancellation. In addition, VASG studied privatization plans of privatized companies and detected some legal irregularities:

- many privatization plans envisaged the transfer of 20% of charter capital to the Fund without setting the time of their eventual sale;
- at a number of companies FARP was formed with shares to be sold at voucher auctions;
- many privatization plans had limitations concerning the number of shares subject to sale for vouchers. Such limitations were not envisaged in the *Regulations on Closed Subscription*.

VASG worked to eliminate all legal irregularities. Local legislation in Belgorodskaya Oblast is now completely in line with federal legislation, and privatization bodies are abiding by this new legislation.

### ALL-RUSSIAN AUCTION SYSTEM

Before VASG's first visit to the region, the oblast had not participated in the ARAS. Starting from October 1993 based on VASG recommendations, the Oblast Fund signed agent agreements with the National Auction Center. Shares of 65 enterprises were sold within ARAS, and 31,435 vouchers were redeemed. The region offered one enterprise *Lebedinskyi GOK* with total charter capital of 911,881,000 rubles for a national auction. At that auction, 177,084 vouchers were collected, including 20,865 vouchers, or 12% distributed in Belgorodskaya Oblast.

### CASH AUCTIONS

Before VASG arrived in the region, there had been no 5% cash auctions, in spite of the fact that from February 1993, 48 enterprises had been sold by the Property Fund through voucher auctions. The cost of voucher auctions was surprisingly low, but that had resulted in a poor PI campaign and insufficient coverage by the bid reception network. From the very beginning of its work in the region, VASG insisted that 5% cash auctions should be one of the critical issues for the Fund to resolve, if they were to succeed in the voucher auction process. VASG proposed recommendations on holding 5% cash auctions for the

Fund, and VASG provided opening price valuation techniques, and the names of potential auctioneers.

During VASG's work in the region, seventeen 5% and 10% cash auctions were held, with total proceeds of 217,583,000 rubles. The earnings per voucher were 1,023 rubles, covering all expenses. At present cash auctions are being held regularly immediately after the end of the voucher auction.

#### FINANCIAL AID DISBURSEMENT

By the summer of 1993 the Fund was short on resources to be able to launch cash auctions. However, a Cooperation Agreement could be signed and financing provided only after the political tension between the region and the federal authorities eased and the legal irregularities were removed.

VASG recommended financial aid for Belgorodskaya Oblast, and two tranches of aid were disbursed to the region. VASG, jointly with the Fund, drew up the budget for the three party Cooperation Agreement #2424 dated December 27, 1993. According to an additional Agreement dated April 15, 1994 another 46,988 million rubles was transferred to the Belgorod Property Fund. All monies allocated were used in accordance with the budget.

In addition to the VASG provided financing, the Oblast Committee obtained seven million rubles from the GKI to establish a voucher storage and destruction center, which is currently operating.

#### POST-PRIVATIZATION ISSUES

Currently there are five licensed stock institutions operating in the oblast. However their activity in the secondary securities market is low. The Oblast Administration and Committee consider that additional efforts should be made to develop a system of depositories and third-party registrars in the region.

In order to promote the development of the secondary securities market, a Stock Center is being created. It will provide depository and registrar services as well as trade in small packages of company shares. The oblast leaders firmly support economic reforms and business development.

There are several problems that concern the oblast leaders:

- support for privatized enterprises;
- organizing training of enterprise leaders to help them adapt to the market economy.

Shareholder meetings have been organized at all of the oblast's privatized companies. The employees of privatization bodies attended most all of the meetings. VASG provided technical assistance in organizing shareholder meetings and provided the region with the manual on corporate governance and shareholder meeting.

## REPUBLIC OF BURYATIA: FINAL REPORT

## TRIP DATES

August 27, 1993  
 November 4-11, 1993  
 January 10-13, 1994  
 May 16-20, 1994

## AUCTION RESULTS

VASG visited the Republic of Buryatia on the return from Chita to Moscow. This visit turned out to be fortunate in that the region needed help. What's more the region knew they needed help, but national pride would not allow them to ask for help from Moscow before it was offered to them. The republic was therefore very grateful to VASG for all the assistance that was offered.

	Total in 1993-1994	Prior to VASG visit	Post VASG involvement
Number of enterprises	140	54	86
Charter Capital (000s R.)	3,211,509	2,528,677	682,832
Submitted to VA ('000s R)	798,253	423,001	375,252
Percent of Charter Capital	24.86	16.6	

Charter Capital, sold (th.r.) 474,139  
 Percent of sold Charter Capital 23.20  
 Vouchers collected, VA 122,220  
 Auction rate (th.r./voucher) 6.11

Vouchers collected at Auction 122,220  
 Vouchers collected at All-Russia inter-regional VA 52,406  
 Vouchers collected, closed subscription 86,639  
 Vouchers collected, otherwise 97,909  
 Vouchers collected, total 359,174

The major problem faced in Buryatia was that there was little property relative to the number of issued vouchers. VASG attempted to increase the proportion of each company that is sold at voucher auction such that the voucher holders had more of the best companies to choose from and therefore, hopefully, invest rather than sell their voucher.

## ENTERPRISE PIPELINE

VASG worked with the region to design an auction timetable which allowed the GKI to provide financial assistance to the region.

The Property Fund and VASG drafted schedule effective until April 1, 1994.

Number of companies 57  
 Charter Capital (000s R.) 2,048,259  
 Submitted to VA (000s R) 392,548

Percent of Charter Capital  
energy  
share of the

16.3 (this is low owing to the restrictions on sale of  
sector companies which accounts for a large  
offered capital)

#### AUCTION CENTER

##### Prior to VASG visit

When VASG first arrived in Ulan Ude, the capital of Buryatia, there was nominally an auction center. This was not an auction center as understood by legislative and good practice requirements. This auction center was located in the Supreme Soviet building entrance hall, next to the offices assigned to the Property Fund. The Property Fund recognized that the auction center was sub-optimal and welcomed the assistance that VASG offered.

##### Post VASG

VASG worked with the regional Property Fund to identify appropriate premises for the new auction center. This analysis took account of the lessons that had been learned by VASG from other regions: that the center should be easily accessible by public transport and that it should be on the ground floor. The Fund and VASG found two rooms in which a good auction center could be established. VASG helped the Fund arrange the renovation of the premises and plan the lay out of the center. Following its renovation, the Auction Center was opened in December 1993. There was an official opening with full press coverage on January 13, 1994.

The Auction Center is a subdivision of the Property Fund and employs 12 people.

#### BID RECEPTION NETWORK

##### Prior to VASG visit

The Property Fund in Buryatia maintained a limited bid center network on the base of regional Committees and/or Property Funds. The Fund made no attempt to manage this relationship aggressively to maximize the number of vouchers received and minimize the costs of operating this network. Payment to contractors was made on a fixed fee basis along with reimbursement of expenses on public information.

##### Post VASG

VASG worked with the Property Fund to negotiate with the Savings Bank and Rosselkhozbank about their potential participation in the bid reception system. These negotiations were unsuccessful because of cost and because Sberbank did not want to trust privatization agencies twice as they had not been paid by central GKI for the initial distribution of vouchers. Temporary bid reception centers were opened at enterprises and in outlying regions, so that the local population can participate in voucher auctions. An analysis of the various opportunities available showed that this would actually be the cheapest way to progress.

The major success of VASG was in encouraging the Fund to move to remunerating its contractors on the basis of the number of vouchers collected. The rate was agreed at 300 rubles per voucher.

#### ADVERTISING CAMPAIGN

##### Prior to VASG visit

The Fund did not invest in advertising and placed only the announcements mandated by law.



Post VASG

VASG was successful (again by making it a condition of preparing financial aid documents) in persuading the Property Fund to spend more on advertising. This was ensured by concluding long-term contracts which were signed with *Pravda Buryatii* and *Vestnik Buryatii* newspapers, and with the Asia-TV company. VASG also helped the Fund establish a relationship with Buryat TV and the Radio Committee is now featuring promotional materials.

VASG also worked with the Property Fund to print and distribute flyers. VASG has provided the Property Fund with promotional materials to be used at the Auction Center and during the information campaign. The total amount now spent on advertising in the Republic exceeds the 11,450,000 rubles provided to the region by Central GKI for advertising costs.

<b>LEGAL ASPECTS</b>
----------------------

Prior to VASG visit

The Republic of Buryatia was particularly weak in its observance of the law on shares to be sold through voucher auction:

- failure to fulfill Decree 640 on selling 29 percent of shares at VA;
- failure to fulfill Decree 1229 on selling 80 percent of shares for vouchers.

Post VASG

VASG was successful in moving the region to greater abidance by these laws. The issue was that as an autonomous Republic, Buryatia has the right to publish legislation and specifically to sell less than 80% for vouchers. The VASG team worked with officials to ensure maximum observance of the Federal privatization legislation.

VASG was able to ensure that:

- VA handling at least 29 percent of shares, except for the cases provided for in Federal and Buryat legislation;
- additional share packages of those companies that had failed to comply with the 29-percent and 80-percent regulations were sold.

<b>ALL-RUSSIA AUCTION SYSTEM</b>
----------------------------------

Prior to VASG visit

Prior to VASG's visit to the Republic, the Fund had not participated in ARAS either as an agent or in offering shares to be sold in other regions.

Post VASG

VASG was able to ensure that several companies were sold through ARAS. The only completed auction to date is

Company	Closure Date	Charter Capital	Submitted to VA
1. Buryatenergo 138,536,000	December 8	1,113,422,000	
2. Ulan-Ude aircraft plant	June 6	593,923	(12.44 percent) 65,331

3. Ulan-Ude shipbuilding plant	June 30	29,646	(11.00%)
14,526			(49.00%)

<b>CASH AUCTIONS</b>
----------------------

Pre-VASG

Before VASG the Fund had recognized the potential importance of cash auctions and how this would help them finance the auction process in the region.

Post VASG

VASG had particular success in jump-starting the cash auction process in the Republic. VASG was able to use the experience that had been gained in other regions to persuade the Fund of the benefits of paying particular attention to holding the cash auctions soon after the close of the voucher auction:

	Total in 1993		Prior to VASG	After
<b>VASG</b>				
Number of auctions	117	13		104
Total proceedings		103,711,002	9,575,275	
94,135,727				
Revenue per 1 voucher		1,079,67		

It is worth noting that there was clearly healthy demand for financial assets in Buryatia because the per voucher received rate was very high at over 1000 Rubles.

<b>FINANCIAL AID</b>
----------------------

Pre VASG

As explained above, Buryatia's independent spirit meant that they would not have requested aid from Moscow even though they knew they could use the help and freely admitted this.

Post VASG

Both the Property Fund and the Committee worked as closely as possible with VASG to ensure that recommendations were implemented and that the law was observed. They were very glad of the financial assistance that was offered to the region. It did prove that this was not needed for the financing of auctions once they had begun to hold regular cash auctions. The aid was, however, a valuable lever to accelerating reform in the region.

<b>POST-PRIVATIZATION ASPECTS</b>
-----------------------------------

The Republic requires assistance in handling post-privatization projects, including methodology and technical assistance on the following issues:

- shareholder meetings;
- share registers;
- joint-stock company management;
- setting up the infrastructure for a secondary securities market.

## CHELIABINSKAYA OBLAST: FINAL REPORT

## TRIP DATES

12-14 May, 1993	29 June-1 July, 1993
18-21 May, 1993	5-8 July, 1993
24-28 May, 1993	16-18 August, 1993
31 May- 4 June, 1993	23-25 November, 1993
7 -11 June, 1993	25-28 January, 1994
15-18 June, 1993	11-14 April, 1994
22-25 June, 1993	2-6 June, 1994

## AUCTION RESULTS

VASG was initially sent to Cheliabinskaya Oblast in May, 1993 at the specific request of GKI to negotiate the resumption of the voucher auction program. It was indeed the first (along with Krasnoyarski Krai) of the regions supported by VASG. In March 1993, the regional Soviet had passed a decision suspending voucher auctions and no auctions were held during the next two months. The restarting of the voucher auctions, and the steady negotiations that led to final compliance with Federal law, can be counted the major success of VASG in the region. Also of note is the mobile bid reception center that was funded in the region – an idea that was featured on national television at the time.

Before VASG began its relationship with the region there had been just one auction, at which the shares of four enterprises had been offered for sale. These had a total charter capital of 245 million rubles, of which share capital of 60 million rubles was offered for sale (24.5%).

By the first week in June 167 discrete enterprises had been auctioned in a total of 185 lots. This represented a total charter capital of 8,940 million rubles (excluding the ARAS enterprises), of which shares worth 2,063 million rubles were offered for sale (23%). A total of 1,945 million rubles worth of shares were actually sold – 94.3% of those offered.

The weighted average share package (23%) is distorted by several irregular share packages in some quite large enterprises that were sold early in the program. Specifically the following enterprises did not strictly offer legal packages of shares to voucher auctions:

- Cheliabinsk Electrical Smelting Plant: total charter capital R396 million – 14% offered
- Cheliabinsk Pipe Rolling Mill: total charter capital R943 million – 7% offered
- Magnitogorsk Metal Structure Plant: total charter capital R12 million – 14% offered
- Minyarski Smelting Plant: total charter capital R111 million – 14% offered
- Yuryuzan Mechanical Works: total charter capital R193 million – 13% offered
- Cheliabinsk Press and Die Factory: total charter capital R200 million – 14% offered

These packages are explained by the fact that Cheliabinsk had conducted sales of property in 1992 and early 1993 in cash and mixed (cash and voucher) auctions, before the explicit requirement that at least 29% of share capital be sold at voucher auction was promulgated (Presidential Decree #640).

By June 3, 1994 864,070 vouchers had been collected through regional voucher auctions, at a weighted average auction rate of 2.0 – about the average for the Federation as a whole. In addition, 128,629 vouchers have been redeemed at national and inter-regional auctions. Closed subscription has collected 611,125 vouchers, with a further 237,560 redeemed through other means of sale. The total number of vouchers known to have been collected at the beginning of June was thus 1,841,384 – or 55.9% of the 3,296,100 vouchers distributed in the region.

The most successful auctions -- rated by auction rate -- were for *Gaross* (0.29), *SRSU* (0.36) and *Gipromez* (0.11).

#### INVESTMENT TENDERS

The region has conducted 21 successful investment tenders. The total share capital sold through this mechanism was 1,123 million rubles, in packages of 10%-50% of total charter capital. The total amount of investment pledged is 465 billion rubles -- or over \$250 million at today's exchange rate.

Despite some early controversy over the procedures used to adjudicate the winning tender -- notably in the case of the package put up for tender in Cheliabinsk Pipe Rolling Mill -- since proper regulations were published by GKI they have been followed by the region. Hence, the present value of the investments committed over the life of the program is the sole criterion now used for deciding between rival offers.

#### ENTERPRISE PIPELINE

A final voucher auction -- the 16th -- will close 20 June. At this shares in 25 enterprises, with a total charter capita of 3,423 million rubles will be offered for sale. The total share capital offered will be 1,191 million rubles, or 34.8%.

However, a total of 345 enterprises are known to have been corporatised in the region (as at June 3, 1994). Analyzing this data more thoroughly after the close of voucher auctions, and determining a schedule for post-voucher auction sales will be the highest priority task for the Fund. It is clear, however, that as in other regions significant amounts of property remain to be sold.

The Federal authorities are still considering the cases of two enterprises in the defense sector -- Ust Katavski Wagon Building Plant and Katav-Ivanovski Instrument Making Plant. The management of these enterprises are lobbying hard, and to date three conflicting decisions have been issued by A.R. Kokh, P.P. Mostovoi and V.P. Chemomyrdin.

Most of the enterprises not subject to privatization in the region belong to the defense sector, and the regional authorities, therefore, have no access to a complete inventory of this property.

#### AUCTION CENTERS

There are effectively two bodies that collectively provide the services of an auction center. VASG negotiated to establish the Central Bid Collection Center -- run by the South Urals Stock Exchange, which acts as the general contractor to the Property Fund in conducting voucher auctions. This center is responsible for receiving bids from individuals. In order to finance the start up costs of this operation, VASG drew up a budget and approved a financial aid request of R15.9 million. The ongoing operating costs are reimbursed from the proceeds of the 5%/10% cash auctions, according to an agreement signed between South Urals Stock Exchange and the Property Fund. The Central Bid Collection Center is located in a convenient area of downtown Cheliabinsk, on the premises of the Cultural Club of the Railway Workers. It is adequately equipped and staffed and operates according to the instructions of the Central GKI.

However, this set-up has been supplemented by the Cheliabinsk Stock Center, which has been the official regional auction center in Cheliabinsk since April, 1994. The Cheliabinsk Stock Center is the agent of the National Coordination Center in the conduct of National and inter-regional auctions. It also conducts the 5%/10% cash auctions. In addition it acts as a shareholder registry and develops software products for stock market applications. Like the Central Bid Collection Center, the Cheliabinsk Stock Center is paid through the

distribution of proceeds from cash auctions, according to its agreement with the Property Fund.

### BID RECEPTION NETWORK

Before VASG arrived in the region there were 21 brokerage firms on the South Urals Stock Exchange which collected bid applications. VASG further expanded this network in the regions by opening 18 further bid reception points on the basis of the rayon Funds and Committees. These agents act as subcontractors to the South Urals Stock Exchange and the Cheliabinsk Stock Center; they are paid on a fee per voucher collected basis from the proceeds of the 5%/10% cash auctions.

In addition to these sites, VASG established a "mobile bid collection center" -- a minibus -- that was used to tour the outlying regions, closed cities and inmates of prison camps. This operated between June and August, and was funded by a separate budget from Bain/VASG's aid disbursement budget.

### PUBLIC INFORMATION CAMPAIGN

VASG was responsible for coordinating and helping to finance the Public Information campaign in the region. Two separate disbursements were made to this end, governed by the terms of discrete protocols signed with GKI. The total funding provided was 49 million rubles.

The campaign consisted of the following aspects:

- Intense radio and TV advertising campaign -- 160 minutes of TV and 75 minutes of radio every month.
- Posting of hoardings and billboards throughout Cheliabinsk and the regional towns
- Various public education initiatives; and a program to train the directors of bid collection points.
- Expanding the press advertisements beyond the minimum legal notices required by law.

### LEGAL ASPECTS

There were a series of violations of Federal law -- aside from the order of the Supreme Soviet suspending voucher auctions -- in the region, which VASG negotiated to amend:

- Results were declared invalid if the par value of the vouchers collected was less than 70% of the par value of the shares offered. Capping the auction rate -- in effect establishing a minimum price -- was not allowed under Federal Legislation.
- Ruling that prohibited splits in the par value of shares below 100 rubles.
- Up to 10% of shares were reserved for sale at closed auctions to the social insurance voucher funds, on the same privileged terms as available to the workers collective during closed subscription.
- Mixed form of payment -- 50% vouchers, 50% cash -- was initially allowed at voucher auctions.
- 15% of revenues received from privatization were reserved for subsidies to voucher investment funds in order to support the privatization process.
- 5% of voucher auction package was allocated for cash auctions **before** the voucher auctions themselves.

- Investment tenders were prioritized as a means of sale in the region, often resulting in inadequate numbers of shares being available for voucher auction.

Over the course of its support to the region VASG was able to persuade the region to drop most of these practices. A.B. Chubais intervened directly with the region to help restart voucher auctions; subsequently, VASG drafted two letters that were sent to the region over D. Vasiliev's signature, requiring urgent changes to local legislation.

#### ALL-RUSSIA AUCTION SYSTEM

This was another area in which VASG's work in Cheliabinsk contributed to a marked improvement. Before VASG's support to the region, it was not participating in ARAS auctions either as an agent or a donor of enterprises. However, by the end of the program, Cheliabinsk had become one of the most active donor of enterprises to national and inter-regional auctions.

The Cheliabinsk Stock Center acts as agent for the National Coordination Center. In total 21 enterprises from Cheliabinsk were scheduled for sale through the system, representing a total charter capital of R34,565 million rubles, with R9,540 million rubles (27.6%) offered for sale.

To date the results of ten of these auctions have been published. They have collected 420,258 vouchers at an average auction rate of 7.0.

#### CASH AUCTIONS

Before VASG's arrival in the region there had been two experimental 5% cash auctions. However, no shares were actually sold at either due to excessive starting prices for the lots and the absence of any advertising of the event. Moreover, as noted, the Fund was holding major (irregular) cash auctions and mixed auctions which it saw as the chief source of revenue.

VASG, however, encouraged the Fund to take 5%/10% cash auctions seriously. As a result a program of regular auctions was inaugurated (usually 2 per month), and by June 1994, shares in 149 enterprises had been sold through cash auctions.

The overall revenues raised were 488 million rubles, which equated to 366 rubles per voucher collected at voucher auction.

#### FINANCIAL AID AREAS

Two disbursements of aid were made to the region, on June 1, 1993 (R26.8 million) and again on April 18, 1994 (R42.7 million). The focus of the first aid budget was to improve the bid collection infrastructure in the region, while the second tranche was allocated exclusively for public information expenses.

The funds have been remitted to the region and duly accounted for according to the requirements of Central GKI.

#### POST-PRIVATIZATION ISSUES

The region has a well developed financial services sector. The following firms are active in the secondary market of shares in privatized enterprises:

- South Urals Stock Exchange
- South Urals Finance Agency
- *Binom*

- *Resurs*
- *Vybor*: an investment and holding company.

There are over ten organizations providing shareholder registry services. VASG helped the Property Fund to organize a seminar on the keeping of shareholder registries, which local privatization officials and enterprise management attended.

CURRENT PRIORITIES
--------------------

The region share the same priorities as the rest of the Federation. As the focus of the privatization program shifts toward the raising of investment, the conduct of investment tenders will assume a higher priority in the region. The Property Fund is quite experienced in developing these programs and conducting tenders and has established sound relationships with commercial concerns in both Moscow and foreign countries in its search for outside investment.

The continued tracking and scheduling of enterprises subject to privatization must remain a priority



## CHITINSKAYA OBLAST - FINAL REPORT

## TRIP DATES

July 19-20, 1993  
 August 24-September 9, 1993  
 September 28-29, 1993  
 November 10, 1993  
 January 25-28, 1994  
 April 11-14, 1994  
 June 20-23, 1994

## AUCTION RESULTS

The basic statistics on the auction performance in Chitinskaya Oblast are outlined below. These statistics do not tell the full story on the involvement of the Voucher Auction Support group in the region. This was one of the toughest regions in which VASG worked for three reasons:

1. Chita is an extremely remote region-- some 5,500 kilometers from Moscow
2. The region is 1.5 times the size of France with a population of only 1.5 million and a very underdeveloped industry base
3. Chita was one of the few regions that gave significant anti-Yeltsin votes in the referendum in April 1993.

	Total in 1993-1994	Prior to VASG visit	Post VASG involvement
Number of companies	113	54	59
Charter Capital (th.r.)	2,843,577	1,679,431	1,164,146
Submitted to VA (th.r.)	695,658	331,193	364,465
Percent of Charter Capital	24.46	19.7	33.30
Vouchers collected, VA	187,817	79,320	108,497
VA rate (th.r./voucher)	3.38		
Vouchers collected, ARAS	58,539		
Vouchers collected, closed subscr.	104,867		
Vouchers collected, otherwise	108,140		
Vouchers collected, total	459,363		

The highlights of VASG involvement in the region are that there was a significant acceleration in number of companies auctioned, the average share packet increased markedly and the number of voucher received increased sharply.

## ENTERPRISE PIPELINE

Schedule drafted until March 31, 1994	
Number of enterprises	65
Charter Capital (th.r.)	1,723,602
Submitted to VA (th.r.)	340,523
Percent of Charter Capital	19.76

VASG had particular problems in analyzing the situation in Chita because of the poor quality of the data that was maintained by the Regional Fund. A second problem was that the preparation of privatization documents was delegated by the oblast Committee to the

rayons: this resulted in a low quality of documentation- often such that the documents had to be returned for significant corrections.

In an attempt to try to improve the quality of documents and their flow between the Committee and the Fund, VASG drafted and submitted for signing an Agreement between the local GKI and Property Fund on cooperation in transferring privatization documents and holding voucher auctions.

This resulted in the 90% return rate from the Fund being significantly reduced. This agreement agreed that documents that lacked official seals or had other agreed minor defects could be processed.

VASG had to pressure consistently both the Regional Fund and the Committee to maintain the momentum in the auction process. A repeat visit by VASG was required to ensure that a voucher auction schedule was drafted for May-June 1994. This schedule covered 21 companies which had a total Charter Capital of 1,708,425,000 rubles.

#### AUCTION CENTER

There was an auction center in existence before the arrival of VASG in the region. This Auction Center had been set up as a subdivision of the Property Fund. The Auction Center receives bids and vouchers, notifies winners and losers, and returns vouchers on losing bids.

Number of Auction Center employees - 6.

VASG concentrated on attempting to bring the auction center into line with good practice, improving the amount of information that was available to visitors to the center and trying to increase the opening hours of the center. VASG was able to assist in training the consultant who provided information in the auction center and was able to help the Fund in preparing additional information about auctions for the auction center. Unfortunately there was little that could be done about the opening hours of the auction center since this had been opened in an Oblast Administration building to which there was no access after 6 p.m. or at week-ends.

#### BID RECEPTION NETWORK

##### Prior to VASG visit

The Oblast Fund believed that there were few vouchers left in the Oblast, arguing that speculators had long previously bought up all the issued vouchers. There was little evidence to support this and ad hoc VASG interviews in the city suggested that many vouchers were still held by the public. This skepticism on the number of vouchers remaining to be retired had meant that the Fund had never created a permanent bid reception network.

The Property Fund did take some useful initiatives such as traveling to regions to gather vouchers for ARAS auctions. There was no understanding of the cost advantages that may have been achieved by subcontracting this effort to the Sberbank or Post Office. For the largest enterprises, the Fund also set up temporary centers at privatizing companies.

##### Post VASG

VASG was able to convince the Fund that they could not take such a laissez-faire attitude to the collection of vouchers from remote areas. VASG identified and held preliminary discussions with each potential contractor and made recommendations to the Fund on which option was best. The Fund approved VASG's recommendation and with VASG's urging talks were held and agreement signed with the Savings Bank. One of the biggest

stumbling blocks was the Fund's distrust that Sberbank would abide by GKI regulations on the handling of voucher auctions. Accordingly, VASG drafted "Regulations on bid and voucher reception procedure" as an appendix to the agreement between the Fund and Sberbank which outlined exactly what procedures should be used. This was in line with order 1760 of the GKI which regulated such procedures.

As in other VASG regions, the negotiated remuneration depended on the number of collected voucher. This rate was negotiated down to 150 rubles per voucher, which given the 70% cost of living allowance in the region was very cheap.

VASG also took measures to expand the bid reception network by involving the regional GKI and Property Funds in oblast districts.

#### ADVERTISING CAMPAIGN

##### Prior to VASG visit

The Fund did not particularly value advertising and tried to minimize monies spent. Consequently the Fund would issue the statutory minimum information required and place these ads in the *Reforma* bulletin, *Zabaikalsky Rabochy* daily, and *Asia* bulletin, published by the local GKI and Property Fund. There was no use of other advertising media.

##### Post VASG

VASG was able to persuade the Fund that more money spent on advertising would actually generate additional revenue for the Fund. VASG also demonstrated how a regular column in the newspaper would prove cheaper than ad hoc advertisements. VASG persuaded the Fund to conclude contracts with *Zabaikalsky Rabochy* (a daily newspaper), Dauria TV channel and the "Za Baikalom" TV show.

The principal leverage that VASG had was the financial assistance contract. The budget drawn up and approved under the Agreement of February 7, 1994, allotted 15,300,000 rubles to be spent on advertising activities.

#### LEGAL ASPECTS

##### Prior to VASG visit

There were no major violations of the laws on procedures on conducting voucher auctions, there were areas where the Fund was definitely sub-standard:

- Non-fulfillment of Decree 640 on selling 29 percent of company stock at Voucher Auction;
- Non-fulfillment of Decree 1229 on selling 80 percent of company stock for vouchers.

##### Post VASG

VASG carried out a thorough legal analysis of both local law and regulations. Feedback was provided to the region on these regulations and improvements drafted. VASG drafted and arranged the signing of an Agreement between the local GKI and Property Fund on transferring privatization documents and drafting Voucher Auction schedules.

#### ALL-RUSSIA AUCTION SYSTEM

Prior to the first VASG visit the region had been actively participating in ARAS as an agent. ARAS participation helps the Fund to improve movement of vouchers held by the

population. The share of vouchers submitted to ARAS amounts to 23.8 percent of the total number of vouchers tendered to Voucher Auction.

VASG recommended the Property Fund to establish contact with neighboring Siberian regions in order to sell shares from these regions in Chita. There was no progress on this owing to the significant personnel changes in the privatization agencies as a result of the December elections (The Fund head was elected to the Federal Duma and his Deputies resigned)

#### CASH AUCTIONS

The data relating to cash auctions is outlined below. The key to understanding data on cash auctions is to track movement in the revenue that is received per voucher.

	Total in 1993-1994	Prior to VASG visit	Post VASG visit
Number of auctions	88	36	39
Total revenue (th.r.)	68,739,578	18,127,262	137,779,056
Revenue per voucher(r.)	1,147.91	474	673.91

##### Prior to VASG visit

Cash auctions were held based on subscription and declared prices that were reduced until all the offered shares were sold. This had some notable disadvantages:

- the auctions took a long time
- the auctions were difficult to administer; and
- it was difficult to target buyers

##### Post VASG

VASG had a significant impact on the conduct of cash auctions in Chita. VASG was able to persuade the Fund that better cash results would be received by open auctions. The Fund insisted on the old system where they had reason to believe that the Chita criminal element might have tried to obtain shares in a property by intimidation.

VASG worked with the Fund to develop a timetable for cash auctions. This scheduled auctions to be held within three weeks of the close of voucher auctions.

#### FINANCIAL AID

##### Prior to VASG visit

The Chita region had been unsuccessful in its applications to GKI for funding. This was unfortunate since the costs of operating voucher auctions in Chita were notably higher than in other regions (reflecting the very high cost of living) and some start up assistance tied to performance earlier in the process would have ensured that several of the issues faced by the Fund and VASG would have been less critical.

##### Post VASG

VASG recommended that financial aid be accorded to the region. The total budget drafted by VASG amounted to 36,361,755 rubles.

#### POST-PRIVATIZATION ASPECTS

The region needs help on the following issues:

- shareholder meetings;
- share registers;
- joint-stock company management;
- setting up the infrastructure for a secondary securities market.

<b>CURRENT PRIORITIES</b>
---------------------------

Attention will have to be paid to the remoteness of Chita and attempt to link the infrastructure of the Chita region to initiatives occurring in other Siberian regions.

## REPUBLIC OF DAGESTAN: FINAL REPORT

## TRIP DATES

June 3-11, 1993

August 19-23, 1993

November 9-12, 1993

VASG's assistance in Dagestan was requested by the GKI at the early stages of the project. Dagestan was the only region in the Caucasus that, in spite of a strained ethnic situation nearly resulting in military conflict, demonstrated a willingness to participate in voucher auctions. In addition, the region had neither an auction infrastructure, nor skilled staff, nor financial resources.

VASG provided the region with technical assistance including legal advice, pipeline management, introduction to the national auction system, and GKI aid based on the Cooperation Agreement. The results of the VASG work in the region were mixed. VASG visits helped to establish a relatively smooth process of voucher auctions, slightly expanded the network of bid centers, and opened a regional auction center. However, VASG was unable to ensure compliance with Russian Federal legislation nor focus the Fund's attention on voucher auctions, not on the sale of the Fund's bonds for cash and vouchers, and the pace of corporatization remained slow, participation in voucher auctions remained low. VASG did succeed in making the Fund reject the practice of reserving 15-20% of shares in state ownership and succeeded in making the region hold a voucher auction for the companies that were sold at a cash auction in July 1993.

In the fall of 1993, VASG decided to minimize the time spent in the region:

- because of the local privatization authorities' consistent failure to comply with VASG recommendations and GKI letters. VASG felt that its assistance would be more leveraged in other regions; and,
- owing to insecure travel conditions in the area and logistic problems.

Over the project, VASG remained the GKI's key data source for the region.

## AUCTION RESULTS

In June 1993, the time of the first VASG visit the voucher auction process in the Republic of Dagestan was just beginning. The region had just held its first voucher auction to sell a company of just over one million rubles. Only a few bid centers were operating, and the voucher auction program was not promoted in any significant way. In addition, the general political situation in the republic was by no means favorable for the voucher auction process. In December 1992, the conservative Supreme Soviet had unofficially suspended privatization in the republic, and the ban remained in effect until May 1993.

By late May 1994, 49 companies with a total charter capital of 556,099,000 rubles were sold at ten voucher auctions in Dagestan. A total of 60 lots were sold with 155,219 one-thousand-ruble shares. The average share package put up for sale was around 30%.

By late May 1994, Dagestan collected a total of 125,118 vouchers (6.2% of all vouchers distributed). Voucher auctions redeemed 56,065 vouchers, or less than 3% of all vouchers distributed. The average weighted auction price stood at approximately 2.8 of 1,000-ruble shares per voucher. Around 20,000 vouchers were collected through National Voucher Auctions; 44,226 through closed subscription; 1,586 through commercial tenders; 3,106 through municipal property sales; and 95 through lease. By June 6, 103,915 vouchers had been canceled, and of them, 85,810 destroyed.

According to the Committee, voucher investment funds in Dagestan collected some 170,000 vouchers. Considering the vouchers that may have been sold or exported, from 800,000 to 1,000,000 vouchers may still be held by the population.

#### INVESTMENT TENDERS

Few investment tenders have been held in the region.

The Committee decided to offer 20% of the charter capital of Zavod Gadjiyeva at an investment tender. The first investment tender scheduled for December 1993 never took place because of the absence of bidders. A second tender was announced in March 1994 and actually took place on April 15, 1994. The winner bought a package of 23,202 1,000-ruble shares (20%) at face value based on the commitment to invest 160 million rubles during the following three years (20% to be invested as first installment). The winner was a local private company. (VASG believed that the terms for acquiring the package were extremely favorable for the investor. The Fund claimed that everything possible had been done to attract potential investors, and that the tender terms were the market's best).

By the end of June, an investment tender for Dagkhladokombinat is to be held (total charter capital of 9,046,000 rubles; number of employees 240, share package offered 24% with 2,171 1,000-ruble shares).

No other investment tenders have been planned by the Fund.

#### ENTERPRISE PIPELINE

VASG worked with the Fund and Committee to introduce pipeline management to ensure a smooth voucher auction process for redeeming a maximum number of vouchers. This was a critical areas of VASG's work because Dagestan's Property Committee failed to promptly and regularly submit the privatization plans of companies headed for voucher auctions to the Fund. This was due to the "voluntary privatization" practice accepted in the region, which meant that the Committee could not launch privatization without the consent of a workers collective. Following its first and second trips, VASG developed and submitted to the Committee and Fund two pipeline schedules. These were accepted and approved by the Committee, but were implemented with major violations.

By June 1, the Fund had sold less than 17% of the potential charter capital of privatized companies. During the last month of voucher privatization, the Fund hoped to sell 60% to 70% of potential charter capital (an aggregate charter capital of 2.5 billion rubles).

Before July 1, the Fund hoped to sell 20 "new" companies at voucher auctions, including several major ones: Dagneft (charter capital of 534,319,000 rubles); a glass fiber plant (charter capital of 760 million rubles); Dagdizel (charter capital of 395 million rubles); Kizlyar electromechanical plant (charter capital of 397 million rubles). Despite the repeated promises of the Committee, the documents of the latter three companies were not transferred to the Fund.

Based on a report of the republican privatization agencies, fewer than half of the companies to be privatized under the Privatization Program have so far gone through the pipeline in Dagestan.

#### AUCTION CENTER

Prior to the first VASG visit, the region did not have an auction center. During its first trip, VASG gave the Fund a detailed description of how a center should operate, along with projected running costs for the period ending December 1993. The auction center did not open until October 1993.



Structurally, the auction center is a subdivision of the Fund. It is headed by a staff employee of the Fund, and has two tellers who also offer consulting services. All data is filed at the Fund. The auction center is at the Dagestan Commodity and Stock Exchange. When voucher privatization is over, the auction center will probably be transformed into a third-party registrar, and will also handle cash auctions.

#### BID RECEPTION NETWORK

At the time of the first VASG visit, only a very small network of bid centers existed in Dagestan. Bids were accepted in the Fund building (which has restricted access), in the Fund building in the town of Kizilyurt, and at privatized companies.

After the first VASG trip, the number of bid centers was increased to seven, located at all the municipal Funds. VASG recommended further expansion, using not only municipal Funds and Committees, but also local offices of the Post Office, the Savings Bank, and other major banks. The Fund responded by expanding the network of bid centers to 20, and signing a contract with the Post Office. But the bid centers were not used for accepting bids, they were only used for distributing the bonds of the Property Fund of the Republic of Dagestan. The VASG delegation pointed out the illegal nature of this practice, but the Fund refused to change its practices.

VASG repeatedly recommended that the Fund set up mobile bid centers to cover remote and mountain regions. Although the Fund ignored these recommendations, the Committee partially complied with the recommendations and rented 15 horses for its agents to reach the republic's remote regions.

#### PUBLIC INFORMATION CAMPAIGN

Prior to VASG visit, voucher auctions were not promoted in any significant way. During each trip, VASG would develop for the Fund PI campaign schedules. Although the Fund did act on many of these proposals, it was only to promote its own bond project.

#### LEGAL ASPECTS

During the campaign to privatize state enterprises, Dagestan was applying federal laws and regulations. Local legislation was practically non-existent. VASG helped the local privatization bodies with interpreting federal legislation, identifying violations leading to the low voucher intake and making recommendations to improve the situation. Dagestan is applying Decree #1229 of October 10, 1992 on the mandatory sale of shares for vouchers worth at least 35% of a company's charter capital. No decisions have been made by the republican Supreme Soviet to increase the mandatory sale of shares for voucher.

In Dagestan, VASG identified a series of violations of privatization legislation. Privatization in the republic was exclusively voluntary; it would commence once a privatization application was submitted, (this contradicted the Decree of the President of the Russian Federation #721 of July 1, 1992.) For this reason, privatization of major companies in Dagestan proceeded very slowly. In recommendations to the Committee and Fund, VASG repeatedly pointed out the violations of the voucher auction regulations. A memorandum was sent to Dmitry Vasilyev, GKI Deputy Chairman, noting the slow pace of privatization in Dagestan, and the Fund's legal irregularities. VASG prepared a draft letter DV-8364 signed by Dmitry Vasilyev. It was sent to the republican legislature and privatization agencies urging them to bring their actions into line with the privatization laws and regulations.

Numerous violations occurred when Zavod Gadzhiyeva was auctioned (fourth voucher auction, October 1-15, 1993). This was a large enterprise worth 116 million rubles. The

amendments to the privatization plan bringing the share package for the voucher auction down from 29% to 9% were introduced by the Committee when the bidding process was already under way, and the legal notice was published with significant violations of the legal requirements concerning dates and content. All violations disclosed by VASG were promptly reported to the GKI. Simultaneously, the Fund and Committee were urged to take action and correct the situation. VASG succeeded in making the Fund comply with the instructions outlined in the GKI letter on submitting the unsold part of Zavod Gadjiyeva to a second auction.

#### ALL-RUSSIA AUCTION SYSTEM

During its first visit, VASG succeeded in convincing the Fund and Committee that it was absolutely necessary for the republic to participate in ARAS because of the regions voucher surplus. From July 1993, Dagestan participated in most of Russia's national auctions as an agent.

In June, Dagestan participated in the voucher auction for the Gazprom Russian joint-stock company within the quota allotted to it. Investors have been fairly inactive, and by June 6, only 5,000 vouchers had been collected. The inadequate PI campaign has also led to a very low National Auction System rating. In total, only 20,000 vouchers have been collected.

#### CASH AUCTIONS

In July 1993, the Fund illegally held a cash auction for a large (30%) share packages of three companies even though voucher auctions had not been held for these companies. The earnings amounted to 10 million rubles.

Throughout 1993, VASG repeatedly made recommendations to the Fund on how to hold 5% cash auctions, however, the Fund never held cash auctions saying that the shares at its disposal were not attractive to prospective investors. The first 5% cash auction was held by the Fund in February 1994 to sell seven companies with an aggregate charter capital of 68,928,000 rubles. The total nominal value of the shares offered for sale equaled 842 million rubles, and the earnings totaled 3,736,500 rubles. On May 26, 1994, the Fund held a second 5% (10%) cash auction to sell another 22 companies. The total charter capital for sale was 1,255,810 rubles, and the revenues added up to 9,791,000 rubles (in total income per collected voucher was estimated at 513 rubles).

#### FINANCIAL AID DISBURSEMENT

The financial strategy pursued by the regional privatization agencies is unique because it does not focus on denationalization, but on profit generation through continued distribution of the bonds issued by the Property Fund of Dagestan. Although information was not provided to VASG, this project may have been extremely profitable:

- The Fund has held bond lotteries with a rather impressive prize fund (cars, apartments in Makhachkala, audio-video equipment, etc.);
- The Fund has organized several TV shows with bond lotteries hosted by Russian TV stars (M. Marfin, A. Maslyakov);
- Throughout 1993, the Fund displayed absolutely no interest in holding cash auctions.

VASG has informed the GKI and Price Waterhouse of the need to carry out an audit of Dagestan's privatization agencies. Price Waterhouse agreed to do the audit, it is not known if this was completed.

Initially the region received financial aid based on bilateral agreements between the Fund and the GKI, without VASG involvement. Working with VASG in May 1993, 14,985,000

rubles were supplied to finance the auction center project, and in August 1993 22,530,000 rubles were supplied to maintain the center and support the voucher auctions.

<b>POST-PRIVATIZATION</b>
---------------------------

In June 1994, VASG provided the region with its Joint Stock Company management manual. A secondary securities market has not yet been set up in Dagestan, and there are no third-party registrars. VASG believes that Dagestan has no sound legal foundation for the continued operation of local companies.

After July 1, the Fund will have to sell a significant number of companies worth 2.5-3 million rubles on the aggregate (charter capital of 600-700 million rubles). A key task faced by Dagestan's privatization agencies will be to attract investment under continued political and economic instability.

## IRKUTSK REGION - FINAL REPORT

## TRIP DATES

September 7-8, 1993  
 September 22 - October 1, 1993  
 October 12-15, 1993  
 December 1-3, 1993  
 February 15-18, 1994  
 February 28- March 4, 1994  
 June 22-24, 1994

## AUCTION RESULTS

Irkutsk region was significantly under performing its potential when VASG first arrived. VASG was requested to travel to Irkutsk by D. V. Vassilyev to assist the region in the preparation of an appropriate financial request and to correct some of the abnormalities in the auction process.

VASG was able to bring about a significant increase in the amount of charter capital that was being offered at voucher auction and to improve the efficiency of bid reception in the oblast.

	Total In 1993-1994	Pre-VASG	Post-VASG
Total Enterprises	282	103	179
Charter Capital (000s R)	17,312,260	4,995,379	12,316,881
Offered At Voucher Auction (000s R)	4,003,969	677,214	3,326,755
Percent Of Charter Capital	23.13	13.5	27.01
Vouchers Collected	688,507	310,925	377,582
Charter Capital Sold (000s R)	3,788,593		
Auction rate	2.98		
Vouchers Collected Closed Subscription	680,872		
Vouchers Collected Other Means	204,381		
Total Vouchers Collected	1,573,760		

Vouchers collected through ARAS

Enterprises from other regions 28,550

Enterprises in Irkutsk region 94,409

## ENTERPRISE PIPELINE

Pre VASG

The region had several problems in its preparation of enterprises:

- poor data records maintained by the Fund
- predisposal towards holding companies and investment tenders
- strained relations at lower levels between the Fund and the Committee

Post VASG

VASG was able to work with the regional Committee and Fund to accelerate the number of enterprises that was to be offered through voucher auction and the percentage of the charter capital that would be offered.

In October 1993, VASG helped compile a schedule through March 11, 1994 which planned:

<b>Auction Timetable</b>	
<b>Number Of Enterprises</b>	284
<b>Charter Capital (000s R)</b>	20,648,476.5
<b>Charter Capital For Sale (000s)</b>	4,660,135.025
<b>Percent of Charter capital For Sale (%)</b>	22.57
<b>Sales on ARAS</b>	10
<b>ARAS Charter Capital</b>	11,305,778
<b>ARAS Offered Capital</b>	2,987,684.2
<b>Percentage Of Charter Capital Offered (%)</b>	26.43

This auction time table was one of the most aggressive set up during the entire voucher auction process. It proved that a Committee and a Fund could plan their work with a fair degree of accuracy up to six months in advance.

<b>AUCTION CENTER</b>
-----------------------

Pre VASG arrived

The Property Fund held talks with three sub-contractors on establishing an auction center. None of these contractors had access to premises which would have been appropriate for an auction center

Post VASG

VASG helped reach an agreement with the Property Committee on leasing to the Irkutsk Privatization Center premises at the Center of Scientific-Technical Information and opening an auction center. The Irkutsk Privatization Center repaired the premises and equipped the Auction Center. The IPC paid special attention to advertising inside the Auction Center and erected arrows and posters on roads leading to the auction center. The Auction Center collects bids and voucher depository receipts, inputs data about the bids made and vouchers into the computer, sums up auction results and calculates the auction rate. Finally, notices are sent to the winners and losers. The center employs 18 people were trained in part by VASG.

After June 1994 the Irkutsk Privatization Center will continue to operate as an investment company. A Stock Center and a share registry may be set up in the premises of the former auction center.

<b>BID CENTER NETWORK</b>
---------------------------

Pre VASG

There were 9 bid centers established by the three contractors of the Property Fund for the organization of auctions.

VASG's role

VASG helped establish closer cooperation between the Property Fund and the local Property Committees and Funds. VASG drafted an internal order of the Chairman of the Regional Property Committee that all local Property Committees were to accept bids for voucher auctions. VASG suggested that a system of remuneration conditional on the number of vouchers taken in be introduced. This was established with the support of all parties.

#### ADVERTISING

##### Pre VASG

As in most regions the Property Fund did not have an appreciation of the importance of advertising. The Property Fund placed only the legally required notices in REFORMA and the newspapers VOSTOCHNO-SIBIRSKAYA PRAVDA, SOVETSKAYA MOLODYOZH, and DELO.

##### Post VASG

VASG was able to assist the Property Fund conclude an agreement with Irkutsk State Radio and TV Company to ensure regular coverage of the voucher auction process. The bulk of the GKI's financial aid, R58,820,000 was set aside for advertising. Advertising on radio and TV was stepped up and visual advertising and the mailing of advertising leaflets were introduced.

The emphasis is on informing the public about the opportunities of taking part in VAs, the VA procedure and the addresses of bid centers.

#### LEGAL ISSUES

##### Pre VASG

There were many violations of legislation in Irkutsk:

- failure to comply with Decree No 640 on the sale of 29 percent of shares through VAs;
- failure to comply with Decree No 1229 on the sale of 80 percent of shares for vouchers;
- formation of FARP from shares meant for voucher auctions;
- provision of additional benefits to locally registered voucher investment funds;
- payments in vouchers of less than 50 percent of closed subscription.

##### Post VASG

VASG carried out a full analysis of the legal situation in the region. The Voucher Auction schedule allowed many violations to be corrected since the shares of enterprises with less than 29 percent of shares offered for Voucher Auction or failing to meet the 80 percent sale for vouchers requirement were put up for repeat sale.

VASG brought before the GKI a draft letter containing proposals for correcting violations of law. The letter was signed by Deputy GKI Chairman D. Vassilyev and sent to the Chairman of the Regional Property Committee V. G. Dvomichenko.

During each visit to the region compliance with the law was verified and legal advice were given. Assistance was given on matters of organizing investment tenders and on their implementation.

#### ALL-RUSSIAN AUCTION SYSTEM

Pre VASG

Before VASG arrived, the region had occasionally acted as an agent in national auctions.

Post VASG

An agreement was reached with the Property Committee and Fund on the sale of all major enterprises in the region through national auctions. An appropriate clause was added to the agreement on joint activities with the GKI of the RF.

Enterprise	Closing date	Charter capital	Capital Auctioned	Percent Offered
Bratski LPK	6/12/93	1,948,127	564,957	29%
Korshunov GOK	6/12/93	250,126	72,536	29%
Irkutsk Aviation Association	6/12/93	552,700	161,820	29.3%
Angarsk NefteOrg Sintez	21/03/94	3,537,083	778,158	22%
Usolye Khimprom	21/03/94	698,928	153,764	22%
Bratsk Aluminium	4/4/94	1,101,061	220,212	20%

<b>CASH AUCTIONS</b>
----------------------

	Total in 1993/4	Pre VASG	Post VASG
Number Of Auctions	155	27	128
Total Income	R 271,895,252		
Income Per Voucher	869.94 Rubles		

Pre VASG

Cash auctions were held on an ad hoc basis. The Property Fund paid little attention to the voucher privatization process and had little understanding of how the auctions could be made self financing.

Post VASG

When the voucher auction schedule was put together VASG introduced a requirement that the cash auction be held within three weeks of the end of the voucher auction.

Cash auctions were also arranged through contractors. These contractors maintained all the records of the cash auctions and the Fund knew little other than what revenue was received for what package of shares. They found even this out only with a significant delay.

<b>FINANCIAL AID</b>
----------------------

Pre VASG

The region applied for financial aid from the GKI, but this was denied.

Post VASG



VASG used the finance lever to obtain the significant improvements that were achieved in the auction process in the oblast. VASG recommended that financial aid be made available to the region and prepared a draft budget. A budget worth R84,926,000 was approved. The first stage of the aid package was worth R33,982,000.

To ensure compliance, the second stage of the aid package was conditional upon:

- VA sale of 120 enterprises and the offer of 6 enterprises for national auctions
- provision of reports on the revenues from 5 percent cash auctions and the expenditures.

Since delays in holding the national auctions were caused by the passage of privatization documents through the GKI and the RFPF and Government decisions, i. e., were due to circumstances beyond the control of the Property Committee and Property Fund, VASG recommended that the GKI release the second stage of financing.

#### POST-PRIVATIZATION ISSUES

##### Pre VASG

The officials of the Property Committee were addressing post-privatization problems. They supported the organization of a depository by the Cash Union which is supposed to act as a share registry in future. An association of investment institutions is being established. The Property Committee sent a request to the GKI of the RF to be included as a regional center for enterprise post-privatization support.

##### Post VASG

Members of VASG assisted the privatization agencies of Irkutsk region on matters of shareholder registry keeping, preparing shareholder meetings, and procedure for dividend payment. VASG visited ANGARSKNEFTEORSINTEZ and advised on share registry. VASG gave detailed instruction on shareholder registers to a representative of the Korshunov GOK.

#### CURRENT PRIORITIES

VASG believes that methodological and technical aid should be given to the privatization bodies of the Irkutsk region on the following issues:

- shareholder meetings;
- shareholder registry;
- managing JSCs;
- formation of the secondary securities market.

## IVANOVSKAYA OBLAST: FINAL REPORT

## TRIP DATES

July 27-August 6, 1993  
 September 22-24, 1993  
 October 27-29, 1993  
 February 15-March 3, 1994  
 May 24-27, 1994

## AUCTION RESULTS

The Ivanovo region was progressive in the number of companies that it put through voucher auction, but very independent in developing its own methodology and then was reluctant in abandoning this when a clearer policy was established by GKI. VASG consistently worked with the region to ensure that it was closer to GKI recommended practice. By the end of the first quarter of 1994, the legal regularities had been significantly reduced.

	Total in 1993-1994	Prior to VASG	After VASG
Number of companies	126	84	97
Number of lots	198	84	114
Charter Capital (th.r.)	9,036,344	7,882,922	5,949,521
Submitted to VA (th.r.)	1,815,396	857,613	957,783
Percent of Charter Capital	20.09	10.87	16.09
Sold at VA (th.r.)	1,629,412	817,133	812,278
Percent of Charter Capital	18.03	10.37	13.65
Vouchers collected, VA	208,094	134,467	74,028
Auction rate	7.83	6.08	10.97

Vouchers collected in the region	Number of vouchers
VA	209,544
Closed subscription	113,040
Otherwise	172,556
Total	495,140

The region has held 6 investment tenders for 15.5-percent to 35-percent share packages. The Committee has a strong preference for this means of sale over the mass privatization voucher method.

## ENTERPRISE PIPELINE

Pre VASG

Ivanovo region held mixed voucher and cash auctions. When some shares had been sold at voucher auction, the auction rate was used to establish a price for selling shares in a "share shop" on a first come first served basis.

Post VASG

VASG scheduled 63 companies between December 15 1993 and June 13 1994, with a total Charter Capital of 3,999,355,000. Capital offered was 439,169,595 rubles, or 10.8 percent of the Charter Capital. 61 companies (317,794,800 rubles sold) went through the pipeline with a total Charter Capital amounting to 2,783,622,000.

Altogether, 82 companies have gone through the pipeline. The largest issue was the formation of a textile holding company which reduced the shares that were available to go through voucher auction.

#### AUCTION CENTER

##### Pre VASG

The region never attempted to set up an Auction center. Auctions are arranged by contractors through their own bid reception centers.

##### Post VASG

VASG worked with the Fund to set up an auction center by developing the bid point of one of their major subcontractors. Under that contract, Ivinvest receives 350 rubles per each received voucher. All other contractors signed sub-contracts with Ivinvest, that will pay them 200 rubles per each voucher. Ivinvest manages all regional bid reception data, and files results, using GKI-certified software.

#### BID RECEPTION NETWORK

##### Pre VASG

Bids were only received by the contractor responsible for a given auction and at the privatized enterprise. This meant that even if another contractor was nearer to an individual, his bid could not be submitted there if the auction was the responsibility of a different contractor. This meant that there were less bid points for any one auction than had actually been set up— obviously a very inefficient system.

The Fund had several contractors - investment organizations, licensed by the local Finance Department. Contractor remuneration was set at 250-300 rubles per voucher.

##### Post VASG

After VASG's first visit, the bid reception network was significantly expanded. The standard contract was amended to include a provision, obliging each contractor to receive bids for all companies included in voucher auctions.

In March 1994, district and city Committees were included in the network. At present, 27 centers are functioning, including 24 at the district Committees and three at the Invest company's local offices.

#### PROMOTION CAMPAIGN

##### Pre VASG

In common with most regions the Fund was only interested in how they could cut their bill for advertising. The Fund was placing regular reports in *Reforma* bulletin, and *Rabochy Krai* and *Ivanovskaya Gazeta* newspapers to carry the statutory minimum information.

##### Post VASG

VASG used the carrot of financial aid to encourage the region to spend more on advertising. The budget compiled by VASG for advertising amounted to 14,408,000 rubles.

The Fund has conducted an aggressive promotion campaign through the press, radio, and TV.

Local radio features 1-minute prime-time promotion reports, and a 3,690,000-ruble contract ending July 1994 has been signed with the local TV station.

Twice a week, local TV station features two 30-second reels on voucher privatization June 30 deadline, under a 3,800,000-ruble contract effective until July 1.

Altogether 50 Voucher Auction billboards were installed. Total spending for promotion campaign in Ivanovo Region amounted to 12,854,275 rubles.

#### LEGAL ASPECTS

##### Pre VASG

There were a series of legal violations in Ivanovo:

- failure to abide by Ukaz 640- 29% minimum at voucher auction
- failure to abide by Ukaz 1229- 80-% for vouchers
- auction center violations
- processing delays
- information requirements not being met
- retaining a minimum 20% state interest
- auction rate not allowed to fall below 10
- mixed auctions

##### Post VASG

VASG carried out a legal inspection of the voucher process, and studied the local legislation. The share package issues remained unresolved owing to the refusal of the Committee to acknowledge the authority of the Central GKI over the regional administration. The latter six issues have been resolved in line with GKI policy.

#### ALL- RUSSIA AUCTION SYSTEM

##### Pre VASG

The region never participated either as an agent or as an offeror of companies.

##### Post VASG

The contractor, Ivinvest arranges ARAS auctions in the region. The greatest problem has been in delayed payment due to the contractor.

Only Rodniki-Textile, the largest company in the region, has gone through ARAS (Charter Capital 2,085,216,000). Bids were received between August 16 and September 13, 1993. 400,000 shares were submitted for sale (19.18 percent of Charter Capital). 354,546 shares were sold (81.89 percent of the total number), and 18,197 vouchers were collected. The auction rate was set at 18.

Significantly higher than had been achieved in the intra Oblast auction.

#### CASH AUCTIONS

##### Pre VASG

No schedule existed to maximize the potential of cash auctions.

Post VASG

VASG helped to draft the schedule at the Fund and Committee. The 5-10-percent cash auctions are now held 4-5 weeks after Voucher Auction results are published. By June 10, 101 companies have gone through cash auctions, raising 133,969,474 rubles for the Fund, amounting to a per voucher revenue of 504.4 rubles.

<b>FINANCIAL AID AREAS</b>
----------------------------

VASG did not recommend financial aid to Region but in response to a GKI request, drafted a budget, totaling 56,054,000 which was approved on September 2, 1993.

<b>CURRENT PRIORITIES</b>
---------------------------

VASG believes that in common with other regions, technical assistance will be required in the following areas:

- shareholder meetings;
- shareholder registers;
- joint-stock company management ;
- setting up infrastructure for secondary securities market.

## REPUBLIC OF KARELIA: FINAL REPORT

## TRIP DATES

May 17-28, 1993  
October 5-7, 1993  
December 9, 1993  
March 2-4, 1994  
April 20-28, 1994  
June 14-16, 1994

## AUCTION RESULTS

Karelia was one of the first regions visited by VASG in May 1993. During that visit, VASG piloted its assistance framework. The supply and demand sides of the voucher auction process were analyzed, and recommendations were developed and provided to the regional privatization bodies on each aspect of the process. VASG developed and introduced recommendations and draft contracts of bid reception network expansion, schedules and formats of targeted PI campaigns for voucher and cash auctions, "Temporary Provisions for 5% Cash Auctions", including invitations for potential participants, national auctions participation mechanism and pipeline management tools. The region was very cooperative and both accepted VASG's recommendations and shared its own experience. The region has been one of the most successful in terms of the number of vouchers collected relative to its population. In April 1994, the region was selected by VASG/RPC/GKI to host a Georgian Privatization Delegation interested in learning from the Russian program.

Before VASG's first trip to the region, only one voucher auction had been held. Four enterprises with total charter capital 366,233 thousand rubles had been sold. The average share package put up for sale at the first voucher auction was 25.25%.

As of June 1, 1994 the number of enterprises sold through voucher auctions was 34 with total charter capital of 4,570,955 thousand rubles in six auctions. The number of lots sold was 34 with 1,133,745 one thousand ruble shares sold since the beginning of voucher privatization. The average share package put up for sale was 24.8%. This is below 29% due to the significant number of large enterprises that fall under special privatization legislation. The following legal, yet irregular, share packages have been sold through voucher auctions:

- ˆ JSC "Kondopoga" (14%);
- ˆ JSC "Oneganeft" (18.25%);
- ˆ JSC "Petrozavodsk Radio Works" (18.5%);
- ˆ JSC "Lyaskelya" (15%);
- ˆ JSC "Karelenargo" (15.9%);

The total number of open joint stock companies registered on republican territory is 79. Thirty four enterprises have been sold and seven enterprises are in the pipeline scheduled for sale before June 30. Shares of 21 joint stock timber/wood processing companies are not subject to sales at voucher auctions, according to a decision of the Republic Supreme Soviet. The remaining enterprises are not subject for sale under voucher auctions.

As of June 15, 1994, the number of vouchers redeemed from the Republic's population was 1,196,016, or 149.5% of total vouchers distributed. The number of vouchers redeemed through voucher auctions, including inter-regional, was 877,673, or 110% of total distributed. The average auction rate was between 0.5 and 12 one thousand ruble shares per voucher. The number of vouchers redeemed through closed subscription was 303,540,

and through sale of municipal property was 14,803. As of June 15, 1994, 1,181,213 vouchers were canceled, but no vouchers have been destroyed.

The most successful voucher auction held was that of the JSC "Nadvoitsk Aluminum Works" (Charter capital 283,855 thousand rubles). The auction rate was one 500 ruble share per voucher. The total number of vouchers collected at this auction was 136,937.

#### INVESTMENT TENDERS

By June 1994, only one investment tender had taken place. A ten percent share package of JSC "Olonetsles" (Charter capital 26,629; key activities - timber and wood processing), offering 2,663 one thousand ruble shares. The selling price of the share package was 80 million rubles and the investment commitment was 3,080 USD. "IBS International Business Trust" was the winner of the tender. Key investment tender conditions were the following:

1. Investment to be used along the following lines:

- purchase of lumber equipment - \$2,100.;
- purchase of timber transportation equipment - \$300,000;
- purchase of foreign equipment maintenance equipment - \$100,000;
- purchase of telecom and computer equipment - \$100,000;
- maintenance and reconstruction of lumber production line and environment protection objects - \$400,000;
- increase the company's working capital - \$80,000.

2. Maintain the company's line of business profile.

3. In 1994, keep the number of employees at 1,014.

4. Finance the social assets before handover to municipal ownership.

Two additional privatization plans provided for investment tenders, but as the Fund was disappointed with the first tender, it is unclear whether these tenders will be actually held.

#### ENTERPRISE PIPELINE

Voucher privatization is planned to finish in the region by June 20, 1994. The last voucher auction in the Republic of Karelia is in process to sell shares of 7 enterprises with total charter capital 101,246 thousand rubles. The total number of shares put up for sale is 38,921; or 17,205 one thousand ruble shares. The following legal, but irregular packages, are offered at the last auction:

- JSC "Muezersky complex wood processing company" with a 19% share package;
- JSC "Onegoneft" - 3.75% for a closed voucher auction for employees: 22% has been sold earlier, 38% is under state control for 3 years.

#### AUCTION CENTER

The Auction Center was up and running by the time VASG first visited the region. The Auction Center in the Republic is a division of the Fund. It accepts bids only from legal entities participating in the voucher auctions. Data processing, computer input and results calculation is carried out in the Fund. The Auction Center has accepted 284,513 vouchers. Its operation procedures are in full compliance with law.

The Auction Center conducts no post-privatization enterprise support activities. After voucher privatization, the Auction Center staff is planned to be used in other privatization activities (e.g. land privatization).

**BID RECEPTION NETWORK**

Based on VASG recommendations, the bid reception network in the Republic of Karelia was based on the agreements concluded by the Fund with the republican branch of the Federal Post Office (formerly Rossviazinform republican branch) and the Courier Post Office local branch. According to these agreements, the Federal Post Office local branch was responsible for bid reception point set-up in each administrative district of the Republic based on local post offices; and the Courier Post Office was responsible for the transportation of bids and vouchers from the bid points to the Fund. The Fund created this system in March 1993, being one of the first in the country to set up a bid reception network. Twenty four bid points were set up in the Republic, 8 in the capital city and 16 in the districts.

In October 1993, new prices were agreed between the Fund and its subcontractors. The Fund pays R 250 per voucher accepted to the Federal Post Office. The Courier Post Office is paid R 200 per voucher, plus R 300 per kilogram delivered, as well as a payment for the car trip and courier service for voucher transportation. In addition, the Fund has introduced a comprehensive bonus system for the Post Office employees, and has spent a significant amount of money for this purpose. Therefore, the total cost of voucher acceptance and transportation is approximately R 500 per voucher. (Note: currently Karelian Post Office gets R 1,200 - 1,500 per voucher accepted for the central voucher investment funds.)

The bid reception points were supplied with posters; and each point had a stand with information on enterprises being sold and sample bids filled out. Each bid point had an employee working to accept bids and vouchers for voucher auctions as well as for voucher investment funds.

Bid reception points in the Republic have collected 100,778 vouchers, or 8.46% of total vouchers accepted in the Republic.

Temporary bid points were opened in the Republic at "Kondopoga" and "Nadvoitsk Aluminum Works" to accept bids and vouchers, not only for the enterprises themselves, but for other companies auctioned as well. In rural area, bids have been accepted mostly by timber companies employees.

**PUBLIC INFORMATION CAMPAIGN**

The PI campaign was organized jointly by the Fund and the Committee using local TV, radio, press and visual advertising.

- **TV and Radio:** In March 1994, the Fund signed an agreement with the State Media Company "Karelia" until (year end 1994), concerning the preparation and airing of privatization and voucher auctions advertising and informational materials. This contract provides for 10-15 minutes of TV and radio time per week. The Committee regularly holds press-conferences with participation of local privatization authorities and voucher investment Funds devoted to privatization progress and voucher auction results in the region. VASG participated in a press-conference during an experience-sharing trip of Georgian Privatization Authorities to the Republic.
- **Press:** Supported by the Committee, the Fund published voucher auction information free of charge in the official paper of the Karelia Supreme Soviet ("Karelia", circulation 3,000), as well as in all district newspapers across the region. Local newspapers are not popular in the Republic and circulation is constantly declining. At present, the most popular republican newspapers - "Northern Courier" and "Northern Youth" - have less than 30,000 circulation (whereas the population of the Republic is 800,000). As such,



the Fund signed a long-term contract with the "Northern Courier" newspaper. Official notices are also placed by the Fund in its bulletin "New Time" (1,000 circulation).

- **Visual Advertising:** The Fund produced posters for the national auctions with addresses of bid reception points and distributed them to all post offices.
- **Other:** To follow-up on D.Vassiliev's letter dated February 25, 1994, the Committee provided for the local telephone "yellow-pages" service to inform users on the address and phone number of the Auction Center.

#### LEGAL ISSUES

According to Presidential Decree # 1229 on "Development of Voucher System in the Russian Federation" dated October 14, 1992, the Supreme Soviet of the Republic defined that for republican property, between 35% and 80% of total charter capital was to be sold for vouchers.

On most legal issues, the region followed the Federal Program. Two violations were observed:

- Decree of Karelian Republic Supreme Soviet # 64/7 "On Sale of Enterprise Shares to Voucher Investment Funds of Social Security" dated May 25, 1993, allowed that 5% of charter capital of the republican property may be sold to social security voucher investment funds. Although this ran counter to Federal privatization law, the central GKI chose not to remedy this minor infraction.
- In the privatization plans of some enterprises, the local Committee signed both for majority share in State control and for the "Golden share" (veto right) simultaneously. After VASG communicated to the Fund and the Committee that this practice was illegal, the Committee discontinued this practice.

The Republic has recently adopted a New Regional Privatization Program that is in full compliance with the Federal Program. This program confirms that the Inter-regional Program of Privatization of Municipal and State Enterprises in the Far North and similar regions according to Presidential Decree # 2226 dated 20 December 1993 is true for all territory of the Republic.

#### ALL-RUSSIA AUCTION SYSTEM

The first agent contract was signed by the Republican Fund in May 1993. Since then Karelia has participated in the national and inter-regional auction systems, both as a donor and as an agent.

The Fund acted as an agent to sell shares of 104 enterprises sold through the national auction system and 4,710 vouchers were collected in 65 auctions which had closed by June 15.

Shares of the following Karelian enterprises were sold through national auctions:

- JSC "Onezhsky Tractor Plant" - with total charter capital of 289,642 thousand rubles; total vouchers collected was 15,840, including 8,626 from outside of the region;
- JSC "Karelsky Okatysh" - with total charter capital of 1,096,400 thousand rubles; total number of vouchers collected was 282,950, including 245,859 from outside of the region;
- JSC "Belomoro-Onega Fleet" - with total charter capital of 1,023,797 thousand rubles; total vouchers collected was 182,386, including 157,068 from outside of the region;
- JSC "Segezhabumprom" - with total charter capital of 297,968 thousand rubles; total vouchers redeemed was 87,236, including 71,535 from outside of the region;

- JSC "Karelenargo" - with total charter capital of 447,046 thousand rubles; total vouchers redeemed was 10,448, including 9,289 from outside of the region.

Price Waterhouse and the GKI provided computers to the region for its active participation in the ARAS.

#### CASH AUCTIONS

Prior to VASG's initial visit, no 5% cash auctions had been held in the region. VASG worked out and provided "Recommendations and Temporary Provisions on 5% cash auctions" which were immediately adopted by the Fund. These included starting price definition, lot formation methodology, and PI campaign framework. These recommendations were subsequently used in other regions.

Since May 1993, there have been seven 5% /10% cash auctions held in the region. Total proceeds were 1,588,966 thousand rubles. Proceeds per voucher redeemed at voucher auctions were 4,124 R, more than enough to fund on-going voucher auctions (the total costs for the first six voucher auctions were 397,139 thousand rubles; or R 453 on a per voucher redeemed basis; the Fund's total cost of national auctions was R 65 MM, or R 526 cost per voucher redeemed at national auctions.). Since May 1993, cash auctions were held on a regular basis immediately following the voucher auctions.

#### FINANCIAL AID DISBURSEMENT

VASG recommended R 19.2 MM which was provided in July 1993. USAID will reimburse for 16.54 million rubles (the difference being non-reimbursable capital expenditures). This money was used primarily to fund the auction infrastructure.

#### GEORGIAN DELEGATION

In April 1994, VASG hosted a delegation of Georgian privatization officials who were invited by USAID/GKI/RPC to Russia. The delegation consisted of 7 members, including central Privatization Ministry and Government officials as well as the heads of Privatization Ministry regional agencies responsible for both large and small scale privatization. Small scale privatization in Georgia is well underway. Large scale privatization is planned to follow the Russian program, and privatization vouchers will be soon distributed throughout the country.

The purpose of the trip was to educate the Georgians with the Russian mass privatization methods, to acquaint them with the national voucher auction system, and to demonstrate the specifics of regional privatization. Karelia was chosen not only because of its success in voucher collection, but also because the relationships between the federal and local authorities in the issues of allocating property and adopting local legal acts are more visible in a Republic of the Russian Federation than in an oblast. The Karelian privatization authorities were open and honest in revealing not only their privatization knowledge, but some of the problems of the process which could be avoided.

#### POST-PRIVATIZATION ISSUES

At present, there are 17 licensed commercial concerns in the Republic of Karelia conducting operations with securities. The Registry-Depository Center, founded by the local Property Committee; the Fund; and the largest joint stock companies ("Belomoro-Onega Fleet", "Karelsky Okatysh", Onezhsky Tractor Plant" and other), is the most efficient one. Key activities include: share registry maintenance; share trade; second share issue; voucher storage and cancellation.

Republican authorities are concerned with the status of the timber and wood processing industry, the Republic's core industry. Declining demand has lead to a decrease in timber output which has resulted in lack of resources for the wood processing companies to purchase new equipment from the "Onezhsky Tractor Plant" - a large enterprise facing bankruptcy. Unfortunately, many leaders in the Republic blame privatization for these difficulties.

Corporatization in the Republic is nearing completion. First shareholder meetings have been held to adopt changes in companies' Charters, to elect new Boards of Directors, and to define new strategies. Meetings held to date show that many shareholders do not yet consider themselves owners, have a poor knowledge of the key joint stock company legislation, and do not understand the role of Board of Directors. Joint Stock Companies' management training in these matters. VASG has provided the region with its manual on joint stock company governance.

The Republic authorities view training and post-privatization support of enterprises as critical. VASG has communicated to GKI its support of the region's initiative to create a LPC to support privatized enterprises suggested by the RF Government Decision # 1045 dated 11 October 1993.

## KALININGRAD REGION: FINAL REPORT

## VISIT DATES

18-20 July, 1993  
27 July - 6 August, 1993  
29-31 August, 1993  
26-28 October, 1993  
23-25 November, 1993  
19-22 April, 1994  
11-15 June, 1994

## AUCTION RESULTS

VASG initially visited Kaliningrad in order to develop the cash auction program for the region. This, together with a much improved public information campaign, can be considered the principle successes of the technical assistance extended to the region.

Prior to VASG's arrival in Kaliningrad the regional Property Fund had held 13 voucher auctions at which the shares for 13 enterprises had been sold. These had a total charter capital of 313 million rubles, with share capital of 70 million rubles (22.4%) offered for sale.

By June 15, 1994, shares in 94 enterprises (in 121 lots) had been sold through regional voucher auctions, representing a total charter capital of 1,259 million rubles. The share capital offered for sale amounted to 371 million rubles – an average share package of 29.5%. The actual share capital sold was 348 million rubles – 93.7% of shares offered

The most successful voucher auction in Kaliningrad was that to sell the shares of *Mekhbank* (total charter capital 1,276 thousand rubles; 27.5% offered). On calculation of results the par value of the shares was split to 4 rubles. A total of 12,356 vouchers were collected for this enterprise, representing a normalized auction rate of 0.03.

By June 14, 1994, 175,100 vouchers had been collected and canceled through voucher auctions. During VASG's support for the region the overall weighted average auction rate improved for 3.6 to 1.3 – testament to the improved publicity campaign. In addition to the regional voucher auctions, the ARAS campaign collected 14,519 vouchers bid for Ocean Fleet Pioneer Base.

Closed subscription and other sales redeemed a further 206,519 vouchers (including municipal property). Hence a total of 394,138 vouchers had been collected and canceled (not including those pending the declaration of results). This represents some 44% of the number distributed in the region. A total of 13,876 vouchers had been physically destroyed.

## INVESTMENT TENDERS

The Property Fund of Kaliningrad Region has held investment tenders for the shares in 4 enterprises, with a total charter capital of 39 million rubles. Shares worth 8.3 million rubles have been tendered (21.3% on average). Total investment committed has been 2,070 million rubles.

The basic criterion for adjudicating the winning tender has been the present value of the investment, discounted over the life of the investment program at the rate established by the Central Bank. In two cases this included the specific commitment to retire the enterprises' debt.

After the end of the Voucher Auction Program, Kaliningrad Property Fund plans to focus on continued investment tenders. A schedule for a further 6 investment tenders has already been developed, and the programs call for investment of 4,820 million rubles.

#### ENTERPRISE PIPELINE

The region has all but completed the sale of those enterprises that were subject to voucher auction. Shares in 18 enterprises remain to be sold, and the auctions of 10 of these have already been slated. The Committee has transferred all documents to the Property Fund.

However, in total the Fund has the documents of 190 enterprises that have been transformed into joint stock companies. Of this number 110 enterprises will have had sold 100% of their shares, while 80 enterprises will be included in the privatization program after June 30. In addition, the Property Committee is processing the documents of a further 19 enterprises that are to be corporatised. In common, then, with most other regions there can be no definitive assertion of the number of enterprises that there remain to be sold.

At present, the papers of the Kvartz company and its former Shop No.21, now turned into Set-Krona company, are being processed at the federal level. The region is experiencing some problems getting clarification on the exact status of this application.

Under the Regional Program for Privatizing State and Municipal Enterprises for 1994, 89 enterprises have been assessed as federal property not subject to privatization. This number does not include defense related facilities.

#### AUCTION CENTER

The Auction Center is located at the Kaliningrad Yantar Inter-Bank Stock Exchange. The Property Fund and the Exchange have signed a joint cooperation agreement under which the Fund pays the Auction center a monthly management fee -- an amount that varies with the actual cost of running the center.

The Center has 12 employees, including 5 registration clerks, 2 consultants, an inspector, an accountant, a systems engineer, an administrator and the director. At present, all Auction center employees have contracts with the Property Fund.

The Auction Center is uses equipment furnished by the Property Fund, but if necessary -- during peak capacity -- the Exchange shares its equipment with the Center. The Fund supplies application forms and covers 50 percent of the monthly rent.

#### BID RECEPTION NETWORK

At present, the region has 9 bid reception centers, including:

- 2 centers in Kaliningrad (Auction Center and Balti-Pas joint-stock company)
- 7 centers in the districts, all operating at local Property Funds.

This means that the majority of the region's 13 administrative districts has a bid collection point.

The Fund, Auction Center and bid reception centers have a contract procedures and payments due for collecting vouchers during auctions. Payment to the centers is made by the regional Property Fund at 250 rubles per application, plus 20 rubles per voucher bid.

#### PUBLIC INFORMATION CAMPAIGN

Prior to VASG support the voucher auction program was not promoted in any way. Indeed, the Property Fund was so severely short of funds that it restricted any advertisements to the mandatory minimum announcements.

VASG developed a budget for extending financial aid to the region for the specific purpose of public information. The budget drafted by VASG totaled 19.7 million rubles and covered promotions in all media: press, radio and TV, and street signs.

The regional Property Fund followed VASG recommendations and launched an aggressive advertisement campaign. In particular, a contract was signed between the Property Fund and Bass commercial radio station to advertise voucher auctions three times a day. In addition, the local TV channel offers regular voucher auction coverage and voucher auction posters have been installed on city streets.

Additional funding of 32.5 million rubles was subsequently approved to continue this effective campaign.

#### LEGAL ASPECTS

The following legal violations were diagnosed in the Kaliningrad region:

- The first six voucher auctions were held according to procedures established by the local "Provisional Regulations on Holding Voucher Auctions", which had been drafted by the local Property Fund. This document failed to comply with Central GKI Regulation No. 701 on voucher auctions. By the time of VASG's arrival in Kaliningrad, however, voucher auctions were being held in compliance with the central legislation.
- Some privatization plans contained blanket provisions for 20% of share capital to be retained by the Property Fund. The local Fund claimed to be following the practice of the Federal Fund in this, asserting that the Federal Fund sought to retain 20% of all Federal property. This matter was only properly resolved after the events of October and the subsequent subordination of the Federal Fund under the jurisdiction of the Central GKI. At this time the sale of reserved packages was required.
- Some privatization plans were improperly drafted – in particular they failed to delineate the procedure for subsequent amendments. However, this failing was soon corrected.

In general, and certainly in comparison to other regions, Kaliningrad's record of compliance was good, and such deviations as existed were minor and corrected when pointed out. Indeed, an official letter was sent to the region by Deputy Chairman Vasiliev commending its performance record and its compliance with regulations.

#### ALL-RUSSIA AUCTION SYSTEM

Prior to VASG's relationship with the region it had not participated in the ARAS, either as agent or donor. However, three enterprises were ultimately donated to the system, with a combined charter capital of 1,389 rubles and 357 million rubles for sale (25.7%). Only one of these enterprises has had the results declared – it achieved an auction rate of 1.18 and collected 67,823 vouchers across the Federation.

#### CASH AUCTIONS

Cash Auctions were the principle reason why VASG first visited Kaliningrad. Prior to the visit the region had not held any such auctions, and its finances were in a parlous state.

VASG drafted procedures for the conduct of cash auctions, and worked on a public information campaign to generate demand. Since August, 1993 there have been 16 cash auctions, at which the shares of 102 enterprises have been sold.

Total revenues have exceeded R159 million, representing revenue of R 623 per voucher collected at voucher auction. This has been sufficient to cover the marginal costs of voucher auctions.

#### FINANCIAL AID AREAS

Prior to VASG's presence in the region, the authorities had already received financial aid in the amount of 12.2 million rubles from Central GKI. This money had been spent by the time of VASG's arrival.

Subsequently, VASG recommended two additional financial aid requests, in the amounts of 23.3 million rubles and 32.5 million rubles. The second request was for the exclusive support of the public information campaign; the first included funding for the auction center as well as public information.

These funds have all been accounted for by the region according to the format required by Central GKI.

#### POST-PRIVATIZATION ISSUES

The Fund is in the process of coordinating the formation of the Regional Equity Center, to be founded with the participation of :

- Property Fund
- Yantar Inter-Bank Exchange
- Baltvneshtorgbank
- Various other commercial banks and insurance companies.

It is envisaged that this center will act as a trustee for share management, maintain share registries, give consultancy advice on the development of business plans, and provide legal consulting services.

As in many of its regions, VASG organized and participated in a seminar to discuss the maintenance of independent share registers.

#### CURRENT PRIORITIES

The Property Fund is particularly concerned about the future organization of cash auctions and investment tenders, as well as sale of bankrupt and liquidated enterprises.

## REPUBLIC OF KOMI: FINAL REPORT

## TRIP DATES

May 13-14, 1993  
June 22 - July 2, 1993  
October 27-29, 1993  
November 16-19, 1993  
December 3-4, 1993  
March 16-18, 1994  
April 5-7, 1994  
April 12-14, 1994  
May 24-26, 1994

## AUCTION RESULTS

In Komi, VASG focused both on the specific features of the voucher auction process in a republic with a large number of industry assets subject to special legislation on privatization (oil and timber), and on post-privatization issues. VASG activities included: the signing of a Cooperation Agreement between the GKI and the region to help create one of the country's best and busiest auction centers; the preparation of oil companies for national auctions in the summer of 1993 – the first such sale in Russia; the organization of a seminar on corporate governance and share registry with the help of other advisors and a Moscow-based third-party registrar; and finally the hosting in the region of a delegation of Ukrainian privatization officials who were on a fact-finding trip to study lessons learned from mass privatization in Russia.

Prior to the VASG's first visit, the Komi Republic had held three voucher auctions to sell 14 companies with a total charter capital of 366,233,000 rubles. The average share package offered was 25.25%.

By June 15, 1994 ninety-five companies with a total charter capital of 7,232,981,000 rubles were sold in 105 lots at 18 voucher auctions. In all, 951,066 1,000-ruble shares were sold since the voucher privatization program was launched. The average share package for sale equaled 13.98%.

At the time of VASG's first visits to Komi, the Committee reviewed each oil extracting and refining company, recommending cash auctions be arranged for 50% of the stock subject for sale at a voucher auction under Presidential Decree #1403 of November 17, 1992. After VASG repeatedly pointed out that these companies were to be privatized in strict compliance with Decree 1403, the committee complied with these requirements. Several companies put up less stock for voucher auctions than required (Kominet: charter capital of 3,397,120,000 rubles, with 12% for the voucher auction; Tebukneft: charter capital of 501,475, with 14% for the voucher auction), this affected the average share package sold at voucher auctions. Irregular share packages of 38 timber companies were offered for sale at voucher auctions under Decision #55 of the Komi Government to allow for the sale of 44% to 55% at investment tenders. The Republican Property Committee stated that 3,133 companies, including 1,257 in federal and republican ownership, had been entered into the state company register. Among them, 1,791 companies, including 887 companies in federal and republican ownership were subject to privatization. By January 1994, 478 federal and republican companies were privatized.

By June 1, a total of 929,478 vouchers (76.85% of the 1,209,481 vouchers distributed) were redeemed in the republic through all methods, with the following breakdown:

- closed subscription - 158,140;
- specialized voucher auctions (including inter-regional) - 585,567;



- municipal property sales - 41,000;
- other - 144,771.

For specialized voucher auctions the majority of bids were collected in the capital city of Syktyvkar, including 92% of all bids in republican auctions, and 76% in national auctions. The auction price varied between 0.3 and 40 1,000-ruble shares per voucher, with the average price of 1.62 1,000-ruble share per voucher.

#### INVESTMENT TENDERS

Komi Republic conducted 13 investment tenders for companies with a total charter capital of 419,903,000 rubles. The most successful tenders involved large share packages in timber companies (26-29% of charter capital) whose selling price exceeded the nominal by 6 to 12 times. The charter capital of the companies offered at the investment tenders averaged 31.5 million rubles. The total investment offered in the 13 tenders amounted to 23,710,000,000 rubles and \$310 million. The first investment tender was organized by the Property Fund in December 1992 to sell 49% in Agrostroikonstruktziya company. Five tenders for the stocks of the timber companies in the Troitsk-Pechersk region were won by UA Holdings company, which plans to invest \$300 million in the next ten years. A large investment is planned for the Koigorod timber company (\$10 million over four years).

The single most successful investment tender was held for Koigorod company (charter capital - 30,402,000 rubles) at which 13,377 1,000-ruble shares (44%) were offered for sale. The winner was an Austrian company, Shvaighoffer Haltzhandels Eizelshaft. The share package was sold for 149,822,400 rubles, and the investment plan included:

- \$10-million investment;
- output increase of 40% for general timber, and up to 50% for coniferous timber;
- no layoffs;
- no production restructuring projects;
- continued social services funding;
- use of ecology-friendly equipment and production technology;
- output diversification.

Under the Komi development program endorsed by Decision #399 of the Government of the Russian Federation on May 13, 1993, the Komi Council of Ministers planned to attract investment for the following projects:

- Bauxite mine, 6.5 million tons annual output, to be commissioned in 1997, and alumina factory, 1 million tons annual output, to be commissioned in the year 2000.
- Titanium concentrate factory (100,000 tons of concentrate and 30,000 tons of pigmented titanium dioxide) to be commissioned in 1997-1998.
- Manganese mine with enrichment factory (108,000 tons of concentrate, 1995).
- Coal mines with enrichment factories, total output 6,900,000 tons.
- Polyethylene plant (213,500 tons, 1997-1998).
- Refinery reconstruction (6 million tons, 1997)
- Lubricant production from heavy fractions (120,000 tons, to be commissioned in 1997).
- Production of barium oxide, lithopone, barium salts, and other timber industry-related projects.

#### ENTERPRISE PIPELINE

The schedule for the final auction until June 23, 1994 included voucher auctions for 13 companies with a total charter capital of 664,130,000 rubles. A total of 115,957,000 rubles' worth of shares was to be offered for sale, or 17.46% of the charter capital. Those were largely shares left unsold in closed subscription. The Fund and Committee did not have

other companies in the pipeline, and the voucher privatization program was expected to be over by June 23, 1994.

#### AUCTION CENTER

Prior to VASG's first visit, the republic had no auction center. At present, the center is functioning as a unit of the Property Fund. It is located in an easily accessible district in downtown Syktyvkar, and is operating in-line with GKI recommendations. The auction center employs three bid receptionists. Bids are filed and processed using the VASG-supplied standard GKI software 4.1.

After voucher auctions, the auction center will later be used as a stock center. It will be operating as an independent commercial structure promoting the development of the secondary securities market.

#### BID RECEPTION NETWORK

The network is based on agreements between the Fund and rayon committees, and an agreement between the Fund and Komibank. In total, there are 28 bid collection points operating including the auction center in Syktyvkar. The bid points and the auction center display promotional posters, and offer information on local and national auctions. Bids are received for local and ARAS voucher auctions. The auction center has collected 35.88% of the vouchers collected at republican voucher auctions. The remaining 64.12% were collected at bid points.

#### PUBLIC INFORMATION CAMPAIGN

Prior to VASG's activities in the region, the fund had established a functioning PI campaign. Various media were used including: the republican *Respublika* daily, and less frequently, *Krasnoye Znamya* daily, along with practically all local newspapers (all these carried information about scheduled voucher auctions and their results).

VASG made a number of recommendations to significantly improve the process. Based on the VASG recommendations, the Fund hired a PR expert, a professional writer who had worked with local newspapers and TV. Under the Cooperation Agreement between GKI and the Republican Fund and Committee, the Fund received aid from the GKI of some 15 million rubles for the PI campaign. VASG developed the PI budget, and discussed radio, TV, press and poster advertising with the Fund and Committee. The Fund used mainly electronic mass media in promoting voucher auctions. Five original reels were produced for the radio, and five for TV. Within the approved budget, the Fund locally commissioned two types of posters. In addition, the Fund launched two republican newspapers, *Ekonomicheskoye Obozreniye* and *Vybor* (the latter focuses entirely on privatization and security markets). The two papers were extremely useful to experts and to potential investors.

VASG arranged a news conference for the Ukrainian delegation visiting Komi (April 12-14, 1994). A documentary on their stay in Komi and on privatization in the region was produced and shown on local TV.

#### LEGAL ASPECTS

Much of the VASG work in Komi concerned the local legislation affecting the voucher auction process. Initially, VASG determined a series of deviations from federal legislation:

- The republican privatization program allowed for management buy-out of 5% of charter capital at face value on top of the limit set in the federal program.

- Privatization schedules earmarked 5% of shares subject to sale at a voucher auction for cash auctions.
- In the oil sector, 50% of stocks subject for sale at voucher auctions under Decree 1403 were to be sold for cash.
- Many company privatization plans envisaged retaining controlling stakes and the issue of golden shares.

VASG informed the Committee and Fund of the above irregularities and urged them to bring privatization procedures into line with existing legislation. VASG prepared a letter, signed by D. Vasilyev and addressed to the republican legislature, Committee and Fund, urging them to cancel the 5% management buy-out provision in the local program, and to bring the procedures governing the issue of golden shares and the registration of controlling packages into full compliance with the Presidential Decree *On Industrial Policy Toward Privatized Enterprises*.

Only one legal irregularity providing for a 5% management buy-out was not eliminated. In addition, one request in Vasilyev's letter has remained unfulfilled: to increase charter capital in republican assets for sale at voucher auctions to 80%.

Other Legal issues included that VASG investigated included:

Komi faced many problems with closed subscription, mainly because workers collectives did not have enough vouchers. As a result closed subscription deadlines were missed at most enterprises. Fund officials believed that the provision obliging worker collectives and persons with equal rights to use vouchers in paying for 50% of the shares purchased slowed down the process of denationalization in the republic. The republican legislature supported the Fund's position, and on February 28, 1994, it approved a decision entitling each closed subscription participant to 100% voucher payment, but setting no mandatory minimum for payment with vouchers. VASG repeatedly noted that the above decision would have a negative effect on voucher privatization.

Regarding the privatization of ministerial facilities, Y.A. Gurov, deputy chairman of the Republican Committee, referred to many problems with the privatization of several companies controlled by the local railroad. In several Komi towns, a majority of local companies were controlled by the railroad, and their privatization was moving very slowly because of the difficulty in defining their "closed" or "open" status. Republican Committee officials asked VASG to investigate whether GKI had a list of "closed network," railroad-controlled facilities because some GKI officials had allegedly mentioned that such lists did exist.

Republican Fund and Committee managers disagreed with the distribution of privatization revenues, particularly Fund and Committee earnings as provided for in the 1994 Privatization Program. They claimed that the Fund and Committee were located in a republic listed in the Program among "regions in the Far North." Accordingly they insisted that owing to their "regional status" they were entitled to more income. In accordance with Article 4.4. of the Privatization Program, any change in the distribution of privatization earnings was the prerogative of the Government of the Russian Federation.

#### ALL-RUSSIA AUCTION SYSTEM

Before VASG began to work in the region, the republic had not participated in ARAS. Working with VASG, Komi became active in ARAS in 1993, both as an agent and donor. As a result the local Fund received GKI computer hardware, and a special letter of gratitude from D. Vasilyev. The following local companies went through ARAS:

- Komineft, charter capital of 3,397,127,000 rubles.
- Snabneft, charter capital of 202,077,000 rubles
- Tebukneft, charter capital of 501,475,000 rubles.

Owing to the special legislation governing the privatization of oil and gas companies, only 8.5% of their charter capital was offered for sale. The auction redeemed 401,156 vouchers, including 18,418 local vouchers.

Shares from other regions were not in high demand. The number of vouchers entered with bids for such companies varied from one (Krasnoyarsk Synthetic Rubber Plant) to 146 (Omsk Refinery).

In June, the republic participated in the Gazprom auction. During VASG's last visit, the Property Fund daily received 8,000-10,000 vouchers for Gazprom.

#### CASH AUCTIONS

Prior to the VASG visit, there had been no 5% cash auctions. During the first visit VASG provided draft *Regulations on 5% Cash Auctions*, which were accepted by the Fund. In addition, VASG provided the names of potential auctioneers. By June 1, 1994, 82 companies with a total charter capital of 6,530,596,000 rubles had gone through 5% and 10% cash auctions in which 253,575.5 thousand rubles were sold. The auctions earned 3,898,969,000 rubles, with each voucher yielding 7,721 rubles, making the republican privatization bodies among the most prosperous.

#### FINANCIAL AID DISBURSEMENT

VASG recommended financial aid to Komi, and jointly with the Fund drafted a 24-million-ruble budget, attached to the April 19 1993 Cooperation Agreement. The Fund received the funds. Under a supplemental Agreement, Komi received another 14,445,000 rubles.

#### UKRAINIAN DELEGATION

In April 1994 VASG hosted, at the request of the GKI, a delegation of Ukrainian privatization officials on a regional visit to the Republic of Komi. The visit was sponsored by the World Bank. The delegation consisted of 8 members, including central Property Fund, Ministry of Economy and Government officials, as well as the leader of the Republican Sberbank, and a representative of the World Bank.

The Republic of Komi was chosen, not only due to its success in creating an efficient voucher auction infrastructure and its secondary securities market program, but also because the republic had adopted a number of specialized legal acts, which affected the course of privatization and voucher auctions. The trip included a number of on-site visits to privatized companies, representing different industries and privatization options, as well as training sessions with the Committee, Fund, VASG and privatized companies' experts.

Although both Large and Small scale privatization in the Ukraine are underway, the Ukraine is facing the second wave of privatization, and vouchers (coupons) are to be distributed to the population. The issues of auction infrastructure and continuous pipeline management were of extreme importance for the group and the trip was greatly appreciated by the delegation.

#### POST-PRIVATIZATION ISSUES

The major priority set by republican privatization agencies is the development of the secondary market. The urgency was recognized after an upsurge in the market value of Kominest stock. Immediately after the voucher auction, a 100-ruble share sold for 1,500 rubles, and at present, according to Olma financial broker information, it sells for \$3.5, or, in the case of a large package, for \$4.

The Property Fund has plans to set up a Stock Center that would:

- maintain share registers;
- handle retail sales of company stocks;
- work with companies for secondary share issue;
- store and destroy vouchers.

Shareholder meetings are regularly being held to amend company charters, elect Board members and auditing commissions, and define company strategies. Shareholders are still not fully aware of their ownership rights, and know too little about joint-stock regulations, or the role of the Board and its meetings. Company Boards include few progressive-minded and truly professional managers. VASG has provided the region with its manual on managing a joint stock company.

## KEMEROVO REGION: FINAL REPORT

## VISIT DATES

September 30 - October 1, 1993

October 19-29, 1993

December 6-8, 1993

March 22-24, 29-31, 1994

June 15-17, 1994

## AUCTION RESULTS

Kemerovo region maintained a very high political profile during the summer and autumn in opposition to the Yeltsin Government. The Soviet in Kemerovo invited the Supreme Soviet to set up shop in Kemerovo. The Fund, although subject to the legislative branch of Government, maintained a pro-reform stance and was very active in holding voucher auctions. The Fund had problems in its interactions with the Committee because of the political tension between the executive and legislature. The Fund sought VASG's help in setting up an auction center and in easing its relationship with the Committee and thereby receiving better visibility of what would have to be sold.

	Total in 1993-1994	Prior to VASG visit	Post VASG involvement
Number of companies	226	118	108
Charter Capital (000s R.)	8,887,292	4,285,509	4,601,783
Submitted to VA (000s.R.)	2,746,315	998,650	1,747,665
Percent of Charter Capital	30.90	23.3	37.97
Vouchers collected, VA	1,090,854	482,080	592,282
Auction rate (000s R./voucher)	2.42	2.07	2.95
Vouchers collected, closed subscription	450,502		
Vouchers collected, otherwise	304,351		
Vouchers collected, total	1,845,707		

## ENTERPRISE PIPELINE

Pre VASG

Because of the political problems in the region, there was insufficient cooperation between the Fund and the Committee to ensure that an enterprise pipeline was created and maintained. This significantly complicated the life of the fund because its pro-reform status was constantly bringing it into conflict with the local Soviet.

Post VASG

VASG helped to establish cooperation between the local GKI and Property Fund on planning the transfer of privatization documents. The leverage of the GKI finance agreement was sufficient to create an auction schedule which covered the period until February 15, 1994. This included:

Number of companies	52
Charter Capital (th.r.)	2,932,155
Submitted to VA (th.r.)	692,977.35
Percent of Charter Capital	23.63

The percentage of charter capital offered was less than 29% only because of repeat sales and special legislation covering the energy and petrochemicals sectors.

#### AUCTION CENTER

##### Prior to VASG visit

As stated above, the Fund invited VASG to Kemerovo to work with them on establishing an auction center. VASG had been recommended to Kemerovo Fund by Altai Krai and Krasnoyarsk.

##### Post VASG

VASG worked with the Fund and the "Garant" company to identify space and plan the lay out of the auction center. VASG provided the Fund with the recruitment methodology that had been developed in Krasnoyarsk and advised on advertising for employees.

The Auction center finally opened with VASG assistance in December 1993. There are 20 people working in the auction center in shifts so that the GKI order on opening hours could be observed.

The Auction Center is located on the 3rd floor in the Regional Rospechat (Russian Press) building, which also houses the Property Fund, in three rooms, on 5th floor. This was not an ideal variant- but ground floor space was not available anywhere in the center of the city and the extra security provided by being in one building with the Fund outweighed any option on the second floor.

#### BID RECEPTION NETWORK

##### Prior to VASG visit

When VASG arrived in Kemerovo, there were 12 mediator companies authorized to receive bids by the Property Fund. Five of these were especially active. Payment to the mediators is made in-line with the per voucher received methodology.

##### Post VASG

The existing system was good. During the negotiation of space with Rospechat, VASG was able to have an additional 25 Rospechat branches added to the bid reception network. These bid centers were managed by "Garant" Remuneration is paid based on the total number of collected vouchers and with a potential bonus if cash auction proceeds are particularly high.

#### ADVERTISING CAMPAIGN

##### Prior to VASG visit

The Fund was not pro-active in placing general advertising. The Fund tried to avoid additional political confrontation by restricting information to statutory regular announcements in *Reforma* bulletin and *Kuzbass* and *Kuznetski Krai* newspapers.

##### Post VASG

VASG was able to persuade the Fund that more advertising was required and that if there were to be financial assistance, a very large proportion of this would have to be directed towards the development of the information campaign. The budget that was approved set promotional spending at 29,020,000 Rubles. This sum was to be spent using all traditional

forms of media.



### LEGAL ASPECTS

#### Prior to VASG visit

VASG discovered that the principal legal violations were on packages sold:

- failure to comply with Decree 640 on 29 percent stock sales at VA;
- non-compliance with Decree 1229 on 80-percent stock sales for vouchers.

#### Post VASG

The 29% rule was adhered to in Kemerovo. The region acknowledged that 80% had to be sold for vouchers but preferred other methods other than voucher auction to sell these stakes.

### ALL-RUSSIA AUCTION SYSTEM

#### Prior to VASG visit

The Property Fund participated in ARAS as both an agent and twice as a seller.

#### Post VASG

VASG was able to consolidate this and receive the promise of additional enterprises. The following companies have been submitted to ARAS:

Company	Closure date	Charter Capital	Submitted to VA
Khimvolokno	June 15	621,199	59,014 (9.5%)
Guryev steel plant	June 15	301,489	128,886 (42.7%)
Azot company	December 1	1,359,984	394,395 (29%)
Kuznetsky steel plant	December 1	1,259,863	182,680 (14.5%)
Yurginsky abrasives plant	December 20	911,881	264,446 (29%)
Novokuznetsk aluminum factory	May 6	399,717	119,715 (30%)
Nadezhda company	May 23	381,760	155,412 (40.7%)

### CASH AUCTIONS

The region had held cash auctions but was not maximizing their potential by arranging them some time after the original voucher auction. VASG was able to accelerate these and bring them into line with the voucher auction schedule.

	Total in 1993-1994	Prior to VASG visit	After VASG involvement
Number of auctions	187	84	103
Total revenue (000s.R.)	1,247,150		
Revenue per voucher (R)	1,435.26		

### FINANCIAL AID AREAS

VASG recommended financial aid to the region and drafted a budget of 68,851,600 Rubles. The conditions for receiving the second installment were:

- Forty-two companies with the total Charter Capital of 4,700,000,000 rubles to be sold at VA;
- Report on proceeds from 5-percent cash auctions and on spending submitted.

The region fulfilled both these conditions and as such the second stage of financing was released.

#### POST-PRIVATIZATION ISSUES

The local GKI has approached the RF GKI requesting assistance in finding investors for 4 companies.

VASG believes that technical assistance will be required in the following areas:

- shareholder meetings;
- share registers;
- joint-stock company management;
- setting up the infrastructure for a secondary securities market.

#### CURRENT PRIORITIES

Continued attempts on the part of the local government to interfere with privatization will require GKI to monitor and force compliance with legislation.

## KHABAROVSKY KRAI - FINAL REPORT

## TRIP DATES

July 15-17, 1993  
 December 8-10, 1993  
 January 17-28, 1994

## AUCTION RESULTS

VASG was never able to support Khabarovsk Krai in the way that we would have liked. There were many legal violations and Central GKI was very suspicious of the practices of the Krai Fund. Accordingly, GKI requested VASG to visit Khabarovsk, but it was difficult to overcome the impression that we had arrived as a central auditor. The Fund was very reluctant to release any information to VASG.

## Total for 1993-1994

Number of companies	103
Charter Capital (000s.R.)	4,815,037
Submitted to VA (000s.R.)	663,350
Percent of Charter Capital	13.78
Auction rate (000s./voucher)	1.85
Vouchers collected, closed subscription	219,557
Vouchers collected by other means	3,227
Vouchers collected, Total	636,414

## ENTERPRISE PIPELINE

VASG and the Property Fund found common ground on the need for an auction schedule to be compiled so that the Fund could plan its advertising and bid reception infrastructure to cope with the companies being received by the Fund from the Committee.

VASG, the Committee and the Fund were able to design an auction pipeline of only 20 enterprises, but this did include enterprises which had previously been offered at voucher auction. This pipeline stretched until April 1, 1994.

Number of auctions	20 (including repeat VA)
Charter Capital (thous.r.)	675,492
Submitted to VA (thous.r.)	107,026
Percent of Charter Capital	15.8

VASG attempted to take steps to supplement the schedule through submitting more companies to repeat voucher auctions. Unfortunately and in a clear violation of law, shares of 94 companies had been sold by the Fund at cash auctions prior to VASG visit.

## AUCTION CENTER

Situation prior to VASG visit:

An Auction Center was set up in July 1993 as a subdivision of the Fund. This auction center did not come close to meeting the requirements of Order #1730 which determined opening hours of the auction center and procedures to be used in handling vouchers.

VASG role/Current situation:

VASG helped to expand the Auction Center floorspace, and bring its working hours in-line with GKI recommendations. Steps were taken to upgrade the information campaign to promote Auction Center activities.

The Auction Center accepts bids and privatization vouchers, cancels accepted vouchers, files data on submitted bids and vouchers, sums up auction results, and sets auction rates, notifies winners and losers, and returns vouchers on losing bids. The auction center still only employs three people.

**BID RECEPTION NETWORK**Pre-VASG

The Krai has 16 bid reception centers based at local Committees and municipal property funds. Payment is made depending on the number of collected vouchers at the rate of 550 rubles per accepted voucher.

Post-VASG

The situation remained unchanged. The property fund was unwilling to negotiate with potential subcontractors in opening a wider bid center network. This was blamed on financial problems- the Fund did not want the reporting requirements that went with being accorded GKI financing. The Fund was also unwilling to provide the data for their financial position to be analyzed with any accuracy.

**INFORMATION CAMPAIGN**Pre-VASG

The Fund was reluctant to spend money to support voucher auctions and therefore issued only the statutory minimum announcements. This had involved placing regular reports in *Reforma* bulletin and *Priamurskiye Vedomosti* daily.

Post VASG

VASG succeeded in persuading the Fund that flyers promoting the Auction Center were printed and distributed through the local Post Office. Again the lack of flexibility for VASG given the region's refusal to take financial assistance from GKI limited the scope of actions available.

**LEGAL ASPECTS**Prior to VASG visit:

As explained earlier, GKI sent VASG to Khabarovsk on a quasi-audit mission to find out what the situation in Khabarovsk was. VASG found the major violations of legislation to be:

- failure to comply with Decree 640 on sales of 29 percent of shares at VA;
- failure to comply with Decree 1229 on sales of 80 percent of shares for vouchers;
- extra benefits offered to local voucher investment Funds.

VASG role/Current situation:

VASG was able to take measures to eliminate legal violations when compiling the auction schedule. Good contact was established with officials and lawyers at the local GKI and Fund in resolving issues of compliance with privatization legislation.

#### ALL-RUSSIA AUCTION SYSTEM

##### Prior to VASG visit:

Prior to VASG's visit the region had never participated in ARAS either as a provider of companies or as an agent for other regions. The Head of the Fund believed that there were major legal flaws in the documents that were compiled by the National Coordinating Center and that the Fund may one day be held liable for these legal violations.

##### VASG role/Current situation:

The Fund refused to yield on this issue and to date the region has still not participated in any form in a National Auction.

#### CASH AUCTIONS

##### Total in 1993-1994

Number of Auctions	103
Total Revenue ('000s.R.)	346,972

The region would not release more than the aggregate information on cash auctions and therefore VASG assistance could not be accorded here and probably would not have been welcome.

#### FINANCIAL AID DISBURSEMENT

##### VASG role/Current situation:

The region has consistently refused to apply to GKI for aid, saying they did not have time to account to GKI for "every kopeck".

#### POST-PRIVATIZATION ISSUES

##### Recommended further steps:

Rendering technical assistance on the following issues:

- shareholder meetings;
- share registers;
- joint-stock company management
- setting up the infrastructure for a secondary securities market.

#### CURRENT PRIORITIES

Both the Fund and Committee have requested assistance on joint-stock company management and would like to arrange a seminar covering these themes.

## KRASNOYARSKY KRAI: FINAL REPORT

## VISIT DATES

May 17-19, 1993  
 May 26 - July 2, 1993  
 July 7-16, 1993, 1993  
 July 21-23, 1993, 1993  
 October 13-15, 1993  
 November 15-18, 1993  
 November 23-26, 1993  
 December 20-22, 1993  
 February 21-25, 1994  
 March 2-3, 1994  
 March 16-19, 1994  
 April 14-15, 1994  
 May 18-20, 1994  
 June 20, 1994

## AUCTION RESULTS

Pre VASG

Krasnoyarsk is one of the most economically important regions in Russia- rating third both in terms of industrial production and in industrial employment. The region took a political decision early in the privatization process to seek a resolution of the social assets questions which were to dog mass privatization in every region. Resolving this problem on a Krai wide basis actually speeded the privatization process in the long run, but it did mean that they were slow in beginning.

Both the regional Fund and Committee were initially nervous at the attention of VASG. This resulted from the traditional skepticism which Siberian officials have about the intentions of visitors from Moscow.

Post VASG

VASG was able to develop a very strong relationship on both a business and personal basis with the officials of Krasnoyarsk. This allowed an Armenian delegation to be entertained at the highest level at short notice and without the normal protocol having been observed by GKI in Moscow.

VASG was able to work with the region to ensure that the maximum number of companies passed through the auction system in the region. The average share package offered was never less than 29% where Federal level legislation allowed.

	Total in 1993-1994	Prior to VASG visit	Post VASG involvement
Number of companies	190	21	169
Charter Capital (th.r.)	8,992,743	1,923,543	7,069,200
Submitted to VA (th.r.)	2,592,310	560,769	2,031,541
Percent of Charter Capital	28.83	29.15	28.74

Charter Capital, sold	2,410,034	532,381	1,877,653
Percent of Charter Capital	26.8%	27.68%	26.56%
Vouchers collected at VA	976,6835	559,868	416,815
Auction rate (th.r./voucher)	1.95	0.95	4.5

Notes to Above

- A voucher auction for 29 percent (488,597,000 Rubles) of Krasnoyarsk Aluminum Plant joint-stock company (Charter Capital: 1,684,817,000 rubles) was held between April 16 and May 30, 1993.
- KRAZ was a particular success owing to the participation of local and Moscow based investment funds. 530,912 vouchers were received, implying an auction rate of 875 Rubles per voucher.

The following is an analysis of vouchers collected in Krasnoyarsk through ARAS, voucher auctions and closed subscription.

Companies in other regions	26,599
Companies in Krasnoyarsk, total (including in Krasnoyarsk city) (in other regions)	461,204 107,142 354,062
Vouchers collected, closed subscription	406,664
Vouchers collected, other means	423,575
Vouchers collected in the Krai, total	2,615,053

ENTERPRISE PIPELINE
---------------------

VASG introduced the Krai to planning auctions on more than a two to three month basis. VASG explained why it was important to schedule sales of enterprises which were still at the preparatory stage and in process at the Committee. One of the stimuli used was to conclude the first cooperation agreement with GKI to be reimbursed from AID project related funding. A voucher auction schedule was compiled for May-August 1994, covering 43 companies with a total Charter Capital of 1,708,425,000 rubles. This auction timetable is relatively modest relative to what was later achieved by VASG both in Krasnoyarsk and in other regions- but in May 1993 this was one of the largest auction timetables put together.

AUCTION CENTER
----------------

Prior to VASG visit

An Auction Center did not exist.

Post VASG

The most important issue on which VASG worked in Krasnoyarsk was the creation of an auction center. This was particularly difficult for three reasons:

- there was little free space suitable for an auction center in accessible areas of Krasnoyarsk
- a major recruitment drive was needed to find staff for the center
- major renovation was required and the Committee had made a public statement that the auction center would open on July 1st 1993 without any planning of logistics.

The auction center was a subdivision of the Krai Property Fund.

Auction Center accepted bids and vouchers, cancels accepted vouchers, filed data on submitted bids and vouchers, summed up and set auction rate, notified winners and losers, returned vouchers on losing bids.

VASG worked with the regional fund to hire the staff for the auction center. VASG took responsibility for the first round of interviews with all applicants- amounting to over 100 people. Of these about 25 candidates were passed to the Fund for final consideration. The Fund made all candidates recommended by VASG an offer, 18 of whom accepted.

VASG then worked with the Deputy Head of the Fund to train the recruits in all the procedures associated with handling vouchers. This experience was to prove very useful later in being able to acknowledge and demonstrate understanding of the issues being faced by regional funds.

The auction center itself occupied 4 well equipped rooms on 1st floor of Electroproekt Institute in downtown Krasnoyarsk. This building has excellent security which allows vouchers to be stored in safety. There is also a hall which is suitable for cash auctions and the facility has been developed such that at the end of the voucher auction program the Fund and Committee can switch the focus of the space to secondary market activities.

#### BID RECEPTION NETWORK

##### Prior to VASG visit

A bid center network in Krasnoyarsk is particularly important owing to the huge area covered by the region- approximately four times the size of France. Before the arrival of VASG the Fund had concluded agreements with the Sberbank and three Krasnoyarsk city based commercial banks: Mosbiznesbank, Metaleks Bank, and Yenisei Commercial Bank. This had established 18 bid centers.

The Kraifund was one of the few Funds encountered by VASG which understood prior to a VASG visit the importance of paying contractors on a per voucher basis. Contractor remuneration was 200-250 rubles per voucher.

##### Post VASG

VASG worked with a local depository company LLD+ to establish additional bid centers. LLD+ actually offered to do this for no fee in return for a credit in the official announcements of the Kraifund. VASG also assisted the fund in expanding the bid reception network through involvement of district GKI and authorized Property Fund offices in the regions of the Krai. VASG helped to revise agreements with contractors and bring remuneration down to 100-150 rubles per voucher.

#### ADVERTISING CAMPAIGN

##### Prior to VASG visit

The Fund placed regular reports in *Reforma* bulletin, *Krasnoyarsky Rabochi* (daily newspaper), and the Property Fund *Variant* bulletin.

##### Post VASG

VASG was able to develop a good relationship with the advertising specialist in the Fund. This allowed publicity to use all forms of media: a trolleybus was painted, banners were



prepared and posters displayed all over town. The original budget in June 1993 for promotion expenses was set at 22,539,600 Rubles, but this was comfortably exceeded by real spending.

In March 1994 a second agreement was signed and 56,092,000 Rubles were concluded to promote Voucher Auctions.

This advertising spending financed long-term agreements on promotional activity signed with *Krasnoyarsky Rabochi* daily, local Gosteleradio, and regional radio. Promotion campaign centers on explaining the details of participation in the voucher auctions, and Voucher Auction procedure; addresses of local bid centers are supplied. These long term agreements offered the Fund flexibility which it had not had before in ensuring that when adverts needed to be published, they were.

### LEGAL ASPECTS

#### Prior to VASG visit:

The only legal question prior to the arrival of VASG was that the Property Fund never monitored compliance with Decree 1229 on 80-percent sales of shares for vouchers.

#### Post VASG

The Fund now monitors that 80% of companies is sold for vouchers- this is sometimes carried out through tenders and sometimes trust or holding companies have been allocated shares such that always 80% of shares "being sold" have been sold for vouchers.

### ALL-RUSSIA AUCTION SYSTEM

#### Prior to VASG visit

The region was not involved in ARAS.

#### Post VASG

VASG was able to win the Fund over to the national auction system. Krasnoyarsk has now been one of the most active providers of companies to the system. The Krai Property Fund now participates in ARAS as an agent and seller.

#### Submitted to ARAS:

Company	Closure date	Charter Capital	Submitted to VA	Percent
Krasnoyarsk Tire Plant	5/11/93	322,204	93,439	29%
Sibtyazhmash	1/12/93	184,182	55,255	29%
Biryusa Refrigerator Plant	10/01/94	337,919	97,996	29%
Synthetic Rubber Plant	10/01/94	264,907	84,679	31.97%
Sibelast	28/02/94	189,139	54,850	29%
Krasnoyarsk Paper Plant	28/02/94	391,092	113,417	29%
Iskra TV factory	28/02/94	134,195	38,916.5	29%
Krasnoyarsk Steel Plant	20/11/93	860,539	249,556.3	29%
Krasnoyarsk Combine Plant	13/6/94	279,114	81,106	29%
Achinsk Alumina Plant	30/6/94	1,396,177	404,891	29%

Achinsk River Steamship Line	30/6/94	411,223	137,145	33.34%
Achinsk NPZ	16/5/94	113,544	113,544	22.14%
Sibvolokno	16/5/94	270,370	270,370	39.78%

<b>CASH AUCTIONS</b>
----------------------

	Total in 1993-1994	Post VASG involvement
Number of auctions	194	194
Total revenue (000s.R.)	578,167,398	578,167,398
Revenue per voucher (r.)	607.57	607.57

Before VASG visit

Cash auctions prior to the arrival of VASG were ad hoc and not specifically addressed to the 5% cash auction legislation

Post VASG

Cash auctions are now held each week within one month of the close of the voucher auction. The cash auction process has been less a source of revenue for the Kraifund than it has in other regions, because of the significant delays that the ARAS Coordination Center has allowed with cash auctions. Krasnoyarsk has sold the bulk of its attractive companies through ARAS.

<b>FINANCIAL AID DISBURSEMENT</b>
-----------------------------------

Post VASG

VASG recommended granting financial aid to the region and prepared the necessary budgets on two occasions.

Spending approved in June 1993 totaled 48,539,600 rubles.

VASG helped prepare an additional agreement which was signed between RF GKI, local GKI and Property Fund in March 1994. The budget in this case was 56,092,000 Rubles.

<b>POST-PRIVATIZATION ISSUES</b>
----------------------------------

Post VASG

On July 1-2 1993, the local GKI, Property Fund and VASG held a seminar, "Privatization and Transfer to Market Economy." The participants in the seminar were Bain Link, Price Waterhouse, Ernst & Young, Deloitte and Touche, Sawyer Miller, Krasnoyarsk Aluminum Plant, Besotra joint-stock company, Yenisei commercial bank, and Troika exchange.

The seminar was attended by over 400 Siberian company representatives and privatization officials. On March 5-8 1994, VASG organized a mission of privatization officials from the Republic of Armenia to Krasnoyarsk. The Armenian delegation met officials from the Territorial and City Committees and Property Funds, Krasnoyarsk Territorial Administration and Mayor's Office, the Anti-Monopoly Department, representatives of privatized companies, Investment Funds and investment institutions.

VASG representatives established contacts with:

- managers of Biryusa refrigerator factory and Besotra joint-stock company;
- Deputy Director for economics, Krasnoyarsk Aluminum Plant,
- General Director, Kovcheg Voucher Investment Fund;
- local office manager of LLD+ investment company;
- directors of Kapital-Invest and Sibirsky Les investment companies;
- chief of securities department, Yenisei commercial bank.

<b>CURRENT PRIORITIES</b>
---------------------------

The local GKI, Territorial administration, and Property Fund have sent letters to RF GKI requesting assistance on setting up a local post-privatization center to support privatized companies.

VASG believes that the Krasnoyarsk Territorial privatization agencies should be offered technical assistance and literature on the following issues:

- holding of shareholder meetings;
- running share registers and organization of third party registries;
- joint-stock company management;
- development of infrastructure for secondary securities market.

## LENINGRADSKAYA OBLAST: FINAL REPORT

**TRIP DATES**

July 13-23, 1993  
October 13-15, 1993  
December 1-5; 9, 1993  
January 25-30, 1994  
March 21-24, 1994  
May 4-5, 1994  
June 7-9, 1994

VASG's assistance was requested by the region after the first successes in Karelia, Komi and Dagestan. Leningradskaya oblast surrounding the city of St. Petersburg was facing a number of problems connected with outflow of vouchers from the region to the capital. The privatization authorities had to create a viable and competitive auction infrastructure in a complicated political situation, including city, oblast, and Russian Federation relations.

The Property Fund worked to create an optimal system for voucher auctions and develop a secondary securities market and attract foreign investment. VASG's role was to help them set up an auction center and bid reception network by negotiating favorable rates; and to arrange a pipeline of enterprises targeting the largest enterprises for sale on the national auction system.

**AUCTION RESULTS**

Before the VASG's first trip to the oblast, seven voucher auctions were held to sell 44 enterprises with total charter capital of 1,104,324,000 rubles.

By June 1, 1994 131 enterprises with total charter capital of 3,281,578,000 rubles were sold at the oblast's 18 voucher auctions. The total number of lots sold was 135 with 810,711.9 one-thousand-ruble shares. The average share package put up for sale was 25.68%. On average, one auction per month was held.

Share packages less than 29% were put up for sale only if allowed under privatization law:

- oil extracting and refining enterprises (Kirishinefteorgsintez - total charter capital of 3,518,019,000 rubles; share package put up for voucher auction 18.2%); and,
- river ports (North-West River Shipping Company - charter capital of 1,202,967,000 rubles; share package for voucher auction 23.5%).

A total of 733,549 vouchers were redeemed at the voucher auctions. The average auction price was slightly more than one 1,000-ruble share per voucher. The total number of vouchers redeemed through closed subscription was 110,456, and 9,863 were redeemed through other privatization methods. The total number of vouchers canceled as of June 1, 1994 was 851,901, and the number of vouchers destroyed was 727,499.

The most successful voucher auction was for the Vyborg Ship Makers (total charter capital 106,842,000 rubles). The enterprise was privatized under option 2, with 29% put up for a voucher auction. The auction price was one 500-ruble share per voucher. Twenty five hundred individuals and commercial entities became shareholders as a result of the voucher auction.

**INVESTMENT TENDERS**

According to their privatization plans, 52 enterprises envisaged sales through commercial and investment tenders (12 commercial, and 40 investment tenders). In 1993 and 1994, 15 tenders were completed:

- nine purchase agreements were signed;
- for the remaining six tender results were calculated and purchase contracts signed during the VASG's final visit.

The face value of the shares sold through investment tenders was 85,328,000 rubles; and the selling price equaled 4,195,263,000 rubles. The winners were companies from Germany, England, Finland, Canada and Sweden. They were to invest \$34,564,500 and 11,558,800,000 rubles. Norwegian and German companies were expected to bid in the upcoming tenders. To date, no purchase contracts have been canceled owing to the investors' failure to follow the investment program.

One of the most successful tenders was for Era (total charter capital of 58,160,000 rubles, 39% of charter capital put up for tender). The Fund invited three potential foreign investors: Procter & Gamble, Unilever and Henkel KGaA. Henkel was the only bidder and accordingly won the tender. The amount of investment was five billion rubles. The tender conditions were as follows:

- investment for detergent and liquid glass production lines;
- financing of the third phase of construction of the municipal treatment facilities, and the and water systems in Tosno;
- maintaining the enterprise's current business profile.

The oblast Committee and Fund said that investment program design was a major bottleneck. At present, a large number of foreign and international consulting companies are offering their services to both privatizing and private enterprises. The IFC has developed an investment program for the Vyborg Paper Mill. The International Corporation of Voluntary Experts has also played an active role designing investment programs for oblast companies.

#### ENTERPRISE PIPELINE

VASG worked on pipeline management from the first trip to the region. Based on VASG's recommendations the Fund introduced a pipeline monitoring system. Fund employees were made responsible for each privatizing company, and aggressive deadlines for preparation of the documents were set. A bonus/penalty system was also introduced. VASG recommended Leningradskaya oblast as an example for other regions.

In the beginning of June, the results of the 19th voucher auction were calculated. Eight enterprises with total charter capital of 464,545,000 rubles were sold. The final 20th voucher auction was to be held June 16-30 to sell 15 enterprises whose privatization plans had been submitted to the property fund. This will complete all known enterprises subject to voucher privatization in the region.

#### AUCTION CENTER

The central bid reception point based at the private company North-West Investment Stock Agency (IFA), located at the Fund, is the central auction center. Before VASG's first visit to the region, the auction center was operating but was poorly equipped. The budget attached to the GKI-Region Agreement prepared by VASG included capital expenses (phone, fax, alarm system, furniture). The oblast Fund divided the responsibilities for the auctions between a number of subcontractors to ensure a smooth process.

After VASG provided technical assistance, the auction center started to operate according to the *Instructions (Polozheniye) on Voucher Action Reporting* approved by the GKI Rasporazheniye #1730 dated January 1, 1993 and the Cooperation Agreement. The auction center's responsibilities included:

- bid and voucher reception and authenticity checks;
- transportation of bids and vouchers from bid reception points to the auction center;
- consulting and information on voucher auctions for employees of all bid reception points in the oblast;
- calculation of the auction price;
- determining the auction winners and providing bid reception points with lists of the winners;
- mailing of notices to the winners;
- voucher storage and cancellation;
- hand-over of canceled vouchers to the regional storage and destruction center.

Currently IFA is also carrying out the following activities:

- providing depository services;
- registration of securities transactions (more than 6,000 already registered);
- share registry.

#### BID RECEPTION NETWORK

Before VASG's first visit to Leningradskaya oblast, there were 20 bid reception points based at the Sberbank offices:

- 18 - one in each rayon;
- one - at the central Sberbank office; and,
- one - in IFA.

The bid reception network was financed by the GKI through the Cooperation Agreement. However, the fee charged by Sberbank was too high for the GKI (240 rubles per winning voucher until October 1993). Based on experience in other regions, VASG jointly with the oblast Fund successfully negotiated with Sberbank to reduce its fee to 140 rubles per voucher.

Later the Fund and IFA set up an additional bid reception network based on agreements with 15 municipal property committees. In addition, since May 1994, mobile bid reception points have been operating in each rayon according to a schedule approved by the Fund. The schedule fixed the day and time of bid reception in each town and village of a given rayon. The schedule was published in the oblast and local newspapers. Mobile bid reception units were from the budget of the Addendum to the Cooperation Agreement dated August 18, 1993. Previously, 6,520 vouchers had been collected by mobile bid reception points.

#### PUBLIC INFORMATION CAMPAIGN

The PI campaign, organized jointly by the Fund and IFA, before VASG's first visit was largely limited to the mandatory announcements in the oblast paper *Vesti* and 14 rayon papers; TV was rarely used. It was clearly inferior to the advertising of the city and federal voucher investment funds and could not ensure significant voucher intake. VASG recommended improving the PI campaign, and helped develop a budget providing for expanded PI expenditures.

The Fund actively responded to VASG's recommendations. It signed an agreement with the Railway on placing information on national and regional voucher auctions on local

railway schedules. In addition, the Fund prepared privatization posters which were distributed in city buses and trains.

In addition, the Fund and Committee announced a contest among the journalists for the best privatization articles with an award of 15 MM rubles provided by the Fund from 5% and 10% cash auction proceeds. The condition was to show at least 10 privatization articles per publication.

#### LEGAL ISSUES

In its early visits to the region, VASG identified the following legal irregularities:

- Some privatization plans provided for selling less than 29% at a voucher auction. VASG recommended that the Fund and Committee amend such privatization plans and monitor the progress of privatization.
- Some irregularities concerned Presidential Decree #1403 dated November 17, 1992 *On the Privatization of Oil and Oil Refining Enterprise*. The Slantsyprivatization plan initially contained a smaller share package for voucher auction than required. As a result of VASG's efforts, the committee amended the privatization plan accordingly.
- All privatization plans contained a incorrect reserve for cash auctions at 5% of the share package put up for voucher auction. According to VASG's recommendations, the plans were changed to cancel practice.
- Fund employees limited foreign investor participation in voucher auctions. VASG gave explanations about foreign investor, including joint venture, participation in voucher auctions the Fund and their advice was used by the Fund and Committee.

At present, the privatization authorities in the oblast strictly comply with the federal privatization law.

#### ALL-RUSSIA AUCTION SYSTEM

Before VASG's work in the region, Leningradskaya oblast had not participated in the All-Russia Auction System. As a result of VASG's activities, the oblast became an active participant in the national auction system, both as a donor and agent.

The following Leningradskaya oblast enterprises were sold at national auctions (May 4 - June 2, 1994):

- Kirishinefteorgsintez - total charter capital of 3,518,019,000 rubles;
- North-West River Shipping Company - total charter capital of 1,202,966,000 rubles;
- Svetogorsk - total charter capital of 790,590,000 rubles.

The following oblast companies were sold at inter-regional voucher auctions:

- Vyborg Paper Mill - total charter capital of 305,362,000 rubles; and,
- Vyborg Electronic Instrument Makers.

The first agency agreement with the national auction center was concluded by the Fund in November 1993. To date, the Fund has acted as an agent to sell 47 enterprises within the national auction system.

During the last phase of voucher privatization, the Fund sold the following companies through the National Coordination Center: Sakhalinmorneftegas, Azot, Varyeganneftegas, Samotlorneft, Vodtranspribor, Voyna Plant, Leningrad Bakery, Red October Machine



Building Company, Svyazinform, Nizhny Machinery Building Combine, and Stavropolneftegas.

Price Waterhouse and the GKI decided to provide computers to the region as a tribute to its active participation in ARAS.

#### CASH AUCTIONS

Before VASG's visit, four 5% cash auctions were held in the oblast in May 1993. The total proceeds amounted to 33,328,000 rubles. Voucher auctions for the four enterprises concerned were held in April and May 1993 to sell 150,455 1,000-ruble shares; and 42,911 vouchers were redeemed. These funds proved enough to compensate the Fund's expenses in running the voucher auction program and equaled 221.5 rubles per share, or 776.1 rubles per voucher redeemed.

VASG recommended establishing a pipeline of cash auctions following voucher auctions and made recommendations on a targeted PI campaign and cash auction preparation methodology. Subsequently, 5% and 10% cash auctions were held regularly. From July 1993 to beginning of June 1994, 5% and 10% cash auctions were held to sell another 113 companies. The total proceeds added up to 783,387,400 rubles. At the preceding voucher auctions the 113 companies had offered 478,162,400 1,000-ruble shares, redeeming 390,751 vouchers. The cash auction proceeds per share equaled 1,638.30 rubles; and per voucher 2,004.80 rubles.

#### FINANCIAL AID DISBURSEMENT

When VASG started to work in the region, the oblast had not yet established a pipeline of cash auctions to finance voucher auctions. As a result, the Fund and its subcontractors faced a cash flow problem to finance voucher auctions. In addition, the cost of voucher auctions in the region was high compared to other regions because of the status of the city and all potential subcontractors (media, banks). VASG felt it very important to keep up the auction process in one of the politically critical regions, and recommended that the GKI provide aid not only to cover the cash deficit but also to set up a viable auction infrastructure which would later be used to build up the financial market.

The GKI-Region Cooperation Agreement was signed on August 18, 1993, involving four parties: the local committee, fund, IFA, and the GKI. Based on the results of its analysis, VASG recommended that 22,818,000 rubles be disbursed to the region for enhancing the auction center and expanding the PI campaign.

Having studied the financial state of the Fund, (the results of the 5% and 10% cash auctions, the cost of voucher auctions and the use of the aid disbursed according to the August 18 Agreement), VASG recommended additional aid to the region. VASG assisted in preparing an Addendum to the Cooperation Agreement and a budget amounting to 39,340,000 rubles (including first tranche of 25,445,000 rubles). The budget was intended to cover the cost of mass media coverage of the voucher auctions; mobile bid reception points and the transportation of vouchers to the regional depository.

The money transferred in the first stage was spent according to the budget and the receipts were submitted to the GKI. The second tranche was transferred in May 1994.

#### POST-PRIVATIZATION ISSUES

The Fund assisted in the preparation of the first shareholder meetings in the oblast from the beginning of the process: for each company the Fund thoroughly studied its financial status, changes and amendments to the charter, the present general director's and new

potential candidates' business acumen, as well as the worker collective's attitude to the candidates to the general director.

As a result of the first shareholder meetings, a Property Fund representative was elected to the Board of Directors of each privatized company. To improve the quality of shareholder meetings preparations, the Fund developed *Instructions on a Shareholder Meeting at an Open Joint Stock Company* covering three areas of work: preparation to the meeting; holding the meeting; and keeping the minutes of the meeting. The VASG manual on Joint Stock company governance has been distributed to the region to augment these instructions.

Among the fifteen investment institutions in the oblast, the major player is the IFA. A significant role is also played by the St. Petersburg City Stock Exchange. Share registry is carried out by the IFA and Promstroibank.

## LIPETSKAYA OBLAST - FINAL REPORT

## TRIP DATES

August 3-6, 1993  
September 28 - October 1, 1993  
October 27-29, 1993  
December 8-10, 1993  
February 15-25, 1993  
April 19-22, 1994  
May 17-19, 1994

## AUCTION RESULTS

VASG's activities in Lipetskaya Oblast focused on facilitating the voucher auction process, but results were mixed due to an often uncooperative local Fund. VASG, with GKI support, succeeded in making the Fund offer the oblast's largest enterprises - Novolipetsky Metallurgy Kombinat and Lipetsky Tractor Plant - for national auction. In addition, VASG worked to ensure that not less than 29% of charter capital was offered for voucher auctions and that not less than 80% of enterprise charter capital is paid for in vouchers for most of the companies. However, VASG was not able to make the Fund hold extensive and regular public information campaigns or to create a broad bid reception network. This was in spite of the fact that financial resources, and technical assistance and recommendations had been provided.

Before VASG's first trip to the oblast in August, 7 voucher auctions had been held. 88 enterprises with total charter capital of 1,172,160 thousand rubles had been sold. Average share packages offered had been 18.27%, and the number of vouchers redeemed through the voucher auctions was 77,521, or 6.26% of total number distributed.

As of June 15, 1994 166 enterprises with total charter capital of 9,875,230 thousand rubles had been sold through 20 voucher auctions. On average, one auction per month was held. The total number of lots sold was 220 with 2,701,556 one thousand ruble shares sold since the beginning of voucher privatization. The average share package put up for sale was 27.4%.

The total number of vouchers redeemed through voucher auctions as of June 15, 1994 was 223,015, or 18.1% of total distributed. The number of vouchers redeemed through national auctions of Lipetskaya oblast enterprises (Novolipetsky Metallurgy Kombinat and Lipetsky Tractor Plant) was 74,206 and 24,175 respectively. The total number of vouchers redeemed through national and inter-regional voucher auctions was 79,976 or 6% of total collected.

The average auction rate at local auctions was 9.6 one thousand ruble shares per voucher due to Fund's restrictions (explained below).

As of June 15, 1994 the total number of vouchers redeemed in the Oblast was 955,561, or 77.4% of total distributed. The number of vouchers redeemed through closed subscription was 625,852 (50.7% of total distributed); through other privatization methods was 33,718 (2.7%). The total number of vouchers canceled was 882,747, with 738,167 vouchers destroyed.

## INVESTMENT TENDERS

VASG's role in this area was limited to monitoring progress on investment tenders for GKI and RPC.

During voucher privatization, the Fund held 5 investment tenders. The first investment tender took place March 14, 1993. A 20% share package of JSC "Lipetskement" (charter capital 58,367 thousand rubles) was offered. The winner was the German company "Albikon". It has committed to investing 30 million 1992 rubles during two years.

The second investment tender took place March 15, 1993. A 46% share package of JSC "Polymer" (charter capital 8,888 thousand rubles) was offered. The winner was the Moscow based company "Investor". It committed to investing 50 million rubles in one and a half years. However, according to the Fund employees, this contract may be canceled due to the firm's failure to fulfill the contract conditions. A second tender may be held.

An investment tender was held on September 9, 1993 to sell JSC "Elets Plant of Tractor Hydro-devices", with total capital for sale of 1,676 thousand rubles. The winner was a closed JSC "Spasatel" (Elets city), and investment of 95 million rubles was committed to be invested during 1993-1994.

The fourth investment tender took place March 4, 1994. A 20% share package of JSC "Vosstanovienny Tabak" (charter capital 31,674 thousand rubles) was offered. The winner was the multinational company "RJR Nabisco & Co". It has committed to investing 10 million USD before December 31, 1994.

The final investment tender took place April 20, 1994. A 20% share package of JSC "Gryazy Cultivator Plant" (charter capital 50,358 thousand rubles) was offered. The winner was the closed JSC "Gasinvest" (Russia), which has committed to investing 300 million rubles before year end 1994.

Three investment tenders planned: JSC "Metiz", "Lipetskhlébmakaronprom", "Novolipetsky Metallurgy Kombinat" with no specific dates set.

#### PIPELINE

Almost all enterprises eligible for voucher auctions have been sold. During April and May, VASG worked with the Fund to sell additional share packages of the enterprises not meeting the 80% rule.

The final auction (June 15-30, 1994) offers shares of 5 enterprises with total charter capital of 62,978 thousand rubles, and charter capital for sale of 16,858 thousand rubles (26.8%). Simultaneously, shares of enterprises offered by the national auction center are being sold in the region.

A critical future issue in this region will be the privatization of reserve packages. The Fund has held few investment and commercial tenders to sell the share packages remaining after voucher auctions. As a result, the Fund keeps a 15%-20% reserve for almost all privatizing companies. Total face value of the Fund reserves is approximately R 1.5 B which will be significant work for the Fund during post-voucher period of privatization.

#### AUCTION CENTER

Prior to VASG's arrival there was no official Auction Center in the region, and the closest to it was a bid reception point not operating up to legal standards. VASG transformed it into the Auction Center in March 1994, and its operational procedures are in full compliance with the law. VASG developed a budget for the Auction Center set-up and provided operating expenses through the GKI according to the GKI / Fund / Committee agreements.

The Deputy Head of the Fund is the head of the Auction Center. There are four contracted employees at the Center accepting bids and vouchers, and providing information and

advice to bidders. The Auction Center in the oblast is located in the Fund. The Auction Center is located in the center of the city. Data processing, computer input and results calculation is carried out in the Fund. The Auction Center has accepted the majority of the vouchers collected in the region.

The Auction Center conducts no post-privatization enterprise support activities, and there are no clear plans for its use after voucher privatization. However, the Fund will continue to use the large hall of the Auction Center for cash auctions.

#### BID RECEPTION NETWORK

Before VASG's first visit to Lipetskaya, there were only 9 bid reception points in the oblast, with only the main one at the Fund actually operating (there are 18 districts in the oblast). The district bid points were based on individual contracts with local municipal property fund employees. The number of vouchers collected in the bid points was small and comprised a small portion of the few vouchers collected in the central bid reception point.

VASG recommended that the Fund expand the bid reception network and improve the quality of work at the bid points by cooperating with Post Office or Sberbank. VASG conducted several meeting with the Post Office and Sberbank management and provided the Fund with draft contracts and all other necessary materials. However, the Fund management was extremely passive concerning bid reception network expansion justifying it by a lack of funds to finance it. Even when the Fund was guaranteed GKI aid, no negotiations with subcontractors were held, and as a result, the bid network was expanded up to only 18 points based on all district municipal property committees under the oblast Committee's and Administration pressure. VASG recommended a payment of R 100 per voucher collected, and this was adopted by the oblast.

#### PUBLIC INFORMATION CAMPAIGN

The PI campaign before VASG's first visit was limited to the obligatory announcements which resulted in poor public awareness of the voucher auction process and privatization in general. VASG recommended improving the PI campaign by expanding the list of media subcontractors and using visual advertising. A PI campaign schedule was offered by VASG and draft ads provided.

In March 1994, VASG orchestrated the signing of the Cooperation Agreement between the Fund, Committee and the GKI to provide large financial resources to the Fund. Almost 2/3 of the budget proposed by VASG and approved by all parties (22 million rubles), covered fund's extensive and massive PI campaign. This campaign was initially focused on the sale of the two largest oblast enterprises.

VASG has obtained the Fund's official report on the money spent and has reviewed the media activity in March and April. There has been the following significant differences between the VASG recommendations and budget and the Fund's PI activities during that period of time identified:

- Total money allocated by the GKI for the PI campaign in March-April was 22,152 thousand rubles. The total amount of money spent actually on PI by the Fund was 4,298 thousand rubles, which was less than 20% of money allocated.
- Breakdown of PI expenses was:
  - **Press:** Press spending planned by the budget was 8,840 thousand rubles. Only 3,250 thousand rubles were actually spent, which was 37% of budget. Advertisements have been placed only in one newspaper instead of the four planned, ignoring the ones with the largest circulation. In addition, the amount and

area of ads placed was less than recommended by VASG, which according to VASG analysis resulted in low advertising efficiency.

- **TV:** The Fund has ordered 2 video-clips devoted to the national auctions of the oblast's largest companies. VASG's assistance in the preparation and negotiations with the subcontractor ensured successful outcome. The clips have been shown several times by local TV (which is on two hours twice a week evenings).
- **Radio:** As radio is very popular VASG recommended that a significant amount of the money be spent on radio advertising. Auction information was planned to be broadcast every day during the auction in the morning and night. However, the Fund allocated no money for radio PI campaign and there were only two brief interviews with Fund employees placed for free.
- **Other:** In an attempt to ensure maximum coverage of the population VASG recommended the production and mailing of flyers to oblast population outside of the capital city. VASG with the Fund had a number of preliminary meetings with post office and publishing house officials to negotiate the rates. It was planned that the mailing be sent twice, in the beginning and before end of bid reception periods. The Fund agreed to this twice, having signed the budget and approved the PI schedule. However, no flyers were produced or mailed.

VASG's overall impression is that the Lipetskaya oblast property fund was not interested or motivated to pursue an intensive PI campaign, and they were certainly not very cooperative in any attempt to promote voucher auctions.

#### LEGAL ISSUES

After initial visits to the region, VASG has determined the following legal irregularities:

- Some privatization plans provided for selling less than 29% of shares at a voucher auction.
- Privatization authorities did not provide for sales of the oblast's largest companies of federal property through inter-regional voucher auctions, ignoring the Russian Government's Decisions # 757 and 786 dated August 10, 1993.
- All privatization plans contained a reserve for cash auctions determined as 5% of the share package put up for voucher auction.
- At every voucher auction the Fund illegally restricted the auction rate to 14 one thousand ruble shares per voucher. As a result, in many cases less than 80% of shares offered at voucher auctions were actually sold.
- A Lipetskaya Maly Soviet Decision "On transfer of share packages of a number of companies in trust" approved a list of privatizing companies of federal and oblast property in which up to 20% share packages were held in trust according to agreements with the Fund.

In addition, there have been legal violations in the privatization of the oblast's largest companies.

- In the privatization plan of JSC "Svobodny Sokol" (charter capital - 466,474 thousand rubles), besides closed subscription, an additional 18% share package was reserved for a closed joint stock company founded by the employees of the plant, to be paid for in vouchers. In addition, shares were sold at multiple voucher auctions.
- The privatization plan of JSC "Novolipetsky Metallurgy Kombinat" (charter capital - 5,987,240 thousand rubles) provided for transfer of 6% of total charter capital in trust without a special GKI decision.

VASG's recommendations to Lipetskaya Fund and Committee pointed to the necessity to sell not less than 29% at voucher auctions. VASG explained that the Presidential Decree # 1705 and GKI's letter dated 23.04.93 do not allow for the reserve of 5% packages for cash auctions in privatization plans before voucher auctions. VASG also pointed out, that it was obligatory to offer shares of the largest enterprises at inter-regional voucher auctions and that it was illegal to manually restrict the auction rate.

VASG prepared and sent three letters signed by D.Vasiliev to the heads of the Fund and the Committee demanding that the irregularities be corrected.

The first letter called for the following:

- the unconditional sale of shares of the largest companies at inter-regional auctions;
- the sale of "Svobodny Sokol" shares in one package;
- to bring "Novolipetsky Metallurgy Kombinat" privatization plan (6% trust) into accordance with law.

The second letter demanded that shares of the largest companies (Novolipetsky, Svobodny Sokol and Lipetsky Tractor Plant) be sold at inter-regional voucher auctions.

The third letter demanded that the transfer of share packages in trust be done only with GKI approval.

The final visits to the region showed that all legal irregularities had been removed by the local Fund and Committee. Local privatization legislation is now in compliance with federal law, but the Fund has not stopped to restrict the auction rate.

During its final visit VASG determined that the Fund violated the Cooperation Agreement with the Committee and GKI dated March 2, 1994 in the spending of the aid. VASG wrote a memo to D.Vasiliev dated May 23, 1994 "On the state of the voucher auction process in Lipetskaya oblast" recommending that second stage financing not be provided to the region. As a result, second stage financing was not provided.

#### ALL-RUSSIA AUCTION SYSTEM

Before VASG's work in the Oblast, Lipetskaya did not participate in the All-Russia Auction System. As a result of VASG's activities, the oblast became a participant of the national auction system, mostly as an agent since October 1993. As an agent, the Fund has sold shares of 65 companies through national auctions and has accepted about 1,000 vouchers.

As a donor, Lipetskaya offered shares of the following federal enterprises to be sold through national auctions (March 7 - April 4, 1994):

- JSC "Novolipetsky Metallurgy Kombinat" with total charter capital of 5,987,240 thousand rubles, of which 29% was offered;
- JSC "Lipetsky Tractor Plant" with total charter capital of 981,967 thousand rubles, of which 29% offered.

VASG contributed much to the organizing of these auctions. To ensure success, a Cooperation agreement was signed between the local Fund, Committee and the GKI and a large amount of money, 35 million rubles, was transferred to create the auction infrastructure and PI campaign (see PI section). However, the results of the national auction were much lower in the oblast than expected. For Novolipetsky Metallurgy Kombinat (charter capital for sale - 1,710,199 thousand rubles.), only 388 bids containing 2,173 vouchers were submitted, and for Lipetsky Tractor Plant, 75 bids containing 23,182 vouchers were submitted (according to the Fund, one of these bids contained 23,000 vouchers).

### CASH AUCTIONS

Before VASG's visit, no 5% cash auctions were held in the oblast even though 48 companies had been sold through voucher auctions. VASG worked out and provided "Temporary Provisions on 5% Cash Auctions" and recommendations, which included starting price definition, lot formation methodology, PI campaign framework, and provided names of candidates for auctioneers.

Since VASG started to work in the region, seventeen 5%/10% cash auctions have been held, with total proceeds of 53,602 thousand rubles. Cash auction proceeds per voucher were 622 rubles. The total number of companies sold was 71 with total charter capital of 690,222 thousand rubles. The face value of shares sold was 6,118 thousand rubles with an average package of 0.9% of total charter capital. At present 10% cash auctions are held regularly, immediately following voucher auctions.

### FINANCIAL AID DISBURSEMENT

VASG recommended aid to the oblast after its first visit (August 1993). "Cooperation Agreement on Creation of a System to Sell Shares of Privatizing Companies" with budget was drafted and agreed upon by Fund and Committee employees at the end of September/beginning of October, 1993. However, the tense political situation in the country and the confrontational attitude of the oblast management to the Russian Federation leaders prevented the concluding of the agreement.

A new agreement was prepared in February 1994. VASG and Fund employees developed a total budget of 64,891 thousand rubles for two stages of money transfer:

- for national voucher auction to sell Novolipetsky and Lipetsky Tractor Plant - 35,908 thousand rubles;
- for finishing voucher auctions to June 30 - 28,893 thousand rubles.

The report on money spent was submitted by the Fund in mid-May 1994 (See PI campaign section for analysis of the spending). As a result of not fulfilling the Agreement, VASG recommended that the second stage money not be transferred.

### POST-PRIVATIZATION ISSUES

According to oblast management, one of the key problems faced by privatized companies is management support and training, and training for the privatization authorities on how to govern joint stock companies under market conditions. VASG has provided the region with its manual on joint stock company operations.

The following post-privatization activities have been observed in the region:

- One of the first voucher investment funds in Russia - "Linvest" - was founded in Lipetskaya in the beginning of summer 1992, even before Presidential Decree # 721.
- At present, there are 5 stock brokers in the oblast. However, their activity is low.
- No independent share registrar exists in the region. The oblast administration and Committee consider it necessary to take additional steps to develop depository and independent share registry system in the oblast. It is possible that the Linvest fund will take over the responsibility of the first registrar in the oblast.
- Shareholder meetings are being regularly held since August 1993.



<b>CURRENT PRIORITIES</b>
---------------------------

In the post-voucher privatization period, the Fund should be pushed to sell reserved share packages through commercial and investment tenders. The Fund should be encouraged to use its potential to (1) organize an independent share registrar, potentially at the Auction center, or "Linvest" voucher investment fund, or in conjunction with "Novosti & Mneniya" newspaper, or at Lipetsk commercial banks, (2) create conditions for security market in the oblast

## MAGADAN REGION - FINAL REPORT

## VISIT DATES

December 13-17, 1993

## AUCTION RESULTS

Magadan was one region which required the help of VASG above all others. The region is located in the remote north east of Russia and was home to Stalin's prison camps and gold mines. The region was even closed to Russians until two years ago and the population of the region is now decreasing at a rate of 15% per year. There is little demand for the shares of companies in this region and that reflects their poor prospects which result from the removal of state subsidies on transport and energy. Many auctions received no bids whatsoever and there was little interest in cash auctions. VASG directed all its efforts to trying to plan enough auctions of enterprises which may have some demand to ensure that all vouchers are retired in the oblast, but also so as to be able to release much needed financing to the region.

	Total in 1993-1994	Prior to VASG trip	Post VASG involvement
Number of companies	93	34	59
Charter Capital (th.r.)	3,936,005	316,100	3,619,905
Submitted to VA (th.r.)	785,555	132,200	653,355
Percent of Charter Capital	19.95	41.8	18.04
Vouchers collected at VA	59,636		
Auction rate (th.r./voucher)	13.17		
Vouchers collected, closed subscr.	22,697		
Vouchers collected, otherwise	102,033		
Vouchers collected, total	184,366		

The low percentage of Charter Capital submitted for sale is explained the high weight of Magadanenergo company shares in overall sales.

## ENTERPRISE PIPELINE

Pre-VASG

There had been several auctions, but none of these had been very successful in terms of retiring vouchers. The voucher price in Magadan was less than half the price in Moscow at the time of the VASG visit.

Post VASG

The principal problem faced by VASG was the poor relations between the Committee and the Fund such that there were frequent delays in the processing of documents. The Committee had poor visibility into the number and size of the enterprise which remained to be privatized.

Schedule covered period until June 24, 1994.

Number of auctions	58 (including repeat VA)
Charter Capital (th.r.)	2,302,239
Submitted to VA (th.r.)	714,588
Percent of Charter Capital	21.64

The 29-percent requirement not being met is explained by repeat auctions and influence of Magadanenergo company shares in the overall sales. There were several voucher auctions where 100% of the share capital was offered for vouchers because workers could not afford to buy out their closed subscription.

The last VA is expected to take place on June 24, 1994.

#### AUCTION CENTER

##### Pre VASG

The Fund had planned an auction center and were well advanced in the set up when lack of money caused delay.

##### Post VASG

VASG was able to provide the finance necessary so that the Auction Center was finally set up at the Fund. The auction center employs staffers of the Fund. The Center receives bids and vouchers, cancels vouchers, files data on submitted bids and vouchers, sums up results and sets auction rate, notifies winners and losers, and returns vouchers on losing bids.

#### BID RECEPTION NETWORK

##### Pre VASG

Prior to the arrival of VASG in Magadan, no bid centers were operating outside the city of Magadan. Given that winter temperatures are routinely more than 50 C below zero, this meant that it was near impossible for the 50% of the oblast population who live outside the city to participate in auctions.

##### Post VASG

VASG was able to work with the Fund to establish bid centers through a commercial bank. The region now has 11 bid centers, set up at local offices of Kolyma-Bank. Payment is based on the number of collected vouchers, and is at the rate of 300 rubles per voucher.

#### ADVERTISING CAMPAIGN

##### Pre VASG

The Fund's shortage of money meant that their advertising was restricted to the statutory minimum. This had consisted of placing regular reports in *Reforma* bulletin.

##### Post VASG

VASG proposed that flyers promoting ongoing auctions are to be printed and distributed through the Post Office. Other advertising options in Magadan were very expensive relative to the audience that would be reached.

#### LEGAL ASPECTS

Magadan was one region where there was a zeal in trying to abide by legislation. All the requirements of Ukaz 1229 and 640 about the minimum amount to be sold for vouchers were being met. There was a feeling of betrayal that this legal observance had not been recognized by central GKI and that the region's own attempts to get money had failed.

ALL-RUSSIA AUCTION SYSTEM
---------------------------

Prior to VASG visit

Region never participated either as an agent or seller through the national auction system.

Post VASG

Property Fund established contact with the National Coordination Center and has now supplied one company and acted as agent for others.

Submitted to ARAS were:

Company	Charter Capital	Submitted to VA
Magadanenergo	1,226,853	124,857

CASH AUCTIONS
---------------

As noted above, there was little demand at cash auctions in the region. Whereas, many regions received several hundred million Rubles from cash auction, Magadan to date has managed to raise just under 27 million Rubles.

	Total in 1993-94	Prior to VASG visit involvement	Post VASG
Number of auctions	31	13	34
Total revenue	48,512,000 Rubles		

FINANCIAL AID DISBURSEMENT
----------------------------

Post VASG

VASG recommended financial aid to the region and helped the budget.

The spending approved was 36,540,000 rubles, including a 16,020,000-ruble first installment. Compliance with the pipeline established was ensured by including a requirement that the second installment be received only when at least 100,000 privatization vouchers had been received.

POST-PRIVATIZATION ASPECTS
----------------------------

Post VASG

VASG assisted the Fund and local GKI in assessing the local SVAK Bank's potential to perform the role of a third party registry.

Recommended next steps

Rendering technical assistance and literature on the following issues:

- shareholder meetings;
- share registers;
- joint-stock company management;
- how to set up infrastructure for secondary securities market.

CURRENT PRIORITIES
--------------------

The Fund and Committee management have asked for assistance in matters of running share register.

## MURMANSK REGION: FINAL REPORT

TRIP DATES
------------

2-3 December, 1993  
7-9 December, 1993  
13-17 December, 1993  
12-14 January, 1994  
18-21 January, 1994  
8-10 February, 1994  
2-4 March, 1994  
14-15 April, 1994  
6-7 June, 1994

AUCTION RESULTS
-----------------

VASG's work in Murmansk differed in emphasis from the general support for voucher auctions that was provided to other regions. In Murmansk the teams work focused on the specific task of establishing an independent share registry, and codifying the results of this pilot for roll out in other regions. As documented elsewhere, this task was achieved with the creation of the Murmansk Stock Center – a closed joint stock company founded with the specific purpose of providing independent share registry services to enterprises in the Murmansk region. Bain/VASG agreed to supply the new corporation with necessary computer equipment and to subsidize initial operating expenses for the first quarter of operations. This report, however, summarizes the progress of the region in all aspects of privatization.

Before the arrival of VASG in Murmansk, the region had already received assistance from earlier technical assistance in the conduct of voucher auctions provided by ING Bank in the early summer of 1993. On VASG's arrival the regional Property Fund had already held 22 voucher auctions in which the shares of 77 enterprises had been sold. These enterprises had a total charter capital of 1,895 million rubles, of which 539 million rubles (28.4%) had been offered for sale.

By early June, the region had conducted a total of 31 auctions, thus maintaining its run rate of one auction every fortnight. In total 213 lots had been offered for sale, representing the auction of 111 discrete enterprises, with a total charter capital of 3,548 million rubles. Share capital offered for sale totaled 903 million rubles (25.4%), with 95.2% of the offered share capital actually being sold.

There were no anomalous share packages offered in the region. Indeed, one part of VASG's work in the region was the oversee the scheduling of additional share packages in enterprises previously sold to ensure that 80% of share capital had indeed been sold for vouchers. This accounts for the wide discrepancy between the number of lots and the discrete number of enterprises sold in this region.

By June 3, 1994 the region had collected 323,794 vouchers through voucher auction at an average auction rate of 2.4. In common with other regions there were wide discrepancies in the "price" achieved for shares, reflecting a genuine differentiation by investors. Hence, auction rates ranged between 0.35 and 2,034.4. In addition, 225,598 vouchers were collected through closed subscription and a further 19,502 as a result of other methods of sale. The total number of vouchers collected was thus 569,894 or 49.6% of those

distributed (1,147,400). All vouchers collected have been canceled in accordance with regulations. Thus far, 79,067 vouchers have been physically destroyed.

### INVESTMENT TENDERS

The Murmansk Property Fund has held investment tenders for the shares in three enterprises, with a total charter capital of 45 million rubles. Share packages put up for tender varied between 10% and 31%, with a total share capital of 10 million rubles sold.

Investment commitments have totaled 1,102 million rubles. In accordance with the 1994 Privatization Program, and the subsequent additional regulations issued by Central GKI, the criterion for adjudicating the winning tender has been the present value of total investment commitments discounted over the period of investment at the rate established by the Central Bank of Russia.

### ENTERPRISE PIPELINE

The auction schedule envisages the sale of a further 33 lots, representing charter capital for sale of 134 million rubles. The documents of all those enterprises have been handed over to the Property Fund. In addition, it is anticipated that the documents of a further five enterprises will have been prepared in time to be included in voucher auctions before the June 30 deadline. Hence, it can be asserted with some confidence that a total of 38 enterprises will have been sold by June 30.

The Committee is currently processing the documents of a further 25 enterprises, which will be sold after the June 30 deadline. In common with other regions (and it is a revealing repetition), the privatization authorities do not have an exact understanding of when all the enterprises subject to privatization under current legislation will have been sold. By June 3, however, it is known that 140 enterprises had been transformed into joint stock enterprises.

At the Federal level there are a three of cases worthy of individual mention. Moscow is still processing the documentation of *Murmansknefteprodukt*, Murmansk Merchant Port, and *Murmansky Khladokombinat* (refrigerator plant).

- *Murmansknefteprodukt* has yet to be registered as a joint stock company. Its case has been at the Central GKI for two years but the exact procedures for its privatization have yet to be determined. It is apparently to be privatized under Decree # 1403 of the President of the Russian Federation. (The legislation that governs the privatization of the Oil & Gas sector)
- The privatization plan for JSC Murmansk Merchant Port, originally approved by the Central GKI was subsequently canceled by P.P. Mostovoi. Thereafter, a commission was formed under the chair of P.P. Mostovoi, which suggested a privatization plan that involved splitting the operation into ten sub-units. The Department of Maritime Transport, however, opposed this. On May 31 1994 the workers collective convened a meeting, attended by P.P. Mostovoi, which proposed that 51% of the shares should be distributed through closed subscription to the workers with the remaining 49% reserved in state ownership pending the subdivision of the operating units. However, this proposal was rejected, and a preference expressed for maintaining the operation as a whole. This proposal now needs to be agreed with Central GKI.
- *Murmansky Khladokombinat* is not registered as a JSC. Its documents have been at the Central GKI, but no decisions regarding its future have yet been reached.

### AUCTION CENTER



In general, VASG focused less attention on the development of the auction infrastructure in Murmansk region than elsewhere, because of the technical assistance that ING Bank (under EBRD funding) had already extended to the region.

The Auction Center has been operating in the region since May 1993; however, it is in a small rented office that is poorly advertised and is not easy of access. The center does not comply exactly with the extended opening hours mandated by Central GKI regulations, being open only between the hours of 10.00 and 16.00, Monday to Friday, and between 10.00 and 14.00 on Saturdays.

#### BID RECEPTION NETWORK

While each of the major towns in the region have bid reception facilities, the coverage of the oblast outside these towns is limited. There are only 8 bid reception centers in total. All are based on the rayon and municipal Property Committees. These centers are paid a fixed fee for the collection service they provide, irrespective of the number of vouchers retired.

As with the limited capacity of the auction center, VASG considered the arrangements for the collection of vouchers through the oblast to be sub-optimal. However, the focus of the work -- as agreed with the regional authorities and the Central GKI -- was not to address these issues, but rather to pilot the setting up of the Murmansk Stock Center.

#### PUBLIC INFORMATION CAMPAIGN

There was an effective public information campaign in the region prior to VASG's visits. This employed both the regional state radio and TV channels, as well as the commercial station "Nika". Advertisements were placed in both the regional and the local press. The Fund maintained good relationships with representatives of the mass media and exploited the opportunities for free publicity through its readiness to talk to reporters, to hold press conferences and to take part in live phone-ins.

However, VASG considered that the advertisement of cash auctions was insufficiently provided for, and a budget for additional support of these programs was drafted in the amount of 24 million rubles.

#### LEGAL ASPECTS

There were no serious legal aberrations in the conduct of voucher auctions in the region (although the auction center, as noted, did not comply completely with the opening hours required). However, VASG did provide legal assistance to the region in two specific areas, where in the initial absence of Central GKI procedures and regulations, the privatization authorities sought specific guidelines:

- VASG lawyer developed detailed procedures for the conduct of cash auctions.
- At the request of the Murmansk Property Committee, provisional regulations on the conduct of Investment Tenders were also drafted. As with the cash auction procedures, these were amended to comply fully with the Central GKI regulations, when they were finally published.

#### ALL-RUSSIAN AUCTION SYSTEM

The Murmansk Property Fund acted as the agent of the National Coordination Center for All-Russian and inter-regional auctions.

Three enterprises were provided by Murmansk for sale in All-Russian Auctions. These had a total charter capital of 2,649 million rubles, of which 757 million rubles (28.6%) were offered for sale.

At the time of writing the results of two of these auctions have been declared. Shares worth a total of 128 million rubles were sold, yielding 186,825 vouchers -- representing an impressive auction rate of 0.68

#### CASH AUCTIONS

In addition to the setting up of Murmansk Stock Center, this is the other area in which VASG had an impact on the region. Before the arrival of VASG, the region had held five 5% cash auctions where the shares of 34 JSCs were sold. Since the Property Fund was heavily reliant on revenues from these sales, it was quick to ask for VASG's recommendations in this area.

In response, VASG drafted interim regulations on the conduct of cash auctions, and made specific recommendations to improve advertising and stimulate demand. (Prior to VASG's arrival lots had to be withdrawn in the absence of bids). A schedule for regular cash auctions was developed and a procedure established for determining the opening prices for lots.

After VASG's recommendations a further five cash auctions have been held in the region, bringing the total number of enterprises in which packages had been sold to 84. The total revenue from cash auctions has been 441 million rubles, equivalent to an impressive 1,520 rubles per voucher retired at voucher auction.

#### FINANCIAL ASSISTANCE TO THE REGION

The region has received a total of R90,798,500 from the Central GKI, not all of it coordinated under Bain/VASG's regional disbursement procedures. Of that amount R4,850,000 came in March 1993, R5,158,500 in April 1993, R13,868,445 in November 1993, R38,351,555 in December 1993 and R28,570,000 at the end of February 1994.

These funds were approved on the basis of two budgets that the Property Fund had drawn up for voucher auctions: R10,008,500 (March-April 1993) and R80,790,000 (September-December 1993). Both estimates had been approved by the Central GKI before the arrival of the VASG in the region.

All the funds have been transferred to the region and spent by the Property Fund. The use of funds requested through the first budget (R10,008,500) took place long before the arrival of the VASG in the region and was not monitored by the group. The use of funds transferred under the second budget (R80,790,000) was monitored by VASG. The funds were spent according to the line items on the budget; however, there was considerable cost over-run on advertising spend. The regional Property Fund promptly accounted for all funds and in strict compliance with the requirements of the central GKI.

#### POST-PRIVATIZATION ISSUES

The financial services sector in the region has been developing well. Small investment firms, such as "Triada Plus" and "Stock-Invest" have been the most active. They trade securities and privatization vouchers and provide share registry services.

With the assistance of VASG, the local Property Fund, the Moscow investment firm "Olma", "Eurokosmos" bank and "Triada Plus" have founded a new joint-stock company to provide share registry services in Murmansk – the JSC "Murmansk Stock Center".

As part of the groundwork for establishing the Murmansk Stock Center, VASG organized a seminar on the keeping of share registers. Both Fund and Committee officials and the management of enterprises participated at this seminar. Its format was later repeated in other regions which VASG supported.

<b>CURRENT PRIORITIES</b>
---------------------------

The Property Fund considers its main ongoing priorities to be the development of its investment tender program to attract outside investment, including foreign capital.

## REPUBLIC OF NORTH OSETIYA: FINAL REPORT

## TRIP DATES

December 1-3, 1993

March 29-31, 1994

June 6-9, 1994

Work in North Osetiya was initiated by VASG as a result of the region's and the GKI's request to provide technical assistance. Because of safety issues presented by the presence of a military conflict and a difficult ethnic and economic situation, VASG worked with the region's privatization authorities through a combination of on-site trips, telephone calls and visits by republican officials to the VASG Kolpachny facilities in Moscow. Besides providing GKI financial aid, legal advice and pipeline management techniques, VASG worked to secure computer equipment for the region from Price Waterhouse to calculate auction results.

## AUCTION RESULTS

When VASG first arrived in the region, the speed of corporatization was very slow. This was explained by the republic's leaders' conservative and communist beliefs, as well as by the difficult internal political situation (from the autumn of 1992, a state of emergency was established because of conflicts between ethnic groups). The Republican Property Fund was only created in the late spring of 1993.

VASG worked to intensify the voucher auction process. By April 1994, a Cooperation Agreement was signed between the GKI, Fund and Committee, and VASG developed a voucher auction pipeline lasting until the end of voucher privatization in June 1994. VASG's efforts led to the intensification of the corporatization process in April and May, and the number of enterprises flowing from the Committee to Fund increased. In addition, since the first VASG's visit the Fund has strictly observed the rule of offering at least 29% of charter capital at voucher auction. From the beginning of April until June 30, 1994 the Fund planned to sell share packages of 22 enterprises through voucher auctions, this was more than the Fund had sold through voucher auctions from the beginning of voucher privatization until March 1994. The total charter capital of these new enterprises was 441,388,000 rubles.

As of June 1, 1994 seven voucher auctions were completed in North Osetiya (NO) with shares of 24 enterprises sold (a total charter capital of 1,099,529,000 rubles, with charter capital offered for sale 269,446,000 rubles, and charter capital actually sold 231,910,000 rubles). The average package for sale was 24.5%, and the average percent realization 86.5%.

Auctions were held irregularly, approximately once every two months. The low average sale package is explained by the fact that a reduced share package (24%) of the largest republican enterprises were sold at voucher auction: ELECTROZINC, with total charter capital of 351 million rubles, and POBEDIT, with total charter capital of 313 million rubles. VASG requested that the Fund and Committee offer at least 5% of the charter capital of these enterprises for a second voucher auction in order to reach the legal 29% limit, and this was agreed to for late June.

The Fund collected 100,012 vouchers (14.7% of all vouchers distributed in the region) through voucher auctions. The average voucher auction price was 2.3 one-thousand-ruble shares per voucher. A total of 163,773 vouchers, (or 24.1% of the total ) were collected by June 7, 1994; including 61,606 vouchers redeemed through closed subscription (9.1% of the total); and 2,155 vouchers through other methods of sale (0.3%). The total number of vouchers canceled was 132,715, and no vouchers have been destroyed.

The most important auction was the second voucher auction held from July 26 to August 26, when a 24% share package of ELECTROZINC was offered. It is one of the most important enterprises in the region, and the advertising campaign for that auction was financed by the enterprise itself. As a result, a considerable number of vouchers were collected: 65,000 vouchers, or about 10% of all vouchers distributed in the region.

#### INVESTMENT TENDERS

Throughout voucher privatization, only two investment tenders have been held in the region. The first tender took place on September 23, 1993. A 20% share package of KETON (chemical industry), with a total charter capital of 63,574,000 rubles was offered. Three investors took part in the tender. The winner was a Russian-German joint venture GSECOMONTAGESERVICE. Its investment program included:

- the immediate transfer 23.43 million rubles for the share package;
- a pledge to invest 300 million rubles (after inflation) in cash and equipment over the next three years.

The second investment tender was held on May 18, 1994 to sell a 20% share package of KRON (chemical and defense industry) with a total charter capital of 34,200,000 rubles. The winner was a Moscow-based company COURSE LTD which has contacts in Goskomoboronprom (Defense Committee). Shortly before the tender announcement, the Fund received an official letter from Goskomoboronprom signed by Vice-Chairman, Mr. Kozlov, recommending that the Fund give preference to Course LTD. Course LTD paid five million rubles for the package and pledged to invest 200 million rubles over two years.

The Fund does not plan to hold investment tenders in the near future.

#### ENTERPRISE PIPELINE

In June the Fund offered for sale 27 enterprises with a total charter capital of 452,628,000 rubles, and planned to hold a second voucher auction for ELECTROZINC and POBEDIT, offering not less than 5% of the total charter capital of these enterprises for sale. The charter capital put up for sale was 134,253,000 rubles, or 29.7% of the total charter capital of all additional enterprises in the pipeline, plus 33,204,000 rubles of the charter capital offered for a second line.

The Ministry of State Property estimates that not more than 50% of privatizing state property will have been sold by June 30, 1994.

Although the republic's legislation was basically brought in conformity with the federal law, the slow pace of corporatization in recent months has deprived many local enterprises of the possibility to be privatized through voucher sales.

#### AUCTION CENTER

Before VASG's first visit, there was no auction center in the Republic. It was created under VASG recommendations in accordance with the Cooperation Agreement between the GKI, the Fund and Ministry in April 1994. VASG jointly with Fund designed a regular pipeline and a budget for auction center operations.

The Head of Auctions and Tenders at the Fund combines his Fund work with work at the auction center. The auction center is a structural unit of the Fund and is located in the same building not far from the heart of the capital city.

At present, the only function of the auction center is to accept bids for voucher auctions from physical and legal entities. There are two tellers, two inspectors and two guards who were hired to work at the auction center. The center is open from 10 a.m. till 6 p.m. on week-days and Saturdays. During its third visit, VASG insisted that the Fund bring the auction center working hours in conformity with the legal requirements. The Fund guaranteed that in late June the auction center and all the bid collection points would work everyday from 9 a.m. till 8 p.m. Data entry is done at the Fund.

In the future, the Fund plans to create a Regional Stock Center based at the auction center. It will carry out the following activities:

- sale of shares (stock store);
- maintaining share registers; and,
- quoting the shares of privatized enterprises in the region.

At present, the Fund and Ministry of State Property are jointly preparing documents for the Regional Fund Center registration.

#### ALL-RUSSIA AUCTION SYSTEM

The Fund did not take part in ARAS until December 1993. Because of the civil war, the Fund could not get into contact with the National Coordination Center. VASG ensured the region's participation in ARAS during its first visit in December 1993 by bringing an agency agreement to the Property Fund and persuading the Fund to sign it.

Currently, the Fund takes an active part in ARAS as an agent. From December 1993, 40 enterprises were offered for sale at national auctions, but the number of vouchers collected was not large - about 1,000.

#### BID COLLECTION NETWORK

The Fund has created a small but rather effective bid collection network based on agreements with municipal committees. Seven bid collection points are operating, including two in the capital city of Vladikavkaz. This is sufficient as the population is small (680,000) and dense, and the existing points are situated in all of the rayon centers (five rayons in all); in addition, most of the population live in Vladikavkaz.

#### PUBLIC INFORMATION CAMPAIGN

Despite a lack of funds, the Property Fund of North Osetiya has undertaken a rather intensive advertising campaign. The Fund focused its advertising effort in the press and on visual media.

During bid collection for the second voucher auction, the Fund conducted the most active advertising campaign as the director of ELECTROZINC earmarked considerable resources for advertising. As a result of the massive campaign and the good reputation of the enterprise in North Osetiya, there was a great deal of activity during the auction. More than 6,000 bids with 65,000 vouchers were submitted for ELECTROZINC.

Due to a lack of funds, the Fund could not subsequently hold similar advertising campaigns. As a result, at the third auction the number of vouchers collected was only one-quarter of the previous auction, although another well-known and large enterprise was offered for sale: POBEDIT with total charter capital of more than 300 million rubles.

When preparing the budget for financial aid under the Cooperation Agreement, VASG paid significant attention to financing the PI campaign, and the GKI allocated 24,431,000 rubles for these purposes. VASG recommended that the Fund hold the PI campaign in the

electronic mass media, and that it inform potential bidders in the Russian and Osetian languages.

During its third visit in June 1994, VASG reviewed the fulfillment of the budget for the PI campaign. The Fund had not spent much of the money, and the voucher collection process had been very slowly. To improve the situation, VASG developed three advertisements for the Fund to publish in the most popular newspapers; expanded advertising for TV saying that voucher privatization would end soon; and created a text to be read regularly on the radio. VASG saw to it that subcontracts with the mass media in North Osetiya were signed by the Fund and that payments for these contracts were duly made.

#### LEGAL ISSUES

In North Osetiya, the Supreme Soviet on November 27, 1993 approved a Resolution *On Additional Measures to Increase the Volume Of State And Municipal Property Being Purchased for Vouchers*. It determined that vouchers could be used for up to 80% but not less than 35% of a company's charter capital. On April 19, 1993 the Republican Council of Ministers approved a Decree #156 suspending privatization. In May 1993, this decree was canceled.

VASG reviewed local privatization legislation to ensure its compliance with the federal law. The privatization legislation in North Osetiya to a large extent contradicted federal legislation. The Republican Program illegally restricted legal entities taking part in voucher auctions to legal entities registered in North Osetiya or with special government dispensation. In practice, the Fund did not enforce these provisions of the local Program. In April 1994, a new republican Privatization Program was adopted. All the above violations were eliminated and the new Program corresponds to the Federal one.

#### CASH AUCTIONS

By June 1, 1994 the Fund had held seven 5% and 10% cash auctions to sell 18 enterprises that had passed through voucher auctions with total charter capital of 577 073,000 rubles. Since the second VASG visit, 10% cash auctions have been held regularly once or twice a month not later than 10 days after the end of bid collection for the voucher auction.

Shares worth 8,504,000 rubles (an average of 1.5% of total charter capital) were offered for sale. The total revenues of the Fund added up to 51.3 million rubles. Proceeds per voucher were 656 rubles.

#### FINANCIAL AID

After its first visit, VASG recommended that the GKI grant financial aid to the region. During its second trip, VASG prepared a budget for the Cooperation Agreement between the GKI, Fund and Ministry of State Property in North Osetiya. The agreement was signed on March 28, 1994. In accordance with this budget, 34,558,000 rubles was disbursed in a single transfer to the Fund for establishing an auction center and for the voucher auction PI campaign.

#### POST-PRIVATIZATION

At present, there is no developed securities market in North Osetiya. There are also no firms providing independent registry services. It is expected that the Regional Fund Center being created at the Auction Center will become such a company. There is also no stock

exchange in the region. The Fund considers the creation of independent registrars and a free securities market to be the key factors of success in the post-privatization period.

Shareholder meetings at privatized enterprises have been held since the end of 1993. In most cases they were guided and dominated by company directors who tried to consolidate their positions through shareholders. On a few occasions major outside investors replaced former ineffective management after a struggle at the meeting. The privatization of VLADIKAVKAZBYTOBORUDOVANIYE serves as a good example. This is a small enterprise with a total charter capital of 7,5 million rubles. At voucher auction in December 1993, most of its shares were bought by a small group of rank-and-file employees. They later took active steps to renew and modernize the equipment and tried to restore ties with consumers that had been severed by the former management. The factory resumed its operation after some time of inactivity. But the director frowned at all these actions. He considered the new shareholders to be impostors. He was unyielding, and all attempts to negotiate failed. Meanwhile, the group had aroused the sympathies of other employees who had bought shares in closed subscription. As a result, at the first meeting of shareholders members of the group were elected to management positions, and the former director failed to win election even as a member of Board. But the struggle went on. The former director complained to the Republican Ministry of State Property. He wanted the Ministry to open an official inquiry through the Prosecutor's Office of North Osetiya in order to recognize the results of the shareholder meeting null and void. The Prosecutor ordered an inquiry at the end of March. Finally, the director decided to cooperate with the group. In April 1994, at a special shareholder meeting he was elected a member of Board and an executive director of company. At the same time, the meeting created the position of company president and a member of the employee group became president with management powers in his hands.

VASG estimates that not more than 50% of state property subject to privatization has been sold. Such enterprises as Sevogas, Sevonefteproduct and the Lead and Zinc Factory have not been sold and should be included in the post voucher auction privatization program. Privatization of agricultural processing enterprises (Decree #708) has begun, nor has municipal property gone through privatization. Property subject to sales is estimated at 2.5-3 billion rubles in 1991 prices



## NOVOSIBIRSK REGION - FINAL REPORT

## TRIP DATES

March 10-11, 1994  
 March 29-31, 1994  
 May 30-June 1, 1994  
 June 17, 1994

## AUCTION RESULTS

VASG visited Novosibirsk in an attempt to assist proactively a region which had been named in a GKI report as under performing potential. VASG found that the organization of the voucher auction process was basically sound, but that there was less charter capital available for privatization than the "status" of the city would suggest.

	Total in 1993/1994
Number Of Enterprises	314
Charter Capital (000s R)	9,642,579
Charter capital Offered At Auction (000s R)	1,781,359
Percentage Of Capital	18.47%
Vouchers Collected	421,766
Charter Capital Sold	1,210,065
Charter capital sold (%)	12.55%
Auction Rate	2.87
Vouchers Collected By Closed Subscription	233,654
Vouchers Collected By Other Means	104,028
Total Vouchers Collected	783,609

## ENTERPRISE PIPELINE

VASG worked with the Fund and the Committee to put together a pipeline of enterprises which would allow the region to be allocated financing from the GKI. VASG used the financing lever to encourage the region to put as many enterprises as possible through voucher auction in the little time that remained for voucher auctions.

The role of VASG in this region was limited to attempting to maximize the potential of Novosibirsk region- there was little opportunity to bring about the fundamental changes in documents processing and auction infrastructure that were achieved in other regions.

## Auction Timetable

Number Of Enterprises	50
Total Charter Capital (000s R)	1,138,119
Offered For Voucher Auction	304,839
Percentage Of Charter Capital	26.78
<i>including</i> ARAS Auctions	2
Chartered Capital of ARAS companies	463,687
Offered For Voucher Auction	134,469
Percent Of Charter Capital	29%

The Property Fund has followed this plan exactly. The Fund's attitude to ARAS was very positive. The Fund actually was frustrated at the refusal of ARAS to accept two offered

companies. These, though smaller than the minimum threshold were being offered because the Fund had received interest from outside the region.

#### AUCTION CENTER

##### Pre VASG

The Property Fund is a founder shareholder of a JSC "Auction Center" which was set up with financial assistance from the IFC to handle voucher auctions. The auction center was very well laid out but did not meet many of the requirements of legislation: i.e. the auction center sold shares of enterprises other than privatizing companies and did not abide by the law on opening hours.

##### Post VASG

VASG worked with both the JSC and the Property Fund to try to negotiate improvements in the observance of legislation on the operating of the auction center. Opening hours were slightly extended, although not in line with Ordinance 1730, and accepting bids for non-privatization companies was separated from privatization issues.

#### BID RECEPTION NETWORK

##### Pre VASG

There were 35 bid centers in addition to the Auction Center. 13 of these were located in the city, 19 in rural areas and a further 3 in other towns. Temporary bid centers were also opened at privatizing enterprises. The bid center network was limited to individuals and had not been very effective at collecting vouchers relative to the central auction center.

##### VASG's role

VASG worked with both the Committee and Fund to ensure more attention was paid to the bid center network. The Committee agreed that regional branches of the Committee be activated and that legal entities should be allowed to participate through any bid center.

#### PUBLIC INFORMATION CAMPAIGN

##### Pre VASG

The Property Fund had a good understanding of the importance of advertising to the success of voucher auctions. The Fund pays for an entire page of the main Oblast newspaper to advertise voucher auctions each week. This is only enough however for the official announcements to be included as the Fund takes part in all ARAS auctions. In the Autumn the Fund used radio advertising which was regarded as the most effective, however price rises and a lack of money forced this to be abandoned in the winter. The Auction Center has very good information inside and outside (an electric sign).

##### VASG's role

VASG was able to help the Fund and Committee receive financial assistance. The budget which was drawn up by VASG was directed primarily at advertising needs. The 18,310,000 Rubles were to be spent on:

- ads in regional papers;
- ads on local radio and TV;
- advertising posters in the subway.

The advertising drive is aimed at informing the public about the enterprises being sold and the bid centers. Special attention was paid to trying to attract more rural residents (by using radio, TV, and the newspaper SOVETSKAYA SIBIR as much as possible). Senior officials of the Property Committee, Fund and the Auction Center now regularly appear on radio and TV with the intention of achieving as much free publicity as possible.

This advertising campaign seemed to have quite dramatic results— there were queues outside the auction center on the 31st of May, the last day of the Gazprom auction and the number of people using regional bid centers also increased.

#### LEGAL ISSUES

Novosibirsk does not do badly relative to many regions in its observance of legislation and it is far from deserving of the "bad boy" image that it has developed in Moscow. At least 29% of every enterprise is offered for voucher auction where this is possible (i.e. restrictions have not been placed by Central GKI) and in closed subscription at least 50% is paid in vouchers. The Fund does not always observe the 80% rule of Ukaz 1229, but the auction timetable put together by VASG went some way to addressing this. The other major violation was the auction center practices noted above

#### ALL-RUSSIAN AUCTION SYSTEM

##### Pre VASG

Before VASG arrived, the region had participated both as an agent and a seller in national auctions. The region did not, however, have a relationship with the NCC and could not understand the attitude of the NCC in refusing companies which would have significant demand throughout Russia for national auction.

##### VASG's role

VASG was able to ensure that the NCC accepted the two companies previously rejected for national auction: the West Siberian shipping line and the Berdsk electromechanical plant.

In total the region offered four companies to the National Auction System as follows:

Enterprise	Closing date	Charter Capital (000s R)	Offered Charter Capital (000s R)	Percent Offered
Novosibirsk Chemical Concentrate Plant	14/2/94	324,039	32,403.5	10%
Novosibirsk Energy	14/2/94	1,133,430	46,664	4.12%
West Siberian Shipping Line	16/5/94	329,017	95,415	29%
Berdsk ElectroMechanical Plant	16/5/94	134,670	39,054.7	29%

#### CASH AUCTIONS

Cash auctions  
Number Of Auctions  
Total Income

Total For 1993/4  
200  
R364,637,000

Income per Voucher

??

Pre VASG

The Property Fund understood very well the potential of cash auctions and used this to the full. The Fund was very good at planning the auction schedule of cash auctions.

<b>FINANCIAL AID DISBURSEMENT</b>
-----------------------------------

Pre VASG

The region applied for financial aid from the GKI but was denied it.

VASG's role

VASG recommended that aid be made available and drafted a budget for R30,464,840, of which R12,154,840 was for Auction Center costs and R18,310,000 for advertising.

<b>POST-PRIVATIZATION ISSUES</b>
----------------------------------

The Property Committee and Fund actively address post-privatization issues. There is a consulting department at the Property Fund which offers additional services to enterprises going through the privatization process. The main focus of this to date is advice on shareholder meetings and share registry.

The Novosibirsk electronic depository "EIDis" handles all indirect voucher transactions and voucher cancellation. It has developed a software package for summing up auction results which also allows the creation of a draft shareholder register. The package was certified by the GKI.

## ORENBURG REGION - FINAL REPORT

TRIP DATES
------------

August 21-July 16, 1993

November 9- 2, 1993

January 9-10, 1994

April 4-7, 1994

June 14-16, 1994

AUCTION RESULTS
-----------------

Pre VASG

Prior to VASG's visit the region had held only two voucher auctions for 11 companies. The first 7 companies were sold in a mixed auction (80 percent - vouchers, 20 percent - cash)- a gross violation of the voucher auction law.

Post VASG

After VASG assistance the auction process was accelerated and by the end of 1993, 55 companies had passed through Voucher Auction with a total Charter Capital of 3,497,286,000. The charter capital offered for sale was 753,038,415 Rubles (21.53 percent), and the average auction rate was 1.6.

VASG managed to lever Orenburg Region into scheduling voucher auctions for 83 companies with a total Charter Capital of 1,043,468,000, the average auction rate for the sale of these companies was 2.29. Voucher auctions have to date collected 411,896 vouchers.

The region issued 2,203,085 vouchers, and at present, 1,040,511 vouchers (47.23 percent) have been collected. Voucher auctions account for 472,606 vouchers, and closed subscription 193,529. Closed subscription at companies not subject to Voucher Auction have yielded 132,752 vouchers.

ENTERPRISE PIPELINE
---------------------

Pre VASG

Prior to VASG visit the region had no VA schedule, and the auctions were held with gross legal violations (payment made on the 80-percent-vouchers-20-percent cash basis).

Post VASG

VASG assisted the region in compiling a schedule which included 66 companies with the total Charter Capital of 5,385,478,100, and total stock worth 1,597,553,909 (29.66 percent).

VASG also helped to draft a second schedule, ending May 1994, based on privatization applications, received by the Committee, and Decrees No. 721 and No. 1229. The draft included 111 companies with a total Charter Capital of 6,089,441,500, and share package of 1,344,482,877, or 22.08 percent. The approved version of the schedule included 37 companies with a total Charter Capital of 2,517,389,000, and total stock worth 735,647,000 (29.22 percent).

The regional Fund was slow to sign off on the auction schedule and its performance relative to that schedule was patchy. The region refused to accept financial aid from GKI

believing the reporting requirements to be too onerous and not in their interests. This, of course, significantly reduced the amount of leverage that VASG had over the regional authorities.

**AUCTION CENTER**Pre VASG

The regional Auction Center was opened on May 7, 1993, and initially was located in the regional teachers' club. The Auction Center was set up by a contractor, Region-TEK company, operating under an agreement with the Property Fund. Price Waterhouse provided significant assistance in the set up. The Center was, however, rather inconvenient and did not allow for its development as the privatization process developed.

Post VASG

VASG was able to intervene such that the regional Auction Center moved to a building in downtown Orenburg. The regional Property Committee offered several well-equipped and protected rooms in the former regional computer center. As a result, the Auction Center now includes a regional depository part of another AID initiative. VASG was able to facilitate the contact between Deloitte and Touche and the region.

VASG helped to arrange the working hours of the Center in compliance with Ordinance 1730 and introduced standard GKI software version 6.0 for Voucher Auction results calculation.

The Auction Center employees were trained with VASG assistance and are efficient.

**BID RECEPTION NETWORK**Pre VASG

There was no bid reception network prior to the arrival of VASG in the region. Bids were only accepted at the enterprise that was being sold and at the rather out of the way auction center.

Post VASG

VASG arranged a meeting attended by district privatization officials on ways of upgrading the entire bid reception network. VASG drafted a joint Fund and Committee letter to district privatization agencies, requesting the assistance of district Committees and Fund representatives in collecting vouchers. The contractor, Region-TEK, now remunerated on a per voucher basis has become more aggressive in setting up a regional bid reception network.

VASG efforts have been very successful. At present, 68 reception centers are operating in the region. VASG helped to organize a mobile bid reception center which functions in remote regions, operating according to schedule jointly drafted with district officials.

**PUBLIC INFORMATION CAMPAIGN**Pre VASG

The regional Fund tried to restrict spending on advertising to a minimum. Consequently, only the statutory minimum information was published.

Post VASG

VASG was able to demonstrate that cash auction proceeds did go up if there was additional advertising and that they were sufficient to cover the costs of a much broader information campaign than had been implemented prior to this.

The region has become more active over the few months. VASG helped to sign Voucher Auction promotion contracts with the regional TV Company, *Yuzhni Ural* and *Orenburzhye* newspapers, and Orenburg Press Service news agency.

Region-TEK has hired a promotion agent. In May, promotion spending totaled 15,925,766, and in April - 20,091,187. In June, at least 25,000,000 rubles will have been spent.

#### LEGAL ISSUES

##### Pre VASG

There were a series of legal violations in Orenburg:

- failure to abide by Ukaz 640- 29% minimum at voucher auction
- failure to abide by Ukaz 1229- 80-% for vouchers
- auction center violations
- processing delays
- retaining a minimum 20% state interest
- minimum auction rates
- mixed auctions

##### Post VASG

After VASG's arrival, the most serious legal violations were eliminated. The Fund began to abide by the 29% and to some extent with the 80% rules. The auction center was brought into line with Ordinance 1730.

On VASG initiative, the Committee asked the Fund to draft a two-month schedule for the reserved 20 percent of federal and regional company stock. VASG helped to draft two instructions, signed by Property Committee Chairman (No. 634 of 19.10.93 and No. 666 of 05.11.93) which committed the Fund to arrange these sales.

The most serious violation was Fund's Decision No. 28 of 19.07.93 to sell stock of all companies in the food processing and services sectors at a mixed auction.

#### ALL-RUSSIA AUCTION SYSTEM

##### Pre VASG

The Orenburg Fund was not interested in offering its own companies for auction on an All Russia basis. The Fund acted as agent for the companies of other regions.

The schedule for 1994 proposed submitting to ARAS the stock of the Orenburg Rubber Plant (Charter Capital 163,846,000, 39 percent to be offered), and the Orsk Tractor Trailer Plant (Charter Capital - 227,819,000, 31 percent to be offered).

ARAS is currently also handling the stock of three major Orenburg Region companies, Orenburgneft, Orsknefteorgsintez, and Gaisk enrichment factory.

#### CASH AUCTIONS

##### Pre VASG

Prior to VASG arrival, no cash auctions were held in Orenburg Region.

##### Post VASG



Cash auctions are now held no later than 4-5 weeks after Voucher Auction results are published. To date 58 companies have been through cash auctions. The revenue from these 5-percent cash auctions totaled 202,955,168, or 513 rubles per each invested voucher.

#### FINANCIAL AID AREAS

The region has turned down GKI aid, because the Fund, Committee and contractor did not want to take on what they regarded as the onerous requirements of the technical assistance being offered.

#### POST-PRIVATIZATION ISSUES

VASG helped to hold an August 17-19 seminar for enterprise and investment company managers on corporate strategy in the post-privatization period.

Joint-stock companies have little experience in organizing shareholder meetings. Fund officials claim that most meetings turn into "production meetings," typical for the Soviet period, discussing labor discipline, supplies, social problems, etc.

#### CURRENT PRIORITIES

Local privatization agencies have to focus on further support of privatized companies, in the form of direct investment, assistance in finding the right investor, and advice on managing joint-stock companies.

VASG believes that the region will require technical assistance on the following issues:

- shareholder meetings;
- share registers and third-party registries;
- joint-stock company management;
- setting up secondary market infrastructure.

## PENZA REGION: FINAL REPORT

## TRIP DATES

September 23 - October 1, 1993

October 12 - 13, 1993

March 9 - 17, 1994

June 6-8, 1994

## AUCTION RESULTS

Key Indices	Total for 1993-1994	Before VASG Arrival	During VASG Work
Number of Enterprise	157	64	93
Number of Lots	160	64	96
Charter Capital	4,156,908,000	1,630,003,000	2,526,905,000
Offered for Sale at SVA	1,052,340,500	499,914,000	552,427,000
Percent of the Charter Capital	25.32	30.67	21.86
Sold at SVA (Rb)	1,015,304,000	488,701,000	526,603,000
Percent of the Charter Capital	24.42	25.77	20.8
Vouchers Collected at SVA	167,278	68,660	98,618
Auction Rate	6.07	6.12	5.33

Notes

Bid applications for sale of *Penzaenergo* JSC shares (charter capital is R520,000,000) through SVA were accepted from October 5 till November 5, 1993. 113,378 shares (21.8%) were offered for sale at SVA, and 19,086 vouchers were received. The SVA rate was 5. 95,430 shares were sold, which is 84.17% of those offered for sale and 18.35% of the charter capital.

October 12 - November 9, 1993 a SVA was held where the shares of *Penznefteprodukt* (charter capital is R101,406,000) were offered for sale. 8,366 shares (8.25% of the charter capital) were offered. 5,378 vouchers were collected, the auction rate was 7. 37,646 shares with the face value of R200 each were sold, which is 90% of the share package offered and 7.42% of the charter capital.

Voucher Collection Method	Number of Vouchers
Through SVA	186,054
By Closed Subscription	93,975
By Other Methods	147,717
Total	427,746

45,306 vouchers were collected through ARAS, including 18,680 vouchers (41.2%) within the region.

## ENTERPRISE PIPELINE

Pre VASG

Prior to VASG assistance, the region did not have a pipeline of enterprises and sales were arranged on an ad hoc basis.

Post VASG

VASG was able to compile a voucher auction schedule based on a full analysis of privatization documents and sales held to date in full compliance with Decree#1229. The schedule till the end of 1993 envisaged sale of shares of 61 enterprises with a charter capital for sale of 296,430,000 Rubles (the total charter capital of the offered enterprises is R1,078,313,000 -27.48% up for sale). 61 enterprises were offered for sale through SVA, but 8 enterprises were replaced owing to delays in document processing. The total charter capital of the auctioned enterprises was R1,951,764,000 and shares to the amount of R510,764,000 were offered for sale. The progressive nature of the Fund and Committee is shown by the fact that the replacement enterprises were large enterprises that had previously not been possible to schedule because of timing doubts. Among these were *Penzaenergo* (charter capital is R520,000,000 with R113,378,000 worth of shares for sale - 21.88%) and *Surskaya Manufaktura* (charter capital is R405,580,000 with R117,620,000 worth of shares for sale -29.0%).

For the period January 1 - March 22, 1994 the shares of only 18 enterprises were offered for sale with a total charter capital of R152,010,000. R45,070,000 worth of shares were offered for sale (29.64%). This reflects the lack of support that was accorded to Penza during this period as the focus was on larger more problematic regions.

#### AUCTION CENTER

##### Pre VASG

The auction center in the region was set up as a Department of the Fund. The auction center is located in the Fund's (region administration) building in the center of the city. The Fund concluded a special agreement so that the area was secured.

##### Post VASG

VASG was able to bring the auction center procedures into line with Ordinance 1730. This involved extending the opening hours of the center and hiring more staff. VASG also introduced standard GKI software (version 4.0) to the regional Fund.

#### BID APPLICATION NETWORK

##### Pre VASG

Before VASG's arrival vouchers were accepted only at enterprises, whose shares were offered for sale through the said voucher auction and at the auction center.

##### Post VASG

VASG arranged a meeting with the heads of the region privatization bodies about increasing the effectiveness of voucher collection. VASG prepared a special resolution of the Head of the Regional Administration on voucher privatization. (# 191 of April 1, 1994). Contracts have been signed with the regional *Sberbank* management and regional Committees for property management to expand the bid center network.

VASG helped set up a mobile bid application center to collect vouchers in remote rural areas. Overall there are 30 bid centers operating in the region.

#### PUBLIC INFORMATION CAMPAIGN

##### Pre VASG

The information campaign in the region was restricted to obligatory information announcements published in the official region newspapers.

#### Post VASG

VASG developed an information campaign including all forms of media.

Radio is used particularly extensively with adverts in the morning and evening peak listening hours

The information campaign also includes announcements in public transport, posters and the distribution of fliers.

### LEGAL QUESTIONS

There were a series of legal violations in Penza:

- failure to abide by Ukaz 640- 29% minimum at voucher auction
- failure to abide by Ukaz 1229- 80-% for vouchers
- processing delays
- information requirements not being met
- retaining a minimum 20% state interest
- valuation irregularities

#### Post VASG

VASG brought the attention of regional officials to the irregularities and the region agreed to abandon them. The issue of valuation was more problematic. VASG suggested and helped prepare and forward a letter by Deputy Head of GKI RF, D V Vasiliev to the Heads of the Committee and Fund requesting that valuation irregularities be halted.

### ALL-RUSSIA AUCTION SYSTEM

The shares of four enterprises were offered for sale through ARAS: *Penzaenergo* JSC (October 5 -November 11, 1993), *Surskaya Manufactura* (August 3 - November 11, 1993), *Biosintez* JSC (November 15 - December 13, 1993) and *Kuzrolit* (November 15 - December 13, 1993). The total charter capital of these enterprises was R 1,270,500,000. Charter capital of R332,784,000 was offered for sale.

### CASH AUCTIONS

#### Pre VASG

The region had not realized the potential of cash auctions before the standard VASG cash auction and budget analysis had been carried out for Penza region. Only about 1/3 of the possible cash auctions had been held.

#### Post VASG

VASG worked with the Fund to develop a cash auctions schedule till the end of May 1994. This included 60 enterprises. VASG insisted the Fund conduct 10% cash auctions within 4-5 weeks upon completion of a voucher auction. The potential of the cash auctions is demonstrated by the latest results of cash auctions in the region: revenues from 10% cash auctions are R42,149,762 equivalent to R873 per voucher.

### FINANCIAL AID ALLOCATION

VASG prepared a budget of R36,221,000 which was approved by GKI on October 11, 1993.

<b>CURRENT PRIORITIES</b>
---------------------------

VASG believes technical assistance will be required by the privatization bodies of the Penzensky region in solving the following problems:

- share holder meetings;
- share registers;
- JSC management;
- formation of secondary securities market infrastructure.

## ROSTOVSKAYA OBLAST: FINAL REPORT

TRIP DATES
------------

21-23 September 1993  
12-15 October 1993  
18-22 October 1993  
21-23 December 1993  
23-25 February 1994  
05-07 April 1994  
17-19 May 1994

AUCTION RESULTS
-----------------

Rostovskaya Oblast is a populous oblast in the Northern Caucasus. It welcomed VASG's cooperation over the course of the program. Of particular note should be VASG's work in re-establishing a proper auction center in the region, and the successful restarting of the 5%/10% cash auction program.

Before VASG established a relationship with the region, the regional Property Fund had auctioned shares in 154 enterprises, representing a total charter capital of 5,233 million rubles. The share capital offered for sale was 1,742 million rubles – a weighted average share package of 33.3%.

By late May 1994, 427 lots had been auctioned in a total of 300 discrete enterprises representing a total charter capital of 9,469 million rubles. The share capital offered for sale amounted to 2,317 million rubles – a weighted average share package of 24.0%. The actual shares sold represented a total share capital of 2,218 million rubles or 96% of the charter capital sold. These figures exclude the enterprises sold on the All-Russian Auction System, the statistics for which appear under the relevant section. These enterprises were sold in a series of 50 auctions, meaning that the region maintained a regular schedule of one auction per week.

As of June 10, 1994, a total of 1,159,072 vouchers have been collected through voucher auction (includes published results only), at an average auction rate of 2.9 shares (nominal value R1,000) per voucher. In addition, a further 537,628 vouchers had been redeemed through closed subscription, with 45,945 vouchers collected through other mechanisms of sale. The total of 1,742,645 vouchers represents 38.7% of the total number of vouchers distributed in the region. All these vouchers have been canceled in compliance with current regulations.

Among the most successful auctions were those that sold shares in JSC Rostovsky Port (charter capital 17 million rubles; 23.5% for sale) and in JSC Promstroinilproekt (charter capital 5.8 million rubles; 29% for sale) were sold. Normalized at 1,000 ruble shares the respective auction rates were 0.24 and 0.13; the program national average for comparison is 1.9.

On the other hand the least successful auction was the inter-regional auction of JSC Taganrog Metallurgical Works (charter capital 1,156 million rubles; 29% for sale). On this occasion the auction rate was a dismal 0.66.

INVESTMENT TENDERS
--------------------

Between February and June 1994, the Rostov Region's Property Fund held investment tenders for the shares of 7 enterprises with a total charter capital of 160 million rubles at which packages of 10% to 15% were offered for sale.

The total investment commitments pledged amounted to 3,409 million rubles. The criterion used to adjudicate the winning bid complied with the latest regulations: the present value of investments committed discounted over the investment period at the discount rate established by the Central Bank of Russia. In one case, as allowed under the regulations, this included the commitment to pay off the enterprise's total debt.

At present, the Rostov Region's Property Fund is processing the investment tender applications received from 8 enterprises and there is an investment tender schedule in place for June 1994.

#### ENTERPRISE PIPELINE

As of June 10, 1994, in the Rostov Region there were 21 enterprises with a total charter capital of 296 million rubles scheduled for sale before the end of the program. The share capital offered amounts to 73 million (24.7%). However, the Fund and Committee officials are committed to expanding this schedule should the documentation for additional enterprises become available before the deadline for entry in final voucher auctions – i.e. two weeks before the last voucher auction is scheduled to begin.

The Rostov Committee has been working on an inventory of joint-stock companies which, however, is yet to be completed. In the Rostov Region there are approximately 665 registered JSCs, of which some have been privatized. It can be stated for certain that 300 enterprises have already sold their shares through voucher auction, but the exact number of corporatised enterprises – in common with other regions – is still unknown. Thus it is impossible to determine when all the property that is subject to privatization in the region will have been sold.

There are 705 enterprises in the region that are reckoned not to be subject to privatization under the terms of the current program. This includes municipal property.

The Rostov Property Committee, in common with other regional authorities, has experienced delays receiving direction from the Federal authorities on how to proceed with Federal Property. In particular, the cases of the Rostov Electromechanical Appliances Design Bureau and the Beriev Design Bureau should be mentioned. Their documentation has been under consideration at the Central GKI for two years and the only decisions have been contradictory. Under an ordinance issued by Chemomyrdin 38 percent of the shares have been reserved to state ownership. However, Chubais has ruled that the state ownership should be limited to 25.5%. The confusion leaves the regional authorities unable to proceed with privatization.

#### AUCTION CENTER

Prior to VASG's visits to the region the original Auction Center had received an unfavorable report by auditors sent by Price Waterhouse. VASG was instrumental in negotiating satisfactory new arrangements with JSC Rostovsky Fondovyi Dom (the Rostov Stock House) to take over the running of the auction center. Sufficient financing was approved to facilitate this improvement to the local auction infrastructure.



The Auction Center is now conveniently located in downtown Rostov, in a well-known building that once housed the Communist Party School. The rent is paid by the Rostov Stock House. The auction center operates in full compliance with the latest regulations issued by the Central GKI. The services performed by Rostov Stock House as a contractor to the Property Fund are paid for from the proceeds of 5%/10% cash auctions. The Rostov Stock House is thus a fourth signatory to the cooperation agreement signed between the Central GKI, the local Property Committee and the local Property Fund.

From the outset, the Rostov Stock House has actively cooperated with the Property Fund to support the voucher program, as well as post-privatization initiatives. It is keen to expand its activities as a player in the secondary market of securities.

#### BID CENTER NETWORK

There was an extensive bid reception network which averaged 30 reception points per auction. However, one of the idiosyncrasies that the Fund maintained was the system of accrediting the bid centers for one auction only. This meant that each bid center operator had to reconfirm its intention to participate in each scheduled auction.

These bid centers were authorized to collect bids from individuals only; legal entities were required to place their applications with the auction center.

#### PUBLIC INFORMATION CAMPAIGN

The Property Fund has a separate department dedicated to the preparation and dissemination of information on Voucher Auctions, as well as more general educational materials on the aims of privatization.

All information and advertisements are published in a weekly supplement to the *Nashe Vremya* (Our Times) newspaper. This supplement also carries reports on the progress of privatization in the region, as well as various educational features. Close contacts have been maintained with the local radio and TV stations which regularly feature privatization-related programs and advertise voucher auctions.

In order to enhance the effectiveness of the public information campaign VASG drafted a budget to support additional measures – this amounted to 17.3 million rubles of aid.

#### LEGAL ISSUES

The region has complied with the Federal law in conducting privatization, and no local conflicting local legislation has been passed. Consequently, VASG had no occasion to request assistance from the Central GKI in normalizing the local legislation.

#### ALL-RUSSIAN AUCTION SYSTEM

The Property Fund has been the approved agent of the National Coordination Center in the conduct of national and inter-regional auctions.

The region itself offered three enterprises for sale on the ARAS with a total charter capital of 2,805 million rubles. Share capital offered for sale totaled 843 million rubles (30%) with 98.7% of the shares actually being sold. The sales collected 90,174 vouchers at an average auction rate of 9.2.

### CASH AUCTIONS

Encouraging the aggressive use of 5%/10% cash auctions should be counted as one of VASG's major achievements in the region. Before VASG's arrival there had been only 3 cash auctions, at which the shares of 13 enterprises had been sold. The Property Fund was skeptical of the potential to raise significant revenues through these sales, and had, in fact, determined to discontinue the practice.

VASG analysis emphasized the potential of 5%/10% cash auctions, estimated likely revenues and thus persuaded the Property Fund that they were capable of generating significant income and, therefore, should be resumed. Part of VASG's recommendations was to pursue a more aggressive and coordinated advertising campaign to generate demand at these auctions.

VASG worked with the Property Fund to establish a regular schedule of 5%/10% cash auctions, and to minimize the delay between the voucher auction and its subsequent cash auction. By early June, therefore, a total of 18 cash auctions had been completed, at which the shares in 248 enterprises had been sold.

The total revenues from these auctions have been 424 million rubles, which amounts to 925 rubles/voucher collected at voucher auction. This is around twice the estimated marginal cost of redeeming the voucher.

### FINANCIAL AID TO THE REGION

VASG drafted a budget that appropriated funds for the establishment of the replacement auction center and allowed for an improved public information campaign, with particular emphasis on improving the results of cash auctions. This budget totaled 43.9 million rubles, and in accordance with Bain & Company's disbursement policy was paid in two installments.

The Region has provided all the necessary receipts for the aid received, and reported the use of funds according to GKI's required format.

### POST-PRIVATIZATION ISSUES

There is a vigorous emerging financial services sector in Rostov Region. Among the most active players are the commercial banks: Agroprombank, Doninvest, Rostpromstroibank, Donkombank, and Rostovsky Aktsionemy Kommerchesky Bank. Along with offering conventional banking services these banks have begun to offer both share registration and depository services.

Activity on The Don Exchange "Delovoy Dvor" (Business Yard), which quotes the shares of large banks and joint-stock companies, has been increasing. The most active broking and investment firms are Vadim & Konstantin Invest, and the Inis Financial Center. They deal in the sale and purchase of the shares of privatized companies, voucher operations, trust services and the maintenance of shareholder registers.

The local privatization authorities have expressed concern over the calculation and distribution of dividends on state-owned shares. The Property Fund has highlighted the need to establish a special ordinance regulating this matter. They maintain special clarification is needed with respect to the calculation of dividends on Type B preference shares.

Property Fund representatives actively participate in shareholders meetings. Featuring high on the agenda are such issues as introducing amendments to charters of incorporation, passing in-house regulatory procedures, electing the Director-General and approving the Board of Directors..

Electing the Board of Directors has been particularly problematic. While most enterprise management's seek to elect as many of their number as possible to the Board, the 1994 Privatization Program stipulates that management may comprise only one third of the directors. This has resulted in frequent clashes during the election of Board members. The situation is further complicated by the fact that few "outsiders" contest the elections to the Board, often bringing elections to a deadlock.

VASG helped organize and participated in a seminar discussing the proper maintenance of independent share registers.

<b>CURRENT PRIORITIES</b>
---------------------------

The Property Fund now considers the following issues to be of the highest priority:

- Investment tenders, including the design and adjudication of investment programs, and the need to attract outside investors, including foreign capital.
- Cooperation with corporatised/privatized enterprises to organize their management during the post-privatization period.

Due attention should also be given to the proper inventorying of enterprises that remain to be privatized in the region after June 30.

## SAMARSKAYA OBLAST: FINAL REPORT

## TRIP DATES

26 - 27 August, 1993  
06 - 16 September, 1993  
10 - 19 November, 1993  
09 - 11 March, 1994  
14 - 17 March, 1994  
21 - 24 March, 1994  
24 - 27 May, 1994

## AUCTION RESULTS

Samarskaya Oblast is a significant industrial oblast in the Volga region. However, prior to receiving VASG's assistance there were significant irregularities in the conduct of voucher auctions. Most importantly, according to an instruction passed by the Regional Soviet, privatization plans were prepared with improper share package allocations. Under this procedure only 24% of shares were allocated for auction, of which a 15% package was allocated to cash auctions leaving only 9% allocated to voucher auctions. This irregularity was the reason for VASG's initial attention to the region, and its correction should be counted as the single most important achievement of the work.

Before VASG's first visit shares in 39 enterprises with a total charter capital of 2,571 million rubles had been auctioned. By June 1, the region had conducted 16 voucher auctions (for which results had been published) at the rate of one per month. In total 176 lots had been sold, representing shares in 170 discrete enterprises. The total charter capital represented by these enterprises was 32,809 million rubles, with shares worth 7,933 million rubles put up for sale – equivalent to an average share package of 24.1 %. The total share capital purchased through voucher auctions amounted to 7,756 million rubles (97.8% of shares offered, and a average share package of 23.6%). In the light of the early irregular allocation of share packages this overall program weighted average represents a considerable achievement.

By 10 June, 1994 a total of 1,154,857 vouchers had been collected through voucher auction in the region. In addition, 444,824 vouchers had been retired through the closed subscription for shares, with a further 40,109 vouchers redeemed through other sale mechanisms. The total number of vouchers retired was, therefore, 1,639,790 or 48.8% of the total issue of 3,362,565.

VASG's initial work involved negotiating with the regional Fund and Committee to ensure that 24% of shares – in enterprises corporatised through the second option – were offered for sale at voucher auction. At this time it was also agreed to offer the full 29% package of shares at voucher auction in enterprises that had been corporatised through the first option. Subsequent negotiations ensured that 29% of shares in all enterprises – regardless of corporatisation option – were offered for sale. Thus the weighted average share package offered in the region rose from the 8.3% achieved prior to VASG's work to a program average of 24.1%.

However, special consideration should be given to the share packages sold in two large enterprises that bore a considerable weight in the overall figures. Only 8% of share capital was offered in the voucher auction of Volgotanker (charter capital: 1,058.4 million rubles) and only 10% of share capital in Samarenergo. The privatization plans of these enterprises had approved the following share allocations:

**Volgotanker:** 20.0% Department of River Transport

Astrakhan	7.0%	Sold at voucher auction in Bashkortostan, Tartarstan and regions, where some facilities were based.
	51.0%	Workers collective, under second benefits option
	5.0%	FARP allocation
	9.0%	Initially, allocated for cash auction, but subsequently it was determined by VASG that this should be offered at voucher auction through ARAS
Samarenergo:	49.0%	Handed over to EES Rossii (National Power Grid Company)
	13.0%	"A" Preference shares: non-voting gratis distribution
	3.9%	Distributed through closed subscription
	5.0%	Management option
	10.0%	FARP allocation
but	9.0%	Was initially to have been included at local voucher auction, subsequently an equivalent share package in EES Rossii.

Two voucher auctions generated an unusual degree of interest from investors. The Chocolate factory *Rossiia* achieved the impressive auction rate of 0.16 shares per voucher (normalized at 1,000 ruble shares) and Samara Tabacco Factory distributed 0.17 shares per voucher redeemed. For comparison, the national average for the program was 1.9.

On the other hand, the following enterprises were of no interest to investors, and were withdrawn from auction having failed to attract a single bid:

- Samarskaya Kompaniya Aviatsii Spetsialnogo Primeneniya;
- Avtotransportnik;
- Togliattimontazhavtomatika
- Novokuybyshevski Opytny Zavod VNII Organicheskogo Sintez;
- Stroikran;
- Bezenchugski Kombinat Khladoproduktov;
- Neftegorskaya Obuvnaya Fabrika;
- Proizvodstvenno - Kommerchiski Tsentr

#### INVESTMENT TENDERS

The Property Fund had held seven investment tenders by the beginning of June, 1994. These enterprises represented a total charter capital of 857 million rubles, and share packages of between 15% and 40% were tendered. In total share capital worth 260 million rubles was sold through these tenders – 30.3%. In total investment commitments were made in the following amounts: 10,874 million rubles; 35,359,200 Deutsche Marks; and US\$ 472,152,000.

The criterion for determining the winning bids complied with the latest regulation on investment tenders: i.e. the greatest present value of investment, when investment was discounted over the period at the discount rate determined by the Central Bank of Russia.

#### ENTERPRISE PIPELINE

It is envisaged that a further 24 enterprises will be sold before the end of the program. These represent a charter capital of 7,095 million rubles, of which 1,609 million rubles of share capital are slated for sale – 22.6%. The final voucher auction will be held between 27 May and 24 June.

By 23 May, a total of 412 enterprises had been corporatised (under both the mandatory terms of Decree # 721 and the voluntary terms of Decree # 66). Another 18 enterprises are in the process of being corporatised.

As is common with other regions, there are inadequate inventory systems in place to track the total number of enterprise that have been or are to be corporatised. Under the terms of the newest Privatization Program mandatory corporatisation has been expanded to cover a wider number of enterprises. It is hoped that this will force the development of better tracking systems, and that a clearer picture will emerge of the state of privatization relative to the number of enterprises in the region – including a proper record and justification of those that are thus far specifically excluded from privatization. Current records include 16 enterprises (11 in Federal ownership, and 5 Regional) that are not subject to privatization. It is important for the reader to recognize, however, that there will have been privatization activity in addition to that represented by Voucher Auctions. A priority of the ongoing program should be to require that adequate accounting systems are established to report this activity.

Particular notice should be taken of the following three enterprises that are being considered at the Federal level

- GLAVCTTRANSNEFT, falling under the purview of Decree No 1403 (Regulations governing privatization of the Oil & Gas sector), the documents have been endorsed by the Fuel and Energy Ministry and handed over to the Central GKI.
- VNIITneft, falling under the purview of Decree No 1403, the documents are being considered at the Fuel and Energy Ministry;
- SKTB LUCH whose documents have under consideration by the Central GKI since November 1992.

#### AUCTION CENTER

The functions of the Auction Center are truly performed by three entities in the region. While this collective "auction center" pre-existed VASG's relationship with the region, VASG was instrumental in re negotiating the terms of the agreements between the various parties. The Property Fund collects bids from legal entities only, and assumes the responsibility for the final calculation of results. In addition, Prima Bank accepts bids from legal entities and is responsible for the conduct of cash auctions. It is an additional signatory to the multipartite agreement between the Central GKI, the Regional Committee and the Regional Fund, governing the conduct of auctions in the region, the receipt of financial aid and the distribution of proceeds from the 5%/10% Cash Auctions. It is remunerated for its services entirely from the proceeds of these cash auctions. Lastly, the investment company *Tockha Opor* is responsible for the collection of bids from individuals.

The Auction Center complies with the latest regulations of the Central GKI on the time limits, procedures, function and organization of auction centers. The three bodies are conveniently located in downtown Samara.

#### BID CENTER NETWORK

There are 38 bid centers in the Samara region: 4 are located in Samara and 34 throughout the region. There are, however, 44 rayons (administrative districts) in Samara Oblast – hence while the coverage has been good it has not been exhaustive.

All the bid centers in areas of the region are based on the regional and municipal Property Funds and Committees. The two biggest bid centers in Togliatti and Syzran are financed from the revenues of the 5%/10% percent cash auctions that they hold. The other bid centers are not financed by the Property Fund of the region.

At various voucher auctions up to 90% vouchers is accepted by either the Prima Bank (if bids come from legal entities) or by *Tockha Opory* (if bids come from individuals).

### PUBLIC INFORMATION CAMPAIGN

In general, the public information campaign that existed in the Samara region before VASG's relationship with the oblast authorities was well developed.

The public information campaign in the region has concentrated on maximum coverage of the population, rather than on a variety of advertisements. The priority has been to ensure that the whole of the local population has been apprised of the basic facts and issues concerning privatization: blanket coverage and a degree of repetition, rather than variety, was judged the most effective way of achieving his goal.

TV and radio ads were placed on the state channel and aimed at broad sections of the population. These same ads were repeated on commercial TV and radio stations known to be popular with younger people and representatives of the business community. These commercial channels were also used to relay the advertisements to those parts of the region where the reception of state television is poor.

Since the advertising of voucher auctions in the region was quite efficient, VASG did not concentrate its work on this aspect of the program – reserving its energies instead for the more fundamental issues on the supply side discussed above. However, VASG did recommend that two additional programs be included in the advertising schedule:

- An information program discussing general issues to do with privatization. (5 minute segment, daily)
- A more detailed feature on specific issues, to be aired as a part of the popular program *Reporter*. (Ten minute segments broadcast twice a month).

VASG also recommended that additional advertisements on Voucher Auctions be placed in five local newspapers. Financing for these was included aid budget:

- The bulletin of the Property Fund in the newspaper *De/lo*, a regular publication of the Property Fund covering privatization;
- *Samaraskiye Izvestiya*, a newspaper with a broad readership in Samara and in the region;
- *Ploshad Svobody*, the most popular periodical publication in Togliatti (the region's second largest city);
- *Gubernskiy Vestnik*, a publication with a broad readership among the middle aged and the elderly;
- ABV, the business paper of the Povolozhye region sold in major cities of the Volga region, not just Samara.

A total of R22.8 million rubles was allocated from VASG's regional disbursement budget to support public information in the region.

### LEGAL ISSUES

Prior to VASG's visits to the region the following were the most significant legal irregularities:

- Voucher Auctions of share packages less than 29%;



- Automatic reservation of 20 percent of the charter capital as regional property; thus restricting other allocations
- General failure to comply with the requirement that 80% of share capital be sold for Vouchers

These violations originated in decisions adopted by the local Soviet of People's Deputies. Of particular note was the passing of irregular local legislation requiring vouchers should have been used to pay for up to 70% share capital in Federally-owned property and only 35% regionally-owned property. This legislation sought to maximize revenues for the regional budget, and drove the regional privatization authorities to reserve large share packages to cash auctions.

After VASG's support to the region no less than 29% was ultimately offered for voucher auction; the practice of automatically reserving 20% of share to the state consequently stopped. Following October's events in Moscow and the subsequent dissolution of the Soviets, the offending legislation was ignored by the privatization authorities.

At the present Samara region conducts privatization in full compliance with the effective Federal legislation.

#### ALL-RUSSIAN AUCTION SYSTEM

*Tockha Opor* acted as the agent for the National Coordination Center for national and inter-regional auctions.

However, for the sale of VAZ (Volga AutoZavod) the enterprise acted as its own agent. Shares worth 5,890 million rubles (27.5% of total charter capital of 21,417 million rubles) were offered for sale between 17 January and 6 February, 1994. A total of 841,368 vouchers were collected, at an auction rate of 7.0 shares per voucher.

In addition, the following enterprises were sold through inter-regional auction:

- JSC *Shar* (Charter Capital R462 million; share capital sold: R134.2 million [29%]. 41,969 vouchers were collected at an auction rate of 3 shares per voucher. Auction dates 22 October, 1993 to 19 November, 1993);
- JSC *Plastik* (Charter Capital R672 million; share capital sold: R194.8 million [29%]. 32,429 vouchers were collected at an auction rate of 6 shares per voucher. Auction dates 27 December, 1993 to 14 January, 1994);
- JSC *Novokuybyshevski*, no auction results are available at this point.

#### CASH AUCTIONS

Before VASG's support to the region only two 5% cash auctions had been held, at which the shares of 19 enterprises were offered. Indeed, the Regional Property Fund was skeptical about whether 5% cash auctions could seriously cover the expenses associated with Voucher Auctions. As discussed above, irregular cash auctions were being held at this time, and the 5% packages were usually included in additional lots at these auctions.

VASG drafted a schedule of 5%/10% cash auctions to include all enterprises that have passed through Voucher Auctions. Consequently, 5%/10% cash auctions began to be held on a regular basis – usually once every two weeks.

By early June, 14 5%/10% cash auctions had been held, at which the shares in 90 enterprises were sold. The revenue totaled R336,148,793 – representing revenue of 487 rubles per voucher retired at voucher auction. This exceeded the marginal costs of the voucher auctions.

#### FINANCIAL AID TO THE REGION

VASG drafted a budget that recommended that R55,912,400 be advanced to the region. In accordance with the disbursement procedure developed by Bain & Company and GKI, these funds were remitted in two stages.

These funds have all been duly accounted for and were used in accordance with the budget.

#### POST-PRIVATIZATION ISSUES

The market for financial services in Samara is booming. Besides local companies and banks (in particular Prima bank and *Tockha Opori*), the region hosts affiliates and offices of firms and banks from other regions including Moscow.

The Property Fund is playing an active role in shareholder meetings, and a section has been established within the Fund for representing the retained state interest in enterprises. Unsurprisingly, the main issue of note at the initial shareholder meetings is the election of the General Director and the members of the Board.

VASG organized and participated in a seminar in the region to discuss the issues of shareholder rights and the maintenance of share registries. There are multiple providers of share registry services in the region, including the Samara subsidiary of Incombank and Prima Bank.

#### CURRENT ISSUES

Ongoing priorities in the region include the conduct of cash auctions and investment tenders under the terms of the latest Privatization Program. This should include the establishment of adequate inventorying systems to ensure the efficient tracking of all enterprises subject to privatization

## SARATOVSKAYA OBLAST: FINAL REPORT

## AUCTION RESULTS

Saratov region was very progressive in holding voucher auctions and VASG assistance concentrated on ensuring that the high standards of the region remained consistently high even when problems arose.

Key Indices	Total for 1993-1994	Before VASG Arrival	During VASG Work
Number of Enterprise	188	67	121
Number of Lots	282	99	183
Charter Capital	8,209,576,000	3,030,980,000	5,178,596,000
Offered for Sale at SVA	2,417,708,000	720,593,000	1,697,115,000
Percent of the Charter Capital	29	23.77	23.77
Sold at SVA (Rb)	1,971,759	672,551,000	1,299,208,000
Percent of the Charter Capital	24	22.19	25.08
Vouchers Collected at SVA	871,679	463,618	408,061
Auction Rate	2.26	1.45	3.18

18,856 vouchers have been collected through ARAS and inter-region SVA in the Saratovsky region.

Voucher Collection Method	Number of Vouchers
Through SVA	871,679
By Closed Subscription	403,498
By Other Methods	204,630
Total	1,479,807

12 investment tenders have been held.

Winners in 11 tenders were Russian investors, including 9 enterprises of the Saratovsky region, the most famous winner of a tender was the British company BAT Industries PLC, which won a tender for sale of 214,260 shares (20.18% of charter capital) of Saratovsky Tobacco Factory (the charter capital is R51,110,000).

## ENTERPRISE PIPELINE

Pre VASG

The region was selling many enterprise but did not have a schedule agreed between the Fund and the Committee which made planning auctions difficult and developing infrastructure near impossible.

Post VASG

The voucher auction schedule in the Saratovsky region envisioned the sale of 38 JSCs with a total charter capital of R3,389,144,000 from October 1993 till January 1994. The capital offered for sale amounted to R362,529,000 –10.71% of the charter capital. This low percentage was caused by repeat sales of enterprise shares and by special privatization regulations for enterprises of the fuel producing, oil processing and oil product manufacturing industries.

52 enterprises with a total charter capital of R4,207,580.000 and a capital for sale of R376,539,000 were sold.

The voucher auction schedule in the Saratovsky region compiled for a second financial agreement of February 7, 1994 envisioned the sale of 78 enterprises. The capital for sale was to be R1,311,574,900 out of a total charter capital of R5,887,844,000 (22.28%).

This voucher auction schedule has been implemented by the Fund.

#### AUCTION CENTER

##### Pre VASG

In March 1993 Price Waterhouse helped set up the regional auction center. Originally the role of general contractor had been performed by the Saratovsky Stock Exchange, which refused to prolong the contract for 1994.

##### Post VASG

VASG consistently lobbied for improvements in the operation of the auction center to bring it into line with Ordinance 1730 of the GKI. The refusal of the Exchange to continue acting as contractor was an opportunity to implement a better quality process. The Fund took this opportunity and worked with VASG to set up a model auction center.

A flexible working schedule was arranged for center personnel and their salary was raised. The auction center staff is highly qualified. There is now also much better public information available within the center.

#### BID APPLICATION CENTER NETWORK

##### Pre VASG

There were 23 bid centers set up based on the city and region Committees for property management and Fund's branches-- the disadvantage of these was that they were not incentivized to collect as many vouchers as possible as they were not paid on a per voucher basis. In addition there were fewer centers than there were rayons in the oblast so centers were remote from some populous areas.

##### Post VASG

VASG helped create an effective voucher collection system by establishing 115 bid centers in all districts of the region (the total number of districts is 38). 36 bid centers are opened at *Sberbank's* branches and 36 at local post offices. Bids are also accepted at the auction center, rayon Committees for property management (38) and two commercial banks. Two bid centers were set up by investment intermediaries.

The key role is that of the rayon Committees for property management. They collect the vouchers from local contractors and deliver them to Saratov.

Remuneration is on a per voucher basis; the Committee for property management receives an additional R100 per voucher for the transportation of the vouchers to Saratov. The cost to the fund is 500 Rubles per voucher which is considerably less than the previous fixed cost system.

#### INFORMATION CAMPAIGN

Pre VASG

The Fund was quite open to assistance in advertising the process but minimized their own expenditure. The Fund only issued the statutory minimum notices but welcomed Sawyer Miller who organized a "privatization day" in Saratov.

Post VASG

VASG used the financial lever to boost the information campaign. This has been quite successful and now all forms of media are used in attracting investors.

The information campaign includes two TV commercials aired every day.

Adverts are aired on the radio twice a day.

LEGAL QUESTIONS
-----------------

Pre VASG

There were a series of legal violations in Saratov:

- failure to abide by Ukaz 1229- 80-% for vouchers
- auction center violations
- processing delays

Post VASG

Infringements of privatization legislation noted by VASG have been removed. Work of the Fund and Committee now complies totally with GKI RF requirements. VASG prepared significant local legislation to improve the auction process locally:

- Regulation #70 of February 8, 1994 by Head of the region Administration "On State Privatization Program Performance";
- Letter by the Committee and Fund "On Development of Voucher Collection System";
- Order #122-p of January 31, 1994 by the Committee "On Offering Assistance to VASG in Preparing of SVA Schedule Till June 1994";
- Order by the Fund "On Procedure of Processing Privatization Cases in the Fund's Branches".

ALL-RUSSIA AUCTION SYSTEM
---------------------------

Pre VASG

The regional Property Fund sold two enterprises: *Khimvilokno* (chemical fiber plant) from the city of Engels (the charter capital is R629,232,000 with 157 308 shares for sale, which is 25% of the charter capital) and *Volgomost* (the charter capital is R141,732,000 with 41,103 shares for sale, which is 29% of the charter capital) through ARAS during 1993.

Post VASG

The Property Fund became more active in inter-region and ARAS voucher auctions. VASG's schedule for March -May 1994 offered for sale 5 large joint-stock companies with a total charter capital of R4,068,424,000 with capital for sale amounting to R911,419,000 (22,4%). Among these enterprises were *Kreking* JSC (charter capital of R997,349,000) and *Nitron* (charter capital of R876,711,000).

CASH AUCTIONS
---------------

Pre VASG

The region did not have a schedule for cash auctions.

Post VASG

5% and 10% cash auctions are now held within four or five weeks of auction results. Cash auctions at 142 enterprises have been completed. Total revenue was R449,827,666, and revenue per voucher redeemed through auction was R568.

<b>FINANCIAL AID ALLOCATION</b>
---------------------------------

VASG was able to recommend a financial agreements with Saratov. In October R43,817,000 in two parts - R29,212,000 and R14,605,000 respectively was approved.

<b>POST-PRIVATIZATION QUESTIONS</b>
-------------------------------------

An effective stock market structure has been created in the region. The local privatization bodies developed and submitted to GKI RF suggestions on post-privatization support of enterprises.

<b>CURRENT PRIORITIES</b>
---------------------------

VASG believes technical assistance will be required by the region in resolving the following problems:

- share holder meetings;
- share registers;
- JSC management procedures;
- formation of the secondary securities market infrastructure.

## TOMSK REGION: FINAL REPORT

## TRIP DATES

January 17-20, 1994  
 February 9-11, 1994  
 April 4-7, 1994  
 June 6-9, 1994

## AUCTION RESULTS

VASG was instructed to travel to Tomsk region by GKI Ordinance No.1 of 1994. The ordinance was designed to ensure that the voucher auction of Tomskneft would be available to all citizens in Russia through the ARAS and that there would be sufficient local infrastructure in place to handle the sale.

VASG was able to ensure the successful sale of Tomskneft on ARAS and also to work with the regional authorities to expand their pipeline of enterprises which would be sold through voucher auction.

	Total in 1993-1994	Prior to VASG visit	Post VASG involvement
Number of companies	99	74	25
Charter Capital (000s R)	9,080,844	2,973,221	6,107,623
Submitted to VA (000s.R.)	1,839,706	713,842	1,125,864
Percent of Charter Capital	20.26	24.01	18.43
Charter Capital, sold	1,767,912	669,661	1,098,251
Percent of Charter Capital	19.47	22.52	17.98
Vouchers collected at VA	1,350,646	187,956	1,162,690
Auction rate (th.r./voucher)	1.31	3.56	0.94

The voucher auction for Tomskneft was held as instructed between February 7 and 28th 1994. 18.25 percent of Tomskneft company shares were sold (with a charter capital for sale of 1,027,295,000R: total Charter Capital equals 5,629,014,000R). The auction was a major success; 1,147,430 vouchers were retired at an auction rate of 875 rubles per voucher.

Vouchers Analysis

Vouchers collected in the region through ARAS:

Companies in other regions:	6,472
Tomskneft joint-stock company	1,147,430
• including in Tomsk Region	206,296
• in other regions	941,134
Closed subscription	159,970
Other means	56,716
<b>Total Vouchers collected in the region</b>	<b>1,573,804</b>

**ENTERPRISE PIPELINE**

Privatization in Tomsk region was significantly complicated because of the very high dependence on the oil and energy industry. The special procedures relating to the privatization of these companies required extra work and took longer than preparation of non-energy sector companies. This resulted in the region accelerating the preparation of non energy companies, leaving the most difficult for last.

As a condition of financial aid, VASG developed a pipeline from February to the end of June covering all the enterprises which had not sold the 80% minimum for vouchers. This schedule was for the period between February 14 and June 6, 1994, covering 60 companies with a total Charter Capital of 9,187,536,426 rubles. The share package to be submitted to voucher auctions totaled 1,730,516,300 rubles, or 18.84 percent of the Charter Capital. These numbers are distorted by the disproportional importance of Tomskneft.

VASG assisted in drafting and in the signing of Ordinance No.23 of January 20, 1994, signed by the Tomsk Region Governor on compliance with Instructions No.1-r of January 4, 1994, issued by RF GKI Chairman, A. Chubais. VASG proposed and drafted a letter from the Head of the Oblast GKI to the regional finance department on speeding up registration of joint-stock companies

**AUCTION CENTER**Prior to VASG visit

The Regional Auction Center was set up with IFC involvement. The Property Fund had contracted the Aurum company to manage the receipt of bids through the auction center. The auction center was of a good size and well laid out. Unfortunately, the IFC financing policy which did not reward for performance, had allowed the contractor to become spoilt and expect a very high price for their services.

Post VASG

Aurum also refused to comply with RF GKI requirements on auction center requirements, and consequently the Property Fund canceled the contract and assumed management of the Auction Center. The Center is now a subdivision of the Fund, and uses new premises.

The Auction Center now employs 6 people, all of whose contracts end July 1994. The auction center receives vouchers and bids, cancels vouchers, files data on submitted bids and vouchers, notifies winners and losers, and returns vouchers on losing bids.

**BID RECEPTION NETWORK**Prior to VASG visit

Three bid reception centers were operating.

Post VASG

One of the biggest successes of VASG in Tomsk region was in the opening of bid centers in the region. VASG conducted negotiations which resulted in drafting and signing agreements between the Property Fund and the Savings Bank, Promstroibank and the rayon GKI on opening bid centers for the period of Tomskneft joint-stock company voucher auction. The agreements were for a per voucher fee to contractor banks of 200 rubles. The bid reception network included 93 local Savings Bank branches and departments, 13 Promstroibank branches and 5 regional GKI. There were therefore 111 operating bid



centers. VASG and the Property Fund have developed a mechanism on filing all data about received bid, and the mechanism for mailing bids and vouchers.

#### PROMOTION CAMPAIGN

##### Prior To VASG Visit

Despite having a very talented employee handling their public information, the Property Fund would place only standard announcements in *Reforma* bulletin and *Tomsky Vestnik* newspaper.

##### Post VASG

VASG was able to ensure that a full range of advertising options was used by the regional Fund. VASG was able to ensure that a budget was approved for promotional activity within the RF GKI aid package. The amount allocated to advertising was 32,999,910 Rubles.

Voucher auctions were promoted on:

- Russia's national radio channels and local radio stations;
- Russia's national and local TV stations;
- *Krasnoye Znamya*, *Tomsky Vestnik*, *Narodnaya Tribuna* dailies and local publications;
- flyers, distributed through the local Post Office system;
- billboards, installed in the city's busiest areas.
- cinema commercials

The promotion campaign focuses on the potential of the voucher auctions and their procedure; all advertisements provided addresses of local bid reception centers.

#### LEGAL ASPECTS

##### Prior to VASG visit

Tomsk region basically abided by the laws on voucher auctions. The one area where they fell down was in compliance with Decree 1229 on the sales of 80 percent of company stock for vouchers.

##### Post VASG

VASG and the Property Fund carried out an analysis of the auction process and those companies where there had not been 80% sold for vouchers- on the basis of this an auction schedule was drafted, which provided for repeat company sales at voucher auctions between February 14 and June 6, 1994.

#### ALL-RUSSIA AUCTION SYSTEM

##### Prior to VASG visit

The region was never involved either as an agent or as a supplier of assets in ARAS. Indeed the region's position vis a vis the national auction system was that it was not in the interests of the region.

##### Post VASG

The Property Fund is now participating in ARAS as an agent and seller.

Submitted to ARAS are:

Company	Closure Date	Charter Capital	Submitted to VA
Tomskneft	28/02/94	5,629,014	1,027,295 (18.25%)
Tomsk Chemical Plant (29%)	06/06/94	1,009,954	292,886

The auction of Tomskneft was amongst the most successful ARAS auctions in terms of numbers of vouchers received. Regional officials in Tomsk are now very proud of this and of their participation

#### CASH AUCTIONS

	Total in 1993-1994
Number of auctions	87
Total revenue (r.)	578,414,709
Revenue per one voucher (r.)	439.90*

\* adversely affected by there being no cash auction for Tomskneft

#### Prior to VASG visit

Perhaps owing to the liberal financing policy of the IFC, the Property Fund never devoted enough attention to the 5-percent cash auctions and underestimated their significance in supporting voucher auctions. Prior to VASG's visit the stock of only 15 companies had been sold at 5-percent cash auctions with revenue totaling 30,156,516 rubles.

#### Post VASG

Cash auctions are now held on a regular basis after the end of the voucher auction and the backlog has been made up. 87 cash auctions have now been held and 95% of the revenue received at cash auction has been received since the visit of VASG.

#### FINANCIAL AID DISBURSEMENT

#### Pre VASG

Tomsk region had been the beneficiary of significant financial aid received through the IFC.

#### Post VASG

VASG used financial aid as a lever to force the region to implement those recommendations which clearly meant an increase in spending or better adherence to good practice. VASG recommended rendering financial aid to the region and drafted budget of spending.

This budget totaled 65,119,910 rubles and was approved on January 24, 1994.

#### POST-PRIVATIZATION ISSUES

The significant number of non-local shareholders for the Tomskneft company is a serious problem for the Tomsk Region. Tomskneft has concluded an agreement with a third party registry. Yet, to maintain contacts with and distribute dividends to non-local shareholders, the issue of involving the Savings Bank is being discussed. This again reflects the lack of a coordinated national banking system

#### CURRENT PRIORITIES

VASG believes that it is necessary to render methodological and technical assistance to the Tomsk Region's privatization agencies on the following issues:

- organization of shareholder meetings;
- maintenance of share registers and setting up third party registries;
- joint-stock company management; and
- setting up the infrastructure for the secondary securities market.

## TULSKAYA OBLAST: FINAL REPORT

## TRIP DATES

October 12-23, 1993  
 December 6-23, 1993  
 March 3-6, 1994  
 April 12-21, 1994  
 June 9-10, 1994

## AUCTION RESULTS

Tula region was amongst the progressive in privatization- although they encouraged many enterprise directors to privatize, they were not overly supportive of voucher privatization and did not follow law in all cases and actually believed that enterprise that could find foreign partners were better off avoiding voucher auctions in favor of investment tenders. VASG traveled to Tula at the request of Central GKI to determine the situation in the region and establish what could be done to bring the region more into line with national policy.

## Property Sold:

	Total For '93-'94	Before VASG	During VASG
Number Of Enterprises	175	41	134
Number of Lots	181	44	137
Charter Capital (R MM)	9,085.5	4,357.5	4,727.0
Offered at Auction (R MM)	1,762.8	743.0	1,019.8
Percent Total	19.0%	17.1%	22.0%
Sold at Auction (R MM)	1,609.3	718.5	890.7
Percent Total	18.0%	16.5%	19.0%

## Vouchers Collected:

	Total For '93-'94	Before VASG	During VASG
Vouchers Collected @ VA	497,876	198,701	299,175
Auction Rate	3.00	3.62	2.98

## Overall Figures:

	Total For '93-'94
By Voucher Auction	497,876
By Closed Subscription	381,507
Other Methods	131,024
Total	1,010,407

A total of 6 investment tenders has been held in the region selling share packages of various enterprises. An investment tender was held on September 2, 1993 to sell Yefremovski Zavod (CC R91,795,000) The German firm Kauchuk Gezelschaft won the tender with an investment of DM1,480,000

Procter and gamble won one of the highest profile investment tenders held to date in Russia when they purchased just over 14% of NOVOMOSKOVSKBYTKHIM (CC R275,660,000;) The investment promised was \$50m.

## ENTERPRISE PIPELINE

The Voucher Auction schedule in Tula provided for the sale of 192 JSCs with a total CC of R7,435,486,000 between November 1993 and the end of April 1994. The charter capital offered for sale was R1,4222,241,480 or 19.3 percent of the total Charter Capital of the offered enterprises. The size of the share package offered for sale is explained by repeat

sales of shares of enterprises previously offered for Voucher Auction (74 enterprises) and special procedures for privatizing the chemical sectors.

This aggressive auction schedule was reasonably well implemented by a region who previously had been slow to implement voucher auctions. Between November 10, 1993 and March 29, 1994 shares of 68 JSCs with a Charter Capital of R1,169,155,000 and R305,945,000 (26.16 percent of Charter Capital) offered for sale. The average auction rate was 4.66.

VASG assisted the Fund in drawing up and having endorsed an auction schedule covering the period between March 2 and June 3, 1994. It covered 59 enterprises with a total Charter Capital of R2,203,771,000. Shares worth R600,313,000 were slated for sale.

#### AUCTION CENTER

The operation of the Auction Center meets the operating requirements of GKI except in opening hours. The Auction Center is staffed by 2 Fund employees and several contractors. The management of the auction center and security in storing vouchers is provided by an investment company TULAGRINVEST. Under an agreement between the Fund, TULAGRINVEST and local Property Committees, the latter collect vouchers. Under the agreement they are guaranteed a fee of R300 for every voucher they collect.

#### BID CENTER NETWORK

Before VASG arrived in the region, there was only one permanent bid center: the Auction Center. The other bid centers were opened at enterprises whose shares were offered for VAs.

VASG argued that the bid center network be expanded. This was a condition of VASG allowing the region to sign a cooperation region. There are now 24 bid centers (23 in all oblast rayons and the Auction Center) - additional bid points continue to be opened at privatizing enterprises on an ad hoc basis. A mobile bid center has just been established. Two minivans have been allocated by the Fund for this. The aim is to try to ensure that the population of remoter areas has the opportunity to invest.

#### PUBLIC INFORMATION CAMPAIGN

Before VASG arrived, the advertising campaign was restricted to publication of legal notices about Voucher Auctions. There has been a significant improvement in the attention paid to generating publicity. The local press now carries more information than just the legal notices about auctions and the schedule until the end of June, 1994. VASG assisted the Fund in concluding an agreement with the local TV and Radio Company for the broadcasting of two advertisements each day, organizing round table discussions on radio and TV. Voucher Auctions and the Auction Center are advertised by an electronic teletext display mounted on a high-rise building in the center of town. The Fund is about to publish a brochure about privatization.

Overall expenses for advertising amounted to R32,869,594.

#### LEGAL ISSUES

There were several legal irregularities in Tula region. Most notably, the region had a tendency to:

- offer less than 29% of enterprises at voucher auction (Ukaz 640)
- sell less than 80% of shares for vouchers (Ukaz 1229)
- retain a stake of 20% in enterprises (to assist in managing or in search for investor)

VASG was able to force compliance with the law in Tula through using the "tied aid" lever. The auction timetable that was drawn up was fully in compliance with the above named laws.

#### ALL-RUSSIAN AUCTION SYSTEM

Four enterprises of the region were sold at National Voucher Auction. Each of these has a Charter Capital of more than R250,000,000:

- the Tula Arms Factory,
- the Tula Combine Harvester Plant,
- the Tula Machine-building plant, and
- SHEKINAZOT.

The total Charter Capital of these enterprises is R1,245,090,000 and shares worth R277,223,000 (15.20 percent) were offered for sale. The largest was the Tula Arms Factory with a Capital of R406,867,000.

#### CASH AUCTIONS

Tula region has underperformed on holding cash auctions and did not recognize the potential that they offered. VASG analysis showed that 5(10) percent cash auctions have been completed for 54 enterprises. Total revenues from 5(10) percent cash auctions have amounted to R334,996,070. Revenue per voucher invested amounts to R1,297.55. This number has been on the decline since December when it was R1,632.00. As is common in many regions there is a lot of effort involved in actually receiving the monies pledged at cash auction. The prices are always significantly higher than the deposits and therefore in some cases investors prefer to renege and forfeit the deposit. By April 25 agreements had been reached on only 39 enterprises and revenue of R266,703,800. This was the region's explanation for avoiding holding too many cash auctions. Additionally, the per voucher rate is high enough that Tula had to worry less about revenue than many regions.

#### FINANCIAL AID DISBURSEMENT

The GKI cooperation agreement agreed that R73,476,300 be paid in two stages to the region to develop the auction center, a bid center network and the publicity campaign.

VASG attempted to ensure compliance with the auction timetable by setting strict conditions for the release of the second stage of financing. These terms were that at least 45 percent of vouchers be collected in the region and that at least two major enterprises be sold through the national auction system.

#### POST-PRIVATIZATION ISSUES

Relative to other regions, there is a working stock exchange in Tula region and the largest companies do have access to a quotation for their shares. The local privatization bodies have sought GKI support for enterprise restructuring proposals. The region is considering establishing a financial-industrial group.

Shareholder meetings are proving to be a significant logistics problem for the region. Agendas are poorly prepared and the result is that meetings degenerate into disputes between various interest groups discussing labor discipline, supplies, social problems, etc.

#### CURRENT PRIORITIES

VASG believes that in common with other regions technical assistance is likely to be needed by the privatization agencies in Tula in resolving the following issues:

- shareholder meetings;
- share registers;
- JSC management;
- formation of the infrastructure for a secondary securities market

## REPUBLIC OF UDMURTIYA: FINAL REPORT

## TRIP DATES

13-15 July, 1993  
28-31 March, 1994  
10-12 May, 1994

## AUCTION RESULTS

VASG first visited the Republic of Udmurtiya as one of a series of regional diagnostic trips in the summer of 1993. It was clear then that there was no political commitment to the voucher auction programme – indeed at that point there had been no voucher auctions and the Republican Supreme Soviet had suspended the programme until at least the Fall. VASG continued to monitor the lack of progress in the region, and finally returned to the Republic – accompanied by D.V. Vasiliev of the GKI – in late March. After this date there was a late spurt of auction activity, but the Republic has obviously performed well below the average for the Federation. That any auctions at all have been held is a better result than seemed likely in the summer of 1993, however, the GKI should continue to monitor the progress of privatisation closely in the region, with especial emphasis on the legal irregularities that seem likely to persist.

As a result of decision of the Supreme Soviet and the Council of Ministers of the Republic voucher auctions did not begin in Udmurtiya until January 1994. Before VASG arrived in the Region in March, 1994, with the delegation led by Deputy Chairman D. Vasiliev, the Republican Property Fund had held only four voucher in 1994. These had sold shares in 9 enterprises, representing a total charter capital of 161 million roubles.

After tense negotiations in March between VASG/GKI and the senior officials of the Republican Fund and Committee, it was decided to hold regular voucher auctions until June 30 and to offer a minimum share package of 29% for sale. The figures below indeed represent the fruits of these negotiations. This commitment was conditional on receiving financial aid from the GKI

By the end of May, 1994, the shares of 53 enterprises (in 55 lots) had been sold. The total charter capital of these enterprises was 1,665 million roubles. The total share capital offered for sale was 319 million roubles (19.1%), of which 97.5%.

By 9 June, 1994, 97,892 vouchers had been collected through voucher auctions at an average auction rate of 3.2. The individual auction rates varied dramatically, reflecting the level of interest among investors; the best result was achieved for (1.7) and the worst for *Torgovy Dom Kama* (308) – where the whole package offered was purchased for one voucher. In addition, 116,012 vouchers had been collected through closed subscription, with a further 3,664 vouchers redeemed through other sales methods. The region has thus retired 217,568 vouchers or 13.3% of the 1,630,604 distributed. 194,633 vouchers have been cancelled, of which 36,015 have been destroyed.

## INVESTMENT TENDERS

Despite the predisposition of the Republican Property Fund to investment tenders as its preferred method of sale, there had (by the end of May) been a mere six conducted: poor progress on voucher auctions has not been compensated for through additional activity elsewhere in the privatisation programme.

The total charter capital of these six enterprises amounted to 606 million roubles, with the share capital offered for tender amounting to 143 million roubles (23.6%). The not unsurprising excuse for this laggard performance offered by the property fund is that it



concentrated on the quality of the investment programmes developed and attracting maximum investment. The results of three of these tenders are known, yielding a total of 6.0 billion roubles and \$US 9.0 million.

#### ENTERPRISE PIPELINE

There remain 12 enterprises scheduled for sale through voucher auction in June. The documentation of each of these is completed and has been transferred to the Property Fund.

However, by May, 1994 163 enterprises had been transformed into joint stock companies. The Property Committee has already taken the decision to privatise an additional 68 enterprises. The number of enterprises beyond this total that will still need to be corporatised is unknown, but these figures alone suggest that there is a considerable back-up of enterprises that should be sold.

Currently, the decision on the privatisation of the state enterprise *Izhmash* is being considered at the federal level. It is one of the largest enterprises in Udmurtiya; while part of its business is defense related, it is still strictly speaking subject to privatisation and sale through the All-Russian Auction System. However, the management of the enterprise has petitioned the Federal Government to except it from mandatory corporatisation and subsequent privatisation. It seems likely that this request will have been denied, but the delay has been such that the enterprise stands no chance of being privatised before the June 30 deadline.

#### VOUCHER AUCTION INFRASTRUCTURE

The following agencies are involved in the collection and processing of voucher bids in the Republic:

- The Republican Property Committee which incorporates facilities for the safe-keeping and physical destruction of vouchers
- The Property Fund, which accepts bids
- The regional depository run by Izhladabank
- Eight bid reception centers, including three in Izhevsk and five in the outlying regions (2 run by the investment companies Trustinvest and Oka; three run by local Property Committees)
- In addition, there was an outstanding commitment to establish two further bid reception points, one in the central part of the republic (Igarka) and another in the east (Votkinsk).

All bid centers are funded on an actual cost basis by the Republican Property Fund.

The headquarters of one of Russia's largest Voucher Investment Funds, the Central Voucher Investment Fund is located in Izhevsk. According to the Property Fund it has collected no fewer than 600,000 vouchers from the population in the region. However, few of these have been invested in shares in the Republic's enterprises

#### PUBLIC INFORMATION CAMPAIGN

At the time of VASG's visit in March, there had been practically no advertising for voucher auctions. The public information effort was confined to legal notices published free of charge in the newspaper *Udmurtskaya Pravda* and a half-hour segment on television in which the Property Fund Chairman and other officials appeared. This poverty of

information resulted in poor interest on the part of the population, even in those voucher auctions that had been held in the Republic.

In order to improve the effort in the remaining three months of voucher auctions, VASG drafted a schedule of aggressive advertising, that included the following measures:

- TV advertising;
- Radio advertising;
- Advertising in the local press;
- Visual advertising;

A total of 33.3 million roubles was budgeted for this campaign. Due attention was given to both intensity and scope of coverage, adopting advertisements in all media in the hope of penetrating all demographic groups within the short time remaining.

#### LEGAL ISSUES

Aside from the basic violation of not conducting voucher auctions, the following serious legal irregularities should be highlighted:

- Violations in the procedures for determining the ownership of property
- A series of restrictions on the privatisation of specific enterprises have been adopted.

The Supreme Soviet of the Republic passed an Ordinance *On the Delineation of State Property in the Territory of Udmurtiya* (No. 325-XII, dated 11 March, 1992) which contravened Ordinance No 2030-1 of the Federal Government and declared that all Federal Property should be treated as Republican Property. The net result of this illegal Ordinance has been to introduce ambiguity into the process: different agencies attribute the same property to a different level of ownership, and this has, of course, slowed the decision making process.

The Supreme Soviet of the Republic and the Council of Ministers have also passed a number of decisions, by which special terms were introduced for the privatisation of specific enterprises.

For instance, the shares of 44 enterprises listed in a Supplement to Ordinance No 855/59 of the Presidium of the Supreme Soviet and the Council of Ministers of Udmurtiya (dated 18 February, 1993), called for the balance of shares remaining after closed subscription to be reserved in state ownership. Under the 1994 Privatisation Programme such shares in enterprises in the agro-industrial complex should be sold to upstream suppliers and downstream customers at closed voucher auctions.

Again, according to decision No 123 of the Council of Ministers (dated 29 August, 1993) the privatization of 11 leasehold enterprises was irregularly suspended. Instead of privatisation this decision called for the extension of the lease arrangements.

Finally, the financial and industrial holding company Uralskiye Zavody has been constituted in the Republic. Up to 20 percent of the charter capital of several major corporatised enterprises was transferred into this holding company, with the result that the share packages available for voucher auction in the enterprises thus transferred was extremely low. No compensating package of shares – to the equivalent value of share capital – has been auctioned in the holding company itself.

#### ALL-RUSSIAN AUCTION SYSTEM

The Property fund acts as the agent of the National Coordinating Center in holding national and inter-regional voucher auctions in Udmurtiya. However, no enterprises from the Republic have been offered for sale on the All-Russian Auction System.

There was a provisional commitment by the Property Fund to sell three enterprises at inter-regional and national voucher auction: *Udmurtneft*, *Udmurtenergo*, and *Izhevski Motozavod*. The total charter capital of these three enterprises is 4,745 million roubles, of which 932 million roubles of shares (19.6%) has been slated for sale. However, since the GKI has refused to remit the second stage of the budgeted financial aid, the sale of these enterprises in accordance with this commitment is questionable.

### CASH AUCTIONS

Not a single 5%/10% cash auction had been held in the region before VASG's visit. A schedule for the sale of shares in all enterprises slated for voucher auction was duly drawn up. However, the officials at the Property Fund and the Committee refused to endorse this schedule. VASG has received no satisfactory answer to its repeated inquiries as to when the cash auctions will be held. Given the Republic's track record there is little room for optimism.

### FINANCIAL AID TO THE REGION

A budget for financial aid was drafted by VASG, conditional on the region agreeing to accelerate the schedule of voucher auctions. This budget was for a two month period and totaled 53.1 million roubles – 70% for advertising and 30% for financing the voucher auction infrastructure.

Under the first stage of the aid plan a total of 26.8 million roubles was transferred to the Republic, and receipts were duly collected for this money. Since there were marked deviations from the allocation of funds stipulated in the budget, the Central GKI has decided not to transfer the second stage of the funds. There is no guarantee that they would be used for the intended purposes.

### POST-PRIVATIZATION ISSUES

By April 1, 1994 26 investment institutions had been registered by the republican authorities. In the main these firms trade Moscow issues and engage in speculative trades of vouchers. There is a smaller number of firms that provide shareholder registration services – e.g. *Uralinvest*, *Oka*, and *Euroasiatski Depositari*.

### CURRENT PRIORITIES

The Property Fund of the Republic believes its priorities are the development of a adequate shareholder registries and the continued concentration of attention on investment tenders. The region, without question, should be carefully monitored by Central GKI as the privatisation effort continues. There is, however, little hope that track record of recalcitrance on the part of the Republic will change into one of compliance in the future.