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**INTERNATIONAL FINANCE CORPORATION
FINAL FINANCIAL AND OPERATIONAL REPORT
USAID Grant CCS-0005-G-00-2023-00
Small-Scale Privatization**

June 1995

SUMMARY OF CONTENTS

This document contains final financial report as well as summary descriptions of the International Finance Corporation's privatization-related activities in the former Soviet Union funded under USAID Grant #CCS-0005-G-00-2023-00 (funding period 5/26/92-2/28/95). Under this grant, IFC completed or initiated the following projects:

- Equipment Purchase for GKI in Russia (completed);
- Small-Scale Privatization in Russia (completed);
- Trucking Transport Privatization in Russia (completed);
- Land Privatization in Russia (ongoing with British financing);
- Small-Scale Privatization in Ukraine (ongoing with new USAID financing);
- Small-Scale Privatization in Belarus (ongoing with new USAID financing).

For each project, the summary descriptions cover IFC's design and implementation of the pilot phase; pilot results; expansion; and total results to date.

FINAL FINANCIAL REPORT

International Finance Corporation
June 1995

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International Finance Corporation
USAID Grant #CCS-0005-G-00-2023-00 Small-Scale Privatization
Grant Period May 26, 1992 - February 28, 1995
Statement of Cash Receipts, Disbursements and Grant Balance
(Expressed in US dollars)

Receipts	
Contributions	1,150,000.00
	1,600,000.00
	1,000,000.00
	900,000.00
	3,000,000.00
	1,900,000.00
Interest income	209,528.22
Total receipts	<u>9,759,528.22</u>
Disbursements	
Project disbursements	9,531,354.78
	<u> </u>
Excess of receipts	<u>228,173.44</u>
Grant balance consists of:	
Cash	18,645.22
Interest	209,528.22
	<u> </u>
Total balance	<u><u>228,173.44</u></u>

FINANCIAL REPORT

GRANT #CCS-0005-G-00-2023-00 SMALL-SCALE PRIVATIZATION

1. **Total amount:** US\$9,550,000
Starting date: 05.26.92
Expiration date: 02.28.95

2. The grant was disbursed to IFC in six sums:

US\$1,150,000 (request of 08.31.92)
 US\$1,600,000 (request of 10.05.92)
 US\$1,000,000 (request of 11.12.92)
 US\$ 900,000 (request of 01.26.93)
 US\$3,000,000 (request of 08.25.93)
 US\$1,900,000 (request of 01.14.94)

3. The final breakdown of costs by projects is the following:

Project	FY92	FY93	FY94	FY95	TOTAL
Russia GKI Equipment	78,170.50	431,877.29			510,047.79
Russia Small-Scale		1,738,991.29	282,984.32		2,021,975.61
Russia Trucking Transport		726,480.67	113,555.02		840,035.69
Russia Land		430,728.57	1,318,581.35	73,662.63	1,822,972.55
Russia Moscow Central		96,854.53	786,777.16		883,631.69
Washington Central		38,990.95	66,449.06	10,428.25	115,868.26
Ukraine Small-Scale		625,473.09	1,398,966.95	582,859.57	2,607,299.61
Belarus Small-Scale		13,500	536,744.27	149,244.71	699,488.98
Consultant Insurance		6,107.55	19,943.35	3,983.70	30,034.60
TOTAL	78,170.50	4,109,003.94	4,524,001.48	820,178.86	9,531,354.78

The breakdown of costs inside each project is the following:

RUSSIA: GKI FY 92-93

Expense category	Expended
Staff travel	44,915.79
Contractual services	21,950.10
GKI equipment FY92	78,170.50
GKI equipment FY93	365,011.40
Total	510,047.79

RUSSIA: SMALL-SCALE PRIVATIZATION FY 93-94

Expense category	Expended
Consultant salary	301,077.88
Consultant relocation, monthly allowance	92,000
Consultant travel (includes local staff salaries, office supplies, office equipment, office rent)	292,583.72
Staff travel	77,772.43
Consulting companies (Advanced Information Services)	17,150
Consulting companies (Doradca)	33,613.70
Consulting companies (Young & Rubicam)	176,001.53
Consulting companies (Bain & Link)	385,629.00
Legal (White & Case)	76,598.85
Manual	546,685.46
Equipment through Washington	22,863.04
Total	2,021,975.61

RUSSIA: TRANSPORT PRIVATIZATION FY93-94

Expense category	Expended
Consultant salary (and leave)	213,823.20
Consultant relocation, monthly allowance	35,500
Consultant travel (includes local staff salaries, office supplies, office equipment, office rent)	172,061.79
Staff travel	82,992
Consulting companies (Young & Rubicam)	150,155.31
Legal (White & Case)	67,096.16
Equipment through Washington	4,691.20
Manual	113,716.03
Total	840,035.69

RUSSIA: LAND FY93-95

Expense category	Expended
Consultant salary	308,649.88
Consultant relocation, monthly allowance	106,500
Consultant travel (includes local staff salaries, office supplies, office equipment, office rent)	132,648.07
Staff travel (in some cases includes local staff salaries, office supplies, office equipment, office rent)	272,285.52
Consulting companies (Chemonics)	45,046.34
Consulting companies (Burson Marstellar)	205,219.53
Consulting companies (Agland)	267,254.27
Consulting companies (Young & Rubicam)	45,671.00
Agrarian Institute	9,790
Legal (Chadbourne & Parks)	359,634.82
Legal (White & case)	22,009.34
Contractual services	2,757.35
Farmers' trip	42,153.38
Equipment through Washington	3,353.05
Total	1,822,972.55

UKRAINE: SMALL-SCALE FY93-95

Expense category	Expended
Consultant salary (and leave pay)	573,351.29
Consultant relocation and monthly allowance	100,000
Consultant travel (includes local staff salaries, office supplies, office equipment, office rent)	1,304,080.44
Staff travel	17,298.24
Consulting companies (PERU)	24,800
Consulting companies (Advanced Information Services)	30,957.25
Consulting companies (Warsaw Consulting)	114,563.60
Legal (Baker & McKenzie)	238,317.94
Legal (Goussev)	2,400
Manual	162,790.85
Satellite phone	38,740
Total	2,607,299.61

BELARUS: SMALL-SCALE FY94-95

Expense category	Expended
Consultant salary	142,083.38
Consultant relocation, monthly allowance	28,000
Consultant travel (includes local staff salaries, office supplies, office equipment, office rent)	225,782.69
Staff travel	16,735.70
Consulting companies (Doradca)	214,839.35
Legal (Baker & McKenzie)	24,784.35
Manual	47,263.51
Total	699,488.98

RUSSIA: MOSCOW CENTRAL FY 93-94

Expense category	Expended
Consultant salary	47,132.04
Consultant relocation	20,625
Consultant travel	9,278.19
Local operating costs (local staff salaries, office rent, office supplies, office equipment, local travel)	806,596.46
Total	883,631.69

WASHINGTON CENTRAL FY 93-95

Expense category	Expended
Consultant salary	88,087.68
Staff travel	24,231.83
Price Waterhouse audit (arranged by World Bank Trust Fund Unit)	3,548.75
Total	115,868.26

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

- a. Consultant salaries include salaries of 45 consultants (both long- and short-term, all US nationals) having worked on the projects in the course of three years.
- b. Relocation, housing and transport allowances were paid to long-term consultants living in Russia, Ukraine and Belarus. The allowances were calculated taking COLA adjustments and security issues into consideration.
- c. Consultant travel includes long- and short-term consultant travel expenses as well as local operating costs such as translation services, local staff salaries, business communications, purchase of computer equipment (see attached Equipment Inventory), apartment rental, local staff travel. These costs were accumulated in the consultant travel category because of internal IFC accounting system constraints concerning cash transactions in Russia.
- d. Staff travel includes the travel expenses of IFC Europe Department staff who worked on the project - Anthony Doran, Gretchen Wilson, Roberta Feldman, as well as trips and travel expenses of other IFC staff members from the legal, corporate relations and engineering departments assisting in the implementation of the projects.

Travel expenses of staff members include local operating costs such as translation services, local staff salaries, business communications, local staff travel and salaries. These costs were accumulated in the staff travel category because of internal IFC accounting system constraints concerning cash transactions in Russia.

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

<i>Company</i>	<i>Area</i>
Advanced Information Services	privatization
Doradca	privatization
Young & Rubicam	public relations
Bain Link	privatization
White & Case	legal
Chemonics	agricultural privatization
Burson Marstellar	public relations
Agland	agriculture
Chadbourne & Parke	legal
PERU	privatization
Warsaw Consulting	privatization
Baker & McKenzie	legal

- f. Moscow central office was set up in the course of implementation of projects. Expenses incurred include local staff travel, local legal companies, local travel, equipment and other operating expenses.
- g. Washington coordination aspect includes consultants working on the project in Washington (as of now 1 Russian, 2 US national). It also includes equipment bought through Washington and sent to the field and transferred, together with the equipment bought locally, to local authorities when the work was finished (see attached Equipment Inventory).
- h. Consultants' Insurance consists of the health insurance contributions for long-term consultants.
5. The staff members directly involved in the projects made a contribution of 391 staff-weeks which is the equivalent to \$3,881,000.

Project	Name	Days	Contribution
Russia: GKI Equipment	Shapiro	34	68,000
	McFayden	20	40,000
	Aston	13	26,000
	Nicholson	10	20,000
Russia: Small-Scale	Jones	32	64,000
	Jungreis	5	10,000
	Segal	8	16,000
	Doran	230	460,000
	Feldman	6	12,000
Russia: Trucking	Jones	7	14,000
	Kasrai	10	20,000
	Bakaleinik	32	64,000
	Wilson	607	1,214,000
	Doran	118	236,000
Russia: Land	Wilson	70	140,000
	Doran	220	440,000

	Hechl	45	90,000
	Segal	6	12,000
	Cobban	4	8,000
Ukraine: Small-Scale	Feldman	260	520,000
	Jungreis	7	14,000
Belarus: Small-Scale	Feldman	164	328,000
Washington Central	Garama	21	21,000
	Tetley	22	44,000
TOTAL		1,951	3,881,000

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

6. A detailed breakdown of expenses is available. The account where the US\$9,550,000 was managed, was audited in November 1993 and November 1994 by Price Waterhouse according to the World Bank internal auditing procedures. In addition, Ernst & Young was retained at IFC's expense to analyze various aspects of the USAID grant financial management. As a result of the audit it was brought to IFC's attention that OMB regulations do not allow first class travel (while previous IFC policy allowed IFC staff to travel first class). For the period when first class travel was booked against USAID grant (July 1992 to November 1993), the total difference between first class and business class travel was \$42,539.42. To make up for first-class travel the expenses in the amount of \$42,539.42 (Mulholland's salary - \$21,000 and Belarus local costs in February) were charged to CEMD3 budget. Results of the audits are available upon request.

**LIST OF IFC STAFF MEMBERS AND CONSULTANTS
DIRECTLY INVOLVED IN THE PROJECT¹**

Consultants

Russia: Small-Scale

Tokolish, John
Montz, Dennis
Junker, Diane
Dietze, Jane
Saunders, Will
Lozansky, Tania

Russia: Trucking

Bunker, William
Easter, Kristen
Hulst, Nina
Krupka, Katherine
Valentine, Janine

Russia: Land

Bigman, Alan
Fair, Rebecca
Nighswander, Jonathan
Birman, Igor
Lerman, Zvi
Meshoyer, Bobbie
Greening, Christopher
Poletti, Ann
Dietrich, Derek
Breen (Gorodentsev), Cathy
Rozanski, Mark

Russia: Moscow Central

Brownell, Jonahanna
Robinson, Duncan
Edwards, Pearse

¹ After finishing to work on a project some consultants moved on to other projects.

Ukraine: Small-Scale

Feldman, Roberta
Henson, Alica
Lee, Jane
Savyckyj, Dan
Jagerson, Wendy
Austin, Dean
Foresman, Robert
Wojcickyj, Switlana
Balcerowicz, Leszek
Gajewski, Leszek
Siwicki, Jacek
Kuzbik, Krzysztof
Kuznir, Roma
Gordin, Anna

Belarus: Small-Scale

Gordin, Anna
Wetzler Nadia
Lawrence, Julie
Cully, Michael

Washington Central

Miller, Stephanie
D'Angelo, Dean
O'Clery, Zhanna

IFC, Russia Department Staff

Doran, Anthony
Gale, Roger
Feldman, Roberta
Wilson, Gretchen
Bakaleinik, Joseph
Garama, Dianne

Staff of other IFC Departments

Shapiro, Alan
McFadyen, James
Aston, Melville
Nicholson, William
Kasrai, Bibi
Jones, Kirby
Jungreis, Patricia
Segal, Jeanne
Hechl, Tomas
Tetley, John
Cobban, Ewen

Equipment Inventory

<i>Inventory Number</i>	<i>Item of Equipment</i>	<i>Stock Number</i>	<i>Project</i>	<i>TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	Printer HP LaserJet III	304892	Small-Scale	directly charged to Trust Fund, purchased in Washington		\$ 1,908	Central (Moscow)
2	Trident 386 SX Computer,	039277	Small-Scale/ Transport	Easter, 14779	02/24/93	\$2,250	Large-Scale (Moscow)
	including Trident Keyboard	33920417					
	including Trident Back-up						
3	Trident Back-up (Russian)	766	Small-Scale/ Transport	Easter, 20674	05/21/93	\$270	Large-Scale (Moscow)
4	Trident 386 SX Computer	20156697	Small-Scale/ Transport	Easter, 20674	05/11/93	\$2,375	Central (Moscow)
	including Trident Keyboard	33920144					
	including Trident Back-up						
5	Printer HP LaserJet IV	JPBVO236 17	Small-Scale/ Transport	Easter, 14779	03/16/93	\$2,425	Central (Moscow)

6	Macintosh LC II Computer	7150641	Small-Scale/ Transport	Easter, 14779	04/04/93	\$3,485	Central (Moscow)
	including Macintosh Keyboard	MI243EJW 03N					
7	Macintosh Back-up (Russian)	785	Small-Scale/ Transport	Easter, 20674	05/21/93	\$270	Central (Moscow)
8	Trident 386 SX Computer	039387	Small-Scale/ Transport	Easter, 20674	05/11/93	\$2,375	Central (Moscow)
	including Trident Keyboard	33920174					
	including Trident Back-up						
9	Safe "Sentry 1400"		Small-Scale/ Transport	Easter, 14779	02/22/93	\$425	Central (Moscow)
10	Printer HP LaserJet IIIp	3102JA15 VN	Small-Scale	directly charged to Trust Fund, purchased in Field Office	07/07/92	\$1,878	Large-Scale (Moscow)
11	IBM PS2 Model 40 Computer	304133	Small-Scale	directly charged to Trust Fund, purchased in Washington	signing date, 09/08/92	\$2,288	Land (Moscow)
	including IBM PS2 Display 8512	304186					
	including IBM Keyboard	3768722					

12	Back-up 600	W9208359 27	Small-Scale	directly charged to Trust Fund, purchased in Washington		\$251	Land (Moscow)
13	IBM PS2 Model 40 Computer	304147	Small-Scale	directly charged to Trust Fund, purchased in Washington		\$2,288	Central (Moscow)
	IBM PS2 Display 8512	304167					
	IBM Keyboard	2022325					
14	Back-up 600	W9208542 75	Small-Scale	directly charged to Trust Fund, purchased in Washington		\$251	Central (Moscow)
15	IBM PS2 Model 40 Computer	304135	Small-Scale	directly charged to Trust Fund, purchased in Washington		\$2,288	Central (Moscow)
	including IBM PS2 Display 8512	304161					
	including IBM Keyboard	2022686					
16	Back-up 600	W9208497 91	Small-Scale	directly charged to Trust Fund, purchased in Washington		\$251	Central (Moscow)
17	Xerox 5014	700PO4380	Small-Scale	directly charged to Trust Fund, purchased in Washington			Central (Moscow)

18	Fax Canon 270S	9913024	Small-Scale	Junker, N09381, directly charged to Trust Fund	01/12/93	\$1,450	Central (Moscow)
19	Binding Machine 410	MBS 0524 DC	Central	Brownell, N80739	09/22/93	\$496	Central (Moscow)
20	Siemens Microwave	E00062Q3E P	Central	Brownell, M84951	10/05/93	\$342	Central (Moscow)
21	Sony TV-set	1080072	Central	Easter, M78734	08/18/93	\$325	Land (Nizhny)
22	Sony VCR SLV-226EE	011 7583	Central	Easter, M78734	08/18/93	\$325	Land (Nizhny)
23	Sony VCR SLV-226EE	011 7571	Central	Easter, M78734	08/18/93	\$325	Land (Nizhny)
24	Panasonic Telephone System		Central	Brownell, N80739	09/06/93	\$4,281	Ulyanovskaya St., 11(former office)

Furniture Inventory

<i>Inventory Number</i>	<i>Item</i>	<i>Total Number</i>	<i>Project and TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	Table	31	6 - Junker, N09381, (Small-Scale) 2 - Junker, N09381, (Small-Scale) 4 - Easter, 14779 (Small-Scale/Transport) 1 - Easter, 14779 (Small-Scale/Transport) 4 - Easter, 20674 (Small-Scale/Transport) 3 - Easter, 20674 (Central) 11 - Easter, M78734 (Central)	11/10/92 11/10/92 03/04/93 03/07/92 04/20/93 07/06/93 08/20/93	\$600 \$160 \$320 \$100 \$384 \$255 \$990	12 - RPC 18 - Land (Nizhny) 1 - Central (Moscow)
2	Drawer Sets	33			price of drawer sets are included in the price of the tables.	2 - Central (Moscow) 17 - Land (Nizhny) 11 - RPC 3 - broken
3	Arm-chairs	21	5 - Junker, N09381, (Small-Scale) 2 - Easter, 14779, (Small-Scale/Transport) 2 - Brownell, M80739, (Small-Scale) 4 - Brownell, M80739, (Large-Scale) 5 - Brownell, M80739, (Transport)	11/10/92 02/23/93 09/17/93 09/17/93 10/08/93	\$200 \$140 \$156 \$311 \$330	1 - Central (Moscow) 9 - Land (Nizhny) 11 - RPC
4	Cabinets	7	2 - Junker, N09381, (Small-Scale) 1 - Junker, N09381, (Small-Scale) 1 - Easter, 14779, (Small-Scale/Transport) 3 - Easter, M78734, (Central)	11/10/92 11/24/92 03/04/93 08/20/93	\$80 \$360 \$270 \$1,050	4 - Land (Nizhny) 2 - RPC 1 - Central

Equipment Inventory

<i>Inventory Number</i>	<i>Item of Equipment</i>	<i>Stock Number</i>	<i>Project</i>	<i>TR Number</i>	<i>Date of Purchase</i>	<i>Purchase Price</i>	<i>Current Location</i>
1	Printer HP LaserJet IIIp, HP 34481AB	3128JU65VD	Transport	Roger Gale	06/09/92	\$1,878	Land Reform, Field Office, Nizhny Novgorod
2	Printer HP LaserJet IV, HPC 2001A	JPBQ014961	Large-Scale	Directly charged to Trust Fund, purchased in Field Office	02/04/93	\$2,780	Land Reform, Field Office, Nizhny Novgorod
3	Printer HP LaserJet IV, HPC 2001A	JPBQ014963	Land Reform	Directly charged to Trust Fund, purchased in Field Office	02/05/93	\$2,780	Land Reform, Field Office, Nizhny Novgorod
4	IBM Printer 4029010	SN 56-60189	Large-Scale	Directly charged to Trust Fund, purchased in Field Office	03/24/93	\$2,150	Land Reform, Field Office, Nizhny Novgorod
5	Printer Canon (Portable) K100606	"Property of the World Bank"	Land Reform	Delivered from Washington by Gretchen Wilson			Land Reform, Field Office, Nizhny Novgorod
6	Safe "Sentry" 1380	2688289	Land Reform	Edwards, M88964	01/27/94	\$382	Land Reform, Field Office, Nizhny Novgorod

7	Northern Telecom System	NT8B20AB-35	Land Reform	Fair, M92160, Piccone, T00184	01/25/94	\$5,960	Land Reform, Field Office, Nizhny Novgorod
8	MSC computer 386 DX	9811152	Land Reform	Easter, 20674	07/12/93	\$1,200	Land Reform, Field Office, Nizhny Novgorod
	including Daewoo monitor CMC-1412ADE	2063700053					
9	MCH-4335,0111	17-21254802	Land Reform	Edwards, M85345, Bigman, T00076	08/13/93	\$1,420	Land Reform, Field Office, Nizhny Novgorod
	including Samsung monitor 4587	10500659					
10	AST #124/IFC	900258	Land Reform	Wilson, Washington TR # M79989	09/10/93	\$600	Land Reform, Field Office, Nizhny Novgorod
11	Corex computer	010487	Land Reform	Wilson, Washington TR # M79989	09/10/93	\$600	Land Reform, Field Office, Nizhny Novgorod
	including monitor CAD-135M	A03506562B					

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12	Computer		Land Reform	Wilson, Washington TR # M79989	09/10/93	\$600	Land Reform, Field Office, Nizhny Novgorod
	including monitor						
13	Corex computer	010436	Land Reform	Wilson, Washington TR # M79989	09/10/93	\$600	Land Reform, Field Office, Nizhny Novgorod
	including Samsung monitor CUB4587	10500088					
14	Fax Canon 270S	9912776		Roger Gale	06/09/92	\$1,440	Land Reform, Field Office, Nizhny Novgorod
15	Xerox 5012/5014 Photo copier		Transport	Directly charged to Trust Fund, purchased in Field Office	09/01/92	\$3,198	Land Reform, Field Office, Nizhny Novgorod
16	Ricoh Photo copier	2310559039		Forwarded by Field Office, paid throught wire transfer by HP	04/10/92	\$1,873	Land Reform, Field Office, Nizhny Novgorod
17	Xerox NRG 2508 Photo copier		Land Reform	Fair, M90419	02/01/94	\$1,630	Land Reform, Field Office, Nizhny Novgorod

18	Sony VCR SLV-226EE	0117583	Central	Easter, M78734	08/18/93	\$325	Land Reform, Field Office, Nizhny Novgorod
19	Sony VCR SLV-226EE	0117571	Central	Easter, M78734	08/18/93	\$325	Land Reform, Field Office, Nizhny Novgorod
20	Sony TV-set	1080072	Central	Easter, M78734	08/18/93	\$325	Land Reform, Field Office, Nizhny Novgorod
21	Xerox 5220 Photo copier		Land Reform	Purchased in Washington, brought by Gretchen Wilson			Land Reform, Field Office, Nizhny Novgorod
22	Xerox 5202 Photo copier		Land Reform	Purchased in Washington, brought by Gretchen Wilson			Land Reform, Field Office, Nizhny Novgorod
23	Trident 386 DX Computer	30103596	Land Reform	Edwards, M88964	01/12/94	\$1,795	Land Reform, Moscow
	including Trident Display	039386					
	including Trident Keyboard	33920183					
24	Printer HP LaserJet III	3230J15949	Land Reform	Edwards, M88964	01/12/94	\$1,880	Land Reform, Moscow

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EQUIPMENT PURCHASE FOR GKI IN RUSSIA

International Finance Corporation
Final Report
June 1995

EQUIPMENT PURCHASE FOR GKI IN RUSSIA

IFC on behalf of USAID helped purchase and install computer equipment in 1992 when GKI was being built up. The equipment provided to GKI consisted of two 'waves' of installment. The first 'wave' - equipment delivered to GKI in June-July 1992 - totalled an amount of \$221,003.90. The second 'wave' - equipment delivered to GKI in October-November 1992 - totalled \$222,178.00.

This project also included expenses for IFC staff travel (\$44,915.79) and local services (\$21,950.10) related to delivery and installation of computer equipment in GKI.

A list of computer equipment purchased and installed for GKI (the receipt of the equipment is acknowledged by a GKI official) and a list of the equipment distribution at GKI are provided below.

Sept 2002 to present

FIRST WAVE

ITEM	# NEEDED	PRICE PER UNIT	COMMITMENT AMOUNT	VENDOR	SIGNING DATE	P.O. #	EXPENDITURE AMOUNT
Rental of Compaq LTE 386S/20 Computers(1st month)	5	\$300.00	\$1,500.00	American Computer	05-Jun-92	98026	\$1,500.00
Rental of Compaq LTE 386S/20 Computers (2nd month)	5	\$300.00	\$1,500.00	American Computer	05-Jun-92	98027	\$1,500.00
Portable Printer Rental of Kodak Diconix Model 150 (2 months)	5	\$79.00	\$395.00	American Computer	09-Jun-92	98057	\$395.00
Foxpro 2.0, 5.25"	5	\$455.00	\$2,275.00	Egghead	21-May-92	94370	\$2,275.00
Foxpro 2.0, 5.25"	5	\$455.00	\$2,275.00	Egghead	21-May-92	94371	\$2,275.00
Foxpro 2.0, 5.25"	5	\$455.00	\$2,275.00	Egghead	21-May-92	94372	\$2,275.00
Foxpro 2.0, 5.25"	5	\$455.00	\$2,275.00	Egghead	21-May-92	94373	\$2,275.00
Lotus 123, 2.4, 5.25"	2	\$325.00	\$650.00	Egghead	21-May-92	94374	\$650.00
Lotus 123, 2.4, 5.25"	7	\$325.00	\$2,275.00	Egghead	21-May-92	94375	\$2,275.00
Lotus 123, 2.4, 5.25"	7	\$325.00	\$2,275.00	Egghead	21-May-92	94376	\$2,275.00
Lotus 123, 2.4, 5.25"	7	\$325.00	\$2,275.00	Egghead	21-May-92	94377	\$2,275.00
IBM DOS 5.0, 5.25", #771188	1	\$125.00	\$125.00	Egghead	29-May-92	94630	\$125.00
IBM, DOS Additional License, #774539	19	\$95.00	\$1,805.00	Egghead	29-May-92	94630	\$1,805.00
NEC 380 Facsimile Machine	1	\$925.00	\$925.00	Faxland Corp	27-May-92	94541	\$925.00
Transformer for NEC 380	1	\$139.00	\$139.00	Faxland Corp	27-May-92	94541	\$139.00
NEC 380 Facsimile Machine	2	\$925.00	\$1,850.00	Faxland Corp	27-May-92	94542	\$1,850.00
Transformer for NEC 380	2	\$139.00	\$278.00	Faxland Corp	27-May-92	94542	\$278.00
NEC 380 Facsimile Machine	2	\$925.00	\$1,850.00	Faxland Corp	27-May-92	94544	\$1,850.00
Transformer for NEC 380	2	\$139.00	\$278.00	Faxland Corp	27-May-92	94544	\$278.00
U.S. to German Current Adaptors	50	\$4.75	\$237.50	General Electronics	09-Jun-92	98050	\$237.50
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94347	
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94347	
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94347	
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94348	\$97.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94348	\$1,700.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94348	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94349	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94349	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94349	\$56.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94350	\$97.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94350	\$1,700.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94350	\$56.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94351	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94351	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94351	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94352	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94352	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94352	\$1,700.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94353	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94353	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94353	\$56.00

RUSSIA - GKI

FIRST WAVE

ITEM	# NEEDED	PRICE PER UNIT	COMMITMENT AMOUNT	VENDOR	SIGNING DATE	P.O. #	EXPENDITURE AMOUNT
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94354	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94354	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94354	\$97.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94355	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94355	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94355	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94356	\$1,700.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94356	\$56.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94356	\$97.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94357	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94357	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94357	\$1,700.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94358	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94358	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94358	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94359	\$1,700.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94359	\$56.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94359	\$97.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94360	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94360	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94360	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94361	\$97.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94361	\$1,700.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94361	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94362	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94362	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94362	\$56.00
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94363	\$2,400.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94363	\$194.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94363	\$112.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94364	
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94364	
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94364	
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94365	
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94365	
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94365	
HP Laserjet III Printer, 220 Volt	1	\$1,700.00	\$1,700.00	GTSI	21-May-92	94366	\$1,700.00
1MB Memory Upgrade for HP III Printer	1	\$97.00	\$97.00	GTSI	21-May-92	94366	\$97.00
Cyrillic soft font cartridge for HP II Printer	1	\$56.00	\$56.00	GTSI	21-May-92	94366	\$56.00
5.25" Internal FDD for IBM PS/2, model 40 (slim-high)	10	\$197.00	\$1,970.00	GTSI	29-May-92	94607	\$1,970.00
5.25" Internal FDD for IBM PS/2, model 40 (slim-high)	10	\$197.00	\$1,970.00	GTSI	29-May-92	94608	\$1,970.00

FIRST WAVE

ITEM	# NEEDED	PRICE PER UNIT	COMMITMENT AMOUNT	VENDOR	SIGNING DATE	P.O. #	EXPENDITURE AMOUNT
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94610	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94610	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94610	\$425.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94611	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94611	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94611	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94612	\$425.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94612	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94612	\$10.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94613	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94613	\$425.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94613	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94615	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94615	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94615	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94616	\$425.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94616	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94616	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94617	
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94617	
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94617	
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94618	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94618	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94618	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94619	\$425.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94619	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94619	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94620	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94620	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94620	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94621	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94621	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94621	\$1,262.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94622	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94622	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94622	\$425.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94623	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94623	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94623	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94624	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94624	\$10.00

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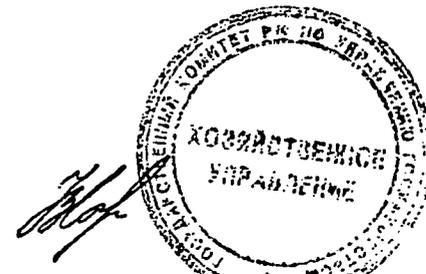
FIRST WAVE

ITEM	# NEEDED	PRICE PER UNIT	COMMITMENT AMOUNT	VENDOR	SIGNING DATE	P.O. #	EXPENDITURE AMOUNT
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94624	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94625	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94625	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94625	\$425.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94626	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94626	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94626	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	29-May-92	94627	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	29-May-92	94627	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	29-May-92	94627	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	02-Jun-92	98005	\$425.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	02-Jun-92	98005	\$1,262.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	02-Jun-92	98005	\$10.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	02-Jun-92	98008	\$10.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	02-Jun-92	98006	\$1,262.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	02-Jun-92	98006	\$425.00
Overnight Shipping for keyboard swap	1	\$10.00	\$10.00	GTSI	02-Jun-92	98007	\$10.00
IBM PS/2 Color Monitor, #8512	1	\$425.00	\$425.00	GTSI	02-Jun-92	98007	\$1,262.00
IBM PS/2, model 40SX, 2MB RAM, 80MB Hard Disk	1	\$1,262.00	\$1,262.00	GTSI	02-Jun-92	98007	\$425.00
Kodak Diconix Cartridge for Portable Printer	20	\$10.00	\$200.00	GTSI	01-Jul-92	98141	\$200.00
IBM Hardware & Software materials & Blanket P.O. <i>DM 35, 000</i>	1	\$35,000.00	\$35,000.00	IBM WT EMEA	09-Jun-92	98146	\$13,064.13
Color Monitors <i>USA 2, 1,024</i>	12				09-Jun-92	98146	
Russian DOS 5.0	20				09-Jun-92	99146	
American Power Conversion Back-Ups 600 international, BK60	8	\$305.00	\$2,440.00	INMAC	21-May-92	94339	\$305.00
American Power Conversion Back-Ups 600 international, BK60	8	\$305.00	\$2,440.00	INMAC	21-May-92	94340	\$2,440.00
American Power Conversion Back-Ups 600 international, BK60	8	\$305.00	\$2,440.00	INMAC	21-May-92	94341	\$2,440.00
American Power Conversion Back-Ups 600 international, BK60	8	\$305.00	\$2,440.00	INMAC	21-May-92	94342	\$2,440.00
Sony DOS formatted 3-1/2" DSHD Diskettes	230	\$1.24	\$285.20	INMAC	02-Jun-92	98000	\$285.20
Sony DOS formatted 3-1/2" DSHD Diskettes	230	\$1.24	\$285.20	INMAC	02-Jun-92	98001	\$285.20
Vebalim DOS formatted 5.25" DSHD Diskettes	400	\$0.90	\$360.00	INMAC	02-Jun-92	98004	\$360.00
Toner Cartridge for HP Laserjet III printer	34	\$73.50	\$2,499.00	Metropolitan Ribbon	21-May-92	94367	\$2,499.00
Toner Cartridge for HP Laserjet III printer	33	\$73.50	\$2,425.50	Metropolitan Ribbon	21-May-92	94368	\$2,425.50
Toner Cartridge for HP Laserjet III printer	33	\$73.50	\$2,425.50	Metropolitan Ribbon	21-May-92	94369	\$2,425.50
Circuit Breaker Sockets	3	\$252.69	\$758.07	Mid-Atlantic Data	08-Jun-92	98034	\$758.07
Circuit Breaker Sockets	9	\$252.69	\$2,274.21	Mid-Atlantic Data	08-Jun-92	98035	\$2,274.21
Circuit Breaker Sockets	9	\$252.69	\$2,274.21	Mid-Atlantic Data	08-Jun-92	98036	\$2,274.21
Circuit Breaker Sockets	9	\$252.69	\$2,274.21	Mid-Atlantic Data	08-Jun-92	98037	\$2,274.21
Modem cable	5	\$25.00	\$125.00	Mid-Atlantic Data	08-Jun-92	98038	\$125.00
Microcom Modems	5	\$450.45	\$2,252.25	Mid-Atlantic Data	08-Jun-92	98038	\$2,252.25
2MB Simms memory modules, 85NS, for IBM PS/2 model 40	20	\$95.00	\$1,900.00	VLM	29-May-92	94629	\$1,900.00
Word Perfect 5.1, 5.25"	7	\$147.00	\$1,029.00	Wordperfect Corp	21-May-92	94363	\$1,029.00

Handwritten notes:
 DM 35, 000
 USA 2, 1,024
 \$10,174.38
 \$2,995.21

*FIRST WAVE-

ITEM	# NEEDED	PRICE PER UNIT	COMMITMENT AMOUNT	VENDOR	SIGNING DATE	P.O. #	EXPENDITURE AMOUNT
Word Perfect 5.1, Russian Module, 3.5"	7	\$75.00	\$525.00	Wordperfect Corp	21-May-92	94383	\$525.00
Shipping & Handling	1	\$20.00	\$20.00	Wordperfect Corp	21-May-92	94383	\$20.00
Shipping & Handling	1	\$20.00	\$20.00	Wordperfect Corp	21-May-92	94384	\$20.00
Word Perfect 5.1, 5.25"	8	\$147.00	\$1,176.00	Wordperfect Corp	21-May-92	94384	\$1,176.00
Word Perfect 5.1, Russian Module, 3.5"	8	\$75.00	\$600.00	Wordperfect Corp	21-May-92	94384	\$600.00
Word Perfect 5.1, Russian Module, 3.5"	8	\$75.00	\$600.00	Wordperfect Corp	21-May-92	94385	\$600.00
Word Perfect 5.1, 5.25"	8	\$147.00	\$1,176.00	Wordperfect Corp	21-May-92	94385	\$1,176.00
Shipping & Handling	1	\$20.00	\$20.00	Wordperfect Corp	21-May-92	94385	\$20.00
Word Perfect, Russian Version, 5.25"	5	\$253.00	\$1,265.00	Wordperfect Corp	26-May-92	94468	\$1,267.50
Word Perfect, Russian Version, 5.25"	9	\$253.00	\$2,277.00	Wordperfect Corp	26-May-92	94467	\$2,281.50
Word Perfect, Russian Version, 5.25"	9	\$253.00	\$2,277.00	Wordperfect Corp	26-May-92	94468	\$2,281.50
Freight and insurance charges	1	\$2,693.55	\$2,693.55	Xerox Corp.	03-Jun-92	98010	\$2,693.55
A4 size paper, 5 reams/box	4000	\$4.92	\$19,680.00	Xerox Corp.	10-Jun-92	98010	\$19,680.00
Xerox 12-month warranty & installation service	5	\$756.00	\$3,780.00	Xerox Corp.	03-Jun-92	98010	\$3,635.47
Xerox Consumables spare kits	15	\$559.91	\$8,398.65	Xerox Corp.	03-Jun-92	98010	\$8,398.65
Xerox Photocopier model #5030 with 4 trays	5	\$7,551.25	\$37,756.25	Xerox Corp.	03-Jun-92	98010	\$37,756.25
Lotus software	10	\$82.15	\$821.50	InterEVM	08-July-92	K57747	\$821.50
TOTAL			\$250,789.30				\$221,003.90



PHYSICAL DISTRIBUTION OF OFFICE TECHNOLOGY HARDWARE AT GKI
AS OF NOVEMBER 12, 1992

PERSONAL COMPUTER CONFIGURATION
MAIN BUILDING: Proezd Vladimirova, 9

ROOM	CPU	MONITOR	PRINTER	UPS	NAME
206	WB-24492 SN-23-FNKKK	WB-304123 SN-72-3000698	WB-304893 SN-3203J75524	SN-W920838761	SPORYKHINA
209	WB-304123 SN-23-FNHPK	WB-304179 SN-72-3000698		SN-W920838761	KAZAKOV
211	WB-304114 SN-23-FMLPB	SN-55-HYX34	WB-304893 SN-3203J75524	SN-W920835731	CHAIKA
214	WB-24492 SN-23-FNKKK	WB-304123 SN-72-3000701	WB-304893 SN-3203J75524	SN-W920835731	SIZOV
	WB-304132 SN-23-FNKKX	SN-55-NYW17		SN-W920835809	
220 (Libr.)	WB-304149 SN-23-FNKWT	SN-55-HYW35	WB-304810 SN-3203J75529	SN-W920838752	
304	WB-304143 SN-23-FNKXZ	WB-304240 SN-72-0031675		SN-W920838552	KARPOV
305	WB-24492 SN-23-FNKKK	WB-304168 SN-72-3000759	WB-304893 SN-3203J75524	SN-W920838761	GERASIMOVA
308	WB-304118 SN-23-FNHNB	WB-304188 SN-72-3000762	WB-304893 SN-3203J75529	SN-W920835810	CHUBAIS
313	WB-304261 SN-23-FNKBP	WB-304164 SN-72-3000156	WB-304047 SN-3203J75360	SN-W920454817	IVANENKO
401	WB-304264 SN-23-FNKLC	WB-304262 SN-72-3000801		SN-W920835808	EBRD EVSTAFYEV
402	WB-304148 SN-23-FNCNN	WB-244915 SN-72-3000885	WB-304042 SN-3203J75444	SN-W920838766	SHIPOVALOV
407	WB-24492 SN-23-FNKKK	WB-244917 SN-72-3000674	WB-304893 SN-3203J75524	SN-W920454827	KUZNETSOVA
411	WB-244926 SN-23-FNKKK	WB-304132 SN-72-3000162	WB-304893 SN-3203J75524	SN-W920454827	DOBATKINA
415	WB-244926 SN-23-FNKKK	WB-244915 SN-72-3000684	WB-304893 SN-3203J75524	SN-W920454827	VOLKOVA
	WB-244910 SN-23-FNKKK	WB-304042 SN-72-3000768	WB-304893 SN-3203J75524	SN-W920454827	ABRAMOV
417	WB-244926 SN-23-FNKKK	WB-244915 SN-72-3000684	WB-304893 SN-3203J75524	SN-W920454827	EBRD ADAMOVA
	WB-244926 SN-23-FNKKK	WB-244915 SN-72-3000684	WB-304893 SN-3203J75524	SN-W920454827	

418	WB-304238 SN-23-FNHNKX	WB-304267 SN-72-3000160	WB-3000349 SN-3220J07714	SN-W920838777	MOSTOVOY
423	WB-304113 SN-23-FNKRK	WB-304267 SN-72-3000160	WB-3000349 SN-3220J07714	SN-W920838777	EBRD HAY
424	WB-304238 SN-23-FNHNKX	WB-304267 SN-72-3000160		SN-W920838777	EBRD MAMEDOVA
428	WB-304113 SN-23-FNKRK	SN-55-HYX53		SN-W920838757	
427	WB-304238 SN-23-FNHNKX	WB-304267 SN-72-3000160	WB-3000349 SN-3220J07714	SN-W920838777	DANILOVA
501	WB-304116 SN-23-FMLPK	WB-304266 SN-72-3000758		SN-W920838776	EBRD STEPANYUK
504	WB-304146 SN-23-FMLPM	SN-55-WRT53	<u>WB-304052</u> <u>SN-OE11450499</u>	SN-W920835735	
506	WB-304124 SN-23-FNKAB	SN-55-HYX32	<u>WB-304053</u> <u>SN-OE11450476</u>	SN-W920838779	CHEREPAKHIN
513	WB-304142 SN-23-FNKWW	WB-244927 SN-72-3000882	WB-3000349 SN-3220J07714	SN-W920838774	BOGDANOV
515	WB-304122 SN-23-FNKRK	WB-304180 SN-72-3000693	<u>WB-304054</u> <u>SN-OE11482667</u>	SN-W920838779	BAKSHEVA
	WB-304122 SN-23-FNKRK	WB-304180 SN-72-3000693		SN-W920838769	
517	WB-244918 SN-23-FNGNM	WB-244919 SN-72-3000615	WB-3000349 SN-3220J07714	SN-W920838768	GORZHANOV
519	WB-304145 SN-23-FNGNM	WB-244919 SN-72-3000615		SN-920838768	
520	WB-304136 SN-23-FNKPX	WB-244901 SN-72-3000886	<u>WB-304051</u> <u>SN-OE11450470</u>	SN-W920835724	SMIRNOVA
524	WB-304141 SN-23-FNCNT	WB-244903 SN-72-3000883	WB-304041 SN-3220J07719	SN-W920838758	TALYZIN
525	WB-244906 SN-23-FNHNK	WB-244907 SN-72-3000894		SN-W920838758	RUBTSOVA
526	WB-304128 SN-23-FNHZX	WB-244929 SN-72-3000890	WB-3000349 SN-3220J07714	SN-W920838772	ROGOVA

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PHYSICAL DISTRIBUTION OF OFFICE TECHNOLOGY HARDWARE AT GKI
AS OF NOVEMBER 12, 1992

PERSONAL COMPUTER CONFIGURATION
SECOND BUILDING: Rybny Pereulok, 3

ROOM	CPU	MONITOR	PRINTER	UPS	NAME
201	WB-300027 SN-23-FNAGN	WB-300027 SN-72-3000754	WB-300027 SN-3203J6582	SN-W920838754	POTYOMKINA
204	WB-304150 SN-23-FNKMA	WB-300070 SN-72-3000766		SN-W920838754	VLADIMIROVA
224	WB-304185 SN-23-CFNAP	WB-244911 SN-72-3000612		SN-W920838753	SUBBOTIN
	WB-300027 SN-23-FNAP	WB-304150 SN-72-3000761	WB-300027 SN-3203J6582	SN-W920838754	KOVALENKO
226	WB-304137 SN-23-FNKYN	WB-304236 SN-72-0031618	WB-304058 SN-OE11450475	SN-W920838771	LINYOVA
302	WB-304152 SN-23-FNGYD	WB-244916 SN-72-3000620	WB-300027 SN-3203J6582	SN-W920838754	TANKOVA
	WB-304152 SN-23-FNGYD	SN-55-WYX31		SN-W920838767	
304	WB-304117 SN-23-FNGWW	WB-300073 SN-72-3000765	WB-304045 SN-3220J07713	SN-W920838756	CHELNOKOV
308	WB-304138 SN-23-FNHXB	WB-244925 SN-72-3000355	WB-304055 SN-OE11482665	SN-W920838759	BEZZUBOVA
312	WB-304120 SN-23-FMMHK	WB-244923 SN-72-3000888	WB-304891 SN-3203J75384	SN-W920838560	SAFONOVA
316	WB-304134 SN-23-FNKAV	WB-304159 SN-72-3000763		SN-W920838764	KAZARTSEVA
318	WB-304129 SN-23-FNHBP	WB-304263 SN-72-3000043	WB-304048 SN-3220J07650	SN-W920835806	PANFYOROV
	WB-304119 SN-23-FMMDH	WB-304163 SN-72-3000155		SN-W920838762	
320	WB-304260 SN-23-FNKHC	WB-304235 SN-72-0031814		SN-W920838765	MEDVEDEVA
323	WB-304234 SN-23-FMMND	WB-304182 SN-72-3000702	WB-300027 SN-3203J6582	SN-W920838628	MARTYNOVA
	WB-304237 SN-23-FNKVR	WB-304154 SN-72-3000755		SN-W920835734	MIKHAILOV
402	WB-304233 SN-23-FNKLD	WB-304367 SN-72-3000049	WB-304057 SN-OE11482662	SN-W920835811	BRAVERMAN

404	WB-244907 SN-72-3000621	WB-244907 SN-72-3000621		SN-W920835796	PROSKURIN
	WB-244907 SN-72-3000621	WB-244907 SN-72-3000621		SN-W920835732	KURYSHEVA
	WB-304191* SN-23-CFNAR	WB-304239 SN-72-0031673		SN-W920835732	USTYUGOV
	WB-304184* SN-23-CFPCG	WB-304184 SN-72-3000621	WB-304184 SN-72-3000621	SN-W920835732	KUZNETSOV
	WB-304139 SN-23-FNGTM	WB-304172 SN-72-3000161	<u>WB-304056</u> <u>SN-OE11482661</u>	SN-W920835733	DYAKIN
	WB-304190* SN-23-CFNGV	SN-55-HYW15		SN-W920838635	SOKOLOV
	WB-304140 SN-23-FNCCF	WB-304155 SN-72-3000762	<u>WB-304050</u> <u>SN-OE11482655</u>	SN-W920838755	CLASS PROSKURIN
	WB-304265 SN-23-FMMKD	WB-304153 SN-72-3000696	WB-304894 SN-3203J75531	SN-W920838775	
	WB-304189* SN-23-CFNCL	SN-55-HYX51		SN-W920838773	NOT ASSIGNED
409	WB-304148 SN-23-FMKVB				DEAD PC
		SN-55-HYW18 SN-55-			NOT ASSIGNED
			<u>WB-304058</u> <u>SN-OE11450492</u>		NOT ASSIGNED
				SN-W920838760 SN-W920835725 SN-W920838780 SN-W920838778 SN-W92083	NOT ASSIGNED DEAD UPS

Additionally, 3 computers with 3 keyboards and 2 monitors are temporarily borrowed by IFC Moscow office (2 PS/2 Model 40, 2 keyboards and 1 monitor are now on storage in the room 5554 at Metropol Hotel).

**PHYSICAL DISTRIBUTION OF OFFICE TECHNOLOGY HARDWARE AT GKI
AS OF NOVEMBER 12, 1992**

FAX CONFIGURATIONS

MAIN BUILDING: Proezd Vladimirova, 9

ROOM	FAX	UPS	NAME/TEL
313	WF-244736 SN: 922560043	SN: 920454817	IVANENKO 298-7855
308	WF-244736 SN: 922560043	SN: 920454817	CHUBAIS 928-8959
410	WF-244738 SN: 922560099	SN: 920454823	VASILYEV 298-7521
510	WF-244749 SN: 922561076	SN: 920454828	SYCHKIN 208-1573

SECOND BUILDING: Rybny Pereulok, 3

ROOM	FAX	UPS	NAME/TEL
225	WF-244737 SN: 922560043	SN: 920454819	KACHANOV 206-0882

MICROCOM MODEMS (AX/2424C MNP CLASS 5)

MAIN BUILDING: Proezd Vladimirova, 9

ROOM	MODEM	NAME/TEL
418	1430427088	MOSTOVOY
501	14309191862	STEPANYUK 928-3080

SECOND BUILDING: Rybny Pereulok, 3

ROOM	MODEM	NAME/TEL
404	1302192864	PROSKURIN 924-3851
	1302192863	USTYUGOV 298-3207
	130224658	KUZNETSOV 924-0372

**PRINTER NETWORKING DONE
AS OF NOVEMBER 12, 1992**

MAIN BUILDING: Proezd Vladimirova, 9

N	Room numbers	Number of PS/2's	... Number of clones
1	211-213	1	1
2	214	2	-
3	304	1	1
4	402-404	1	1
5	426-427	2	1
6	517-519	2	-
7	525-526	2	-
8	Library	1	1

SECOND BUILDING: Rybny Pereulok, 3

N	Room numbers	Number of PS/2's	Number of clones
1	201-203-205	1	2
2	302	2	-
3	312-317	1	1
4	316-318	3	-
5	320-323	3	-
6	404-406	3	2 + 1 extra cable
7	404	4	-

Two JetCards have been installed at IFC Moscow Office, two bad ones returned to Washington, and one more is spare.

A/B Switches installed with HP LaserJet III printers

MAIN BUILDING: Proezd Vladimirova, 9

N	Room number	Number of PS/2's	Number of clones	Extra cables
1	417	1	-	1
2	417	1	-	1

SECOND BUILDING: Rybny Pereulok, 3

N	Room number	Number of PS/2's	Number of clones	Extra cables
1	224	1	1	-
2	402	1	-	1

SMALL-SCALE PRIVATIZATION IN RUSSIA

International Finance Corporation
Final Operational Report
June 1995

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PART ONE: Executive Summary

With the guidance of Anatoly Chubais and the Committee on the Management of State Property (GKI), privatization, particularly small-scale privatization, has become one of the most demonstrably successful economic reforms undertaken in the Russian Federation after the collapse of the Soviet Union in 1991. In a remarkably short period of time, the transfer of ownership of enterprises from state into private hands has taken place, and now, three years since the inception of the Small-Scale Privatization Program in April 1992, nearly 76,000 small enterprises (percent) have been privatized throughout the cities of Russia. As many as 2 million new entrepreneurs have been created, establishing a foundation for a market economy and a catalyst for subsequent privatization programs as well as start-up businesses.

At the Russian government's invitation to initiate a privatization process, the International Finance Corporation (IFC) began working in Russia in late 1991 to develop a simple, generic model to privatize small businesses. Experiences in Eastern Europe demonstrated that a well-designed, mass small-scale privatization program could transfer business ownership quickly to the private sector and improve the lives of ordinary Russians. By putting food on shelves, increasing the volume and range of goods on sale, extending shop hours, and improving services, private shops provide a positive and tangible demonstration of the benefits of privatization.

In January 1992, IFC, utilizing a grass roots approach, began working in Nizhny Novgorod with a team of international experts, local officials, and IFC consultants. The team agreed on a set of principles to reach a fast and simple transfer of ownership based on fairness and transparency - an open auction. Within eight weeks, the resident team designed and tested the first auctions. On April 4, 1992, privatization in Russia was launched with the sale of 22 retail shops at public auction. Weekly auctions were established, and over the next 20 months the city sold nearly 1,000 businesses in over 90 auctions at which nearly 3,000 local citizens competed to become new owners. The process was the first step in creating a well-functioning private retail market for the city, the catalyst in privatization of shops and stores throughout Russia, and the cornerstone for all subsequent privatization efforts in Russia.

The Nizhny Novgorod/IFC privatization process was codified in Russian law in July 1992, laying the legal foundation for replication of the model across Russia. To achieve replication on a national scale, IFC produced a handbook for Russian city officials that included the administrative and public notice procedures, the detailed procedural steps to undertake open, small-scale enterprise auctions, and the required legal documentation. A massive distribution and information campaign dispatched 50,000 copies to city administrations and privatization officials throughout the Russian Federation. The distribution of the manuals was bolstered by a series of IFC workshops for privatization officials from the largest cities in Russia and television spots documenting successful privatized businesses.

To further strengthen the replicability of the process, IFC teams were established in six cities in the Volgograd oblast as well as in the Siberian cities of Tomsk and Tomsk-7 with financial assistance from USAID. The speedy implementation of an effective privatization program in

these cities in the fall and winter of 1992 provided positive proof that Nizhny Novgorod was not an exception but an example that could be replicated.

To broaden and deepen the impact of small-scale privatization further, USAID-funded IFC mobile advice teams provided direct assistance to 29 cities throughout Russia, including cities not only in Western Russia but in Siberia and the Far East as well. As many as 5,000 retail businesses have been sold in the cities where IFC provided direct support.

Now with nearly 76,000 enterprises privatized and innumerable new start-up businesses encouraged by their success, a foundation for a free market in goods and services has been laid in Russia. An IFC survey of newly privatized businesses across Russia found the effect of privatization to be positive. People are working longer, harder and more productively; more goods and services are available at lower prices. Certainly, these new private businessmen face a myriad of challenges, but the overall impact of small-scale privatization--creating practical, tangible examples of positive, fast and real change is extremely positive.

PART TWO: Overview

Rationale

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

Following this logic, Russian authorities determined that the goal of privatization in Russia should be the depoliticization of enterprises.¹ Although it was recognized that depoliticization in and of itself was not sufficient to make enterprises fully efficient, it was thought that depoliticization was an essential first step in the transformation process. Russian privatization was viewed by the authorities not as an end in itself, but rather as a means of transferring control of enterprise cash flows from politicians to managers in order to initiate necessary enterprise restructuring.

Background

The depoliticization/privatization process created a contentious atmosphere in Russia, necessitating compromise between the political, economic, and social demands of a spectrum of interested parties ranging from progressive to conservative, in particular between President Yeltsin and the Russian Parliament. The primary issues were the speed, size, and sequencing of the program and the division of control among the political stakeholders. For transformation to succeed within such a hostile environment, privatization had to be rapid and massive. Politically it was imperative to transfer property rights to owners who had a vested interest in supporting reform and the painful transition to the market economy. Experience from Eastern Europe indicated that implementing an initial small-scale privatization program was a fast, relatively simple, and generally popular representation of privatization that provided a catalyst for the more complex, large-scale privatization program. The political stakeholders were primarily the enterprise management, employees, the local governments, and the federal government.

The first decisions concerned jurisdiction of the state property (and thus responsibility for privatization) between federal, oblast, and municipal authorities and decisions on which enterprises would be sold for cash and which through the use of vouchers. Small shops and a large part of the revenues from the sale of those shops were allocated to the jurisdiction of the municipalities, a major concession aimed at spurring privatization. The government changed workers and managers to participate by offering substantial discounts on the purchase price and an extended payment period.

¹ See paper *Privatizing Russia*, by Maxim Boyko, Andrei Shleifer, and Robert W. Vishny, August 1993.

The implementation of the program, as outlined in the Privatization Law, was to be undertaken by the State Committee for the Management of State Property (GKI) and the State Property Fund (Fund), under the authority of the executive and legislative branches respectively, with the latter being established to act as a check on the GKI. Historically, the legislative branch represented by the City Councils and the Funds under their control was more conservative than the GKIs, and other stood in the way of privatization process. This problem was alleviated after the failed October Coup in 1993 when the reformers moved to consolidate their power by restoring the City Councils authority and the Funds were subsumed under the authority of the GKIs.

Legal Basis for Privatization

Up until the present decade, the state sector in Russia has been all encompassing; the private sector, was virtually nonexistent. With the deterioration of the central system, enterprises received neither central commands nor market signals, thus generating an immediate need to convey and clarify clear asset ownership. *The Law on Privatization of State and Municipal Enterprises in the Russian Soviet Federative Socialist Republic* (The Privatization Law) was passed on July 3, 1991 to establish the organizational and legislative framework for privatizing state and municipal enterprises. Where Russian law had jurisdiction within the Soviet Union, however, remained unclear until the Soviet Union's collapse when Boris Yeltsin passed the *Fundamental Provisions of the Program of State and Municipal Enterprises in the Russian Federation* (Fundamental Provisions) on December 29, 1991. *The State Program for Privatizing State and Municipal Enterprises of the Russian Federation* (State Program), adopted by the Supreme Soviet on June 11, 1992, was of seminal importance as it further elaborated upon and clarified the previous legislation. Although this legislation went far in establishing the structure by which privatization could proceed, the actual step-by-step process was left to the discretion of the local authorities. It is within this framework that the Nizhny Novgorod authorities and IFC began their work to develop a detailed mechanism by which to privatize small-scale enterprises.

PART THREE: The Small-Scale Privatization Program

Small-scale enterprises were defined as state enterprises having fewer than 200 employees and a book value of less than 1,000,000 rubles of fixed capital as of January 1, 1992. The Russian government designated three categories of small enterprises for privatization: retail trade, public catering, and consumer services. These include the restaurants, bread stores, hair salons, dry cleaners and other small shops and stores. As of January 1, 1995, GKI reported that there are 99,178 enterprises in these categories. However, the actual number of small enterprises in Russia is unclear. According to the Russian State Committee for Statistics (GosKomStat), there were 270,000 enterprises or "objects" located in permanent structures in the three designated categories, not including 50,000 kiosks. The primary reason for this discrepancy is incomplete commercialization.

Commercialization

Under communism, small enterprises were part of large monopoly organizations or "torgs" which controlled a particular type of trade. To break up these monopolies prior to privatization, President Yeltsin signed a decree *On Commercialization of the Activity of Trade Enterprises in the Russian Federation* which directed local officials to reorganize retail trade establishments by separating enterprises from their existing structures and registering them as separate entities. Thus, for example, one bread torg with 30 outlets would be commercialized to create 30 separate bread enterprises.² In many cities, commercialization was not carried out until just prior to privatization. This fact can be seen by the growing number of enterprises available for privatization. In January 1994, 94,305 enterprises were available for privatization, and by July, this number had grown to 94,771. Six months later, the number had increased by more than 4,400 enterprises.

Sale of Small Enterprises

The GKI generally had the responsibility for preparing an enterprise's paperwork for auction while the Fund had responsibility for the actual sale of the enterprise itself. Under federal privatization law, small-scale enterprises were to be sold for cash to the highest bidder through either an auction or commercial tender. Auctions and commercial tenders differed in one area: the addition of restrictions or conditions on the running of a business. With commercial tenders, restrictions on the running of the business were binding with the sale of the enterprise. These restrictions most often included retaining the same number of employees for the period of a year and mandatory continuation of business profile or product lines for a given period of time. An enterprise sold by auction had no restrictions or special conditions. IFC strongly recommended sale by auction as restrictions hindered a new businesses' ability to respond to market forces. However, with the exception of Nizhny Novgorod, many cities relied heavily upon commercial tenders due to reluctance to trust market forces (e.g., "If we privatize the bread store, who will sell bread?").

² Where commercialization is carried out correctly, there is one resulting enterprise per outlet.

Bidding was open to any pre-registered party including individuals, companies, or the workers' collectives (at least one-third of the workers of the business). Almost two-thirds of small businesses were sold to the workers' collectives due to the significant privileges allotted (30% discount and extended repayment period).

Again with the exception of Nizhny Novgorod, which sold liquidated assets, most Russian cities sold ongoing businesses (using the IFC-developed Volgograd Model). For the most part, these businesses were located in residential or multiuse rather than stand-alone buildings. Businesses in stand-alone buildings were sold with premises inclusive. For businesses located in multiuse buildings, only the legal enterprise was sold, due to the difficulty of establishing legal procedures and a methodology for valuing the businesses premises. For these enterprises, the right to lease the premises was given for a period of fifteen years.

Municipalities that did not sell the enterprises at either auction or tender often opted to lease the enterprises to workers of outside investors. This was a preferred alternative in more conservative oblasts.

PART FOUR: IFC's Approach and Scope of Work

At the request of the Russian Federation and with funding from the World Bank, the Governments of Sweden and Switzerland, and the United States Agency for International Development (USAID), IFC and city officials of Nizhny Novgorod developed an open auction process for the privatization of the city's retail and service sector. IFC's approach to conducting the Small-Scale Privatization Program was to develop a model privatization scheme in one pilot region; replicate and refine the privatization program in other demonstration regions; and extend the model scheme to the remainder of Russia through direct IFC assistance, mass distribution of how-to manuals and newsletters, and training seminars.

In April 1992, privatizations were launched with the public sale of 22 small-scale enterprises in Nizhny Novgorod--Russia's first experience with mass privatization. Following the institution of weekly auctions in Nizhny Novgorod and the codification of the process in Russian federal law, the pilot program was extended to six cities in Volgograd Oblast in the summer of 1992 and to the Siberian cities of Tomsk and Tomsk-7 in the fall. During this time, IFC developed a comprehensive body of model procedures and documents designed to provide the privatization process with a strong legal foundation. In 1993, the Federal GKI requested that IFC expand the Small-Scale Privatization Program and provide on-site, short-term technical, legal and communications assistance to municipalities throughout Russia.

IFC consultant teams worked with city administrations to initiate, correct or streamline auction sales of municipal enterprises; develop new or rectify existing local legislation governing privatizations of small-scale enterprises; and implement public information programs to enhance understanding of the privatization process and stimulate support for free market policies.

A description of assistance provided under the Small-Scale Privatization Program as developed in Nizhny Novgorod and extended to other IFC-assisted cities is given below.

Selection of Assisted Regions

Nizhny Novgorod, the third largest city in Russia (population 1.4 million), was chosen as the pilot city for the Small-Scale Privatization Program for two reasons. First, Nizhny Novgorod, unlike Moscow or St. Petersburg, was considered by GKI and IFC to be a "typical" Russian city. The regional economy was characterized by an underdeveloped wholesale and retail trade network for consumer goods and services, with a large military sector in need of conversion. Production of capital goods was decreasing and the transportation network disintegrating, making the distribution of goods extremely inefficient. A pilot project successfully implemented in Nizhny Novgorod could by analogy be extended to cities throughout Russia.

Second, the municipal and oblast administrations in Nizhny Novgorod were committed to free market economic reform. Experience in Czechoslovakia and Poland demonstrated that political leadership was essential to the privatization process. The legislative and executive branches of the Nizhny Novgorod city and oblast governments acting in unison committed themselves to implementing mass privatization in 1992.

With USAID funding, the model privatization scheme developed in Nizhny Novgorod was extended to Russia's regions on a request basis. As in Nizhny Novgorod, IFC assistance was provided to city governments in Volgograd and Tomsk oblasts seeking to sell off municipal property equitably and rapidly and create a strong legal foundation for a private retail and service sector. In 1993, at the suggestion of the Federal GKI, IFC assistance was extended to all municipalities, reporting assistance in solving difficulties relating to small-scale enterprise privatization.

Developing a Model

Success in developing a workable model to privatize small businesses was dependent upon two criteria (1) establishing a permanent on-site team to work in partnership with the Russian authorities and (2) grounding the model in basic guiding principles. Without a permanent presence on the ground working in close cooperation with the appropriate authorities, the model would not have been able to take into account Russian realities or garner the necessary political support. Secondly, the model had to be simple, generic, and fair. Simplicity was important to ensure the understanding and participation of ordinary people. A generic model could be replicated throughout Russia. Fairness, which is dependent on accurate, accessible information and the transparency of the auction process, was essential to active continued public support. The "Guiding Principles" of IFC's work on small-scale privatization can be found in Annex 7.

Establishing Resident Teams

To develop and implement the model scheme in Nizhny Novgorod, an international team of experts was assembled with experience in conducting privatizations through auctions. In addition to the Nizhny Novgorod officials and IFC staff, consultants from Poland, auctioneers from Czechoslovakia, and lawyers specializing in privatization law from Sweden were brought to Nizhny Novgorod.

Russian law delegated authority for implementing privatization programs to local Committees for Management of State Property (local GKIs) and Property Funds, acting as agents for city administrations and City Councils, respectively. Resident teams in Nizhny Novgorod and elsewhere worked closely with these agencies on all issues concerning the small-scale privatization process. In Russia, small-scale privatization was a highly controversial socio-political policy in 1992. The presence of dedicated, reform-minded officials within local GKIs and Funds was critical to concluding successful privatization programs in Nizhny Novgorod, Volgograd, Tomsk and elsewhere.

To efficiently assist Russia's regions in the third phase of the Small-Scale Privatization Program, IFC created mobile advice teams. From April 1993 to project completion, mobile teams composed of Russian-speaking international consultants, Russian privatization consultants, and Russian lawyers traveled to cities on working visits for up to two weeks, helping local officials to initiate, expedite, audit, or invigorate municipal small-scale privatization programs. The mobile

team approach involved on-site legal, operations, and information campaign support for city GKIs and Funds.

Building the Legal Framework

In establishing a model scheme for privatization of Nizhny Novgorod's small-scale enterprises, it was recognized early on that city officials and the IFC would need to create a body of local privatization legislation regulating the process in the many city institutions involved in the program.³ This process was initiated by transferring additional authority from the Nizhny Novgorod City Council to the City Administration and by according the GKI and Property Fund equal status. However, intensive work was also necessary to define procedures and create a standard set of privatization working documents absent from federal privatization law.

Working with local officials, the IFC team drafted model legislation which described in detail responsibilities, duties, and methodology to be used in the privatization process. The team also prepared documentation that described the liquidation process, methods for separating assets and liabilities, and procedures for gathering and publishing information on each enterprise to be privatized. Three primary standard pieces of legislation were created:

- *City Privatization Regulations.* In an effort to streamline the privatization process, IFC gathered together in one document all the political and economic decisions regarding small-scale privatization that affected all municipal bodies. Provisions included guidelines for a city Standing Commission on Privatization, the determination of sellers and qualified buyers, conditions of sale of municipal assets, requirements for public disclosure, methods of payment for purchased properties, and rules for distribution of auction proceeds. Together with auction rules, *City Privatization Regulations* defined the roles of all parties involved and provided all the necessary guidelines for implementing a municipal small-scale privatization program.
- *Agreement Between Committee and Fund.* Federal law established a local GKI and Property Fund to jointly implement municipal privatization programs. Often, political friction between GKIs and Funds (or between City Administrations and City Councils, their parent institutions) impeded progress on privatizations. This friction translated into arguments about the quality or validity of enterprise documentation transferred from GKIs to Funds prior to auction. The standard *Agreement* governed deadlines, dates, and document flows from the Standing Committee on Privatization to the Property Fund in an effort to minimize disagreements and create a uniform standard of information, thus facilitating the privatization process.
- *Transaction Documentation and Contracts.* In the second and third phases of the Small-Scale Program, ongoing concerns rather than liquidated enterprises were sold at auction (the

³ These institutions included: the city GKI, Property Fund, ward administrations, City Council, Office of the Mayor, ZhKU (Department of Public Works and Building Maintenance), and city Bureau of Architecture, as well as local trade unions and workers' associations.

IFC-developed Volgograd Model), requiring some modifications to the standard documents IFC developed in Nizhny Novgorod. The key requirement when selling ongoing concerns was to provide more detailed information on liabilities assumed by buyers. IFC created a set of standard *Transaction Documents*, mandating that additional information be provided to potential buyers without impeding the speed of the privatization process.

Examples of these model documents, as well as the primary legislation governing small-scale enterprise privatizations can be found in the project's published and widely disseminated "how-to" manuals, Annexes, The Nizhny Novgorod Model and Annex Supplement: The Volgograd Model.

Creating a Pipeline

Once city officials enacted a local body of legislation establishing and regulating municipal privatizations, the next step was to structure a regular cycle of auctions. IFC experience with privatizations in Poland and Czechoslovakia showed that regularly scheduled auctions of municipal assets sustained a high level of interest in privatization programs from potential buyers and the general public alike. Importantly, a steady stream of auctions permitted a "critical mass" of private enterprises to emerge within a short time frame, generating visible local results.

In Nizhny Novgorod, the details of preparing enterprises for sale and conducting auctions were developed over February and March 1992, with emphasis on ensuring the speed and transparency of the auction mechanism. In order to systematize a process in which between 10 and 20 enterprises might be auctioned every week, IFC developed a framework to organize the processing and sale of enterprises. Working backward from auction dates, responsible officials and IFC created uniform methodologies and set deadlines for each step of the privatization process. The flow of enterprises, from selection through the approval process to auction, was scheduled for groups of enterprises for up to one year.

In each city that IFC assisted, consultant teams worked with privatization officials to create or streamline these "pipelines," taking into account local ordinances affecting the privatization program. In Volgograd, for example, the approval process for privatizing enterprises was compressed to an administrative order, at the wish of the City Administration. In all cities, creating a pipeline gave the privatization agencies (GKIs, Property Funds, City Councils) a schedule to work toward and the municipal, oblast and federal governments a yardstick by which to measure the speed and progress of local small-scale programs. An example of a typical privatization pipeline can be found in *Annex 1*.

Communications Campaign

IFC relied on communications work as an essential component of the Small-Scale Privatization Program in all its phases. Ensuring that auction sales attracted a sufficient population, were implemented fairly, and were perceived as an accessible, fair and transparent privatization method required two elements. First, privatization participants had to have access to full and

accurate financial and inventory information about properties up for sale. And second, the public at large had to understand the principles, goals and mechanics of local privatization programs.

IFC communications work was therefore focused on raising awareness and understanding of local privatization programs and providing specific, practical information on the auction process in particular. Two months before the first auctions in Nizhny Novgorod, in February 1992, the city administration and the IFC initiated an extensive information campaign whose first stage involved explaining how the free market benefits the retail and service sectors. The second stage explained how to become an auction participant and provided step-by-step instructions for submitting auction applications and taking the title of acquired property. The campaign consisted of a mass distribution of privatization brochures, articles in city and regional newspapers, press releases, and television and radio interviews.

IFC's approach at all times was to assist local authorities with improving the performance of existing public affairs departments, training staff, and organizing the collection and dissemination of privatization information. Involving local authorities from the beginning allowed IFC to play a secondary, support role in all public relations work. Although the communications assistance IFC provided varied from city to city based on local needs and conditions, the following tools were common to all city projects:

"How-To" Manual for City Officials

The privatization model developed in Nizhny Novgorod, further refined in Volgograd, and adopted for use by privatization authorities nationwide was documented in a "how-to" manual that was the standard reference for municipal GKIs and Property Funds all over Russia. During the second and third phases of the Small-Scale Privatization Program, massive and speedy distribution of this "how-to" manual, *Small-Scale Privatization in Russia*, gave significant support to IFC's small-scale privatization work in Russia's regions. The manual provided officials with standard documents and procedures, and a compendium of current laws regulating privatizations. The handbook contains four volumes:

- *Guiding Principles: The Nizhny Novgorod Model.* This volume contains an overview of privatization in its Russian context, then outlines the principles behind the auction approach used in Nizhny Novgorod: fairness, openness, and speed. IFC program recommendations, standard documents, and contracts are discussed in brief.
- *A City Official's Guide: The Nizhny Novgorod Model.* This volume provides step-by-step directions for officials and their responsible agencies to implement a municipal small-scale privatization program. Legislative, administrative and procedural practices are discussed, as well as corollary issues of financial management and employee participation in privatization.
- *Annexes: The Nizhny Novgorod Model.* This volume contains the model legislation, city regulations, working documents, and contracts necessary to support the municipal small-scale privatization program described in *A City Official's Guide*.

- *Annex Supplement: The Volgograd Model.* This volume presents the procedures and standard working documents for auction sales of ongoing concerns.

Nationwide distribution was immediate and massive, involving direct mailings to oblast and city officials. In all, more than 50,000 copies of *A City Official's Guide*, *Annexes* and *Annex Supplements* were distributed.

Training Seminars

Following the successful launching of small-scale auctions in the third pilot region of Tomsk, IFC held a series of seminars in Moscow in March and April 1993 for local privatization officials from Russia's regions. The two-day seminars drew over 300 GKI representatives from the largest cities in Russia.

The aim of the seminars was twofold: to communicate the benefits of privatization and to deliver practical information on implementing local auction programs. IFC lawyers reviewed federal and model local legislation and documents related to small-scale privatization and discussed solutions to commonly occurring legal obstacles to municipal programs. Privatization consultants provided training on organizational techniques, streamlining paper flow, proper auction procedures, and strategies for creating an effective local information campaign. IFC used various educational tools for the seminars including case studies; video documentaries of privatizations in Poland, Nizhny Novgorod, and Volgograd; group exercises; and mock auctions. Officials were also offered individual consultations with IFC's legal staff. Seminar guest speakers included Peter Phillipov, Chairman of the Privatization Committee of the Russian Supreme Soviet and Member of the President's Council; Dmitri Bednyakov, mayor of Nizhny Novgorod; and Boris Nemtsov, governor of Nizhny Novgorod Oblast.

Newsletter

In 1993, to supplement legal provisions and operational recommendations provided in *Small-Scale Privatization in Russia* and support local privatization programs throughout Russia, IFC began publishing a bimonthly privatization newsletter for oblast and city officials. Early editions of the newsletter advised local privatization authorities on approaches to common legal problems, apprised officials of recent developments in Russian privatization law, and profiled small-scale success stories in IFC-assisted cities. Later editions focused on management and legal issues of interest to workers' collectives, the single largest group of purchasers of small-scale enterprises. An English-language translation of the *Small-Scale Privatization Newsletter* can be found in *Annex 2*.

Media Relations

Public affairs programming, especially on television, proved to be an effective means of educating a mass audience and increasing awareness and understanding of the privatization process. In Nizhny Novgorod, Volgograd, Tomsk and throughout the third phase of the Small-Scale Privatization Program, IFC consultants assisted city officials in placing programming with the local media, including: (1) holding seminars for local journalists explaining the mechanics and theory of the privatization process; (2) inviting local news coverage of small-scale auctions and generating newsletters and press releases about auction results and upcoming auctions; and (3) assisting the production of news spots featuring local success stories--profiles of flourishing enterprises that made a successful transition to private ownership through local privatization programs.

Apart from extensive work with local media and local administrations, IFC produced promotions material about small-scale privatization for national television. Ten five-minute "infomercials" aired in the spring and summer of 1993 in Russia and throughout the Commonwealth of Independent States on Ostankino Television's *Telemixt* business program. Program subjects included an overview of the small-scale privatization process, common misconceptions about local privatization programs, the benefits of a free market in the retail sector, and local small-scale success stories from Nizhny Novgorod, Volgograd, Aleksandrov (Vladimir Oblast), and other IFC assisted Russian cities.

Community Relations

In addition to the city GKIs and Property Funds, the cooperation of two groups was essential to conducting successful municipal privatization programs: the City Councils and workers' collectives. Federal privatization law mandates that the City Council (or municipal legislative body) and the workers' collective (or current pool of enterprise employees) authorize the privatization plan for a given enterprise. Conservative City Councils often arbitrarily removed enterprises from local privatization pipelines. IFC research estimated that in 1993 approximately 14% of all small-scale enterprises were taken out of municipal programs by City Councils.

On the model of the privatization workshops held in Moscow for GKIs, IFC mobile teams conducted in-city seminars specifically tailored to address the concerns of City Councils--chiefly, that auction sales of bread, dairy and other primary product retailers would disrupt the supply of these items locally. Through a combination of statistical data, reports from city officials on the effects of auction sales on the retail sector in neighboring regions, and visual documentation from Nizhny Novgorod, Volgograd and Tomsk, the presentations were successful in restarting stalled municipal programs in Taganrog, Nakhodka, Archangelsk and other cities.

Workers' collectives also played a significant role in the privatization process, purchasing nearly two-thirds of all small-scale enterprises in Russia during 1992-93. In the early stages of the program, IFC recognized the need to train collectives participating in the auction process as future managers. Mobile advice teams conducted training seminars on legal and administrative

structures in a fully worker-owned company and strategies to provide incentives to increase production and efficiency, reduce shrinkage, and network with wholesale suppliers.

The Auction

Working closely with the City Administration, GKI and Property Fund, IFC developed an open auction mechanism for the pilot program of municipal property sales in Nizhny Novgorod. Open auctions are both efficient and nondiscriminatory, and are therefore the preferred method for implementing privatization without corruption. The participatory nature and fairness of the open auction mechanism are essential to building support for the privatization process locally. Other, less transparent variants of privatization risk public perceptions of disenfranchisement and may discredit both government officials implementing privatizations and the privatization process as a whole.

In March 1992, the IFC team finished work on a methodology for calculating the starting prices of enterprises and a model format and standard protocol for auctions. As obligated by federal law, incentives for workers' collectives were developed to alleviate concerns about job security and encourage participation in privatizations by existing employees. Training was provided for local auctioneers, and some personnel were sent to Prague to work with Czechs who had participated in that city's first small-scale auctions. On March 21 and 28 two trial auctions were conducted. One week later, the model auction mechanism was used for the first time for the actual sale of 22 municipal properties. The subsequent weekly auctions typically lasted three to four hours and were open to the public.

Nearly all Russian cities adopted the auction rules developed for the Nizhny Novgorod municipal privatization program, even where local programs specified the sale of ongoing concerns (Volgograd Model) rather than liquidated enterprises. Consultant teams conducted periodic legal audits of local auction programs in the second and third phases of IFC's work and advised city officials on measures to protect the confidentiality of information about auction participants.

Transfer of Ownership

Another important goal of IFC's work was to facilitate the physical transfer of municipal assets to new owners after auction. Difficulties in enterprise registration, asset valuation, and other bureaucratic delays had undermined early attempts to transfer municipal property through long-term leasing or non-auction privatization variants. Therefore, new owners were sometimes unable to take title to acquired assets.

Under the IFC Nizhny model procedures, privatization authorities registered *Contracts of Purchase and Sale* and took payment for purchased enterprises immediately after auctions were concluded. Keys to the sold property were handed over to the winning bidder at the auction venue. Within three days, purchasers and representatives of the city Property Fund made an on-site review to verify the value of auctioned enterprise inventories. After confirming the condition and value of inventories and property, the two parties signed an *Act of Transfer and Acceptance*, giving the buyer possession and legal responsibility for both property and inventory.

IFC teams assisted city Property Funds first in Nizhny Novgorod, Volgograd, and Tomsk, and later in 26 additional cities throughout the Russian Federation to implement Nizhny model procedures and transfer documents. IFC also worked with city officials to monitor the speed of property transfers.

PART FIVE: Results

IFC-Assisted Cities

IFC has provided direct assistance to 29 cities throughout Russia. As of January 1994, close to 5,000 enterprises had been privatized in these IFC-assisted cities. A map with IFC project locations can be found in *Annex 3*. A city-by-city breakdown of privatization results is provided in *Annex 4*.

Nizhny Novgorod

Nizhny Novgorod, the first city in Russia to implement small-scale privatization, is one of the furthest along in creating a genuinely free market in retail goods and services. Today 939 small enterprises have been privatized through 92 weekly auctions with at least 3,000 bidders participating. All of these enterprises were sold through an auction process, illustrating a commitment to creating fair, open, and transparent ownership transfer.

Volgograd--Small-Scale Privatization in an Oblast

In July 1992, IFC consultants began working in Volgograd to refine the model and to begin replication of the pilot project instituting a regular auction-based privatization mechanism on an oblast-wide level. The goal was to combine work in the major urban centers as well as in smaller rural areas. IFC and oblast authorities chose to begin work in the capital city of Volgograd (population 1.2 million) and five other cities within the oblast--Volzhsky (350,000), Kamyshin (126,000), Kalach (25,000), Mikhailovka (64,000) and Srednaya Akhtuba (31,000). Today 569 enterprises have been privatized in the city of Volgograd alone and a total of 893 enterprises have been privatized in the six IFC-assisted cities in the oblast.

In designing the Volgograd small-scale program, IFC acknowledged the local authority's desire to sell businesses as ongoing concerns rather than as liquidated assets by developing a method of sale for ongoing concerns. Accordingly, modifications were introduced whereby liabilities were transferred to new owners. The modifications, termed the Volgograd Model, have since provided other Russian cities with an alternative system for small-scale privatization that is now the primary method being utilized throughout Russia. The Volgograd Model has been documented and published as a supplement to the Small-Scale Privatization Manual.

Tomsk and Tomsk-7

After receiving multiple requests for assistance from the municipal authorities, the IFC small-scale team spent approximately four months working closely with privatization officials in Tomsk. As in Volgograd, the city officials opted for privatization of ongoing concerns. To date, the city of Tomsk has privatized 163 enterprises through auctions. IFC's experience in Tomsk led to further refinement of the project through the development of useful documents and methodology to facilitate a streamlined, efficient process.

The IFC small-scale team entered Tomsk in early November 1992. By early January, a pipeline of enterprises had been established, allowing Tomsk to hold weekly auctions of 10 to 15 enterprises. Coordination between departments was improved by establishing a notification system and creating a timetable with agreed upon dates. (See the example of the Tomsk pipeline in *Annex 1*.)

IFC's success in Tomsk prompted officials from the city of Tomsk-7, the largest of Russia's ten closed cities (population 110,000), to request IFC assistance in initiating their small-scale privatization program. Tomsk-7 officials quickly adopted IFC auction rules, city regulations, and standard documents and contracts and established a brisk auction schedule. An IFC auction video that details a fair and transparent process was delivered and three educational brochures, "Small-Scale Privatization and You," "Small-Scale Privatization and the Workers Collective," and "Privatization and the Entrepreneur," were distributed to raise awareness about a market economy, the privatization process, and how to participate. To date, 35 enterprises have been privatized. Due to the nuclear accident that occurred in the city in March 1993, the process was delayed and IFC direct involvement curtailed.

Direct Assistance to 25 Additional Russian Cities

The successful implementation of projects in Nizhny Novgorod, Volgograd, and Tomsk motivated other cities to focus on their small-scale privatization efforts while the federation-wide distribution of "how-to" manuals provided the guidelines. Having established an efficient, fair, and transparent mechanism to privatize small-scale enterprises, the IFC's next task then was to broaden and deepen the impact of small-scale privatization further through mobile advice teams. The IFC mobile advice teams visited cities upon request, in an effort to solve specific legal or procedural problems. As a rule, cities in European Russia had progressed the fastest in their small-scale privatization programs. Cities in outlying regions often lagged behind the center. The IFC gave priority to assisting those cities having difficulty with the privatization process. The situation encountered in the assisted cities and IFC's course of action is described below.

Far East

- **Vladivostok.** Privatization officials in Vladivostok were extremely responsive to IFC advice on their small-scale privatization program and are intent upon holding regular, weekly auctions. Originally, the city GKI had not liquidated but rather had reorganized the city's trade associations, or *torgs*, leasing the assets of the *torgs* on a long-term basis to workers collectives. With the aid of IFC legal counsel, 80 of the improperly commercialized enterprises have been commercialized and introduced into the pipeline. The city GKI is currently exploring ways to introduce an additional 500 enterprises into the pipeline. To date, 257 enterprises have been privatized.
- **Nakhodka.** Political conflicts in Nakhodka had delayed small-scale privatization efforts here. Moreover, at the time of IFC's first working visit, the city administration was interested in keeping a certain percentage of stores in municipal hands "to demonstrate the continuing

capability of the city to manage property and trade enterprises." IFC consultants worked with city officials to convince them to privatize all small-scale enterprises, in particular 40 of the largest and most centrally located stores previously excluded from the process. More than 215 enterprises have now been privatized.

- **Blagoveshensk.** An IFC team invited by Amur Oblast officials was unable to effect significant change in the city's privatization process due to an intractable city GKI. Improper commercialization and early privatization, through which over half of the city's workers collectives were illegally given their enterprises outright, sharply reduced the number of small-scale enterprises available for privatization. In addition, the city administration further diminished the number of city trade and service outlets by consolidating unlike enterprises and reorganizing them for sale as single entities. Thus, only 70 enterprises have been privatized. Despite the lack of significant change in the city of Blagoveshensk, the IFC team held a day-long seminar for privatization officials from throughout the Amur Oblast that was extremely well received.
- **Petropavlovsk-Kamchatsky.** Though located on a relatively isolated peninsula on the northeastern corner of the country, the city has begun to build a foundation for a market-oriented economy, and to date, 146 enterprises have been privatized. Upon arrival, IFC consultants found the city GKI to be selling only unprofitable municipal enterprises and retaining profitable ones. In addition, starting prices for objects were determined by a closed bidding process, allowing possibilities for personal discretion and corruption. IFC consultants argued against these practices and worked with privatization officials to adopt a more cohesive set of documents and contracts that corresponded with federal legislation.
- **Khabarovsk.** During the initial visit to Khabarovsk in June, IFC consultants set up a systematic auction process of selling approximately eight objects a week in twice weekly auctions. These procedural recommendations allowed the Privatization Commission to process efficiently more than 100 enterprises. The Khabarovsk GKI was particularly responsive to IFC advice due to the GKI's desire to privatize all its small-scale enterprises as decreed in Yeltsin's May 8th Ukaz. Khabarovsk has privatized 168 municipal small-scale enterprises.
- **Yakutsk.** At the request of the Sakha Republic Property Fund, the IFC small-scale team examined the feasibility of implementing small-scale auctions in Yakutsk. Before the team's arrival all small-scale privatization in Yakutsk had been carried out through direct and exclusive sale to workers collectives with no use of either auctions or tenders. IFC consultants worked to convince city officials of the need to privatize and to adopt an open auction mechanism.

Central Region

- **Orel.** The city of Orel has progressed relatively far in its privatization program with 182 small-scale enterprises sold. The positive results are readily apparent from the energy and ambition of the city's new businessmen and the profits being realized from the sale of staple goods. One local businessperson converted a liquor store into a dairy bar, while the largest department store converted a ground floor wing into a supermarket.
- **Vologda.** The IFC small-scale team was called to help strengthen the hand of the local GKI over the very conservative Maly Soviet; which had passed a privatization program that contradicts the Federal Privatization Program. Primarily, the Vologda Program forfeited the possibility for a fair, open auction process as all objects prepared for privatization were sold directly to the workers collective for residual book value. The issue cannot be solved until it is reviewed by the Supreme Court.
- **Vladimir.** Officials in Vladimir Oblast adopted and implemented IFC's trucking privatization program between March and August 1993. City officials in Vladimir had already made significant progress in small-scale privatization, having previously adopted IFC methodology and documentation for the sale of small businesses through an open auction process. Though nearing completion of small-scale privatization in Vladimir and other cities throughout the oblast, an IFC small-scale expert worked with city officials, offering solutions to minor procedural and legal problems.
- **Yaroslavl.** During a working visit in June, IFC consultants found the city of Yaroslavl to be nearing completion of its municipal small-scale privatization program with 142 objects privatized. Efforts of the team focused on privatizing 76 objects that had been removed from the pipeline by the Maly Soviet.

Southern Region

- **Taganrog.** An IFC team first visited Taganrog in May of 1993 and encountered significant problems in the privatization process. The city had no access to legal support and did not have a cohesive set of documents necessary for privatization; commercialization had not been completed (in one case, a torg of 87 food stores had been "transferred" to a new owner, effectively creating a new monopoly), and only six objects had been privatized through auction. Over a six-month period IFC consultants worked with city officials to address these problems. Taganrog has now built a strong legal foundation for privatization and is currently holding regular auctions.
- **Voronezh.** An IFC working visit to Voronezh found the privatization effort stalled as over 80% of the small-scale enterprises had been leased with the right to buy prior to the law on privatization. Thus, few items were available for sale. With no legal means for privatizing these enterprises through auction the IFC recommended that the city sell off the right to lease space not currently in the privatization program.

West Siberia

- **Achinsk.** In July, the Krasnoyarsk Krai officials requested that IFC consultants visit the city of Achinsk in order to speed the privatization process there. On arrival, however, IFC consultants found that the privatization process had been derailed. The City Council had sold off groups of municipal enterprises at book value to workers' collectives, and there were few legal privatization transactions in Achinsk. Of the few options remaining, IFC recommended that the process might be righted by the following steps: immediately suspending cessation of all privatization action not channeled through the local GKI; providing short-term legal assistance to correct the local privatization legislation; and immediately introducing an open auction process for small-scale enterprises.

Urals

- **Tiumen.** Small-scale privatization is proceeding in Tiumen with 255 enterprises having been sold off, but there have been several obstacles to creating a genuinely free market. Tiumen's City Council delayed the full implementation of small-scale privatization by removing 60 municipal enterprises from the city program. Many city authorities were further reluctant to put their full faith in the free market mechanism, and the Tiumen GKI subsequently expressed interest in establishing so-called "mixed enterprises" out of the city's remaining small-scale objects. This approach envisioned the GKI, as the city's agent, retaining a share of the assets in these enterprises. Finally, there was a marked tendency by privatization officials to overregulate privatized businesses through conditions of sale, including provisions for mandatory repair of property. IFC consultants worked with city officials to remove these obstacles to privatization and to help establish a genuinely free market economy.
- **Orsk.** Differing views in the city GKI and City Council over the speed and methodology of small-scale privatization complicated the privatization process here. Although GKI officials claimed that nearly 90% of city enterprises had already been privatized by lease agreement, the City Council pressed for additional auctions of municipal property. In addition, it was unclear whether the city GKI acted properly in directing the privatization of city bread and meat stores, which were turned over to their wholesale suppliers. As work was progressing on these issues, the IFC team was hastily recalled from Orsk due to the deteriorating political conditions nationwide at the end of September. However, local officials welcomed the possibility of an extended return visit by IFC to reconcile outstanding legal problems.
- **Kamensk-Uralsky.** At the end of September an IFC team briefly visited Kamensk-Uralsky. Although an IFC survey showed that 107, or 72%, of the city's small-scale objects had been sold to date, the city GKI was satisfied it had privatized nearly all of the enterprises permitted under legislation currently in force, i.e., the federal privatization program for 1992. Therefore, city officials sought IFC counsel on a number of post-privatization issues,

including management of municipal property not slated for privatization and measures to stabilize the rent-driven income of the city GKI.

- **Izhevsk.** Local officials report that 220 of Izhevsk's 300 municipal enterprises have been privatized, and the city planned to process the remaining small-scale objects by mid-1994. Although the Izhevsk City Council removed a substantial number of enterprises from the privatization process, the GKI and Fund officials indicated that this obstacle to completing privatization would likely be overcome following the December elections. To prepare the city administration for the expected influx of objects, IFC consultants worked closely with both the GKI and Fund, suggesting ways to improve their working relationship, expedite movement of objects through the privatization pipeline and generally improve the efficiency of the privatization process in Izhevsk.
- **Solikamsk.** At the request of the local GKI, an IFC team made a brief working visit to Solikamsk to review city methodology for selecting small-scale objects and documents pertaining to auction sales. About 70% of the city's 100 small-scale objects subject to privatization have been sold, almost all by tender. IFC consultants have strongly recommended against this practice as it tends to overburden newly privatized enterprises. IFC is monitoring progress in Solikamsk and advising city authorities on legal avenues to increase the number of small-scale objects that may be privatized.
- **Berezniki.** Small-scale privatization in Berezniki has lagged behind national standards (42 enterprises, or 28% of the city's 150 enterprises have been privatized) in part due to interference from the City Council and resistance to an open auction process. In October, an IFC team visited Berezniki to advise the city administration on legal issues regarding small-scale privatization and to recommend changes to the city's privatization methodology. City officials responded favorably to IFC consultations and have adopted the full package of IFC documents pertaining to auction sales.

Northern Region

- **Archangelsk.** An IFC team visited Archangelsk at the end of July. Small-scale privatization is proceeding: to date, 131 small-scale objects out of 243 municipal enterprises have been privatized. Archangelsk's City Council delayed the full implementation of small-scale privatization by removing the city's 80 milk and bread stores from the process. The chairman of the City Council expressed doubts to IFC consultants that these enterprises would maintain their profiles if privatized, potentially depriving the city of its supply of staple goods. While subjective exclusion of objects may be the city's chief privatization problem, organizational difficulties within the GKI were also a contributing factor. The IFC team worked with GKI officials on improving their small-scale conveyor and bolstering the legal documentation.

The Russian Federation

According to information released by GKI, nearly 76,000 small-scale enterprises have been privatized throughout cities in 87 of the 89 regions of Russia, establishing as many as 2 million new entrepreneurs. This progress has encouraged the creation of innumerable "start-up" businesses that have hastened the transition of the service and retail sector to a market-oriented economy. *Annex 5* contains a table illustrating the privatization results by region in Russia.

An IFC survey of 1,000 privatized businesses in 10 cities across Russia found the effect of privatization to be positive. Nearly all the new owners surveyed believed employees were working more intensively, and the vast majority reported favorable effects on profitability, the number of customers and the range of goods, as well as reporting reductions in prices and improvements in service. As they make the transition to private management, these new enterprise owners face problems, including the burden of taxes and changing regulations.

PART SIX: Conclusion

In the three years since the collapse of the Soviet Union, Russians have witnessed a profoundly deep and extensive transformation of their country. As the centrally-planned economy disintegrated, Russia began to build a market economy based on individual responsibility and initiative. With almost every shop, factory, and farm under state control the transfer of ownership was a monumental undertaking. It was thus essential that the first privatization effort be simple, fair, quickly implemented, and successful. In partnership with the Russian authorities, both at the local and federal level, IFC resident teams developed a small-scale enterprise privatization model to satisfy these criteria.

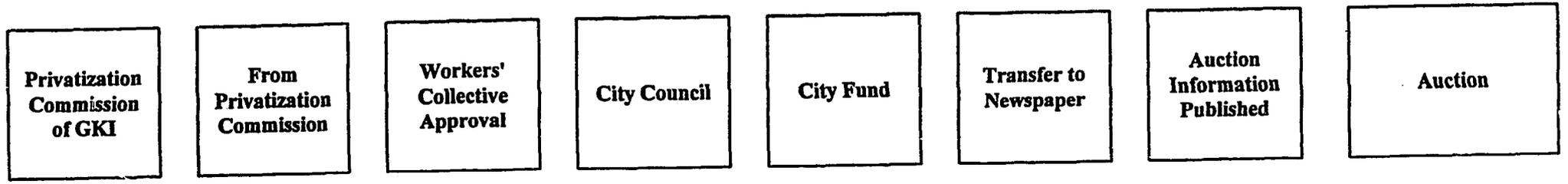
Certainly, the Russian retail and service sector does not yet resemble the West and private businessmen continue to face a myriad of challenges. However, the progress made in establishing a free market economy should not be underestimated. An entrepreneurial class of small-business owners has been created. Throughout Russia, both service and the assortment and quality of consumer goods has improved. The growth of small business has absorbed workers left unemployed by the contraction of the industrial sector. A national conference in Moscow of small- and medium-sized business owners attracts thousands of merchants every year, and government policies to support small businesses are on the rise as politicians now recognize small businesses as a cornerstone of the private sector.

The IFC Small-Scale Privatization Team concluded the bulk of its work in December 1993, having fulfilled its commitment to Russia. A simple, generic, and fair mechanism had been developed for the privatization of small-scale enterprises and had been encoded in Russian law. The mechanism had been rigorously tested and refined in several demonstration regions and vigorously extended to regions throughout the whole of Russia. A mobile advice team had worked throughout the Federation to support those cities encountering legal and procedural difficulties with the process. These efforts were significant in establishing the foundation for a market economy and a basis upon which subsequent privatization efforts could be built.

ANNEXES

ANNEX 1

Tomsk Privatization Pipeline



Wednesday 30 Days	Monday 1 Day	Tuesday 7 Days	Wednesday 1 Day	Wednesday 5 Days	Monday 4 Days	Friday 15 Days	Saturday
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							December 26 - No. 1
							February 27 - No. 2
							March 27 - No. 3
							April 9 - No. 4
					April 5	April 9	April 24 - No. 5
			April 14	April 14	April 19	April 23	May 8 - No. 6
	April 19	April 20	April 28	April 28	May 3	May 7	May 22 - No. 7
March	May 3	May 4	May 12	May 12	May 17	May 21	June 5 - No. 8
April	May 17	May 18	May 26	May 26	May 31	June 4	June 19 - No. 9
April	May 31	June 1	June 9	June 9	June 14	June 18	July 3 - No. 10
May	June 14	June 15	June 23	June 23	June 28	July 2	July 17 - No. 11

ANNEX 2

PrivatiZAtion # 2

The IFC, a part of the World Bank Group, promotes the private sector in more than 150 countries worldwide. In Russia, this is done through both investments and technical assistance for privatization. IFC consultants have supported privatization programs in Nizhny Novgorod, Volgograd, Tomsk and are currently extending its activities to regions throughout the Russian Federation.

The questions below were asked in the process of the IFC small-scale privatization team's work in different Russian cities, and also from the letters and questionnaires received. The information in this news-letter was prepared by the lawyers of the International Finance Corporation on the basis of the Russian legislation.

Your comments and references will help us in the preparation of next issues of the news-letter. Our address: 101000, Moscow, Central Post Office, box 217.

WHAT IS THE PROCEDURE OF SELLING AN OBJECT AT AN AUCTION (TENDER) TO A SOLE PARTICIPANT OF AN AUCTION (TENDER)?

According to the Russian Federation GKI Resolution No. 1266-r (28 December 1992), an object must be sold even if there is only one participant.

If the single participant of an auction (tender) is a partnership or an organized party which has agreed upon a contract concerning mutual activities and which unites no less than one-third of listed employees (constituting a workers collective) of the enterprise under privatization, then the selling price is (automatically) determined as double the start price. This price determination is in accordance with the provisional methods for evaluation of privatizing objects defined in Russian Federation Presidential Decree No. 66 (29 January 1992) and in the Russian Federation GKI Resolution No. 763 (13 November 1992). Any other privileges to the employees of the enterprise who have become owners of the privatized object (through discounted sale price and payment in intervals) do not apply.

For other individual participants of an auction (tender), the selling price is determined by the aforementioned regulations, taking into account the results of the reevaluation of assets in accordance with the RF Government Resolution No. 595 from 14 August 1992 "On the Reevaluation of Assets in the Russian Federation". In this case, the appropriate Fund implements the procedure of selling within two weeks from the date of the auction (tender).

In the event that the sole participant refuses to sign the protocol on the results of an auction

(tender) or refuses to sign a purchase & sale agreement, an auction (tender) results are annulled and the deposit made by the participant is not returned. This procedure is also applied in the case of investment tenders, even when the sale of object is determined by maximum offered price.

The property right is transferred to the buyer on the moment of full payment of full payment for the given object.

ARE FULL PARTNERSHIPS ALLOWED TO PARTICIPATE IN AUCTIONS?

Yes, they are allowed. Citizens and legal persons who are recognized as buyers in accordance with Line 9 of the RF Law "On Privatization of Governmental and Municipal Enterprises in the Russian Federation" have the right to sign an agreement on the creation of a partnership to participate in a tender or auction. If at least one-third of employees of the enterprise being privatized are a part of a partnership, then this group is entitled to privileges stated in the RF legislation on privatization (if the bid is accepted).

In accordance with Point 9 of the RF Presidential Decree No. 640, the agreement of a full partnership should be verified by a notary; government registration, however, is not required. Founders of the partnership are obligated to register the enterprise in the desired form only after they have acquired the enterprise.

WHAT IS THE PROCEDURE ON RECEIVING PRIVATIZATION VOUCHERS WHEN SELLING A MUNICIPAL ENTERPRISE?

According to Point 3 of the RF Presidential Decree No. 1229 (14 October 1992) "On the Development of the Voucher System in the Russian Federation", the buyer has the right to deposit (with privatization vouchers) up to 45% of the sale price of the objects. This limit can be increased up to 90% of the sale price upon the decision of the appropriate local soviet.

Circulation and cancellation of privatization checks received as payment for municipal objects is carried out as usual according RF Presidential Decree No. 216 (12 February 1993) "On Measures to Regulate Circulation and Cancellation of Vouchers."

DOES THE CONGRESS OF PEOPLE'S DEPUTIES HAVE THE RIGHT TO IMPOSE LIMITATIONS ON THE RESELLING OF PRIVATIZED ENTERPRISES?

No, because this would limit the rights of the owner of the privatized object. In accordance with

Part 2 of Article 2 of the RF Law "On Property", the owner possesses, uses, and maintains his property. If there are restrictions on reselling, property rights of the owner are violated. The owner of privatized property, in agreement with Articles 30 and 32 of the RF Law "On Property", is entitled to issue a court or arbitration plea in defense of his rights and to claim denouncement of the decision of the local body of power.

CAN A PROPERTY MANAGEMENT COMMITTEE ANNUL A LEASE AGREEMENT FOR A SHOP WHICH WAS SIGNED IN 1990 BETWEEN OBLAST ADMINISTRATION AND WORKERS' COLLECTIVE IF THE INDICATED LEASE IS AUTOMATICALLY PROLONGED UNTIL 1993? HOW CAN THIS SHOP BE PRIVATIZED?

In agreement with the RF Presidential Decree from 14 October 1992 "On the Regulation of Lease Relationships and the Privatization of Government Property and Municipal Enterprises Which Have Been Leased", a new contract should be written up between the property committee and the leased enterprise. If the lessee declines to rewrite a new agreement, then the property committee should appeal to the arbitration court with a request to necessitate the conclusion of an agreement. After a new agreement or contract has been rewritten, it is considered to be valid for an indefinite period of time (Part 4, Article 86 of the Basis for the Civil Code). The Committee can then decline from the agreement at any time, having given notice to the other party no less than three months in advance.

As of yet, an object coming under such a category cannot be privatized. According to the Letter of Instruction from the Federal GKI No. ACh-2/586 (29 January 1993) "On the Privatization of Government Property and Municipal Enterprises Which Have Been Leased", the privatization of municipal of property which has been leased may be privatized after the expiration of the lease agreement or annulment of the agreement through the appropriate legal procedure.

HOW ARE SMALL STATE ENTERPRISES PRIVATIZED IF THEY WERE ESTABLISHED IN 1989-1990 WITH THE PARTICIPATION OF PHYSICAL PERSONS?

All small state enterprises established before the introduction of the RF law "On Enterprises and Entrepreneurs" should reorganize themselves in accordance with articles 6-12 of this law. If this reorganization has not been accomplished, these enterprises are required to re-register. The choice of organizational structure will depend on whether there is proof of means invested in the creation of the given enterprise. If the documents of the enterprise contain such data, then the enterprise is transferred into a partnership or a joint-stock company with a mixed form of property. The share of the state or the local soviet in this enterprise can then be privatized.

In the event that there is no proof that private persons hold shares in the initial capital of a small state enterprise, then it is to be reorganized as a state enterprise and sold at an auction (tender).

DOES THE BUYER HAVE THE RIGHT TO MAKE THE FIRST PAYMENT FULLY IN VOUCHERS?

No. According to the Federal GKI Decree No. 263-r (20 May 1993). In the event that a buyer is allowed to make payments in installments, he can deposit only 45% of the first payment in vouchers. However, the buyer has the right to pay up to future payments in vouchers.

IS THE SALE OF AN ENTERPRISE ALLOWED IF THE SELLING PRICE IS LOWER THAN ACTUAL PRICE?

According to Point 5, Article 20 and Point 4, Article 21 of the RF Law "On Privatization of State and Municipal Enterprises in RF", the price at an auction or tender is determined by bidding. In the event of the absence of a buyer, the price may be lowered, but by no more than 30% of the starting price after which object is removed from auction. There are no other options clearly stipulated in the law. It is assumed that the real market price of the object under privatization is formed at the auction.

HOW TO CLAIM FOR LIABILITY FOR THE DENIAL TO PAY FOR AN ENTERPRISE PURCHASED AT A TENDER OR AN AUCTION

Article 31 of the Law of the Russian Federation "On the Privatization of State-Owned and Municipal Enterprises in the RF" stipulates that the fine for denial to pay for an object bought at a tender or an auction ranges from 5% to 20% of the selling price of a privatized enterprise. The above article specifies this issue.

First of all, this article implies liability of authorities only. This means that buyers - who represent either physical or legal entities - are not subject to fines. The sanction applies to the management body (or other authoritative organ) of the enterprises, institutions, or organizations which have declined to pay.

Secondly, the liability defined in Article 31 is administrative. Therefore, its enforcement necessitates a specific procedure which is outlined by the Administrative Violations Code of the Russian Federation.

Taken all of the above information into consideration, taking practical steps towards claiming for liability for the refusal to pay for an object purchased at an auction or tender might indeed constitute a formidable task. An easier and more reliable way to impose fines for failure to pay is to establish a purchase & sale agreement beforehand. In addition, a separate contract would more clearly define the right of a person in the case of non-payment and offers an operational mechanism which facilitates the legal procedure.

In practice, there are cases of refusal to sign a purchase & sale agreement and disputes arise between the seller and the highest bidder about whether a refusal to sign an agreement means a refusal to pay. In this instance, the participant in the auction who has declared the highest price and is seen as the "winner" can be obligated to sign the protocol on auction results and the purchase & sale agreement, as well as to secure payment after the auction. In the absence of a purchase & sale agreement, there is no legal basis for forcing payment and it is thus difficult to make a claim for non-payment.

Disputes can be avoided if a preliminary agreement is created before auction of an object. This agreement - seen as an intent to sign - can help regulate relations between the seller and the applicant (potential buyer). In addition, a preliminary agreement clarify any ambiguity on responsibilities inherent in a purchase & sale agreement and liabilities for refusal to sign auction protocol or a purchase & sale agreement.

IS A BUILDING ON THE BALANCE SHEET OF A RAILWAY DEPARTMENT WITH A RAILWAY CAFETERIA INSIDE SUBJECT TO A TRANSFER INTO DISTRICT MUNICIPAL PROPERTY?

In accordance with Point 4, Annex 3 of the Regulation of the Supreme Soviet of the Russian Federation No. 3020-1 (27 December 1991), the municipal property of trade, catering, and consumer service facilities are located on the balance sheet of ministries and special departments.

A railway cafe can be transferred into municipal property after it is separated into an independent enterprise if it is not subject to limitations listed by the RF Supreme Soviet Regulation No. 2824-1 "On Introducing Corrections to Point 4, Annex 3 of Regulation No. 3020-1" (23 May 1992). This regulation excludes from municipal property those enterprises under the Ministry of Railroads which provide catering services for passengers or supply services for rail workers.

If the cafe is to be transferred into municipal property, the building where it is located also becomes a municipal property (Point 1.2 of the Federal GKI Ruling #217-p "On Regulation of Registration and Distribution of Property Rights for Non-living Premises" from 5 February 1993).

DO LOCAL AUTHORITIES HAVE TO PAY BACK THE DEBTS OF A LIQUIDATED ENTERPRISE IN THE EVENT OF INSUFFICIENT MEANS RECEIVED FROM THE SALE OF ITS PROPERTY AT AUCTION?

In accordance with Point 3, Article 7 of the law "On Enterprises and Entrepreneurial Activities", municipal bodies are not to be held accountable in the event of insufficient funds generated from the sale of an object at auction.

Upon the liquidation of a municipal enterprise, the body which has made this decision establishes the time period during which creditors can issue complaints or requests. They should do so within two months after an announcement about liquidation. Settlements to creditors, severance pay to workers, and other required payments are paid out with means received from the sale of the enterprise's assets.

CAN PROPERTY MANAGEMENT COMMITTEES ESTABLISH COMMERCIAL ORGANIZATIONS WITH MEANS WHICH HAVE BEEN RECEIVED FROM PRIVATIZATION?

No, property management committees do not have the right to establish commercial structures. This is established by Point 3.4 of the Standard Provision on property management committees of Krai, Oblasts, Autonomous Oblasts, Autonomous Districts, the Cities of Moscow and St. Petersburg, and Federal GKI, which explicitly prohibits such activity.

Article 5 of the RF Law "On Privatization of State-Owned and Municipal Enterprises in the Russian Federation" stipulates that property management committees are part of local administrations and their activities are financed through means received from privatization. These means represent national, territorial, and administrative property and are not to be used for commercial activities.

CAN A CITY PROPERTY FUND EXCLUDE FROM AUCTIONS MEMBERS OF WORKERS' COLLECTIVES WHO HAVE SIGNED AN AGREEMENT ON MUTUAL ACTIVITIES?

No. In agreement with Article 24 of the law "On Privatization of State-Owned and Municipal

Enterprises in the Russian Federation", workers collectives of an enterprise being privatized can form a partnership (or joint-stock company) or sign an agreement on mutual activities to participate in an auction or tender. In this case, the request should be supplemented with an agreement on mutual activities and letter of attorney for conducting mutual affairs (participating in auctions). As stated in Article 123 of the Basis for the Civil Code of the USSR and Union Republics, the letter of attorney must be issued by all other parties of the agreement. This piece of legislation is still applied on the territory of the Russian Federation in the part not contradicting the Russian Federation Constitution and other legal RF acts adopted after 12 June 1990, according to the Regulation of the Supreme Soviet of the Russian Federation "On the Regulation of Property Relations during the Period of Economic Reforms." (14 June 1992). The contents of the agreement of mutual activities should agree with the provisions of Articles 122-125 of the Foundation of Civil Legislation of the USSR and Union Republic. Special attention should be given to the positions in the agreement concerning the reimbursement of expenses related to the agreement.

RECOMMENDATIONS ON ALLOCATION OF NON-RESIDENTIAL PREMISES

The State Program of Privatization of State and Municipal Enterprises in the Russian Federation for 1992, recognizes that the allocation of real property is integral to the establishment of a free market and the process of economic reform in Russia. Accordingly, we recommend that the following seven point policy be adopted regarding the allocation of leased property:

1. *The allocation of non-residential real property should be the responsibility of the privatization authorities.* Since building premises are an important part of the privatization process, it should be centralized at the municipal level and not divided among regional bodies. A single municipal agency should be the lessor in all the lease agreements;
2. *The objective should be private ownership of non-residential real property.* As enterprises are being sold to individuals, so should the premises used by the enterprises ultimately be sold. Accordingly, lease agreements should include these options, such as permitting purchasers to make payments over several years;
3. *Legal rights should be conveyed through standard agreements.* A set of standard documents for use as lease and purchase sale agreements, should be developed to ensure consistency and reliability;
4. *Lease agreements should not include use restrictions or other conditions.* While the privatization laws allow for specified restrictions to be included in the purchase/sale agreement, there is no legal authority to impose regulations regarding the use of premises in lease agreements. Agreements on neutral matters such as sanitation should, however, be included.
5. *Rents should be established on an objective basis, not based on use.* As with use

restrictions, setting rents based on use is unnecessary. Instead, criteria should be fixed and based on a city zoning plan, indexing for inflation and condition of the property.

6. *Rights of tenants should be as broad as possible.* Lease agreements should impose clear obligations on tenants to pay rent and maintain the premises. However, tenants should have the right to sub-lease the premises if the new tenant agrees to lease agreement.

7. *Allocation should occur by auction.* Whenever non-residential property is available for leasing, it should be allocated in the same manner as privatized objects are sold: by auction.

CRITICAL MASS

We have privatized many of our stores but they do not change their practices. They do not work any better than before. What can we do to make them better?

The answer lies in competition and incentives. New enterprises will not behave any better if there is no competition. Stores cannot compete among each other to attract customers and be profitable. To attract customers, stores must provide better goods and services at lower prices than other stores. If your city has not privatized the majority of municipal enterprises, new private enterprises need only compete with state stores. Thus, newly privatized stores need be only a slightly bit better than state stores; they have no incentive to change the way they work. It is very important then that your city privatizes a "critical mass" of stores.

Moreover, if a newly privatized store or kiosk has no competition it is not forced to diversify. It will sell those products which bring the most profit, vodka and other alcohols. Private stores will begin to offer a wide range of goods and services only when forced to compete, again, only when there is a "critical mass."

Unfortunately, "critical mass" is not a concrete number or percentage of stores. Rather it is an amount of private stores that allow for the development of a real private sector. Statistics show that developed private sectors or free markets have more than 5 retail outlets per every 1000 people. (See graph below) On average in Russia today there are only .39 privatized enterprises for every 1000 people.

number of privatized enterprises
population

When Russia privatizes all enterprises currently available for privatization there will be approximately 0.6 enterprises per every 1000 people, perhaps the minimum amount necessary to begin the development of a free market. Thus, it is imperative that your city and all cities throughout Russia privatize as much and as quickly as possible. Only in this way will there be goods and services at lower prices for Russian people. Only in this way will the standard of living begin to rise for all Russian citizens.

EXAMPLES OF SUCCESSFUL PRIVATIZATION IN THE CITIES OF RUSSIA

In some places in Russia, privatization has already reached the point that it is having a positive effect on the lives of the local people. Alexandrov, in Vladimir oblast, is one such place.

Before privatization, there was no place to shop in Alexandrov - everyone went to Moscow on the weekend to shop, even for items as basic as sausage. After privatization, however, the stores have been remodelled and are full of quality goods at lower prices. Now people come from Moscow to shop in Alexandrov.

As in other cities, the key to Alexandrov's success is the creation of competition. Once a significant proportion of the city's stores were privatized, the new owners found they had to work harder and keep their prices lower in order to make a higher profit. In order to attract customers, they also had to find new sources of products. Most of the stores also underwent renovations after privatization.

On the whole, private shop owners in Alexandrov recognized that their success hinges on the political situation in their area and the country as a whole. Thus they are doing their own public relations - for example, continuing to provide special services to pensioners, veterans, and victims of Chernobyl. Before the April referendum, they even had special sale prices in support of Yeltsin.

We can give lots of positive examples of privatized enterprises in different cities of Russia visited by the IFC, e.g., Arkhangelsk, Oryol, Petropavlovsk-Kamchatsky, Khabarovsk, Volgograd, etc.

The "Khopyor" store in Volgograd, which was purchased by the workers' collective for 5 million rubles, underwent renovation after privatization. The store offers a wide variety of food products, particularly meat products, and boasts lower prices than even the state-owned stores. In addition, the management informed the IFC that the store is full from the early hours until close. Shop hours were extended to conform to customers needs after privatization.

The store is developing quickly and is planning to extend its activities. Despite the store's location, far from the center, people from districts all over Volgograd come to Khopyor to go shopping. Another key to success lies in the fact that the workers' collective has bought out the store entirely, including the premises and the land. Because of this, the workers consider themselves to be real owners and they are concerned about the future of their enterprise as well as potential investments for future development. Worthy of note in Khopyor is the excellent rapport among employees at the store which is a direct result of a positive management style employed by the new director.

The store "Produkty" is located several blocks from the main square in Khabarovsk on Ulitsa Pushkinskaya, Dom 6. The store had been open for approximately one year prior to its being privatized through tender. The store is located on the first floor of a residential home in a space formerly occupied by a milk store. The proprietor of the store is a limited liability partnership that had earlier engaged in the business of automobile repair.

There is a large selection of goods for sale in the store: milk, sour cream, butter, sausages, non-alcoholic and alcoholic beverages, chocolate, canned goods and tobacco wares. The store's Board is obliged to maintain the profile of a milk store for one year in accordance with obligations regarding privatization. Although this period is already nearing its end, milk products are delivered and sold and the store has no plans to cease this work.

According to the store's administration and employees, the building was nearly destroyed a year ago. The Board gave the store a new image. The walls were spackled and repainted and new window frames were installed. A complete reconstruction of the interior was carried out and the ceilings were raised.

In addition to the repair work done, the store started working 24 hours, 7 days a week. Therefore, there are now 35 persons working in the store, in place of the original 5. The employees have expressed that, following privatization, they began to work harder and longer, but salaries were raised only slightly.

During negotiations with the administration, it became evident that the store has encountered new problems and difficulties within the year they have been working under the new leadership.

It is pleasing that the administration does not view the requirements of the municipal powers to maintain the profile of the store as a cause for harm to the business. They said that it is profitable to trade products while there is turnover. At that time, they had no intention of engaging in expensive Chinese products which attract few customers. They mentioned that meeting consumer needs in their region was one of their primary aims and mark-ups for vodka are established a much lower rate than those found in the kiosks in the city center (!). People are aware of this and "they also remember that they are able to enter the store and purchase goods other than spirits," so that they usually leave the store with bags full of other products.

The administration mentioned several times difficulties with local distributors. They complained that it is not easy to maintain a wide assortment of goods as local distribution organizations fulfill orders for State stores and do not "recognize" independent ones. Therefore, he makes orders for over 400 million rubles "so that they will work as required" with their store. Large orders allow them to act differently with the distributors. If, for example, last year they were forced to come to terms with the fact that they received milk that had turned sour during transportation, then they now stand firmly on their own and can return such goods.

The administration said that, irrespective of the difficulties, the partnership which controls the store would like to acquire a new one. They are aware that tenders relating to the sale of ownership should end on August 1. They have already become acquainted with the list of municipal objects intended for sale, and proclaimed that "we shall of course buy something."

Although the administration takes care of its neighbors, he is concerned about the opinion in the city of the store. They are leery of stories in the press and have asked us not to publish anything about them. They said that they are more concerned with the State racket than with the local mafia.

Nevertheless, all is well with the store located at Pushkinskaya 6. The store is unusually popular with taxi drivers since, in the words of our driver, they are able to buy a lot more there than in the competing night kiosks where they offer only things to drink, but nothing more.

ANNEX 3

ANNEX 4

Cumulative Results of Small-Scale Privatization in IFC-Assisted Cities as of January 1, 1994

Cities	Total Number of Objects	Number of Privatized Objects	Objects Sold Through Auction/Tender	Objects Leased	Revenue (millions of rubles)	Percentage of Privatized Objects	Percentage Sold to Workers' Collectives
Far East							
Vladivostok	745	257	184	73	9,888	35	64
Nakhodka	245	215	135	10	3,069	88	33
Blagoveshensk	142	70	59	11	1,097	49	n/a
Petropavlovsk-Kamchatski	188	146	135	11	565	78	56
Khabarovsk	486	168	107	61	4,968	35	31
Yakutsk	109	43(a)	0	0	n/a	40	100
Central Region							
Nizhny Novgorod	1,686	939	820	0	13,499	49	44
Orel	286	182	173	8	1,432	64	56
Vologda	198	162	39	39	606	82	84
Vladimir	264	187	179	8	5,176	71	57
Yaroslavl(b)	443	142	n/a	91	n/a	n/a	n/a
South Region							
Taganrog	190	146	6	140	86	77	67
Volgograd	777	569	261	68	3,461	52	51
Mikhailovka (Volg. obl.)	91	38	38	0	297	42	38
Kalach (Volg. obl.)	59	39	39	0	63	67	46
Volzhsky (Volg. obl.)	202	191	130	61	3,009	94	58
Srednaya Akhtuba (Volg. obl.)	8	6	4	2	20	75	50
Kamyshin (Volg. obl.)	99	50	49	1	817	51	44
Voronezh	463	403	101	294	4,123	87	79
West Siberia							
Tomsk	413	163	163	0	2,034	66	42
Tomsk-7	262	35	28	7	229	11	60
Achinsk	100	33	27	6	306	33	33
Urals							
Tiumen (b)	303	255	n/a	n/a	n/a	n/a	n/a
Orsk	152	112	84	26	640	92	92
Kamensk-Uralsky	148	107	85	22	556	73	39
Izhevsk	300	220	155	65	2,462	73	41
Solikamsk	120	56	49	7	75	46	18
Berezniki	237	42	30	12	n/a	18	70
North Region							
Archangelsk	243	131	130	1	1,402	54	13
Total	8,959	5,064	3,210	1,024	59,880	53% (average)	46% (average)

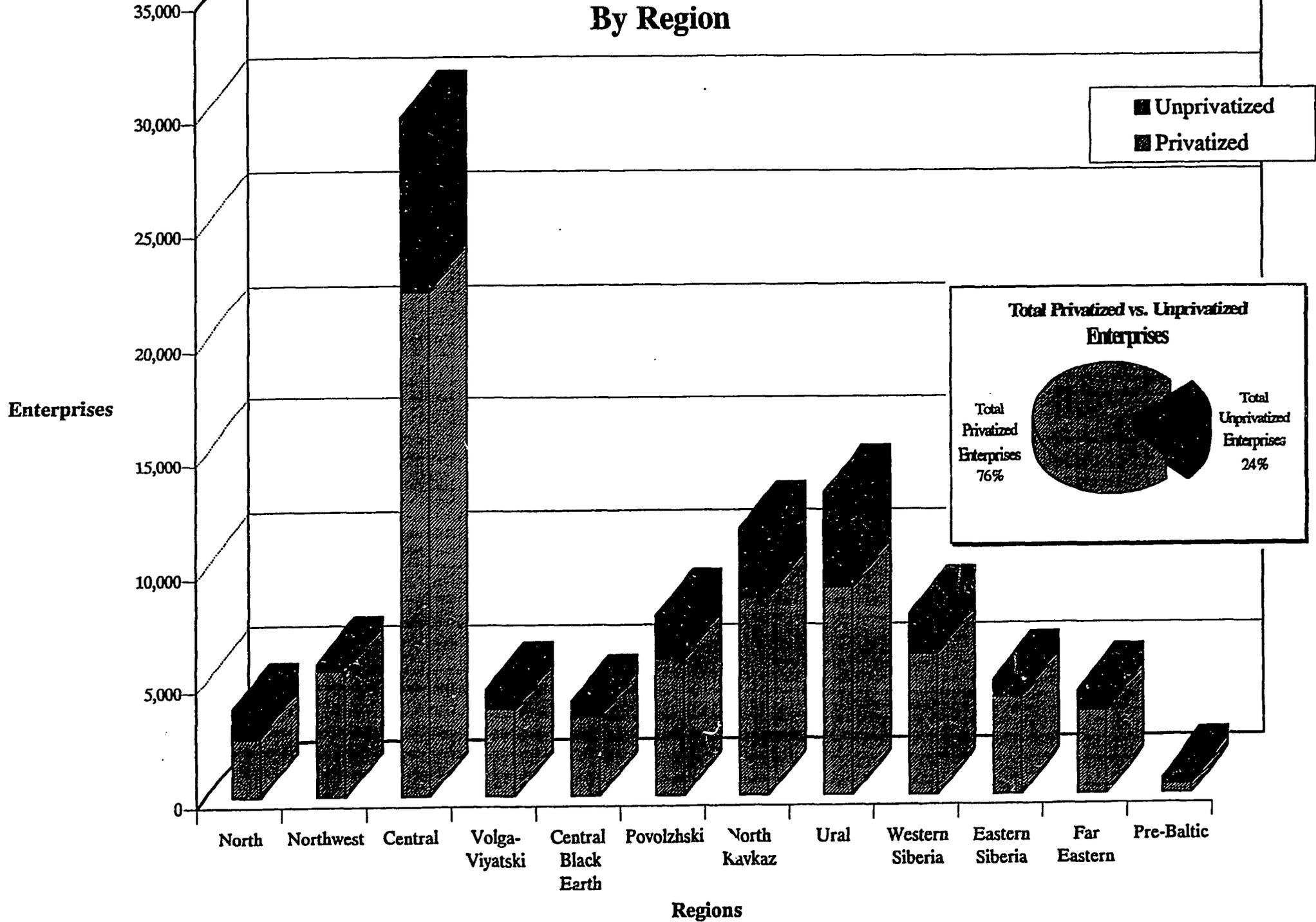
a) To date, all privatized objects have been transferred to workers' collectives.

b) Statistics are as of June 1993. More recent data is not available.

Note: The total number of privatized objects may also include those which have been privatized through corporatization, as well as through auction, tender or lease.

ANNEX 5

Russian Small-Scale Privatization Results By Region



ANNEX 6

Annex 6: Staff List

Small-Scale Privatization Project:

**Bill Bunker
Jane Dietze
Anthony Doran
Kris Easter
Pearse Edwards
Roger Gale
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Natasha Lisimenko
Tania Lozansky
Tatiana Medvedeva
Mark Rozanski
John Tokolish
Nikolai Tonikov**

ANNEX 7

GUIDING PRINCIPLES

Principle 1: Selection of a Single Privatization Method

A city should choose a single, uniform method for privatization of small-scale enterprises in an effort to speed and streamline the process and minimize possibilities for personal discretion. Experience shows that an auction-based method of sale minimizes personal discretion and thus corruption because property values and future owners are determined solely through a bidding procedure, thus avoiding the need for a time-consuming, possibly biased choice of a privatization method for each enterprise to be sold.

Principle 2: Demonopolization through Sale of Separate Outlets

In order to create competition among retail stores, state-owned stores must be broken up and individual outlets sold. Retail outlets should be separated from their wholesale structures (torgs) and sold as discrete units.

Principle 3: Transferable Right to Lease Properties in Multiple-Purpose Buildings

The majority of small businesses in Russia are located in multiple-purpose buildings. Legislation has yet to be developed to provide for the rights of several distinct property owners in one building. In order to implement small-scale privatization without delay, the city should guarantee the transferable right to lease that portion of the building in which the privatized enterprise exists. This lease agreement is signed between the city and the new owner of the enterprise upon sale of enterprise assets and liabilities at auction. Providing a transferable lease right allows the buyer to easily sell the lease right to another physical or legal person. Thus, the conditions of private ownership are achieved, even though the premises are not sold outright, and a "secondary market" in enterprise premises is established.

Principle 4: Sale of "Stand-Alone" Buildings

When an enterprise to be privatized is located in a building that is used for no other business, residential, or other purposes (a "stand-alone" building), the building is sold out-right with other enterprise assets (and liabilities) at auction. As the owner of the building, the new buyer may sell it to other physical or legal persons, contributing to a "secondary market" in enterprise premises.

Principle 5: Open Auctions

The open auction system ensures that the privatization process is fair by allowing all Russian citizens to participate in privatization. By allowing non-bidders to witness the auction, the system is also transparent.

Principle 6: A System of Regular Auctions

An ongoing system of regular auctions enables a mass transfer of state enterprises to the private sector in the shortest period of time possible. Biweekly auctions are recommended as a minimum, with at least ten properties sold at each auction.

Principle 7: Preference to National Citizens in the First Round of Auctions

IFC advises that participation in the first round of auctions be limited to Russian citizens. Foreign investors, including those from former Soviet republics, should be excluded unless there is no domestic interest in a certain piece of property. Non-Russians should be able to participate in subsequent private market transactions. The State Program gives local authorities discretion in this matter.

Principle 8: Public Awareness

The underlying objectives of fairness and transparency require that all citizens be given the opportunity to understand the privatization process since it will affect them as consumers and since they need information to decide whether to participate in the auctions. For these reasons, city officials should implement a well-organized public awareness program that informs citizens in advance of the detailed procedures for privatization and the benefits of a free market.

Principle 9: Fixed, Public Auction Rules

City officials should adhere to a fixed and publicly-known set of auction rules. Fairness and transparency require that auction rules not change or appear to change on an ad-hoc basis. Personal discretion by officials before or during the auction introduces the possibility for corruption.

Principle 10: Valuation Determined Solely by Auction

Initial bidding of prices should be determined through an evaluation of enterprises' existing balance sheet values. Although these values tend to be relatively low, they are the only consistent values available and are the simplest reference point for valuation. The valuation of businesses through the auction itself guarantees a market approach to valuation. City officials should avoid setting reserve prices for businesses. Setting reserve prices, whereby properties are withdrawn if a reserve price is not reached, slows the process of privatization, leads to artificial, discretionary valuation, and damages the reputation of the entire process. Since the premise of the auction is that buyers determine prices through market demand for the enterprise, the withdrawal of a property can be a signal to buyers that the city itself does not have faith in the system it has chosen. Furthermore, experience has shown that the final sale prices at auctions tend to be considerably higher than anticipated by officials.

Principle 11: Auction Participants Should Pre-Register to Establish Good Faith

A good faith deposit should be required to discourage spurious participation in the auction process.

Principle 12: Immediate Transfer of Property

The physical transfer of property should take place within three days following the registration of the Contract of Purchase and Sale, with the keys of the business handed over to the winning bidder. This facilitates rapid change in the operation of the business.

Principle 13: Minimize Restrictions on New Owners

New private owners should be free to operate their businesses with minimum interference. Undesirable requirements include retaining employees or number of positions, or limiting enterprise specialization. It is also important that there are no price controls imposed on goods and services sold by the new private shops and businesses. In a limited number of cases - e.g. when an enterprise sells basic foodstuffs such as bread or milk - new owners may be obliged to continue sales of such products for a limited period of time. When such conditions are imposed, the new owners should be allowed to expand business by offering other product lines.

Principle 14: Incentives for New Owners

City officials should offer special incentives to new business owners - for example, tax incentives and reductions in lease payments connected with investments or improvements in the property.

Principle 15: Stable Lease Rates

In order to provide certain guarantees on lease rates to the new owner, the city should develop a stable system of lease payments based on zoning, not on form of ownership - whether state or private. A city can be divided into zones depending on the location of main transport and shopping thoroughfares, centrality of location, and density of pedestrian and vehicular traffic. A building's zone location determines the coefficients applied to base lease payments already determined by the City Council. Resulting lease payments are adjusted for inflation at the end of each year for the term of the lease.

Principle 16: Payment by Installment for Labor Collectives

Ideally, auction bids should be financed by conventional mortgage loans from commercial banks. However, most banks in Russia are unprepared to finance bids (i.e. make mortgage loans) in the auction process. Installment payments are seen as an alternative method to induce and finance auction bids in the absence of conventional financing structures. The installment-payment mechanism would also strengthen the incentive for owners/leaseholders to make productive use of the commercial property, rather than leaving it idle and holding it solely for speculative purposes.

While the current State Program allows for installment payments by labor collectives to extend for a period of up to three years, IFC recommends that, due to the current inflationary environment, the installment period be no longer than one year.

Auction winners who do not represent labor collectives must pay in full within 30 days of the auction. In both cases, the right of ownership begins with the first payment.

Principle 17: Discounts for Existing Employees

Some form of preference for existing employees is both politically indispensable and economically logical. Experience elsewhere demonstrates that employees who buy their enterprises often make excellent managers, particularly as individual owners. The privatization program offers existing employees a 30 percent discount in the auction bidding process. This allows them to bid more for a particular business than competing bidders without additional cash outlay. This system also creates a financial incentive for outside bidders to arrive at some form of accommodation with existing employees that takes into consideration employees' interests while allowing outside bidders to take advantage of the employees' discount.

Principle 18: Measures to Support Employees Displaced by Privatization

Privatization necessarily entails relocation of both capital and labor to more efficient uses. Such a relocation can be extremely difficult from a social standpoint, however, and measures should be taken to ease the transition to a market economy. In accordance with the Privatization Law, the State Program, and other legislation, cities must provide certain "measures of social security" to protect workers affected by privatization. For employees dismissed as a result of auction, these include job and salary protection before auction; prompt notice of planned dismissal; a collective payment of a certain percentage of the auction purchase price; registration with an employment agency; and severance pay.

Principle 19: Leased Property Should Eventually be Sold.

A mechanism for selling leased property should be developed as quickly as possible to promote the proper incentives among enterprise owners. This mechanism of sale should provide advantages for the current leaseholder of the privatized enterprise, such as a reduction on the selling price of the premises by the value made in physical investments.

Principle 20: Privatization of Wholesale Distribution and Transport Distribution Networks Should Follow the First Auctions

The city should support its privatized retail sector by privatizing wholesale trade and transport networks. Simultaneous privatization of retail, wholesale, and transport was avoided so that supply networks for retail trade business would not be unduly disrupted.

Principle 21: Security of Food Supply

City officials are often concerned that privatization may interrupt the supply of such dietary staples as milk and bread. IFC advises that enterprises currently selling bread and milk be required to continue selling such items for one year after the auction. Enterprises are allowed to sell other products, and newly privatized shops not previously selling bread and milk are allowed to do so.

Principle 22: Political Commitment

In addition to the need for close cooperation between the city administration and the city council on all issues concerning the small-scale privatization process, the presence of dedicated, reform-minded officials is critical.

Small-scale privatization is a highly controversial socio-political process; strong and committed leadership is needed to manage and direct the variety of groups involved.

TRUCKING TRANSPORT PRIVATIZATION IN RUSSIA

International Finance Corporation
Final Operational Report
June 1995

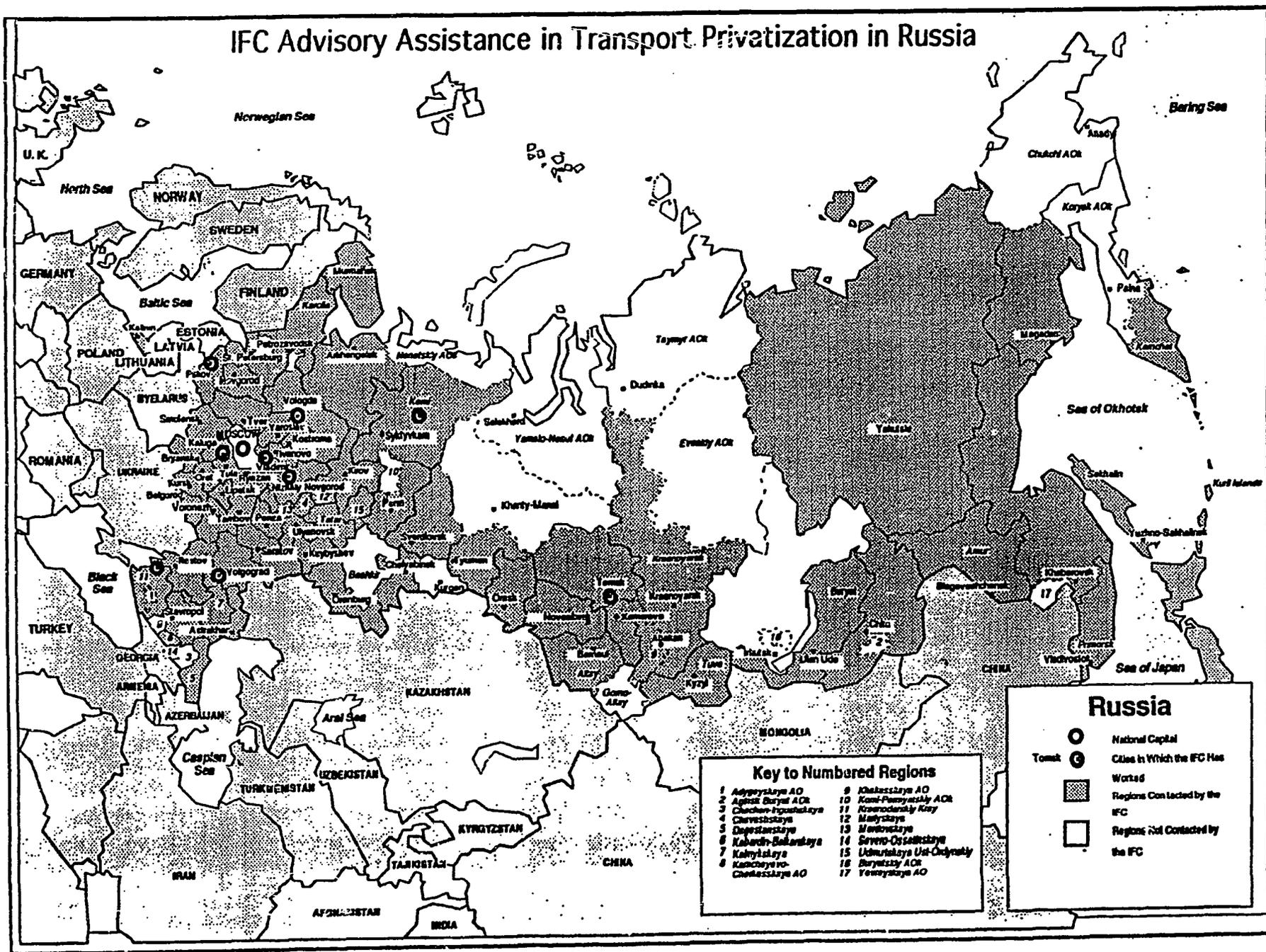
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IFC Advisory Assistance in Transport Privatization in Russia



I. SUMMARY

Introduction

1. Since April 1992, the International Finance Corporation (IFC), in cooperation with the government of the Russian Federation and regional administrations and with financial assistance from the United States Agency for International Development (USAID) and the UK Know How Fund, has been engaged in a series of transactions related to privatization of the for-hire trucking sector. Privatization of this sector was deemed an early priority in order to support both the small-scale privatization effort, as well as efforts in restructuring and privatization of the wholesale food distribution network, by providing access to efficiently priced distribution and trucking services.
2. To this end, between April and October 1992 IFC, working in conjunction with the Nizhny Novgorod regional administration, and with financial assistance from USAID and the UK Know How Fund, developed and implemented a model plan for the privatization of the local common carrier trucking industry. The key components of this program, were demonopolization of the industry and creation of conditions for significant new entry into the market. These objectives were achieved through a series of measures, including privatization of individual enterprises independently of any association or amalgamation and sale of a significant number of individual trucks at open auction. An interim evaluation, conducted recently, of conditions in the for-hire trucking sector in the Nizhegorodskaya Oblast indicates that the program was successful in creating the conditions necessary for the emergence of a private trucking industry.
3. Since that time, IFC with financial assistance from USAID has been engaged in an effort to extend the Nizhny Novgorod trucking privatization experience on a national scale. In general, IFC strategy in conducting technical assistance in trucking privatization has been to complete a pilot privatization in one region, followed by extension and refinement of the project in several other "demonstration" regions through direct IFC assistance, followed by extension to other regions of the country through dissemination of information in written format, through visits, through training of officials, and through communications campaigns.

Nizhny Novgorod Pilot Scheme

4. The three-phase pilot project for privatization of the trucking sector in Nizhny Novgorod involved 42 enterprises, over 8,000 trucks and 18,000 workers which comprised the local common carrier amalgamation, TPO "Nizhegorodavtotrans." The model plan for trucking privatization developed in Nizhny Novgorod included the following conditions:
 - Enterprises were to be privatized individually and independently of the amalgamation, TPO "Nizhegorodavtotrans;"

- Enterprises undergoing transformation into joint stock companies, prior to corporatization, were to transfer a fair cross-section consisting of 20% of their functioning trucks to the oblast Property Fund for sale at auction;
 - Provisions to separate passenger from freight transport operations in mixed enterprises were to be made and included in privatization proposals;
 - Social assets (not located directly on the freight operating facility) were to be transferred to the oblast or municipal administration;
 - Subsidiaries and geographically independent operational units were to be separated and privatized individually;
 - Existing maintenance/repair/parts procurement services provided by enterprises were to be continued and made available to any outside party at fair market prices for the period of at least one year.
5. The implementation phase involved working directly with the enterprises and the oblast Property Committee to ensure that truck lists and privatization proposals and plans were submitted in a timely and complete manner. *Attachment 3* contains a copy of the original plan which all enterprises were required to fill out and submit together with their other privatization documents. In addition, during this phase, IFC representatives worked closely with the oblast Property Fund to plan and carry out the first three truck auctions, which were held October 31-November 2, December 5 and December 21. At the end of this phase, in December 1992, as a result of the successful training of local officials, the need for full time IFC direct participation in the project was reduced, although monitoring of implementation has continued since that time.
6. Initial demonopolization of the local for-hire trucking sector has taken place in the Nizhny Novgorod oblast. As of October 1993, all but four of the original 42 enterprises in existence when the plan was adopted have been independently privatized or otherwise restructured (see *Attachment 4* for a detailed listing of the enterprises and their current status). 32 newly independent private enterprises have been created; 6 mixed enterprises were restructured as solely or primarily passenger transport enterprises (and therefore will remain state property for the time being).
7. Since the inception of the Nizhny Novgorod trucking privatization program, a total of 22 auctions have been held, placing more than 800 trucks directly into private hands (see *Attachment 5* for auction statistics to date). The final auction was held on

November 11, in Navashino, at which 9 trucks were sold. A significant feature of the truck auctions in Nizhny Novgorod was the use of vouchers (privatization checks) as a means of payment. The initial truck auction (October 31-November 2, 1992) was symbolic as the first use of vouchers in the Russian Federation.

Extension to Other Regions

8. An analysis of IFC experience in the various regions, together with the data gathered through the regional outreach effort, indicates that in most cases, the fundamental objectives of privatization of the trucking sector in the manner recommended by the Nizhny Novgorod model plan for trucking privatization have been or are being accomplished, i.e., demonopolization of the for-hire trucking sector, increased availability of individual trucks for use in the private sector, and overall encouragement of management to become more efficient. According to the most recent survey, approximately 70% of all regions in the Russian Federation have used some aspect of the Nizhny Novgorod model plan.
9. The map at the front of this report gives an overview of the extent of contact IFC has had with the various regions. To date, individual contact has been made with nearly 80% of all oblasts and regions. In total, 65 regions have been contacted. The IFC field team has worked in nine regions and has worked extensively in three (Nizhegorodskaya, Tomsk, and Vladimir Oblasts). Of the regions where work has taken place, all have implemented various aspects of the Nizhny Novgorod model plan.
10. In Russia as a whole, work has begun on privatization of common-carrier trucking enterprises in all regions, with about 45% of the regions claiming they are nearing completion. While 12 regions have been able to conduct publicly organized auctions, the sale of trucks to individuals by the post-privatized companies is commonplace in other regions. 10 regions have chosen to split mixed enterprises during privatization. Finally, 70% of regions contacted over the past eight months have at least begun the process of demonopolization through corporatizing and/or privatizing enterprises separately and independently of the regional amalgamation to which they were once subordinate. *Attachment 1* is a general breakdown of the ways in which regions have been able to implement various aspects of the Nizhny Novgorod Model Plan.
11. For detailed information on the status of trucking privatization broken down by region, see *Attachment 2*.

II. NIZHNY NOVGOROD MODEL SCHEME

Project Development

12. The three-phase pilot project for privatization of the trucking sector in Nizhny Novgorod involved 42 enterprises, over 8,000 trucks and 18,000 workers which comprised the local common carrier amalgamation, TPO "Nizhegorodavtotrans," and was structured in three phases. Although the TPO, itself a subdivision of the republic-level common carrier monopoly, controlled only 10% of the trucks in the region, its privatization presented a unique opportunity to assist in the development of an economically efficient trucking sector by:
 - demonopolizing and privatizing trucking and truck servicing units;
 - creating opportunities for new owner-operator truckers;
 - encouraging management to rationalize and become more efficient;
 - creating opportunities for entrepreneurs to buy controlling interest in trucking enterprises.

13. During the first phase (April to May 1992), a comprehensive diagnostic of the enterprises of TPO "Nizhegorodavtotrans" was performed. The first phase also included a broader sectoral study, with emphasis on identifying operating constraints for private truck operators, and a review of the regulatory and legal environment in the region and in the Russian Federation. Drawing on experiences in market economies and lessons learned during privatization in Eastern Europe, several basic principles were set forth to be used as a guide for the design of a program for trucking privatization. The results of this study were submitted and are available in a report *"Medium-Scale Privatization in the Russian Federation - Trucking Sector: Nizhny Novgorod."*

14. During the second phase (June through July 1992), work focused on developing alternatives and recommendations for the restructuring and privatization of the sector. This phase included a review of privatization law and of privatization issues with respect to transport organizations (i.e. passenger transport operations, subsidiaries, social assets, military reserves and units). A report summarizing this review and including recommendations and alternatives was submitted to central and local authorities in July 1992 and constituted completion of Phase Two of the pilot project.

15. The model plan for trucking privatization developed in Nizhny Novgorod included the following conditions:
 - Enterprises were to be privatized individually and independently of the amalgamation, TPO "Nizhegorodavtotrans;"

- Enterprises undergoing transformation into joint stock companies, prior to corporatization, were to transfer a fair cross-section consisting of 20% of their functioning trucks to the oblast Property Fund for sale at auction;
- Provisions to separate passenger from freight transport operations in mixed enterprises were to be made and included in privatization proposals;
- Social assets (not located directly on the freight operating facility) were to be transferred to the oblast or municipal administration;
- Subsidiaries and geographically independent operational units were to be separated and privatized individually;
- Existing maintenance/repair/parts procurement services provided by enterprises were to be continued and made available to any outside party at fair market prices for the period of at least one year.

16. Approval for the plan which had been developed was obtained from all relevant Russian authorities in August 1992. Implementation, the third and final phase of the Nizhny project, began on September 1, 1992.

Project Implementation and Results

17. The implementation phase involved working directly with the enterprises and the oblast Property Committee to ensure that truck lists and privatization proposals and plans were submitted in a timely and complete manner. *Attachment 3* contains a copy of the original plan which all enterprises were required to fill out and submit together with their other privatization documents. In addition, during this phase, IFC representatives worked closely with the oblast Property Fund to plan and carry out the first three truck auctions, which were held October 31-November 2, December 5 and December 21. At the end of this phase, in December 1992, as a result of the successful training of local officials, the need for full time IFC direct participation in the project was reduced, although monitoring of implementation has continued since that time.
18. As part of the implementation stage, a comprehensive public relations campaign including background research, public education efforts and advertising was developed and conducted from September 1 to December 1, 1992. The public relations campaign was designed to familiarize the local population with the main objectives and key issues of the trucking privatization, to encourage positive public opinion

towards the trucking privatization program and to educate the trucking enterprise workers on privatization. The advertising campaign was structured to encourage oblast residents to participate in the truck auctions and to provide potential buyers with information on the auctions.

19. To acquire the data and other information necessary to create and adjust both the public relations and advertising campaigns, a number of research projects were conducted, including surveys of the general population and target groups, and focus groups with enterprise workers and drivers. Television was used heavily throughout the campaign to reach the public, as were radio and print media; typical venues were press conferences, individual interviews, talk shows, and game shows. As part of the campaign to educate enterprise workers about privatization in general and the trucking privatization program in particular, special informational brochures were created and distributed. In addition, a walk-in center where workers could come to have their concerns addressed and questions answered was opened, and transport enterprises were visited by combined teams of IFC specialists and local officials to explain the program and discuss social issues related to privatization.

Demonopolization and Competition

20. Initial demonopolization of the local for-hire trucking sector has taken place in the Nizhny Novgorod oblast. As of October 1993, all but four of the original 42 enterprises in existence when the plan was adopted have been independently privatized or otherwise restructured (see *Attachment 4* for a detailed listing of the enterprises and their current status). 32 newly independent private enterprises have been created; 6 mixed enterprises were restructured as solely or primarily passenger transport enterprises (and therefore will remain state property for the time being).
21. While the TPO still exists as a legal (state) entity, it no longer exercises managerial or other authority over any of the enterprises, and a recent discussion with members of the oblast Property Committee indicates that it is unlikely to be privatized¹ and will simply be phased out. The general director of the TPO "Nizhegorodavtotrans", has independently formed a new private enterprise (limited partnership) which will provide various coordinating and other services to trucking enterprises and has invited the former TPO enterprises to join it. Thus far, 15 of the former enterprises have joined or expressed interest in joining. Individual discussions with the directors of some of these enterprises indicate that their rationale for this decision is based on practicality, rather than any desire to return to the old system. Some directors feel, for example, that they still need some kind of central body which could advocate on

¹ With the withdrawal of all of the constituent members of this organization concurrent with privatization, the question of whether the TPO at this stage even constitutes a state enterprise which could be privatized has arisen.

their behalf, as well as providing assistance in obtaining spare parts, etc., in mass quantities at wholesale rates.

22. While it is too soon to judge the increase in competition as a result of privatization, one area in which there seems to be some definite shift is in the transportation of trade and light consumer goods. Several former state enterprises report that some clients no longer require their services, either because they have gone over to own-account shipping or because the level of service they require is satisfied by private truckers who by and large are able to charge lower, more competitive rates. In the outlying districts, competition for this share of the market comes more from the *rappotrebsoyuzy*, consumer cooperatives, which are able to operate at comparatively lower costs. In fact, one former TPO enterprise servicing the Kovernino district has sold the bulk of their delivery trucks to the local cooperative because they are unable to compete with them.

Truck Auctions and New Owner-Operators

23. Since the inception of the Nizhny Novgorod trucking privatization program, a total of 22 auctions have been held, placing more than 800 trucks directly into private hands (see *Attachment 5* for auction statistics to date). The final auction was held on November 11, in Navashino, at which 9 trucks were sold. A significant feature of the truck auctions in Nizhny Novgorod was the use of vouchers (privatization checks) as a means of payment. The initial truck auction (October 31-November 2, 1992) was symbolic as the first use of vouchers in the Russian Federation. Arguably, this early opportunity to purchase physical assets with vouchers did much to strengthen the reputation of the voucher locally, prior to the commencement of full-scale voucher auctions.
24. These auctions have provided a "head-start" in the development of a secondary truck market and in providing opportunities for individuals (farmers, small entrepreneurs, etc.) to obtain trucks at reasonable rates for start-up businesses. Surveys conducted by IFC and the Nizhny Novgorod oblast and city administrations indicate that the majority of individuals who purchased trucks at auctions held during the latter part of 1992 are actively using their vehicles in a variety of different ventures. Among almost 200 drivers contacted, most are using their trucks to transport construction materials, agricultural products or light consumer goods. 50% of the trucks are being used in rural areas located in the oblast, 30% are employed within the city of Nizhny Novgorod and 15% in other cities within the oblast. 90% of those surveyed stated they remain satisfied with their purchase.

Mixed Enterprises

25. The original Nizhny Novgorod trucking privatization program called for all mixed enterprises to split passenger and freight operations prior to privatization. As will be

discussed below, this has proved a very difficult task to implement throughout the Russian Federation. In fact, only 7 of 19 mixed enterprises were able to completely split the passenger and freight operations; this was due in large part to continued resistance to the split on the part of the enterprise directors and local authorities.

26. With respect to the 7 enterprises split, in only 4 cases did the split result in the emergence of a private freight transport company: in two other cases, the freight operations were merged into the state-owned road construction company, "Nizhegorodavtodor;" the seventh enterprise (located in the Shakhunya District) sold all of its 48 trucks through auction, a decision based on the lack of demand for their services in the region. Of those enterprises which did split passenger and freight operations, all transferred the passenger operation to the oblast level passenger authority, "Nizhegorodpassazhiravtotrans". Three other mixed enterprises were allowed to join this organization without splitting operations; however, it is expected that freight operations will be subsequently split or sold off.
27. The remaining 9 enterprises were allowed to privatize without splitting operations. However, under this scenario the buses and passenger operations are not privatized and remain on the books as state property within a private enterprise (similar to the way in which military assets are kept). In accordance with privatization legislation, mandatory provisions for continued provision of passenger transport services are included in the documents required to be submitted as part of the privatization plan. In several instances, pseudo-contractual arrangements exist with local municipal authorities. In such cases, enterprises receive subsidies at the local level instead of through oblast authorities, allowing the municipality to have greater control over passenger routes.

Share Sales

28. Of those enterprises privatized as joint-stock companies, in corporatizing 6 chose Variant One (employees receive 25% of shares gratis and are permitted to purchase an additional 10% at a 30% discount from face value; management is offered 5% of shares at nominal value) and 19 chose Variant Two (employees are permitted to purchase 51% of shares at nominal value); for the remainder, information was not available from the Property Fund. Of the enterprises corporatized in the earliest stages of implementation of the trucking privatization program, in most cases from 70% and 90% of total shares issued have been sold to date and high percentages are held by the workers and management (POGA-4 - 70%, POGA-9 - 71%, Kovernino ATP - 66% and POGA 8 - 83%). Specific information on the status of share sales for individual enterprises is included in *Attachment 4*.

Current Status of Trucking Enterprises

29. Recently, the IFC team met with the management of several now privatized enterprises, as well as oblast administration authorities to evaluate on an interim basis the current status of the for-hire trucking sector in the Nizhegorodskaya Oblast. Individual synopses of the interviews with the enterprise directors are included in *Attachment 6*. The majority of the difficulties being experienced by the enterprises right now are related to one of three problems: (1) the continuing downward trend in business due to declining overall production; (2) taxation; or (3) other cash-flow problems. These do not appear to be attributable to privatization; on the whole, the directors stated that they would not be willing to go back under any circumstance.
30. The continuing decline in production has resulted in even more idle trucks; many enterprises have sold trucks other than those they were forced to give up as part of the privatization program. For example, "Poliavotrans", the former POGA-8 enterprise, was not subject to the oblast trucking privatization program because they had privatized prior to the adoption of the program; nonetheless, they have downsized their fleet by approximately 17% in the past year, and plan to sell another 50 trucks which are standing idle, the result of which will be an overall 32% reduction.
31. At the present time, enterprises are spending from 70 to 85% of income on a myriad of taxes; the remainder goes for salaries and fuel. There is even a tax on increasing salaries which is a holdover from the Soviet past. Receivables are high; most firms are demanding advance payment. Even the Bor Vehicle Transport Enterprise (formerly Avtokollona 1302) has had to start demanding advance payment as of October of this year. Taxes must be estimated and paid in advance with cash that is not yet, and may never be, in hand. Fleet renewal is difficult, although the stronger directors are finding ways to finance new trucks, which will engage for the most part in long-distance and international shipping.
32. The local representative of the Ministry of Transport commented that inter-city loads had been significantly reduced. As evidence of this, he cited the fact that the state-owned long distance hauling organization, UTEP, was practically without work. Considering the directors did not mention this as a problem, this would seem to be more of an indicator that enterprises are exercising their ability to act independently of these organizations.
33. With respect to the problems being experienced by newly privatized enterprises and new owner-operators, it is now clear that most of the anticipated problems about which opponents of the program were most vocal were ungrounded and have never materialized. For example, delivery of essential goods and services (milk, flour, bread, and fuel) has not been interrupted, and passenger transport has arguably improved with the coordination of even more routes through "Nizhegorodpassazhiravtotrans" (although the local representative of the Ministry of

Transport did comment that there had been practically no renewal of fleets of the so-called "spetstransport" - the trucks which deliver essential goods).

34. The three areas in which problems were anticipated for new owner/operators, acquisition of fuel and spares, and access to maintenance and repair services are not a problem. Among private truckers, only 2% of those surveyed by IFC reported problems obtaining fuel. While they indicated that obtaining spare parts is costly, 45% of those surveyed simply purchase them at the local parts market, 8% have friends who help them obtain them, 10% acquire them through private individuals, 4% purchase them from storehouses, and another 4% obtain them through state enterprises; the remainder acquire them through other means. When surveyed immediately after purchasing vehicles in Nizhny Novgorod many new truck owners felt that servicing their trucks would be a problem; these fears, too, have proved unjustified. Some are able to service their trucks themselves and the remainder use the services of former TPO enterprises, private service centers or employ private individuals to service their vehicles. The majority of new truck operators indicate that finding clients has not been a problem, and only 29% say they are experiencing difficulty in earning a profit using their truck.

III. TRUCKING PRIVATIZATION AT NATIONAL LEVEL

Introduction

35. At the request of the government of the Russian Federation and financed by USAID, since January 1993 IFC has been engaged in extending the Nizhny Novgorod trucking privatization experience to other regions around the country. This has involved: preparation and distribution of a manual on trucking privatization, using the Nizhny Novgorod model as a practical working example; preparation and distribution of supplemental materials such as state of the industry studies, accounting materials and more detailed guidance on various aspects of the program; policy input at the federal level to the GKI and the Ministry of Transport for the design of national regulations or mandate governing transport privatization; establishment of a field unit providing direct assistance to regional authorities interested in implementing trucking privatization; establishment of a Moscow-based unit conducting a regional outreach campaign to gather information; and public relations efforts geared towards promoting the concept of a sectorally-oriented privatization program for the trucking industry.

Information and Distribution Campaign

36. Following completion of the pilot project in the Nizhegorodskaya Oblast, a manual, consisting of two volumes (a *City Officials' Guide* and *Annexes*), describing the entire process of creating and implementing a trucking privatization program based on the Nizhny Novgorod experience was produced. In February and March, approximately 1,000 sets of these manuals were delivered throughout the Russian Federation to oblast heads of administration, to oblast Property Committees, oblast Property Funds, territorial representatives of the State Committee for Anti-monopoly Policy and Support of New Economic Structures, and to the chairmen of oblast Councils of People's Deputies. In addition, key privatization officials in the 50 largest cities were provided with the sets of these manuals. At this time, a manual documenting the public relations approach used in Nizhny Novgorod was also prepared and made available to interested officials and others involved in the privatization process upon request.
37. As part of a cooperative effort with the World Bank and in order to provide a more comprehensive argument for and encourage the rational privatization of freight transport, 400 copies of a World Bank report on "*The Strategy of the Russian Federation in the Transport Sector*" were printed and distributed to regional and oblast administrations throughout Russia. The report was sent to territorial representatives of the State Committee on Anti-Monopoly Policy and the Support of New Economic Structures, and regional and oblast heads of administration. Copies were sent to the city administrations in the larger cities of the Russian Federation.

38. During meetings held as part of the extension process, accountants and economists at transport enterprises in the process of privatizing and financial/auditing staff at Property Committees throughout the Russian Federation expressed over and over again the need for solid accounting materials and processes, in particular relating to cost-accounting. In response, 300 copies of a Russian-language general accounting manual were obtained and distributed by mail to transport enterprises in Nizhny Novgorod, Vladimir, Belgorod, Oryol and to the respective oblast Property Committees. The goal was to provide the financial staff of newly privatized enterprises with a more solid background in standard private sector accounting and bookkeeping procedures in order to improve the efficiency of their operations.
39. Materials for the trucking privatization manual supplement detailing the rationale, legal basis, and options for splitting mixed freight and passenger enterprises were completed and mailed in September, starting with the regions with whom we have worked most closely and those who have expressed particular interest in assistance with this problem, and finally to all recipients of the original manuals on trucking privatization. These materials drew on IFC experience in both the Nizhegorodskaya and Vladimir oblasts in privatizing mixed enterprises and represented a refinement of that aspect of the model program. In total over 1,000 copies of the materials have been sent out.

Policy Input

40. As part of the effort to extend the Nizhny Novgorod trucking privatization experience on a national scale, the IFC has sought to provide policy input at the federal level to the GKI and the Ministry of Transport. The successful implementation of the small scale privatization program in Russia has been due in large part to a clear legal mandate to auction shops. One of the principle objectives of the trucking privatization pilot program was to provide appropriate government bodies with the building blocks for a similar mandate which would both accelerate and enhance privatization of that sector.
41. As early as October 1992, the IFC sought the support of the Ministry of Transport for a nation-wide rollout (see *Attachment 7* for a copy of the memorandum of understanding signed at that time). Between January and April, IFC representatives worked with GKI representatives and legal counsel in preparing a draft Directive recommending local Property Committees take a proactive role in the privatization of the freight transport sector (see *Attachment 8*).
42. In a letter to heads of regional administrations the Federal GKI strengthened the effort by encouraging regional officials to take advantage of the resources and assistance provided by the IFC in privatizing the freight transport sector (see *Attachment 9* for a copy of the letter which was distributed in June). The response to this letter was

significant; several regions previously unheard from contacted the IFC Moscow office to request consultation and other on-site assistance.

43. At the regional level, the IFC has sought to encourage local officials to exercise their authority as territorial agents of the Federal GKI to make decisions regarding privatization of freight transport enterprises according to the principles of the Model Plan.
44. At the request of the GKI of the Russian Federation, the IFC transport team examined viability of extracting trucks from other sectors, in particular those embedded in large agricultural and industrial concerns, for sale at auction in order to further expand the market and encourage competition.
45. Finally, in May and June the IFC worked with GKI representatives and legal counsel to clarify the impact of Presidential Decrees No. 640 and No. 1108 on acceleration of privatization of the freight transport sector, in particular with respect to mobilization reserves. A draft regulation proposing an interpretation of this decree which would help to alleviate some of the problems faced by the enterprises in privatizing was prepared (see *Attachment 10*).

Field Unit Activities

46. An IFC field unit for transport was established in January 1993 as part of the rollout effort. Since that time, the unit has been providing direct on-site advisory and technical assistance to regional authorities interested in implementing trucking privatization, as well as gathering information about the pace and nature of privatization in the freight transport sector throughout the country during site visits. The key elements of this assistance were the same as those entailed in implementing the original assistance program in Nizhny Novgorod, i.e., working with regional officials and enterprise directors, to ensure demonopolization of the industry and creation of conditions for significant new entry and competition in the market.
47. During the period from January through February 1993, the field unit worked extensively in the Tomsk Oblast, and then moved on to the Vladimir Oblast from April through August. During this same period shorter term visits were made at the request of regional authorities in the following locations: St. Petersburg, Krasnodar, Volgograd, Kaluga, Pskov, Komi, and Vologda.

Tomsk

48. At the request of the Tomsk Oblast Property Committee, the IFC field unit provided extended on-site consultations with respect to the privatization of the for-hire trucking sector. During the intensive phase of the work in January and early February, the IFC team met with the director of the TPO "Tomskavtotrans" and constituent

enterprise directors, as well as local government officials to evaluate local conditions and the potential for implementing trucking privatization along the lines of the model developed for use in the Nizhgorodskaya Oblast. The TPO in the Tomsk oblast consisted of 6 trucking-only, 4 passenger-only, 13 mixed enterprises, and one repair unit. 5 of the enterprises were numbered columns, containing high levels of mobilization reserves.

49. A comprehensive local privatization program for the trucking sector in the Tomsk Oblast was also developed at the request of the oblast Property Committee, aimed at demonopolization of the industry based on the principles of the Nizhny Novgorod model; however, this plan was never adopted, due in large part to the lack of a national mandate. Oblast administration authorities felt that without a stronger national mandate, it was politically risky to implement such a program.
50. While ultimately unable to adopt a formal sectoral plan for trucking privatization, the oblast Property Committee nonetheless was active in facilitating demonopolization of the industry through truck auctions and limitations on the power of the TPO. With regard to the former, the Property Committee worked together with the Property Fund to facilitate the process by which state enterprises could sell off idle trucks, thus enabling pre-privatization restructuring all the same. A local auction house was identified through which almost all sales were channeled, contributing to opening up the market for private truckers by eliminating possibilities for simply selling trucks at dirt cheap prices to their drivers.
51. The IFC field unit also worked with the local representative of the State Committee on Anti-Monopoly Policy and Support of New Economic Structures to eliminate provisions from the proposed charter of the TPO by which it would have preserved its ability to exercise administrative and managerial control over constituent enterprises even after privatization.
52. As of the end of October 1993, the oblast Property Committee reports that of the original 26 enterprises comprising the TPO "Tomskavtotrans", only four remain to be privatized. The TPO organization itself has been privatized as a simple joint-stock company (not as a holding company). There is a possibility of forming a coordinating body or association in the near future; however, this will be a separate organization not based on the joint-stock company that was formerly the TPO. With regards to the many mixed enterprises throughout the region, all have been or will be privatized as a whole; five have been designated as municipal property and the right to privatize them delegated to the local authorities.

Vladimir

53. IFC field assistance in the Vladimir Oblast has been provided in three different phases - development, implementation, and follow-up. The initial development phase lasted

from late March to May; the more intensive implementation phase occurred during the period May through July; follow-up activities commenced in August. Specific assistance was requested and provided with developing and writing a regional privatization program for the freight transport sector; planning, financing and conducting of the first truck auction; privatizing mixed enterprises; and developing and conducting a public relations campaign. As in the Tomsk Oblast, the TPO was characterized by a large number of mixed enterprises and numbered columns which presented significant obstacles to privatization.

54. **Demonopolization and Truck Auctions.** Prior to consultation with IFC representatives, the oblast Property Committee was planning on allowing the TPO "Vladimiravtotrans" to privatize as a holding company. The local program adopted, however, requires enterprises to privatize separately and independently; more recent discussions concerning the future of the TPO have turned to the creation of an oblast level passenger transport authority.
55. In Vladimir Oblast, out of the 26 enterprises which comprised the TPO "Vladavtotrans" (see *Attachment 11*), the emergence of at least 22 independent enterprises engaged in for-hire trucking is expected. By September, 5 enterprises had their privatization plans approved and documents transferred to the Fund for further action; one of these exercised the employee buy-out option under a rental agreement. Four others are also expected to exercise the buy-out option under existing buy-out agreements.
56. To date, 23 trucks have been auctioned from the POGA-2 enterprise, the first enterprise to corporatize. The next auction is planned for November in Vyazniki. The right to conduct the auction has been delegated to the local authorities. While the oblast Property Committee and Fund are steadfast in their commitment to the auction program, they have experienced some difficulties in getting the enterprises to comply with the requirement to provide trucks for auction which has resulted in a slower-paced auction schedule than originally planned.
57. **Passenger/Freight Operations Split.** The provision for separation of freight and passenger transport included in the original Nizhny Novgorod model was worked out on a more detailed level in Vladimir with the assistance of U.S. Department of Transportation specialist Edward Ramsdell, who spent almost three weeks evaluating mixed enterprises in the Vladimir and Nizhegorodskaya Oblasts. Mixed enterprises are being required to formally establish separation balances, which are then evaluated by the Financing and Auditing Department of the Property Committee; after which they formally separate and re-register as state enterprises. The freight side is then to be privatized according to regular procedure; the passenger side may be designated as oblast or municipal property.

58. **Public Relations.** Public relations assistance in Vladimir was based on the model campaign developed last year in Nizhny Novgorod. The audience included the local population, as well as enterprise workers and management. In Vladimir, more emphasis was placed on use of radio and print media, as opposed to television. As part of the campaign, local journalists travelled to Nizhny Novgorod to assess the success of the similar program in Nizhny for themselves. In addition, U.S. Department of Transportation specialist Ed Ramsdell was interviewed on local radio.
59. **Future Perspective.** As of the end of October 1993, according to information supplied by the Privatization Department of the Vladimir Oblast Property Committee, work on privatization of trucking-only transport enterprises continues unabated. With regard to mixed enterprises however, no substantive progress has been made since the summer. The Suzdal and Sudogda ATPs which were designated as the two first mixed enterprises to be split, have not yet submitted their privatization plans. The combined resistance of enterprise directors and local district authorities where the majority of mixed enterprises are located is impeding the process. District authorities are objecting to the responsibility for subsidizing local passenger transport being transferred to them; their fear is that they will not receive corresponding budget allocations from the oblast level. At present, subsidies are still being distributed through TPO "Vladimiravtotrans".
60. Complicating the situation still more, is the fact that the Oblast Council, before being dismissed at the beginning of October in connection with the well-known events of that period, adopted a number of resolutions impeding the process of privatization. These resolutions provided that 49-51% of the shares of newly privatized transport enterprises should remain as state property. They also removed four or five enterprises (which provide repair and maintenance services, spare parts and equipment) from the list of enterprises to be privatized, and cancelled the privatization of PTB "Vladavtotrans" (technical projects bureau), despite the fact that privatization documents had already been transferred to the Property Fund; as a result the Fund suspended sales of the shares. The validity of these resolutions is doubtful as they were adopted on September 30; however, the extent of support they enjoy from the Oblast administration is unclear. Until steps have been taken to clarify the validity of these resolutions, there is unlikely to be much additional progress.

Moscow Unit - Regional Outreach Program

61. After the nation-wide distribution of the *City Officials' Guide* and *Annexes* on trucking privatization, a direct follow-up campaign was initiated in order to gauge response to the manuals, as well as to assess the status of freight transport privatization across the country and provide assistance where needed. In an effort to gather raw data on trucking enterprises and the status of privatization, a questionnaire was developed and included in the manual mail-out with a request to fill out and return it to the IFC Moscow office. Unfortunately, this effort met with very little response (only three
- 115

questionnaires were returned); therefore, the decision was made to directly contact the regions by phone.

62. Within the context of this campaign, individual contact was made with close to 80% of all regions, either by visiting them or by phone. In total, 65 regions have been contacted. Of the 63 which have furnished detailed information, 30% of the regions indicated that they are experiencing problems privatizing the trucking sector specifically due to requirements on mobilization reserves. In some cases, government requirements mandating the maintenance of current levels of mobilization readiness make privatization impractical from a fiscal point of view. 43% of the regions have indicated problems with privatizing mixed enterprises. 18% regions have decided to go forward with corporatizing mixed enterprises without necessarily forcing the enterprises to split. Other regions have split freight and passenger operations in the process of privatization. A number of regions suspended the privatization of mixed enterprises awaiting further guidance.
63. Similarly, following distribution of the supplemental materials on privatization of mixed enterprises we have contacted the 21 regions which earlier expressed particular interest in assistance with the matter. The response has been enthusiastic. While there remain issues outstanding, in at least two oblasts (Tyumen and Ivanovo), the Property Committees have adopted regulations providing for splitting mixed enterprises based on the options recommended, and many others will implement the split to the extent possible. Even in those regions where there is much resistance to this idea, the materials have the benefit of providing a basis for discussing the issue.

IV. CONCLUSIONS

64. By and large, privatization and demonopolization of the freight transport sector is occurring. On the other hand, some specific issues, such as mobilization reserves and permanent mobilization tasks, mixed enterprises and responsibility for passenger transport in general are still inhibiting effective privatization of the freight transport sector. Although there are several big picture issues with respect to the development of a private trucking sector which might be addressed (such as a regulatory framework, etc.), equally important in the short term will be individual enterprise assistance.
65. With respect to mobilization units, reserves and permanent mobilization tasks, this issue is in many cases actually preventing privatization of enterprises. Put most simply, the enterprises cannot afford to privatize. This applies most particularly to those which have concentrations of mobilization reserves approaching 100%. Even after privatization, current regulations and legislation require these enterprises to continue to support and maintain specific levels of mobilization readiness, including vehicles. The director of such an enterprise will be limited in his ability to make sound financial decisions aimed at preserving the health of the enterprise and satisfying the requirements of the stockholders. Naturally, resolution of this issue requires the participation of not only the GKI and Ministry of Transport, but also of the Ministry of Defense, and as such is not one which may be decided on the local level.
66. Consideration should be given to lifting or removing mobilization requirements. If it is necessary to maintain a brigade based on the private sector, outside of the military, thought should be given to doing this on a contractual basis, where the enterprises has the option of not performing said service. In the meantime, enterprises which have 100% mobilization requirements should remain state-owned companies.
67. With regard to mixed enterprises, officials at the regional level are still confused over how to handle privatization of these entities. Policy on passenger transport overall needs to be clarified and decentralized down to the local level so as to provide regional privatization and other officials with the flexibility necessary to carry out their jobs effectively. The structure and flow of state subsidies for passenger transport correspondingly need to be changed in order to prevent diversion of funds, particularly in consideration of the large number of enterprises which have privatized but remained mixed. Assistance might be provided, for example, with developing a sensible subsidization program that also allows for companies discretion on whether or not to provide a particular service.
68. One of the most important issues to be addressed is the establishment of a new regulatory framework for the private trucking industry which takes into account the existence of a large number of owner-operators as well as privatized trucking

concerns. Federal and regional authorities need to work together now to ensure that free access to markets will continue to be available.

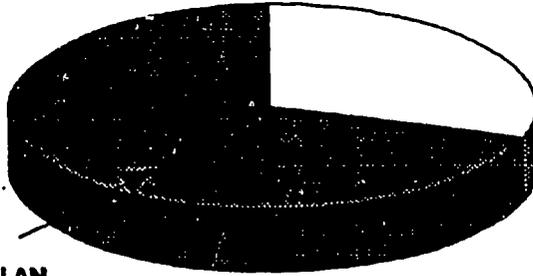
69. Direct assistance to individual enterprises is also required including accounting systems overhaul, management restructuring, and business profile analysis to assist managers in making sensible decisions for the future development of their companies.
70. Avenues need to be explored for making financing or credits available for enterprises wishing to lease foreign trucks to engage in long-haul trucking. Enterprise directors have reported repeatedly that in the short term, this is the only way to be able to engage in international and other long-distance shipping and be able to make enough money to turn their financial situations around. At the same time, attention needs to be turned to improving domestic production, so as to ultimately replace the need for foreign trucks.
71. The development of independent trucking associations should be supported. This is not an effort which can be undertaken solely by the Ministry of Transport, for example, relying on the former TPO structure. At the same time, this cannot involve simply the transplanting of a foreign-grown organization onto Russian soil. Organizations which have sprung up locally, in response to local needs, for example in Pskov, might be fostered, and encouraged to branch out on a more nation-wide basis.
72. In addition, other new concerns have arisen, such as public safety and accident rates. In the past, all trucking operations were carried out through state-run enterprises which acted as the logical enforcement agency with respect to condition of vehicles and permission of drivers to be out on the line. Now, with the emergence of a significant number of new private owner-operators, the responsibility for ensuring public safety must be placed more fully within the jurisdiction of government bodies such as the Transport Inspection Agency or the GAI.

ATTACHMENT 1

SUMMARY STATUS OF TRUCKING PRIVATIZATION

63 REGIONS

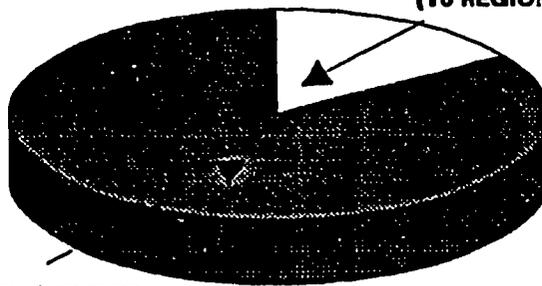
**USED ASPECTS OF
NIZHNY NOVGOROD PLAN
(44 REGIONS)**



63 REGIONS

**SPLIT PASSENGER AND
FREIGHT OPERATIONS
(10 REGIONS)**

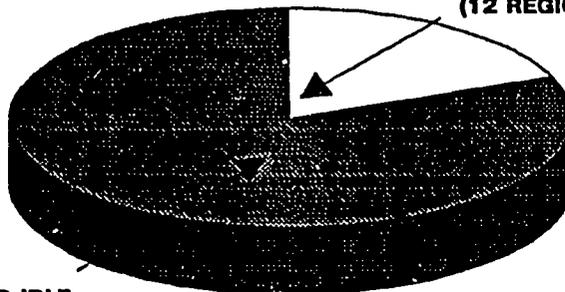
**HAVE NOT SPLIT PASSENGER
AND FREIGHT OPERATIONS
(53 REGIONS)**



63 REGIONS

**SOLD IDLE TRUCKS
(12 REGIONS)**

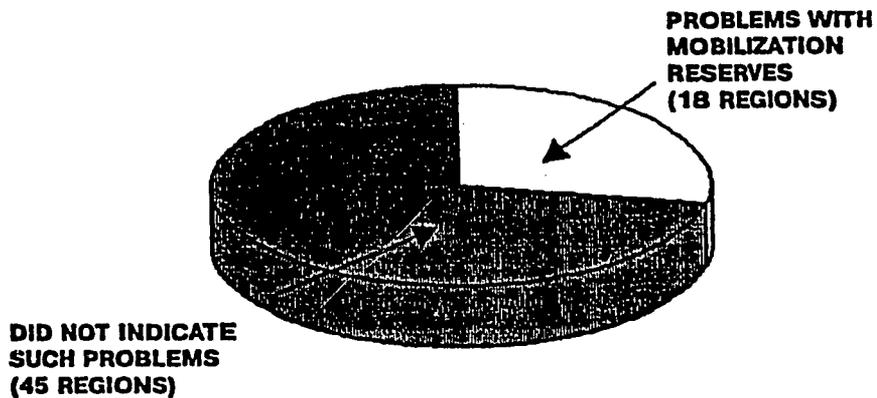
**HAVE NOT SOLD IDLE
TRUCKS
(51 REGIONS)**



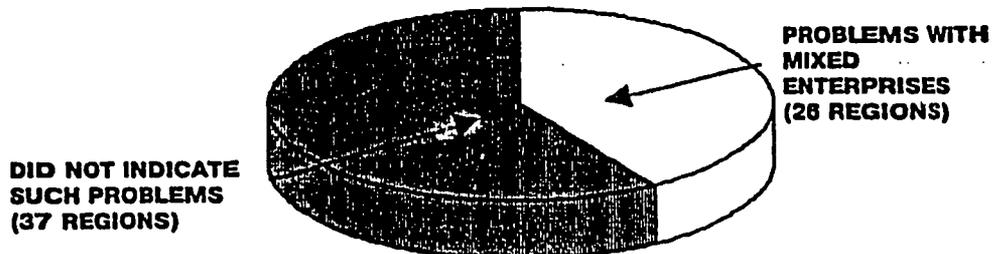
ATTACHMENT 2

REGIONAL OUTREACH

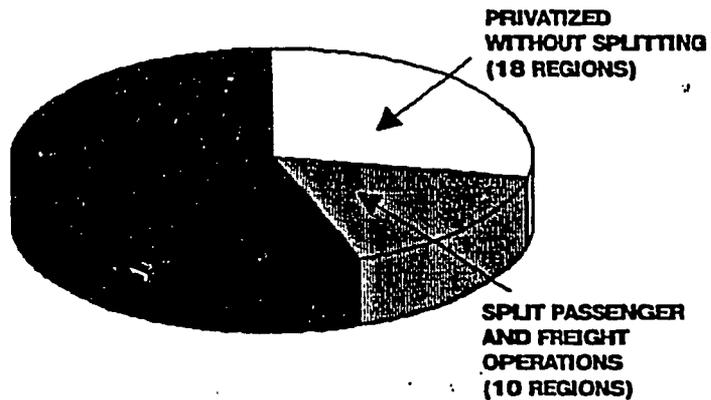
63 REGIONS



63 REGIONS



63 REGIONS



RESULTS OF REGIONAL OUTREACH

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
AMUR OBLAST	11.5	Governor's Office	No	Yes	Yes	All enterprises corporatized separately. All mixed enterprises split. Passenger operations transferred to municipalities
ADYGEIA REP.	26.5	President's Office and Property Committee	Yes	Yes	Yes	Enterprises corporatized separately. Almost no mixed enterprises. Problems: numbered columns (2- trucks, and 1-buses) which remain federal property.
ALTAI KRAI	7.5	Governor's Office	Yes	Yes	Yes	Reforms in initial stages.

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Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
ALTAI KRAI	19.5 2.08	Property Committee	Yes	Yes	Yes	Agrees with Nizhny plan. Enterprises in process of corporatization (separately). Interested in selling 20% of trucks through conditional auctions to farmers. Many mixed enterprises. Auctions were initially included in the privatization plan, but were never carried out. While th plan was under consideration and approval by the Property Committee, the major number of enterprises had been privatized and to date privatization is in final stages. An attempt to split a couple of mixed enterprises failed due to unwillingness of the enterprises. However, the Property Committee continues to be interested in any kind of assistance in splitting.
ARKHANGELSK	26.5	Governor's Office	No	No	Yes	Enterprises corporatized separately. Passenger transport under municipalities.

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Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
ARKHANGELSK	27.5 23.8	Property Committee	No	Yes	Yes	70% of enterprises corporatized. No mixed enterprises. Interest in Large scale. The situation remains at the same level. Trucking enterprises have been corporatized. Passenger transferred to municipalities. The Committee has come across problems with numbered columns (4 units), the documents for which have to be approved by the Federal Government. There are also 5 mixed enterprises which have not been corporatized so far.
ASTRAKHAN	15.6	Governor's Office	No	Yes	Yes	In accordance with the Property Committee privatization plan a large number of transport is sold through auctions, including specialized transport and numbered columns. The Administration does not approve of this plan but has no control over the Property Committee decisions.
	15.6	Property Committee	Yes	Yes	Yes	TPO corporatized with the Property Committee as a shareholder. No mixed enterprises. Passenger transport under oblast authorities. Trucks sold through auctions regularly at the enterprises' option. Plan to complete privatization by August 1. Problems: mobilization reserves.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
BELGOROD	12.5	Governor's Office	Yes	Yes	Yes	Trucking privatization going very slowly. Passenger transport well organized.
	24.5 20.8	Property Committee	Yes	Yes	Yes	70% of enterprises corporatized separately. Mixed enterprises corporatized without splitting. Passenger transport under municipalities. Problems: numbered columns. Trucking privatization practically completed. Most of the enterprises corporatized in accordance with Decree No.721. Documents on numbered columns are being considered by the Transport Department. No attempt to split mixed enterprises in the process of privatization has been made. Planning to finalize definitely by the end of the year.
BRIANSK	17.5	Governor's office	Yes	No	Yes	Only several enterprises separated during privatization. TPO corporatized almost as a holding company. Passenger enterprises remain in the structure of the TPO.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
BRIANSK	26.5 24.8	Property Committee	Yes	Yes	Yes	Privatization beginning. Many problems. In a rush due to decree 640. Privatization practically completed. Enterprises either have been corporatized or are in the process. "Brianskavtotrans" was corporatized according to the agreement on lease with the right to buy. 20% withdrew and were corporatized separately, the rest remained within the structure of "Brianskavtotrans" including mixed enterprises. No attempt to split mixed enterprises has been made.
BURYAT REP.	8.07	Property Committee	Yes	Yes	Yes	Privatization currently going. The Property Committee is aware of the Nizhny experience and is using it. 20% of the trucks is sold through auctions in the course of privatization. Enterprises are being corporatized separately. No mixed enterprises. Passenger transport is under municipalities.
CHAVASHIEN REP.	14.5	Council of Ministers	Yes	Yes	Yes	Privatization hasn't started. All common carrier transport is in TPO "Chuvashavtotrans".

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
CHAVASHIEN REP.	7.06	Property Committee	No	Yes	Yes	Only 25% of the enterprises have been corporatized to date. Problems: mobilization reserves and mixed enterprises in the districts. Interested in small scale as well.
CHELIABINSK	5.07	Governor's Office and Property Committee	Yes	No	Yes	Privatization is practically completed. Many mixed enterprises, most of them privatized without splitting. Passenger transport is under oblast authorities. Ready to cooperate and share experience.
CHITA	16.7	Governor's Office and Property Committee	Yes	Yes	Yes	The Nizhny experience is interesting and the Committee would like to implement it but doesn't think it possible. Transport enterprises are rather few in the region, the majority being small mixed enterprises with common bases. All the transport is federal property and the regions cannot make decision without getting approval from Moscow. No budget money for subsidies and the passenger transport exists on the profits from trucking part of mixed enterprises.
DAGHESTAN REP.	16.6	Council of Ministers	Yes	Yes	Yes	Privatization in initial stages. The manuals have been handed over to the Ministries of Industry and Transport for consideration.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
IVANOVO	11.5	Governor's Office	No	No	Yes	Enterprises corporatized separately. Passenger transport under oblast authorities.
	27.5 26.8	Property Committee	Yes	Yes	No	Enterprises are corporatized separately. Many mixed enterprises, none of them corporatized yet. Passenger transport under municipal and oblast authorities. Trucking privatization going actively. To date about 60% of enterprized have been corporatized. Mixed enterprises are being corporatized without splitting.
KABARDINO-BALKARIA	7.05	President's Office	Yes	No	No	All IFC materials on privatization sent to Property Committee without consideration
	14.7	Property Committee	Yes	Yes	Yes	Privatization is in initial stages. The majority of the enterprises is mixed.
KALININGRAD	31.5	Governor's Office and Property Committee	Yes	No	Yes	Privatization in final stages. Each enterprise privatized according to individual plan. Mixed enterprises corporatized with or without splitting at the enterprises' option. Passenger transport under municipalities.

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Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
KALUGA	16.6	Governor's Office and Property Committee	Yes	Yes	Yes	Privatization in final stages. Enterprises corporatized separately, but the former TPO has their shares. Majority of the enterprises is mixed, corporatized without splitting. Interested in exploring schemes for passenger/freight division.
KARELIA REP.	7.06	Council of Ministers	No	No	No	Manuals sent for the second time by courier not found. No interest.
	7.06	Property Committee	Yes	No	No	Enterprises have been corporatized separately. Privatization practically completed.
KAMCHATKA	14.7	Governor's Office	Yes	No	No	Privatization process practically suspended because trucking enterprises have become loss making due to production volumes reduction. Some trucks have been sold to their drivers at low prices. Attempts were taken to create mixed enterprises aiming at supporting trucking enterprises through the subsidies allocated to the passenger part, one of the newly created mixed enterprises has already fallen apart. At present the population is not very interested in creating private trucking firms.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
KEMEROVO	5.05	Governor's Office	No	No	Yes	Answers were not definite. Promised to submit detailed information later. Enterprises corporatized separately. Mixed enterprises corporatized without splitting. Idle trucks sold through auctions. Passenger transport under municipalities, subsidized.
	25.5	- " -				
	9.06	Property Committee	No	Yes	No	Privatization currently going. Interested in Nizhny model. Having their own seminars regularly and would like an IFC representative to attend.
KHABAROVSK	8.07	Governor's Office and Property Committee	Yes	Yes	Yes	Privatization currently going. Enterprises are being corporatized separately. Only 2 mixed enterprises. Passenger operation is federal property. Problems: numbered columns.
KHAKASIA REP.	7.06	Council of Ministers	Yes	No	No	Privatization in final stages. Interest mostly in post-privatization issues.
	7.06	Property Committee	Yes	No	Yes	Main problem: mixed enterprises is now under consideration. Privatization close to completion.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
KIROV	16.6	Governor's Office	Yes	Yes	Yes	Privatization going slowly. To date corporatized only 8 trucking enterprises. Many mixed enterprises, none of them corporatized so far. Problems: mixed enterprises, mobilization reserves.
	25.6	Property Committee	Yes	Yes	Yes	Privatization going slowly. Problems: mixed enterprises.
KOMI REP.	7.05	Council of Ministers	Yes	No	No	Manuals sent to the Property Committee without consideration.
	9.06	Property Committee	Yes	Yes	Yes	Major problem: many mixed enterprises. At present they are being corporatized without splitting.
KOSTROMA	6.05	Governor's Office	Yes	Yes	Yes	Privatization in initial stages. Manuals sent to "Kostromaavtotrans" for consideration and offers. More detailed information after they receive answers from TPO.
	19.5	Property Committee	Yes	No	No	Enterprises corporatized separately and united into a Joint Stock Co. with the Property Committee as a shareholder.
KRASNODAR	28.5	Governor's Office	Yes	Yes	Yes	About 60% of enterprises corporatized separately. Mixed corporatized without splitting. Passenger transport under oblast authorities.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
KRASNODAR	31.5	Property Committee	Yes	Yes	Yes	Privatization going rather actively. Problems: mobilization reserves, splitting mixed enterprises.
KRASNOYARSK	18.5	Governor's Office	No	Yes	Yes	Privatization hasn't begun. All transport is under oblast authorities. Problems: numbered columns, mixed enterprises.
	20.5	Property Committee	Yes	No	Yes	Privatization process going rather actively. All enterprises corporatized separately. Passenger transport under municipalities. Problems: numbered columns.
	24.8					Privatization of trucking enterprises practically completed. The matter of numbered columns (80%) is under consideration, probably will remain state property. Most of the mixed enterprises (24 units) have not been corporatized yet. 6 mixed enterprises have been corporatized without splitting.
KURSK	21.5	Governor's office	No	Yes	Yes	Privatization in initial stages. Problems: numbered columns.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
KURSK	26.5 20.8	Property Committee	Yes	No	No	Final stages. Planning to complete by August. Privatization practically completed excluding 5 enterprises which have mobilization tasks and 12 mixed enterprises which are at present under oblast authorities. The Committee is interested in materials on splitting mixed enterprises.
LIPETSK	9.06	Governor's Office	Yes	Yes	Yes	Privatization in initial stages. Many mixed enterprises.
MAGADAN	13.5	Governor's Office	Yes	No	Yes	Manuals passed to the Property Committee. The Governor's office relies on the Committee opinion.
	8.07	Property Committee	Yes	No	No	Privatization practically completed. Enterprises corporatized separately and joined into a joint stock co. No mixed enterprises. Passenger is under oblast authorities and municipalities.
MARI EL REP.	17.6	President's Office	Yes	Yes	No	Manuals handed over to the Ministry of transport and enterprises for consideration.

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Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
MARI EL REP.	17.6	Property Committee	Yes	Yes	No	Enterprises corporatized jointly with the TPO and the Property Committee as shareholders. Privatization of only one trucking enterprise has been completed so far. Many mixed enterprises, none of them corporatized. Many idle trucks which the Committee considers reasonable to sell through auctions, but administration will not approve it. Interested in seminars on post-privatization issues.
MORDOVA REP.	7.05	President's Office	Yes	No	Yes	Privatization in initial stages.
	27.8	Property Committee	Yes	No	Yes	Common carrier transport has not been privatized due to a large number of mobilization reserves. Property Committee is waiting for a decision on the reduction of mobilization reserves. Many mixed enterprises. An attempt was made to split several mixed enterprises but they are uniting again due to the problems with the maintenance base.
MURMANSK	5.05	Governor's Office	Yes	No	Yes	Definitely against restructuring. TPO corporatized as a holding company.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
MURMANSK	31.8	Property Committee	Yes	No	Yes	Privatization practically completed. Enterprises corporatized mostly in accordance with the second variant (51% of shares bought by the employees). The former TPO was reorganized into a Joint Stock Company together with the other enterprises. Mixed enterprises corporatized within a large transport company without splitting. No demonopolization carried out. About 1000 private truck owners appeared and they are doing well but the Committee is not very much interested in their progress.
NOVGOROD	26.5	Governor's Office	Yes	Yes	Yes	Privatization going rather actively. Many mixed enterprises, not corporatized. Other enterprises corporatized separately.
NOVOSIBIRSK	8.06	Governor's Office	No	Yes	Yes	Enterprises are being corporatized separately. Problems: numbered columns, mixed enterprises.
	1.07	Property Committee	Yes	No	No	Privatization in final stages. TPO corporatized with the Property Committee and the privatized enterprises as shareholders. Mixed enterprises corporatized without splitting. Passenger transport is under municipalities.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
OMSK	27.05	Governor's Office	Yes	No	No	As a result of detailed study of the Nizhny model, the Nizhny experience is not accepted. Enterprises corporatized separately with obligatory golden share.
	31.5 24.8	Property Committee	No	No	Yes	Privatization going slowly. Mixed enterprises corporatized without splitting. At the moment privatization process suspended for lack of experience. No progress. Privatization is going very slowly. Lack of professionals in the newly formed enterprises. Trucking enterprises don't make profit. The trucking lot is very old and worn out. The Committee is trying to find means of economic control over the new enterprises.
ORENBURG	5.07	Governor's Office and Property Committee	Yes	No	No	Privatization completed. Enterprises privatized on the basis of leasing with a right to buy.
ORYOL	5.05	Governor's Office	No	No	No	No information: new administration.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
PSKOV	11.5	Governor's Office	Yes	No	Yes	Enterprises corporatized separately. Most of the passenger transport remains state property.
	9.06	Property Committee	Yes	Yes	Yes	Enterprises are being corporatized separately. 80% are mixed enterprises, corporatized without splitting. Many numbered columns.
RIYAZAN	17.5	Governor's Office	Yes	Yes	Yes	Privatization is in initial stages. TPO has been corporatized separately. All enterprises mixed with common base. 70% numbered columns.
	27.5	Property Committee	Yes	Yes	Yes	Corporatized about 17%. Enterprises corporatized separately. TPO converted into a service organization. Planning to sell all types of transport through auctions. Passenger transport under oblast authorities.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
ORYOL	10.6	Property Committee	Yes	Yes	Yes	Transport enterprises created a Joint Stock Co. with the Property Committee as a shareholder. Mixed enterprises are not privatized and remain under municipalities. Problems: mobilization reserves.
PENZA	5.05	Governor's Office	No	No	No	Enterprises corporatized separately. Interested mostly in post-privatization issues.
	15.6	Property Committee	Yes	Yes	No	Privatization is practically completed. Mobilization reserves are maintained by privatized enterprises on agreements. Problems: mixed enterprises have not been corporatized.
PERM	29.6	Governor's Office and Property Committee	Yes	Yes	Yes	Trucking enterprises corporatized separately. Passenger transport under municipalities. Many mixed (23 enterprises). The Property Committee requests IFC consultations.
PRIMORSKY KRAI	16.7	Property Committee	Yes	Yes	Yes	Privatization is practically completed. Small enterprises have been corporatized in groups. Large enterprises separated and corporatized separately. Mixed were split and passenger transport transferred to municipalities. Maintenance bases remained with the trucking enterprises.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
ROSTOV	17.6	Governor's Office and Property Committee	Yes	Yes	Yes	Privatization is going slowly. Plan to complete by the end of the year. Enterprises privatized separately. Most of them have become voluntary members of the Joint Stock Co. which was created out of the former TPO. Many mixed enterprises in the districts, none of these corporatized. Idle trucks sold through auctions at the enterprises' request. Problems: mixed enterprises, numbered columns.
SAKHA REP.	8.07	President's Office	Yes	No	No	Privatization is in final stages. Enterprises corporatized separately. Transport system demonopolized.
	8.07	Property Fund	Yes	Yes	Yes	Nizhny experience is interesting. Enterprises corporatized separately. TPO corporatized through a voucher auction. Many mixed enterprises, most of them split in the course of privatization. Passenger is under municipalities. To date rides within the districts are free (subsidized through the taxes paid by the enterprises), but they most probably will have to introduce payment from 1994. Ready to cooperate. Interested in assistance on river transport privatization.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
SAKHALIN	17.6	Governor's Office	No	No	No	Privatization practically completed. Enterprises corporatized separately. No mixed enterprises. Passenger transport transferred to municipalities. Interested in seminars on post-privatization issues.
	8.07	Property Committee	Yes	No	No	Privatization completed. Enterprises corporatized separately and created a corporation. Many mixed, part of them split in the course of privatization. Passenger is under municipalities.
SAMARA	12.5	Governor's Office	No	Yes	Yes	Privatization currently in process. Many problems due to the fact that 25 enterprises out of 55 are mixed.
	24.5	Property Committee	Yes	No	Yes	Privatization in final stages. Enterprises corporatized separately. Mixed enterprises corporatized without splitting. Passenger transport under municipalities. Problems with numbered columns.
	27.8					Privatization completed. The documentation for the last enterprise are under consideration. All mixed enterprises have been privatized without splitting.
SARATOV	26.5	Governor's Office	Yes	Yes	Yes	Privatization is in initial stages. Nizhny experience is interesting.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
SARATOV	27.5 31.8	Property Committee	Yes	No	No	Privatization is in initial stages. Enterprises are being corporatized separately. Passenger transport is under municipalities. Privatization of purely trucking enterprises completed. Numbered columns have not been corporatized: the Committee is awaiting a decision on a federal level. Mixed enterprises (16) have not been split or corporatized. Very much interested in materials on splitting.
SMOLENSK	17.5	Governor's Office and Property Committee	Yes	No	No	Privatization completed. All enterprises corporatized separately. Passenger partly privatized, partly passed to municipalities. Mixed enterprises corporatized without splitting. About 20% sold through auctions. Maintenance and repair centers created. Experience is very interesting and worth studying.
STAVROPOL	18.5	Governor's Office and Property Committee	Yes	No	No	Privatization practically completed. Enterprises corporatized separately and then united into a Joint Stock Co. with the Property Committee as a shareholder. 70-80% of mixed enterprises corporatized without splitting. Passenger transport transferred to municipalities. Seminars interesting for enterprises' representatives.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
SVERDLOVSK OBLAST	15.6	Governor's Office	Yes	No	Yes	Do not agree with the Nizhny model. Common carrier transport remain in federal property. Only 10 enterprises have been corporatized. Problems: mixed enterprises, numbered columns.
	15.6	Property Committee	Yes	No	No	Many mixed enterprises - open issue. The matter of numbered columns is under consideration. Passenger transport is under municipalities. Interested in seminars on post-privatization issues.
TAMBOV	18.5	Governor's Office	Yes	Yes	Yes	Privatization in initial stages.
	25.5	Property Committee	Yes	No	No	60% of enterprises corporatized. Mixed enterprises corporatized without splitting. Idle trucks sold through auctions. Numbered columns are the responsibility of the privatized enterprises on agreements signed.
	30.8					In accordance with the Decree No.640 privatization practically completed. The Chairman of the Committee is unwilling to supply any further information.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
TATARSTAN REP.	7.07	President's office	No	Yes	Yes	Privatization is in initial stages. At present the plans are to create a holding co., but the final decision has not been taken so far. The authorities have no idea of the Nizhny experience and are eager to learn it. All the enterprises in the districts are mixed.
TOMSK	13.7	Property Committee	Yes	No	No	Privatization is carried out in accordance with Decree 721. Enterprises are being corporatized separately. Mixed enterprises corporatized without splitting. Plan to complete the privatization of 30 enterprises on the obligatory list for the current year by August 1.
TIUMEN	20.7	Property Committee	Yes	Yes	Yes	90% of the common carrier transport privatized. All the enterprises in the districts are mixed. The terminals are on unconditional leasing agreements with the right to buy. At present, the Committee is making efforts to cancel these agreements. Problems: mixed enterprises, terminals. Interested in large scale (oil and energy complex).

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
TULA	17.5	Governor's Office and Property Committee	Yes	No	No	All enterprises already corporatized and now uniting into a Joint Stock Co. Mixed enterprises corporatized without splitting. Idle trucks are sold through auctions. Interested in post-privatization issues. Interested in seminars only on post-privatization issues.
TUVA REP.	14.7	Council of Ministers and Property Committee	Yes	No	Yes	Privatization is in final stages. Enterprises privatized separately. Mobilization reserves transferred to state property. 2 mixed enterprises split. Passenger transport, including taxies, is under municipalities.
TVER	17.6	Governor's Office	Yes	Yes	Yes	Privatization is currently going. Many mixed enterprises, to date corporatized without splitting. Very interested in splitting.
	29.6	Property Committee	Yes	Yes	Yes	Privatization going slowly. Enterprises are being corporatized separately. Many mixed enterprises.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
UDMURT REP.	20.7	Property Committee	Yes	Yes	Yes	Privatization practically completed. Enterprises were privatized in following ways: 1) rent with the right to buy; 2) corporatization. Passenger is under republican authorities. Mixed enterprises are also under republican authorities, none of them privatized.
ULIANOVSK	24.5	Governor's Office	No	Yes	Yes	Enterprises currently corporatized separately. Passenger transport is under municipal and oblast authorities.
	13.6	Property Committee	Yes	Yes	Yes	To date about 40% of the enterprises have been corporatized. TPO reorganized into a Joint Stock company together with its social assets. Enterprises are being corporatized separately. Mixed are few, none of them corporatized yet. Passenger is controlled by the former TPO.
VOLOGDA	12.5	Governor's Office	Yes	Yes	Yes	Very interested in Nizhny experience. Problems with passenger transport.
	19.5	Property Committee	Yes	Yes	Yes	Many mixed enterprises. Open to alternatives.

Name of Region	Date	Contact	Manuals Received?	Possible IFC Visit?	Seminar?	Comments
VORONEZH	28.5	Governor's Office and Property Committee	Yes	No	Yes	Corporatizing is suspended due to a large number of mobilization reserves - 70%-90%. Mixed enterprises are few. Passenger transport is under oblast authorities but will be transferred to municipalities.

ATTACHMENT 3

**THE MODEL PLAN OF PRIVATIZATION FOR ENTERPRISES
OF TPO "NIZHEGORODAVTOTRANS"**

A. METHOD OF PRIVATIZATION

I. Corporatization, auction, tender

1.1. All the state enterprises fall into three groups corresponding to the privatization method to which they are subject:

- Small enterprises (with an average number of workers up to 200 and a book value of less than 1 million roubles as of January 1, 1992) are subject to the sale by auction (tender);

- Enterprises with an average number of workers more than 1000 or a book value of at least 50 million roubles as of January 1, 1992 are subject to reorganization into open-end joint stock companies;

- Other enterprises may be privatized through any of the above methods.

1.2. While choosing the method of privatization, the residual value of capital assets and number of workers shall be estimated taking into consideration the mandatory reorganization of the enterprise in accordance with this plan.

1.3. The method of privatization of the enterprise is:

- auction
- tender
- corporatization

1.4. If corporatization is chosen or required, complete the Model Privatization Plan, included in Addendum 2 of Resolution No. 547 of the Government of the Russian Federation, dated August 4, 1992, which is attached hereto, and proceed to Section C, "Reorganization, Schedule, and Other." Enterprises not undergoing corporatization should complete Section B "Enterprise Information" below, and then proceed to Section C. All enterprises must complete Section C of this plan.

1.5. According to the current legislation the enterprise shall be privatized separately both from other TPO enterprises and the central organization of the TPO.

1.6. A privatization commission ("Commission") is established for each TPO enterprise listed in Addendum 2. In 4 weeks from the date of confirmation of this Model Privatization Plan each commission must work out a privatization plan for the corresponding TPO enterprise on the basis of the present Model Plan and shall submit this plan to the workers' collective of the enterprise and also to the Soviet (or its authorized representative) for review.

B. INFORMATION ABOUT THE OBJECT OF PRIVATIZATION
(for enterprises not undergoing corporatization)

I. Object requisition (before the transformation)

1.1. Full and shortened name

1.2. Legal address:

1.3. Number and dates of the government registration of the object:

(not filled out for divisions which are not legal entities)

1.4. Property:
Federal

(federal property, state property of Republics, included into Russian Federation, krais, oblasts, autonomic oblasts, counties, cities of Moscow and Saint-Petersburg, municipal property)

1.5. Organizational-legal form:

1.6. Invoice numbers of clearing (current) and other accounts of the enterprise (division), name and requisites of the servicing bank establishments

1.7. Names and addresses of enterprises which were established by the enterprise (subsidiary, small enterprises)

(full name and legal status of the enterprise)

(a) legal address _____

(b) enterprise share in the authorized capital _____ %

1.8. Names and addresses of the divisions/affiliates:

II. Principal data on the Object (before transformation)

	As for 01.01.92	As for 07.01.92
2.1. Average manpower, person ...	_____	_____
2.2. Residual value of capital assets, R000's	_____	_____
2.3. Balance revenue, R000's	X	_____
2.4. Actual profit (after-tax, other compulsory payments), R000's	X	_____
2.5. Authorized capital (calculated according to Decree of the President of RF No. 721 dated July 1, 1992), R000's	X	_____
2.6. Privatization fund (individual privatization accounts), R000's	X	_____
including:		
- revenue share	X	_____
- residuals of economic stimulation fund by January 1, 1992	X	_____
2.7. Composition and cost of objects (property), let out to legal entities and natural persons on lease (operation), and for joint activities: _____ R000's.		
2.8. Detailed list and cost of objects, prohibited for privatization:		
1. _____		
2. _____		
3. _____		
TOTAL:	R000's	
2.9. List of objects (enterprises, banks, firms, organizations and other legal entities) in the Russian Federation and overseas where the enterprise hold a share (companies' stock, share, dues in partnerships, joint ventures, etc.) according to the following form:		

(full name and legal status of the object)

- (a) legal address of the object _____
(b) authorized capital of the object _____ R000's
(c) enterprise share in the authorized capital of the object _____ %

Additional information on the objects may be enclosed under separate cover.

2.10. Main activities of the enterprise, division: _____

2.11. Main articles of products, operations and services: _____

2.12. List of objects and cost of the unfinished construction objects according to the balance sheet by July 1, 1992, R000's:

No.	Object name	Planned volume	Performed volume
_____	_____	_____	_____
_____	_____	_____	_____

2.13. List and cost of stored equipment according to the balance sheet by July 1, 1992, R000's:

No.	Equipment inventory	Balance cost
_____	_____	_____
_____	_____	_____

2.14. Land tax, roubles _____

2.15. Information:

on borders, surface and location of the territory of the enterprise (division) _____, environmental, engineering geological conditions, level of engineering equipping with services and utilities of the territory, condition of social and engineer transport infrastructures, objects of culture and historical importance, objects of common use (filled in by the GKI)

C. REORGANIZATION, SCHEDULE AND OTHER

I. Objects of privatization

- 1.1. In accordance with this plan the privatization objects are the following: _____ (hereinafter "Enterprise"), and certain of its assets identified in pp. 2.2.(b), 2.3.(a) of Section "C" of the given Plan.
- 1.2. Mobilization objects, which belong to the enterprise, are not subject to privatization.
- 1.3. Social objects, which belong to the enterprise (except those listed in p.2.1.(a) of the present plan), which are located at the operational site of the Enterprise, are not included among the enterprise' property subject to mandatory privatization.

II. Reorganization of the enterprise

The enterprise should be reorganized as follows:

2.1. Social assets

- (a) (List all the social objects maintained by the enterprise and located at the operational site of the enterprise)

- (b) (List all social objects, other than objects listed in p.(a) above, to be transferred to the local municipal authorities)

2.2. Divisions

- (a) (identify all divisions of the enterprise located on separate operational territories and the location of their operational facilities)

<u>Division</u>	<u>Location</u>
_____	_____
_____	_____

- (b) The operational divisions listed in p. (a) above, operating at non-contiguous locations are separated into independent enterprises and will be independently privatized in accordance with the model plan. Having taken into account the workers' collective opinion, the commission makes a decision on the privatization of each such division.

2.3. Trucks auctions (for enterprises undergoing corporatization only)

- (a) _____ % (no less than 20%) of the trucks in the operational control of the enterprise will be sold by auction. These trucks should represent a fair cross-section of enterprise trucks, they should pass the standards of the State

Automobile Inspection and they shall constitute no less than 20% of the trucks in the operational control of the enterprise manufactured in each of the following periods: years 1990-1992, 1985-1989, 1980-1984, before 1980.

There are _____ trucks in the operational control of the enterprise.

In compliance with the given plan _____ trucks will be sold through auction.

(Indicate the model names and years of production for the trucks to be auctioned pursuant to this plan)

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(Indicate the model names and years of production for the trucks which are not subject to auction sale)

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- (b) Employees of the enterprise should receive up to 30% of auction proceeds (but no more than 20 guaranteed minimum monthly wages per worker), and the remainder should be received by Oblast Property Fund in compliance with the current legislation.

2.4. Passenger transport services

- (a) (Indicate all personnel, vehicles and other assets in the operational control of the enterprise dedicated to passenger transport

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- (b) The operational control and ownership of the objects listed in p.(a) will be transferred to the local municipal authorities or "Nizhegorodpassagiravtotrans", as indicated below. Personnel listed in p.(a) above are also reassigned to the consideration of municipal bodies.

- (c) (Indicate whether an organization formed by the workers' collective of the enterprise proposes to lease the objects listed in p.(a) above following their transfer. If so, attach the charter documents for the organization of the workers' collective and the draft lease agreement)

2.5. Services

- (a) Maintenance, repair or procurement services, if any, currently provided by the enterprise will be made available to the third parties unaffiliated with the enterprise at fair market prices for a period of at least one year following the adoption of this plan.
- (b) (Indicate concrete measures designed to implement p. (a) above)

III. Initial valuation of objects of privatization (for enterprises not undergoing corporatization)

- 3.1. (Indicate the valuation of objects of privatization, excluding social objects, in accordance with Addendum 2 to the Decree of President No. 66 dated January 29, 1992)

IV. Privatization schedule

- 4.1. (Indicate the dates for)

- (a) Auction of trucks pursuant to p.2.3. of the given plan, if applicable _____
- (b) Registration of the enterprise as a joint-stock company, if applicable _____
- (c) Auction or tender of the enterprise, if applicable _____
- (d) Disposition of social objects pursuant to p.2.1. (b) of the present plan _____
- (e) Separation of subdivisions in accordance with p.2.2. of the present plan: _____, filling of the privatization application for each subdivision _____
- (f) Transfer of passenger transport in accordance with p.2.4. of the given plan _____

ATTACHMENT 4

STATUS OF ENTERPRISES FORMERLY BELONGING TO TPO "NIZHEGORODAVTOTRANS"

November 1, 1993

NN	Former Name/Location	New Name	Type	Status/ Comments
1	POGA-1 N.Novgorod	JSC "NITEK"	Freight	Corporatized according to variant 2; 78% of shares sold.
2	Sormovskoe ATP-1 N.Novgorod	ATP "Motor"	Freight	Corporatized in June 1993 according to variant 2. No information available re: share sales.
3	Leninskoe ATP-2 N.Novgorod	ATP "Dvizhenie"	Freight	Not privatized yet. Documents are almost ready and are to be transferred to the Fund in November 1993.
4	Avtozavodskoe ATP-3 N.Novgorod	ATP "Khlebavtoservis"	Freight	Corporatized according to variant 2; 77% of shares sold.
5	POGA-2, N.Novgorod	JSC "Neftetrans"	Freight	Corporatized according to variant 2; 94% of shares sold.
6	SPOGA-3, N.Novgorod	JSC "Aytotranskonteiner"	Freight	Corporatized according to variant 1; 79% of shares sold.
7	POGA-4, N.Novgorod	JSC "Zarechnoe"	Freight	Corporatized in October 1992 according to variant 2; 91.8% of shares sold (70% - workers/management of the enterprise, 15% - bought at auctions by two legal entities which have agreed to sell them to the enterprise, 5% - FARP, 3.2% - not sold, remaining - bought by other physical entities.)
8	POGA-5, N.Novgorod	JSC "Okskoe"	Freight	Corporatized according to variant 2; 81% of shares sold.

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NN	Former Name/Location	New Name	Type	Status/ Comments
9	POGA-6, N.Novgorod	JSC "Volzhskoe"	Freight	Privatized in summer of 1992, exercised buy-out option under pre-existing lease arrangement.
10	ATP-7, N.Novgorod	JSC "Nizhegorodets"	Freight	Corporatized according to variant 2; 95% of shares sold.
11	POGA-8, N.Novgorod	JSC "Poliavtotrans"	Freight	Corporatized in August 1992 according to variant 2; 83% of the shares belong to the workers/management of the enterprise, 10% - FARP, 7% are held by physical entities.
12	POGA-9, N.Novgorod	JSC "Progress"	Freight	Corporatized according to variant 2; 71% of shares belong to the workers/management of the enterprise, 20% - are held by an Investment fund, the remainder are held by the Property Fund.
13	Bogorodskoe POGA Bogorodsk	JSC "Bogorodsktransservis"	Freight	Corporatized according to variant 2; 80% of shares sold.
14	Dzerzhinskoe POGA Dzerzhinsk	JSC "Dzerzhinskavtotransservis"	Freight	Corporatized according to variant 1; 90% of shares sold.
15	Autocolumn N 1413 Lyskovo	JSC "Lyskovoavtotrans"	Mixed	Operations split; freight unit corporatized according to variant 2; 81% of shares sold. Passenger unit joined "Nizhegorodpassazhiravtotrans".
16	Pavlovskoe POGA Pavlovo-na-Oke	"Pavlovavtotrans"	Freight	Corporatized according to variant 1; 90% of shares sold.

NN	Former Name/Location	New Name	Type	Status/ Comments
17	Semenovskoe POGA Semenov		Mixed	Privatized without splitting.
18	Urenskoe ATP, Uren	"Avtomobilist"	Mixed	Corporatized without splitting according to variant 2; 80% of shares sold.
19	Artocolumn N 1302, Bor	Bor freight transport enterprise	Freight	Corporatized in April 1993 according to variant 2; all shares have been sold: 60% of shares belong to the workers/management of the enterprise, 27% - to an investment fund, 10% bought at an auction by a legal entity, 3% - held by physical entities.
20	Balakhninskoe ATP Balakhna		Freight	Corporatized according to variant 1; 33% of shares sold.
21	Vyksunskoe ATP, Vyksa		Freight	Corporatized in August 1992, exercised buy-out option under pre-existing lease arrangement. 74% of shares sold.
22	Koverninskoe ATP Kovernino		Mixed	Corporatized in December 1992 according to variant 2, without splitting. 66% of the shares belong to the workers/management of the enterprise.
23	Lukoianovskoe ATP Lukoianov		Mixed	Not privatized. Joined TPO "Nizhegorodpassazhiravtotrans".
24	Pochinkovskoe ATP Pochinki		Mixed	Privatized without splitting.
25	Sergachskoe ATP Sergach		Mixed	Privatized without splitting.

NN	Former Name/Location	New Name	Type	Status/ Comments
26	Shakhunskoe ATP Shakhunya		Mixed	Split by selling all trucks individually through auction, passenger unit joined "Nizhegorodpassazhiravtotrans".
27	Voskresenskoe ATP Voskresenskoe		Mixed	Privatized without splitting.
28	Navashinskoe ATP Navashino		Mixed	Privatized without splitting.
29	Vadskoe ATP, Vadskiy district, village Lesnoy		Mixed	Privatized without splitting. Former subsidiary of POGA-9.
30	Krasnobakovskoe ATP Krasno Bakovskiy district, village Vetluzhskiy		Mixed	Operations split, freight unit privatized - sold through tender; passenger unit joined "Nizhegorodpassazhiravtotrans".
31	B.Murashkinskoe ATP village Murashkino		Mixed	Operations split, freight unit is to be corporatized; passenger unit joined "Nizhegorodpassazhiravtotrans".
32	Vorotynskoe ATP village Vorotynets		Mixed	Not privatized. Joined TPO "Nizhegorodpassazhiravtotrans".
33	Sosnovskoe ATP village Sosnovskoe.		Mixed	Privatized without splitting.
34	Pervomaiskoe ATP Pervomaisk		Mixed	Operations split, freight unit privatized - sold through tender; passenger unit joined "Nizhegorodpassazhiravtotrans".

NN	Former Name/Location	New Name	Type	Status/ Comments
35	Shatkovskoe ATP village Shatki		Mixed	Not privatized. Operations split, freight unit joined "Nizhegorodavtodor" with a loss of status as an independent legal entity, and the passenger unit joined "Nizhegorodpassazhiravtotrans".
36	Mukhtolovskoe ATP Ardatovskiy district, village Mukhtolovo		Mixed	Not privatized. Joined TPO "Nizhegorodpassazhiravtotrans".
37	Kamenischenskoe ATP Buturlinskiy district, village Kanenishi		Mixed	Not privatized. Operations split, freight unit joined "Nizhegorodavtodor" with a loss status as an independent legal entity, and the passenger unit joined "Nizhegorodpassagiravtotrans".
38	NKVC		Computer Services	Privatized in summer 1992, exercised buy-out option under pre-existing lease arrangement.
39	PKB		Engineering Design	Privatized by selling through auction in September 1992.
40	PKTO	"Nizhegorodavtotransobsluzhivanie"	Despatcher Service	Corporatized in September 1992 according to variant 1; 88% of shares sold.
41	Uzel Sviazi		Electronic Repair	According to current legislation of Russia the enterprises dealing with communications are not to be privatized.
42	ARZ "Zavolzhie"		Repair	Privatized in December 1992, exercised buy-out option under pre-existing lease arrangements.

NN	Former Name/Location	New Name	Type	Status/ Comments
43	"Avtodiler"		Parts Sourcing	Corporatized in October 1992 according to variant 1; 80% of shares sold.
44	KAMAZ		Repair	Not yet privatized.
45	Baza mekhanizacii		Construction	Not yet privatized.

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ATTACHMENT 5

TRUCK AUCTION STATISTICS
Nizhny Novgorod

Auction	DATE	LOCATION	NO. OF TRUCKS	AVG. PRICE	REVENUE	MAX. PRICE	MIN. PRICE
Auction 1	Oct 31 - Nov 2, 1992	Nizhny	194	253,000	49,085,000	1,500,000	72,000
Auction 2	Dec 5, 1992	Nizhny	64	232,000	14,643,000	1,300,000	55,000
Auction 3	Dec 21, 1992	Nizhny	72	290,000	20,834,000	1,800,000	100,000
Auction 4	Jan 6, 1993	Bogorodsk	14	151,000	2,114,000	260,000	84,000
Auction 5	Jan 13, 1993	Nizhny	61	282,000	17,214,000	840,000	45,000
Auction 6	Jan 28, 1993	Nizhny	79	273,000	21,564,000	1,200,000	90,000
Auction 7	Feb 11, 1993	Bor	14	244,000	3,410,000	450,000	100,000
Auction 8	Feb 18, 1993	Nizhny	56	308,000	17,215,000	1,500,000	105,000
Auction 9	Feb 23, 1993	Bogorodsk	11	173,640	1,910,060	240,000	120,000
Auction 10	Feb 25, 1993	Kovernino	13	322,920	4,198,000	800,000	88,000
Auction 11	Mar 10, 1993	Nizhny	50	361,000	18,000,000	950,000	40,000
Auction 12	Mar 19, 1993	Vyska	38	338,000	12,860,000	960,000	80,000
Auction 13	April 22, 1993	Bor	20	300,000	5,999,000	600,000	55,000
Auction 14	April 29, 1993	Semenov	13	384,000	4,995,000	1,200,000	105,000
Auction 15	May 20, 1993	Uzhovka	14	445,400	6,235,000	880,000	225,000
Auction 16	May 27, 1993	Shakhunya	16	3,825,600	61,210,000	11,000,000	260,000
Auction 17	June 3, 1993	Lyskovo	7	538,600	3,770,000	720,000	400,000
Auction 18	June 10, 1993	Voskresenskoye	9	461,000	4,150,000	660,000	360,000
Auction 19	June 17, 1993	Sosnovskoye	10	430,000	4,304,000	720,000	300,000
Auction 20	July 8, 1993	Sergach	19	320,000	6,080,000	550,000	200,000
Auction 21	July 15, 1993	Lukoyanov	20	312,500	6,250,000	880,000	120,000
Auction 22	July 22, 1993	Bogorodsk	12	124,900	1,498,320	550,000	25,000
Total			806		287,608,380		

(Data supplied by Nizhgorodskaya Oblast Property Fund)

ATTACHMENT 6

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JSC "Poliavtotrans" (formerly POGA-8)

During the initial diagnostic of the enterprises of TPO "Nizhegorodavotrans", this enterprise was identified as a strong candidate for early privatization based on the business profile, management structure and leadership. In fact, the enterprise was corporatized in August 1992, prior to the adoption of the oblast trucking privatization program. It thus was never subject to the requirements of the plan and provides an interesting basis for comparison. At the present time, approximately 90% of shares have been sold, with only 600 shares (6.8%) owned by outsiders; the director holds 16% of shares.

The director, Yuriy Konstantinovich Gridnev stated that the problems he faces as a director after privatization remain the same as those which he dealt with before, although now he has complete freedom to make independent decisions. As was anticipated at the time of the original assessment, there have been no structural changes made in the management of the enterprise. A planned two-stage reduction in administrative staff, however, has taken place leaving 57 of what were 86. The enterprise presently employs 231 drivers and 101 repair and maintenance personnel. They do all of their own maintenance, and cash-flow problems aside, have no problem obtaining fuel, spares or other servicing.

The enterprise's business profile has not undergone a change as a result of privatization. Of the approximately 150 vehicles on the line every day, 20-25 are involved in intercity shipping. The client base has also not changed markedly: about 60-70 percent are traditional clients. The remainder are newer, commercial clients, but according to Gridnev, "solid" (presumably meaning solvent). Gridnev claims that he is not experiencing any competition from new private truckers; for large volume shipping and guarantees of reliability on delivery and costs, his clients are still likely to turn to him.

The fleet has been down-sized considerably from 276 trucks to 222, with a planned further reduction of 50 more trucks which do not have drivers or work. Since this enterprise was not included in the Nizhny plan, no trucks were sold through the auction. Four trucks have been leased out to former drivers of the enterprise and two to other drivers; under the leasing agreement they must ensure the vehicle in the name of the enterprise, taking into account inflation. Fleet renewal this year has involved the purchase of 3 Kamaz and one foreign vehicle (see below).

A specialized repair shop to service Kamaz vehicles for profit has been opened on the base of the enterprise. They are also producing and selling nails. Gridnev has recently concluded an agreement with the Finnish company SISU whereby he will lease one vehicle from them this year. He hopes to increase that number in the near future, recognizing international shipping to be the wave of the future.

The financial position of the enterprise is relatively stable. Third quarter 1993 revenues were approximately 675 million rubles. Although experiencing the same fiscal difficulties as other enterprises, Gridnev plans to introduce cash-basis rather than accrual-basis accounting as of the beginning of the next year, in an effort to get control over the situation of constantly growing receivables. The percent of income spent on repairs is growing all the time.

JSC "Progress" (formerly POGA-9)

This enterprise was also identified as a priority enterprise for privatization last year. Its park is specialized, mainly dumptrucks transporting road and construction materials. Ninety-two percent of shares have been sold, with an investment fund holding approximately twenty percent; the remainder are held by the enterprise or in the Property Fund.

Staff reduction has been large, but most has been accomplished in conjunction with separation of filials. The number of truck drivers has been reduced by approximately 50% and administrative and management staff has been similarly reduced; repair and maintenance personnel have remained stable (this is probably in connection with the opening of a truck servicing depot, body shop, and parking lot). A physically independent subsidiary providing passenger transport services and some trucking was separated in the context of privatization. Fifty-eight trucks were sold in the first truck auction; subsequently five more were sold, but Yanover does not foresee selling anymore. He was unable to purchase any new trucks this year.

Again, this enterprise has not experienced any loss in revenues due to competitors. In fact, they have expanded into the Sergach and Sechenovo districts as local enterprises do not have trailer trucks. Difficulties arise in connection with available cash. The director stated that they do not experience lack of clients. At present the director does not see any possibility in diversifying the fleet due to very high prices. However, the enterprise is sound and profitable. The profit in the second quarter of 1993 as compared to the second quarter of 1992 has grown by 474%.

Koverninskoye ATP

This small, mixed enterprise was privatized without splitting passenger and freight operations. The director, Mikhail Aleksandrovich Burov claims that the enterprise continues to function as in the past and seemed altogether ambivalent about privatization. Discussions with the senior management indicated a generally low level of understanding of the significance of privatization and how it worked, mechanically speaking. The staff of approximately 250 has been cut to 151 persons, but he stressed that this all happened quite painlessly. The administrative staff has been cut by over 50%. Truck drivers have been reduced from 77 to 45; this is in relation to cutting the fleet by approximately 50% over the past year. Thirteen trucks were sold as required at auction; subsequently, Burov sold a great number of delivery trucks (foodstuffs, light consumer goods) to the local competitor who, it can be inferred, was "driving him out of business". As is the case in most rural districts, there is a local consumer cooperative which is able to operate at much more effective costs than the TPO affiliate. They are also facing competition in delivery of agricultural goods and foodstuffs from "Selkhoztekhnika" (an agricultural concern, and the nearby Semenovskoye ATP. Wages, however, are on par with the other freight transport enterprises; the average salary at the enterprise overall is 71,000 rubles per month and for truck drivers, 91,000 rubles.

The passenger unit remains state property *per se*, within a private enterprise. It is subsidized at a local level by the district government, and Burov states that the 45 million ruble subsidy which they received this year has been adequate (he even received five new buses in the past year). Discussions with all of the senior management staff including the chief accountant, engineer and economist clearly indicated a continued lack of understanding as to how the passenger operation impacts on the freight operation and vice-versa. Consequently, they have made no plans for the future, or for developing their business. However, it would seem that in the short term, this will not effect continued operation of the enterprise. For intercity shipping, they still rely on orders transmitted through the former UTEP, which as has been noted by the Ministry of Transport is losing business. Considering that long-distance shipping accounts for 20-30% of their total income, this could be a significant problem.

JSC "Bor Freight Transport Enterprise" (formerly Avtokollona No. 1302)

The director of this enterprise, Aleksandr Mylnikov, was not much more forthcoming with information during this meeting than he was at the time of the original diagnostic in April 1992. The enterprise was privatized (corporatization in April 1993) as a whole, although there had been a suggestion earlier of breaking it up into its operational subdivisions. Shares are 60% held by enterprise management and workers, 10% by an investment fund, and 3% by individuals (27% of shares are still held by the Property Fund).

Although there has been some reduction of the workforce consequent with privatization (887 to 740 total employees), its client base has allowed it to remain substantially unchanged. His main clients have until recently been able to pay (only in October have they started to require prepayment in some cases). The enterprise continues to have a monopoly on the shipment of glass from the glass manufacturer in Bor to automotive plants around the former USSR, in bread deliveries around the city, and in shipping brick. Mylnikov was able to obtain financing from the local bank to purchase twenty new (Kamaz) vehicles this year and does not anticipate problems in paying back the loan. The maintenance and repair base renders full range of services to its own fleet as well as to the trucks not belonging to the enterprise. Average wages over the enterprise are 82,000 rubles and for truck drivers approximately 90,000 rubles per month. At present, the profit margin is 10-12%.

JSC "Zarechnoye" (formerly POGA-4)

This enterprise, like Poliavtotrans, is responding well to privatization. A mixed operations subsidiary in Shotkov was separated prior to privatization, leaving the freight enterprise more able to respond to changing situation. The trucking fleet and workforce have been reduced within the process of privatization. The fleet is specialized and performs inter-modal shipping through rail, river and air terminals. At present the enterprise has no competitors. The maintenance and repair base is large and offers full range of services to its own fleet as well as to outsiders, which the management finds to be rather profitable. This year they have bought 10 new trucks (KAMAZ).

Although they have not lost any clients in the post-privatization period, the volume of work has decreased such that they no longer work on most weekends. For this reason, the management of the enterprise is looking for new clients through active marketing and advertising as well as for new fields of activities. As in the past, most of their clients are within the city of Nizhny Novgorod and surrounding regions. In addition, the director, Viktor Ivanovich Spivak realizes the value of international shipping and is also planning on leasing a SISU truck. They are organizing a paid parking lot for vehicles not belonging to the enterprise, renting out the unutilized space in the administration building to a shop, and are planning to rent out more space to another shop. The director is also planning to open a body shop in future. About thirty trucks per day are occupied at an automobile plant, which is having problems making payment. An agreement has been struck whereby, the Zarechnoye enterprise will receive partial payment in vehicles which it can then sell for a profit.

Staff overall has been reduced from approximately 800 to 432 in the past year and a half, including a reduction in the number of truck drivers from 379 to 233. He stated that the layoffs were not a problem as it mainly involved an opportunity to get rid of problem drivers, and thus was not perceived as an overall threat by the majority of the staff. Average salaries are 74,000 and 84,000, somewhat lower than other enterprises, but nonetheless, Spivak has more contenders for jobs than he knows what to do with.

Spivak offered a particularly well summarized critique of the current situation. He stated that other than the fact that he now had more freedom from the TPO, the enterprise was not currently experiencing any benefit from privatization. In fact, he argued that it was wrong to eliminate the entire administration of the TPO at once, because it left the enterprises in many cases floundering on their own. Particularly problematic from his point of view was the lack of opportunity to purchase en masse equipment, spares, vehicles, etc., which left them in a poor bargaining position vis-a-vis producers. In addition, he finds that the local Ministry of Transport has too few people to act as an intermediary with Moscow (in addition to the fact that they have other, more pressing concerns such as passenger, river, and air transport). Therefore, he will participate in the limited partnership being proposed by Sokolov (former TPO head).

ATTACHMENT 7

AIDE-MEMOIRE

This Aide-Memoire records the understandings reached between the Ministry of Transport (MOT) and the International Finance Corporation (IFC) at a meeting held at the Ministry on October 27, 1992. It was agreed that the MOT and IFC would work jointly to promote the trucking privatization plan throughout Russia based on the studies of the MOT and on the IFC's Nizhney Novgorod Trucking Privatization Action Plan. To make the plan more effective, it was agreed to modify it in the following ways:

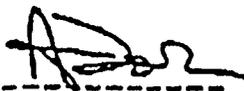
(i) the number of vehicles apportioned by the enterprises for the auction in the privatization plans of enterprises should proceed from criteria jointly set by the GKI and MOT;

(ii) it should not separate passenger and freight in small mixed enterprises in rural areas before they are privatized;

It was agreed that IFC would assist in preparing and publishing promotional material and normative document for the trucking privatization which are developing by the MOT and GKI. IFC will assist in obtaining funds to finance the cost of printing and distribution.

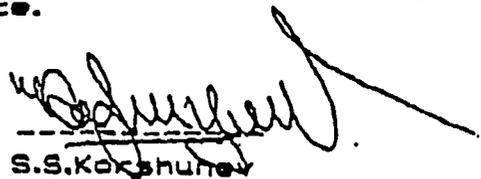
If this effort to de-monopolize trucking in Russia is to be truly successful, it was agreed the program should be extended to the trucking enterprises of the other ministries and agencies (organizations) which control more than 80 % of the truck capacity in the Russian Federation. IFC agreed to take up this matter with GKI.

Prepared " " October 30 1992 in Moscow in two original copies, in Russian and English, both in force.



Tony Doran

International Finance
Corporation



S.S. Korshunov

Ministry of Transport
of the Russian Federation

ATTACHMENT 8

DRAFT

93/02/16

(GKI Direction)

In order to implement antimonopoly policy and to develop competition at the transportation services market, and due to successful implementation of privatization of Nizhegorodavtotrans TPO in compliance with the program developed by Administration and Committee for Management of Property of Nizhegorodskaya oblast together with International Finance Corporation, **DECIDED:**

1. To recommend the Committees for Management of Property of the republics within the Russian Federation, kray, oblast, autonomous oblast, autonomous regions, districts and cities (hereinafter referred to as Committees) to be guided by the Model Provision in the process of freight transport enterprises privatisation. To recommend the Committees to accept the model plans for privatisation, mandatory for the enterprises mentioned, according to sample of model privatisation plan attached, which is approved by the Committee for Management of Property of Nizhegorodskaya oblast; taking into consideration the changes to the current legislation.
2. To recommend in the course of freight transport enterprises privatisation to transfer the assets of the enterprises involved in passengers transportation to the municipal passengers transportation enterprises management.
3. To ascertain that the freight transport enterprises privatisation plans, worked out in accordance with the model privatisation plan, which is under the Committees' approval in compliance with this Direction, does not require approval by GKI of Russia according to GKI Direction # 444-p, but shall be approved by the Committees in accordance with the established order.
4. The present Direction shall come into force after its approval.

FIRST DEPUTY CHAIRMAN

P.MOSTOVOY

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THE MODEL PROVISION
of freight transport enterprises reorganization
in the privatisation process

1. GENERAL PROVISIONS

1.1. The present Provision has been worked out in accordance with the Russian Federation Law "On the privatisation of state and municipal enterprises in Russian Federation", with the State Program of state and municipal enterprises privatisation for the 1992, with the Russian Federation Law "On competition and monopoly activities limitation at the merchandise market" and Model plan of freight transport enterprises privatisation, approved by Nizhegorodsky Committee for Management of Property.

1.2. The present Provision sets up the measures recommended for freight transport enterprises reorganisation in the privatisation process, including the enterprises which incorporate mobilization objects, and the enterprises dominating at the federal or local transportation services market.

1.3. Reorganization stipulated by the present Provision, is aimed at the transportation services market development by increase of freight transport enterprises number. The number of the enterprises mentioned can be increased by: 1) privatisation of the existing freight transport enterprises separately from enterprises association or other state-owned enterprises, 2) separation of certain divisions of freight transport enterprises into separate enterprises, 3) separation of certain infrastructure objects and technical maintenance objects into separate enterprises, and 4) allocation and sale of some trucks in the process of privatisation.

1.4. Reorganisation stipulated by the present Provision, is implemented in the process of privatisation and is shown in the enterprise privatisation plan.

1.5. The appropriate Committees for Management of Property shall have the right to approve the local model plans of freight transport enterprises privatisation in compliance with the present Provision.

II. Objects for privatisation

2.1. In accordance with the present provision the objects for privatisation can be the following:

- property complexes of the existing freight transport enterprises;
- property complexes of the existing enterprises, from which divisions, carrying out the passengers transportation ("passengers autocolumns") are preliminary separated;
- infrastructure objects (freight terminals, dispatcher services);
- production capacity for technical and repairing maintenance, and storage of vehicles;

- geographically separated branches and divisions of enterprises;
- separate trucks.

III. Special terms of freight transport enterprises privatisation and reorganisation

3.1. All enterprises are to be privatised separately from other state enterprises and associations.

3.2. To enterprises carrying out freight and passengers transportation it is recommended in the process of privatisation to carry out the division of the enterprise for to separate - freight transport and passengers. If the division recommended is carried out, then the property complex, intended for the repairing and technical maintenance of trucks, can be passed over to one of the newly formed enterprises or on the base of it a separate enterprise can be formed. The privatisation plan of the enterprise, which kept the property complex mentioned, stipulates the technical and repairing maintenance services rendering for separated enterprises. It is recommended to pass the property complex intended for the repairing and technical maintenance over to passengers transportation enterprise.

3.3. Geographically separated functional divisions of the existing enterprises, i.e. divisions, carrying out the production for transport service, storage and technical maintenance of their own vehicles, are divided and privatised separately.

3.4. Separate vehicles (freight and others) mentioned in the privatisation plan, are separated from the existing enterprises in the process of privatisation and are sold separately at the auction or on tenders.

3.4.1. It is recommended to set the number of the trucks allocated not less than 20% of car park of the existing enterprise on the 01.07.92. The age characteristics of the cars intended for sale shall correspond to the age characteristics of the whole park of enterprise freight transport.

3.4.2. The percentage of freight transport subject to allocation shall depend on the level of the vehicle use (allocation factor) of the given enterprise in comparison with its standard level, which is accepted proceeding from technical characteristics and working conditions of the trucks. The trucks not required for everyday use are subject to allocation and the following sale at the auctions (tenders).

3.4.3. For the enterprises with various rolling stock, without concrete specialisation and clientele, which provide trucks under nonrepeat order, it is recommended to put at the auction (tenders) up to 100% of the cars; and the remaining property complex of the enterprise is subject to simultaneous privatisation and reorganisation into the technical and repairing maintenance services enterprise.

3.4.4. It is recommended to use the correlation between the number of drivers and the number of trucks as the indicator to show how many trucks can be allocated for sale. If this

correlation is less than 1, it is strongly recommended to carry out the allocation of the trucks.

3.4.5. The allocation of the trucks shall be shown in the enterprises privatisation plans in compliance with Section V of the present Provision.

3.4.6. The enterprise workers and those equate to them, shall gain their share of truck sales proceeds (up to 30% - if sold at the auction, up to 20% - if sold on tenders), in compliance with the standards laid down by the State program of privatisation of state and municipal enterprises in the Russian Federation for 1992.

IV. Methods and terms of privatisation

4.1. Freight transport enterprises (branches) privatisation is implemented by auctioning, sale as a whole property complex or liquidation in accordance with the State program of Privatisation of state and municipal enterprises in the Russian Federation for 1992, with the Decree of President of the Russian Federation, 1.07.92, # 721 "On organizational measures for reorganisation of state enterprises, voluntary associations of state enterprises into stock companies", and with the Decree of President of the Russian Federation, 29.01.92, # 66 "On acceleration of privatisation of state and municipal enterprises".

4.2. In every case the appraisal report and the calculation of the authorized capital of the jointing enterprise exclude the separated divisions value, and the allocated trucks value.

4.3. Trucks allocated in accordance with p.3.4. of the present Provision, are subject to:

- privatisation by sale at the open auctions or tenders according to the privatisation plan;
- presale check and technical maintenance services in accordance with the prescribed order.

V. The decision of the trucks allocation reflection in the privatisation plans.

5.1. For the jointing enterprises under the present Provision, Part II of Section 1 of Model Privatisation Plan < included in Appendix 2 to Regulation of Russian Federation Government # 547, August, 4, 1992 "On measures for realisation of the Decree of president of the Russian Federation # 721, dated July, 1, 1992", is added with the following p. 8a:

"8a. The list of trucks to be allocated from the enterprise property complex and then sold at the auction (on tenders) and not included in the authorized capital of jointing enterprise in accordance with Provision "On freight transport enterprise reorganisation in the process of privatisation".

#	Type and model of truck	Year of manufacture	Run since the beginning of operation, thousand km	Balance sheet value excluding wear rate, thousand roubles

The total balance sheet value of the trucks allocated: _____ thousand roubles.

The age structure of the allocated trucks correspond to age structure of the enterprise car park, and types of the allocated trucks reflect the structure of the car park of the given enterprise according to the types and models of trucks. In the given list there are presented _____% of the total number of the enterprise trucks on the 01.07.92.

5.2. The enterprises privatisation plans under the present Provision and not transforming into the joint stock companies, shall include a section, shown information required in p.5.1. of the present Provision.

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ATTACHMENT 9

Head of Oblast Administration of _____

Dear _____!

Federal GKI recommends to all cities and regions to use the support of the International Finance Corporation (IFC) to promote your trucking privatization program. The IFC can be useful in solving both legal and organizational problems and in helping to create a public relations program that will bolster support for privatization in your area.

The IFC, a part of the World bank, acts in accordance with agreement between the World Bank and Russian Government upon the technical support of economy reforms in Russia. The IFC has helped to promote trucking privatization programs in Nizhny Novgorod, Tomsk as well as in several countries in Eastern Europe. Based on experience in Nizhny Novgorod and Eastern Europe the IFC and GKI created manuals, that have been sent to you, that describe in detail how to implement a trucking privatization program.

The IFC has a team of experts that is currently available to travel to your area. This team includes a lawyer that specializes in trucking privatization laws, a public relations specialist, and other experts who can offer concrete advice to solve specific problems. All work is done free of charge and will require a willingness on your part to cooperate with IFC officials.

Finally, the IFC is gathering information on the progress of trucking privatization throughout Russia. Federal GKI recommends that all regions support these efforts.

An IFC representative will be contacting you in the near future. If you have any specific questions or requests, please contact the IFC directly at (095) 292-9048.

Vasiliev D.V.

ATTACHMENT 10

June 1, 1993

Dimitri Vasiliev
Deputy Chairman
State Committee for the Management
of State Property (GKI)
of the Russian Federation
Proezd Vladimirova, 9
103685 Moscow, Russian Federation

Dear Mr. Vasiliev:

On behalf of the GKI, the IFC has been working on trucking privatization and, in this context, would like to draw your attention to one severe stumbling block we have encountered, the issue of mobilization reserves. As you know, the existence of mobilization reserves in common carrier enterprises has inhibited privatization due to Section 2.3.11 of the 1992 State Program. We have consulted with our local counsel in Moscow, White and Case, and have been informed that the Presidential Decree #640 presents the GKI with an opportunity to remove this impediment to privatization of the common carrier trucking enterprises and the auction sale of individual trucks.

Point 5 of Presidential Decree #640 mandates the privatization of "freight transport enterprises that are to be mandatorily privatized according to the State Privatization Program" by August 1, 1993. Point 2 of the Decree requires the GKI to develop and submit "the criteria providing for unequivocal attributing of state enterprises to the groups covered by the restrictions in terms of privatization stipulated by Sections 2.1, 2.2, and 2.3 of the State Privatization Program and providing for general reduction of the number of such enterprises". Simultaneously, Point 2 of the Presidential Decree #640 gives the GKI the responsibility for ensuring that "mobilization readiness" is maintained among the enterprises that are privatized with mobilization reserves. If, in this context, the GKI determines that common carrier trucking enterprises are not subject to the restrictions of Section 2.1, 2.2, and 2.3 of the 1992 State Program, common carrier trucking enterprises can be fully privatized so long as the provisions requiring continued fulfillment of mobilization readiness are included in enterprise privatization plans.

To address this opportunity to eliminate the mobilization reserves as an impediment to privatization, we have asked White and Case to draw up a draft regulation that would clarify Presidential Decree #640. This draft legislation is attached. The first paragraph of the proposed regulation represents a conservative interpretation of the decree and appears to be entirely justified by the text of the decree. The second paragraph represents a bolder interpretation and suggests consideration of a provision reducing mobilization reserves by 20% based on the conclusion that this will not impair "mobilization readiness". In conjunction with this, enterprises could also be required to sell the trucks that are removed from the mobilization reserves list as a requirement tied to the privilege which permits reduction of the mobilization reserves.

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The above interpretation will resolve the mobilization problem and speed privatization, the stated goal of Decree #640. To discuss this further please contact me or Bill Bunker, the project manager, at your earliest convenience.

Sincerely,

Anthony Doran
Division Manager

cc: Jonathan Hay
Albert Sokin

RECOMMENDATIONS
[Letterhead of GKI or the Government]

In accordance with Article 2 of Decree of the President of the Russian Federation No. 640 "On State Guarantees of Russian Citizens' Right to Take Part in Privatization," dated May 8, 1993, it is hereby **RESOLVED**:

1. To establish that freight transport enterprises irrespective of their ministry affiliation, including enterprises whose assets incorporate code-numbered fleets of trucks performing mobilization preparedness functions (mobilization reserves), shall be subject to mandatory privatization by August 1, 1993, in accordance with Article 5 of said Decree and shall not be subject to the restrictions imposed by Articles 2.2 or 2.3 of the State Privatization Program. The charters of said enterprises shall include Model Supplements, adopted by resolutions of the GKI, designed to ensure continued performance of mobilization preparedness functions. In the case of reorganization of said enterprises in the course of privatization, such enterprises' privatization plans may provide for the exclusion from the enterprises' assets and sale in accordance with the established procedures of trucks not used as mobilization reserves.

[2. With a view toward restructuring the freight transport industry and enhancing the efficiency of the maintenance and use of the mobilization reserves, to establish that the privatization plans of freight transport enterprises subject to mandatory privatization may provide for a reduction in the number of trucks used as mobilization reserves to 80 percent of their number, as in effect on July 1, 1992, on the condition that the trucks so discharged are excluded from the enterprises' assets and sold in accordance with the established procedures in the course of the enterprises' reorganization and privatization.]

ATTACHMENT 11

STATUS OF ENTERPRISES IN TPO "VLADAVTOTRANS"

November 1, 1993

Enterprise Name/Location	Type	Number of Trucks for Auction/Date	Status/Notes
Vladimirskoye POGA No. 2 Vladimir	Freight	18 units; 3 July 9 units; 1 October	Privatization plan approved; corporatized according to 2nd Variant (51% of shares to workers); shares transferred to Oblast Property Fund ("Fund") for sale. At the second auction only 5 of 9 trucks were sold out.
PO Vladimiravtotransobsluzhivaniye Vladimir	Freight		According to Property Committee ("OKI"), documents already transferred to Fund.
ATP Providing Expeditionary Transport Services to the Population Vladimir	Freight		According to OKI, documents already transferred to Fund.
Vyaznikovskoye Freight ATP Vyazniki	Freight	13 units; November	The right to conduct the auction delegated to local authorities.
Gus-Khrustalnoye Freight ATP Gus-Khrustalnyy	Freight		No information on present status.
Kovrovskoe Leased Freight ATP Melekhovo (Kovrov district)	Freight		According to OKI, documents already transferred to the Fund.
Vladimirskoye Leased POGAT Vladimir	Freight		Exercising buy-out option under existing lease agreement.
Sudogodskoye Lease Freight ATP Andreyevo (Sudogda district)	Freight		Exercising buy-out option under existing lease agreement.

Kovrovskoye Leased POAT Kovrov	Freight		Exercising buy-out option under existing lease agreement.
Yuryev-Polskoye ATP Yuryev-Polskiy	Mixed	3 units; date TBD.	OKI has agreed with director and local administration not to split freight and passenger operations.
Kameshkovskoye ATP Kameshkovo	Mixed	20% of fleet; date TBD.	This enterprise services a very small rural district of about 7,000 people; OKI has decided not to split freight and passenger operations.
Gorokhovetskoye ATP Gorokhovets	Mixed		Privatization suspended pending determination on mobilization reserves (approximately 100% of fleet).
Aleksandrovskoye ATP Aleksandrov	Mixed	10 units; date TBD.	Right to privatize this enterprise delegated to local Committee. Will probably not be split.
Struninskoye ATP Strunino	Mixed	20% of fleet; date TBD.	Was a subdivision of Aleksandrovskoye ATP; split off in this year as part of a pre-privatization reorganization.
Kolchuginskoe ATP Kolchugino	Mixed		Privatization suspended pending determination on mobilization reserves (approximately 100% of fleet).
Sobinskoye POAT Lakinsk (Sobinsk district)	Mixed	17 units; date TBD.	Director categorically opposed to splitting enterprise or auctioning trucks.
Sudogodskoye ATP Sudogda	Mixed	20% of fleet; date TBD.	Selected as one of first enterprises to be split. Separation balance established; now delaying submission of privatization documents.
Suzdalskoye ATP Suzdal	Mixed	20% of fleet; date TBD.	Selected as one of first enterprises to be split. Separation balance established; now delaying submission of privatization documents.

Melenkovskoye ATP Melenki	Mixed	20% of fleet; date TBD.	Director protesting enterprise split.
Pokrovskoye Leased ATP Pokrov	Mixed		Have not submitted initial application for right to privatize. Have existing leasing agreement with buy-out option.
Kirzhachskoye Leased ATP Kirzhach	Mixed		Have not submitted initial application on privatization. Have existing leasing agreement without buy-out option.
Muromskoye Leased ATP Murom	Freight		Exercising buy-out option under leasing agreement. All privatization documents completed; unable to obtain required signature of local mobilization department in order to forward paperwork on to Moscow for consideration.
Selivanskoye ATP Selivanovo	Mixed		The documents are being prepared. Is to be corporatized without splitting.

LAND PRIVATIZATION IN RUSSIA

International Finance Corporation
Final Operational Report
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PART ONE: Executive Summary

In January 1993, at the invitation of Governor Nemtsov of Nizhny Novgorod, IFC established a resident team in the oblast to develop and implement a pilot program to privatize the oblast's state and collective farms. The invitation grew out of the strong partnership between IFC and the Nizhny Novgorod authorities that had matured throughout the successful implementation of the small-scale, trucking, and large-scale privatization programs and the need to reform the historically inefficient state and collective farms.

Under Russian law, every eligible farm member was already entitled to a share of the farm's land and property¹, but the process by which these entitlement owners could realize their rights was unclear. It was within this framework that IFC and its Russian counterparts set about developing a step-by-step process to realize these rights and clarify areas in which legislation was absent or contradictory.

The objective of the pilot privatization project was to create and implement a model procedure for transferring collectively held land and property on five state-owned farms to private ownership. As with other IFC pilot projects, the program was designed with the goal of producing a simple, fair, and generic privatization scheme that could be replicated throughout Russia.

On November 9, 1993, the first Russian state-owned farm was privatized under the IFC model land privatization scheme. The 3,600 hectare enterprise was distributed by auction among the residents of the farm, both workers and pensioners. During this first year of the program, an additional four pilot farms were privatized and reorganized with IFC assistance under the model scheme, with the last of the farms completing the reorganization process on April 27, 1994.

A major turning point in the project occurred during the auction of the third pilot farm, 60th Anniversary of October, which was attended by Russian Prime Minister Chernomyrdin, First Deputy Prime Minister Zaverukha (Agriculture), Deputy Prime Minister Chubais (Privatization) and then Minister of Agriculture Khlystun. After conversations with both officials and farmers from the oblast, Prime Minister Chernomyrdin publicly endorsed the Nizhny Novgorod program as the national model for privatization of state and collective farms in Russia and acknowledged the role and importance of foreign assistance in furthering the process of land reform in Russia. On April 13, 1994, Prime Minister Chernomyrdin and the Council of Ministers adopted the decree which established the Nizhny Novgorod model as the national land privatization program for the entire Russian Federation. Subsequent legislation to this decree, drafted by IFC, the Ministry of Agriculture, and the State Property Committee (GKI) has encoded into federal legislation this methodology for implementing the model on a nationwide basis.

Following the development of a replicable model and the privatization of the five Nizhny Novgorod pilot farms, the program entered a second phase in the summer of 1994. In Nizhny Novgorod, IFC staff worked with raion and oblast authorities to launch a program facilitating the privatization of 47 enterprises that had opted to reorganize according to the model scheme. A

¹ The term property is used to refer to all fixed and current assets, except land, of the farm.

separate post-privatization program, administered through Rural Advice Centers, was established that year to support private and privatizing farms in the Nizhny Novgorod oblast.

The second phase has also brought the widespread application of the Nizhny Novgorod privatization model to other regions of Russia. At the request of oblast administrations, IFC resident teams began work in the summer of 1994 in close cooperation with oblast officials and local authorities on 10 farms in Rostov, Orel and Ryazan oblasts. The successful replication of the IFC privatization program in the three new oblasts in 1994-95 demonstrated the applicability of the federally approved model in Russia's most productive agricultural regions, the central and black soil oblasts.

To date, 63 farms covering more than 200,00 hectares have been privatized in the project's four regions (Nizhny Novgorod, Rostov-on-Don, Orel, and Ryazan), creating 367 new business units. These privatizations have affected as many as 30,000 people. With the model rigorously tested, IFC will focus its next phase of work on transferring capability to Russian officials and farmers through effective training and the mass dissemination of a detailed "how-to" manual.

PART TWO: Overview

Rationale

Although rich in land and human resources, Russia lags behind other developed countries in crop capacity, livestock breeding and agricultural labor productivity. Collective land ownership and state control of property have been major factors contributing to the inefficiency of Russian farms. Worldwide, private ownership of land and agricultural production have led to more efficient and productive farming practices.

[F]or the same amount of land, material inputs and labor, Soviet farms produced less than half as much as North American farms in similar climatic areas. If the Soviet farm's inefficient use of seed and feed is considered, the gap becomes still wider. Private plots, which occupied roughly three percent of the cultivated land in the U.S.S.R., produced 25-30 percent of the total value of agricultural production in the country.²

The need for change in the Russian agricultural system was recognized long ago. Since the 1960s, successive Russian governments have made numerous attempts to change the resource base, management, and incentive structure of collective and state farms. In recent years, experiments were initiated in leasing of state property and cooperative ownership. In 1990, the Constitution of the Russian Federation was amended to permit the private ownership of agricultural land. Supplementary federal legislation to encourage land reform and private farming was also adopted. However, the absence of a clear and easily implementable method to define individual property rights, transfer collectively-held assets to qualifying individuals, and enable widespread private ownership of land impeded reform of Russia's agricultural sector.

Background

The objective of the IFC pilot land privatization project was to create and implement a model procedure for transferring collectively held land and property on five state-owned farms to private ownership. The choice of farms and the design of the program were made with the goal of producing a simple, generic privatization scheme that could be replicated throughout Russia.

Working closely with the oblast administration and with financing provided by USAID, IFC initiated work in Nizhny Novgorod Oblast in 1993. The privatization program was designed between January and July 1993 and began to be implemented in August of that year. IFC staff and consultants resident in Nizhny Novgorod, full-time staff contracted from the Agrarian Institute of the Russian Academy of Sciences, two U.S.-based agricultural consulting companies, and full-time legal staff provided by an international law firm were extensively involved in both the design and implementation of the program.

² Roy L. Prosterman, Timothy Hanstad, and Leonard J. Rolfes, Jr., *Agrarian Reform in Russia: Report on a Policy Study and Fieldwork in Collaboration with the Agrarian Institute, Moscow* (Rural Development Institute, May 1993, *RDI Monographs on Foreign Aid and Development* # 11), 6.

On November 9, 1993, the first Russian state-owned farm was privatized under the IFC model land privatization scheme. The 3,600 hectare enterprise in Balakhninsky raion was distributed by auction among the residents of the farm, both workers and pensioners. During this first year of the program, an additional four pilot farms were privatized and reorganized with IFC assistance under the model scheme, with the last of the farms completing the reorganization process on April 27, 1994.

On March 10, 1994, at a conference organized by Nizhny Novgorod Governor Nemtsov to discuss the details of the model program, Russian Prime Minister Chernomyrdin publicly endorsed the Nizhny Novgorod program as the national model for privatization of state and collective farms in Russia. The conference was attended by heads of oblast administrations and representatives from the 89 regions of the Russian Federation. Also present were First Deputy Prime Minister Zaverukha (Agriculture), Deputy Prime Minister Chubais (Privatization) and the then Minister of Agriculture Khlystun. During the conference--which was held concurrently with the land and property auctions at the third Nizhny pilot farm, 60th Anniversary of October--Prime Minister Chernomyrdin publicly acknowledged the role and importance of foreign assistance in furthering the process of land reform in Russia.

In the spring of 1994, the Ministry of Agriculture and the federal authority responsible for privatization, the State Property Committee (GKI), requested IFC's assistance with drafting new federal land reform legislation. The resulting Decree on Land Privatization was largely based on the model land privatization program developed in Nizhny Novgorod oblast. On April 13, 1994, Prime Minister Chernomyrdin and the Council of Ministers adopted the decree, which established the Nizhny model as a national land privatization program for the entire Russian Federation. Subsequent decrees on July 27, 1994 and February 1, 1995 spelled out a comprehensive methodology for implementing the program nationwide. A synopsis of the federal legislation can be found in *Annex 1*.

Following the privatization of the five Nizhny Novgorod pilot farms and the development of a replicable model, the program entered a second phase in the summer of 1994. In Nizhny Novgorod, IFC staff in cooperation with raion and oblast authorities launched a program to facilitate the privatization of 47 enterprises that had opted to reorganize according to the model scheme. A separate post-privatization program was established that year to support privatized and privatizing farms in the Nizhny Novgorod oblast. A network of regional Rural Advice Centers offers technical, legal, and management consulting services to private farmers and enterprises.

The second phase has also brought the widespread application of the Nizhny privatization model in other regions of Russia. In the summer of 1994, at the request of oblast administrations, IFC resident teams began working in close cooperation with oblast officials and local authorities on 10 farms in Rostov, Orel and Ryazan oblasts. A map showing the various project locations can be found in *Annex 2*. Farm privatization programs using the federally approved model were also conducted in Kaluga, Vologda, Saratov and Pskov oblasts with USAID funding and in Belgorod and Voronezh with support from the World Bank.

The successful replication of IFC's land privatization program and parallel land privatization projects outside Nizhny Novgorod in 1994-95 demonstrated the applicability of the model program in Russia's most productive agricultural regions, the central and black soil oblasts, and also brought further development of the project and other program refinements.

PART THREE: The Land Privatization and Farm Reorganization Program

State and Collective Farms in Russia

At present, there are approximately 26,000 state and collective farms in Russia. These range in size from 3,000 to 10,000 hectares and have an average population of 400 people, more than half of which may be pensioners.

Legislation in 1991 (specifically Decree No. 323 and Resolution No. 86) mandated the re-registration of state and collective farms into new legal entities achieving de jure though not de facto privatization. The Russian Ministry of Agriculture claims that almost 95% of Russia's state and collective farms have reregistered to date. However, this re-registration did little to encourage genuine reorganization and restructuring of Russian farms as no concept of ownership was instilled in the farm workers.

The Model Program

At the request of Nizhny Novgorod Governor Boris Nemtsov and with funding from USAID (design phase only), IFC agreed to undertake the development of an agricultural land privatization and farm reorganization program. As in other privatization projects, IFC's approach to the land privatization and farm reorganization program was to develop a pilot or grassroots activity that could be replicated by other oblasts attempting to conduct land reform.

The original model program was shaped by existing Russian federal legislation which stipulated that every eligible farm member was entitled to a share of the farm's land and property. Each entitled farm member had the right to lease, sell, give, invest, or bequeath their share, or to receive the share in kind. On some farms, these shares had already been apportioned, and in some cases, individuals had taken their single share to start their own peasant farm. However, in the majority of farms, no clear, legally defined mechanism existed that allowed the farm's entitlement owners to realize their rights.

Thus, within this framework, the IFC team began to develop a model that would not only establish private ownership rights, but ensure the transferability of those rights, thereby allowing farm members to make decisions with their shares in order to create private agricultural enterprises based on choice. Intrinsic to the model is the belief that privately owned enterprises are the first step toward creating more efficient agriculture.

In partnership with the oblast administration in Nizhny Novgorod, the design team developed a Model Program based on Russian federal legislation, as well as the needs of the farmers on the pilot farms. The design strategy was to devise a "bottom-up," choice-driven privatization method that would be accepted as workable and fair by the persons most directly affected by the program. The scheme creates new private farms and farm businesses by dividing existing state and collectively owned land and property among qualifying individuals, defined under Russian law as present and former members of the farm collective. Specially created entitlement certificates were designed to give the qualifying individuals the purchasing power to "buy" land and property. Land entitlement certificates equal in value are distributed to all individuals living on the farm; property entitlement certificates have varying values determined on the basis of individual tenure

and salary history. Since approximately half of all collective farm residents are retired workers, pensioners as a group play an important part in the reorganization process as holders of both land and property entitlements.

Privatization is achieved by the following sequential steps:

1. Land and property entitlement certificates are distributed to qualifying individuals living on the farm.
2. An information campaign is launched to educate shareholders on how to use their entitlement certificates, including how to "buy" pieces of the farm at auction.
3. Individuals and groups acquire purchasing power to secure farm property by soliciting entitlement certificates, which may be leased, sold, bequeathed or combined.
4. The farm is divided into lots for auction on the basis of the existing operational subdivisions.
5. Land and property lots are "sold" for entitlement certificates at an auction where individuals and groups bid for sections (business units) of the farm.
6. Land and property deeds are issued to the new owners.

Following certificate distribution, a communications campaign informs entitlement holders of their options for using land and property entitlements. These options include:

1. selling a land or property entitlement to another farm member;
2. leasing a land entitlement to another farm member;
3. bequeathing an entitlement to a child or other relative;
4. exchanging a land entitlement for an property entitlement (or vice versa); or
5. using a land or property entitlement to bid for a land plot or property at auction.

During the process of entitlement trading, farm shareholders can increase their purchasing power by grouping entitlements. By combining and trading entitlements, farm members are able to structure new business units of the size, economic specialization, fixed asset and working capital base they see appropriate. In order to facilitate new enterprise formation and the entitlement trading process, IFC designed a set of standard legal contracts enabling individuals to sell, lease, bequeath, exchange or combine their land and property entitlements.

To ensure that participants sufficiently understand the privatization process and can make informed decisions, a series of public meetings and practical workshops is conducted at farm workplaces and villages. Extensive written information is made available to entitlement holders (pamphlets, public notices, information-based calendars, posters, etc.). Some entitlement holders who may be especially at risk in terms of understanding the process (principally the elderly and a small number of persons living in more remote villages) are targeted separately through a more intensive and specially designed information campaign. For instance, pensioners are often encouraged to lease their land entitlements in exchange for payment in kind (e.g. milk, meat, plowing services) as these are often more useful for the pensioner than cash.

To further assist the process of enterprise formation, IFC developed standard charter documents for emerging business groups. Four forms of agricultural enterprises are recommended under the

privatization program: limited liability partnerships (in which all partners share equal voting power); mixed partnerships (in which there are both full and limited partners); peasant or family farms; and owner/operator individual enterprises.

Passive investors (those individuals not wishing to take part in managing a new private enterprise) may lease land entitlements to a family farm, limited or mixed partnership. They may also become members of a new enterprise by investing entitlements in the charter fund of a limited or mixed partnership. Generally, pensioners have opted to lease land entitlements, while entitlement holders of working age have chosen to invest shares and become members of emerging partnerships.

Distribution of land and property among the new private enterprises is carried out by auction in three stages: an auction of farm land; an auction of fixed assets; and an auction of working capital assets. Auctions are designed so that only those lots of land or property for which more than one new enterprise has bid go to competitive auction. An enterprise which has applied for a specific lot of land or property which is not contested (i.e., no other enterprise has applied for the lot) will automatically receive the lot.

A table outlining the model program can be found in *Annex 3*.

PART FOUR: IFC's Approach and Scope of Work

IFC's previous projects in Russia have shared several approaches and techniques that have led to their success. An essential component has been a grassroots approach that entails the establishment of resident teams working in partnership with regional officials and citizens. The objective of the land privatization project, as with the small-scale and trucking projects, was to develop a workable and fair model grounded in basic principles, to test and refine the model, and to prove its replicability in Russia. The guiding principles used to develop the model are provided in *Annex 4*. Achieving this objective has led to the codification of the model and supporting legislation into federal law. Finally, as with other IFC projects, a "how-to" manual that describes implementation of the model in detail is disseminated throughout Russia.

Design Team

To create a model land privatization and farm reorganization program, a permanent resident team was established in Nizhny Novgorod to manage the development and implementation of the program. There were four components to the team: agriculture; law; communications; and management. The Moscow-based Agrarian Institute provided the most significant contribution of the agricultural expertise. These experts were agrarian economists familiar with Russian agriculture and land reform, who had been the architects of much of the existing federal legislation. In addition, western agricultural economists and farmers from America, Israel, and Hungary were invited to join the team for specific periods of time and contribute their experience. A Moscow-based American law firm provided legal counsel, and one of their Russian lawyers versed in agricultural law was resident in Nizhny Novgorod throughout the development stage. Two Russians and one Russian-speaking foreigner were seconded from an American public relations firm to manage information dissemination on the pilot farms and public relations within the oblasts. Finally, IFC supplied several Russian-speaking expatriates who were responsible for managing the various components and ensuring successful implementation.

Throughout the project, the design team worked in partnership with the Nizhny Novgorod oblast administration, oblast Department of Agriculture, oblast land committee for land surveying and resources, and oblast GKI; as ultimately, they would be responsible for the land privatization and farm reorganization to these local agencies. Therefore, they played an important role in the design phase by providing guidance on how to produce a locally implementable and replicable program. Furthermore, when specific oblast legislation was needed to support or clarify certain aspects of the program, these agencies lent the legislation their support.

Pilot Farms

The pilot farms were an integral part of the program development and design. To develop the model, over twenty farms in the Nizhny Novgorod oblast were interviewed as candidates to participate in the pilot program. Ten of the twenty agreed to participate, and of the ten, IFC chose five as the first pilot farms. Based on discussions with the farm directors, specialists, and brigade leaders, the farms were chosen first and foremost for their interest in conducting land privatization and reorganization. In addition, the selection focused on farms which were typical of Russian agriculture as a whole. The original five are described briefly in the table below.

Farm	Legal Status, 1993	Number of Workers	Land (ha)	Cattle	Grain (t)	Other Specialization	Auction Dates
Pravdinskaya	Association of Peasant Farms	556	3592	2357	2709	Milk processing; vegetables	November 9 and 12, 1993
Niva	Limited Liability Partnership	186	2792	1707	26203	Feed lots	December 16, 1993
60 Years of October	Kolkhoz	454	3109	1840	3272	Flax; sheep	March 10 and 11, 1994
Emelianova	Joint Stock Company	430	2999	1980	3476	Berries; swine	March 31 and April 1, 1994
Elkinskoe	Joint Stock Company	152	1640	789	968	n/a	April 27, 1994

Legal Documentation

When IFC began to develop the model land reorganization program, federal legislation outlined what rights existed, but did not provide documentation allowing individuals to realize those rights. Therefore, one of IFC's objectives was to create a set of documents which would allow individuals to realize the rights given them under current Russian law.

Three types of documents were created by the IFC technical assistance program:

Entitlements: Land and property entitlement certificates were created in order to provide every individual eligible for a share of the farm's land and/or property³ with documentation evidencing his/her right to a land and/or property share and the size of that share. Examples of land and property entitlements are provided in *Annex 5*.⁴

Model Contracts: Once each eligible farm member had an entitlement certificate, model contracts were created which enabled the entitlement owners to freely trade and combine the certificates. A model contract was created for each right provided by federal law. Lease, purchase-sale, and gift contracts were created for land entitlements. Purchase-sale, and gift contracts were created for property entitlements. In addition, for each contract, the registration and notarization procedure was established in order to make the process uniform throughout the oblast.

Model Charter Documents: Each of the pilot farms had reregistered as a new enterprise by 1993, even if it was as a new kolkhoz. However, not one had charter documents which provided a clear understanding of members' rights, management structure, or profit distribution. In most cases, this was due to a lack of access to legal consultation in the rural areas. Furthermore, as individual land and property entitlement owners combined their entitlements, legal entities were needed within which the newly created groups of entitlement owners could organize. In order to

⁴ Although land entitlement certificates did exist at the time, they were usually used only for specific land plots and not land shares, and therefore lacked the information required for defining a land share. The federal land committee for land surveying and resources later issued a new land entitlement certificate modeled on the certificate created by IFC in Nizhny Novgorod.

standardize the process and thereby avoid these errors on other farms in the future, the IFC team created a set of charter documents which could be used as a model by any newly created enterprise. The team focused on those enterprises whose structure was most suited to managing an agricultural enterprise, and drafted four sets of charter documents for limited liability company⁵, mixed partnership, peasant farm, and an association of agricultural enterprises. In addition, the team provided documentation for those individuals interested in operating on their own, rather than as a legal entity. In the second year of the program, refinements to the model led to the development of two more sets of model charter documents: a full partnership and a service comparative.

Information Campaign

Because the land privatization program is a voluntary program, and because almost every entitlement owner must participate in the reorganization process, an important component of the model program was the development of methods for disseminating information to the farming community, thereby facilitating the choice-driven process.

IFC focused the communications effort on three areas:

On-farm: The on-farm communications program was the most important, and dealt directly with the entitlement owners. Several methods were used to supply information on the farm: person-to-person; seminars; written material and local media. Information transferred person-to-person or through seminars was the most effective. Written brochures provided a standard method by which information could be distributed to the farm population. The local media served as an effective means of disseminating standard material, as well as announcing dates, times, and places of important reorganization meetings and events.

Oblast and local levels: Communications at the oblast and local level were vital to ensuring an environment conducive to reform. The IFC team spent time with oblast and local officials, as well as media representatives, to brief their administrations and keep the community informed. While not all of the macroeconomic problems facing newly reorganized farms were solved through oblast and local communications, many of the problems facing the new farms were alleviated by having the local community understand the reorganization process and the decisions each reorganizing farm had to make.

Federal level: As one of the objectives of the program was to ensure replicability throughout Russia, IFC felt it was important to maintain communications with federal level officials and academics involved with land reform. To this end, key figures in the Ministry of Agriculture, Federal Land Committee for land surveying and resources, and the GKI were regularly briefed and informed of the program's progress in Nizhny Novgorod. In addition, national media representatives were invited to Nizhny Novgorod to evaluate the program themselves. Subsequently, this communications program proved very important, as each of the above mentioned federal agencies lent their support to drafting federal legislation which supported the land privatization model developed in Nizhny Novgorod.

⁵ In the first year of the program, a limited liability company was called a limited liability partnership. The change in name was due to the passage of a new Russian Civil Code in December 1994.

Oblast and Federal Supporting Legislation

As one of the final components to developing the model farm reorganization program, the IFC team drafted legislation for the oblast and eventually federal level which helped to clarify existing reorganization legislation and endorsed the components of the Nizhny Novgorod land privatization and farm reorganization program for use throughout Russia.

Three pieces of legislation were passed at the federal level supporting and endorsing the program developed in Nizhny Novgorod: Resolution 324, April 15, 1994; Resolution 874, July 27, 1994; Resolution 96, February 1, 1995. Resolution 324 was a brief decree supporting the model developed in Nizhny Novgorod as a national model and laying the groundwork for Resolutions 874 and 96. Resolution 874 approved all of the model charter documents used in the program, the rules for conducting land and property auctions, and described in detail the stages in the model program, including the importance of the information campaign. Resolution 96 endorsed all of the model contracts and detailed the procedure for issuing land and property entitlements as well as the mechanisms for trading these entitlements using the model contracts. A more detailed synopsis of the legislation is provided in *Annex 1*.

Implementation Teams

Once the model program was developed by the design team, the structure of the team began to change in order to meet the demands of implementation. By the time the first pilot farms were completed and work began on a large-scale in Nizhny Novgorod and in the other three oblasts, the IFC used a standard structure for their implementation teams, which differed somewhat from the original design team.

While the implementation teams retained their four component structure of agriculture, law, communications, and management, the new teams relied heavily upon local resources for staffing, for several reasons. As the project expanded into new oblasts, it became easier to hire full time locals rather than relocate outsiders. Furthermore, because one of the long term goals of the project was to transfer capacity, local hires facilitated this eventual transfer. As many of the local resources did not have reorganization experience, the core design team was moved to Moscow, and served as a central resource for the four oblasts in the project. Finally, the increase of local resources has reduced the number of expatriate team members. Currently the IFC team consists of over 180 people, 20 of which are expatriates.

One resource, essential to the success of the implementation teams, was local students. The students were cost-effective, highly motivated, and willing to work long hours in harsh conditions. They completed much of the detailed legal and technical work involved in the program and simultaneously were integral members of the information campaign to the rural community. In addition, the teams negotiated with each local institute to combine the students' employment with studies, providing the students with work-study experience which could prepare them for future jobs in the local department of agriculture, state property committee, land committee or local administration. In fact, several students formerly employed by the IFC are now working for the

Nizhny Novgorod administration. Not only did this system benefit the students, it also contributed to the IFC's goal of transferring reorganization knowledge to the local community.

As the program begins to focus even more on transfer of capacity, a training component will be added to all IFC field teams in the fall of 1995. This component will be charged with the training of local official at the provincial and local level, as well as training farm commissions to conduct reorganization on their own farm. In Nizhny Novgorod, the training component will also work with the Federal Training Center to develop training within the center accessible to any Russian province, locality or farm interested in reorganization.

PART FIVE: Results

To date, 63 farms have been privatized in the projects' four regions of Nizhny Novgorod, Rostov, Orel, and Ryazan creating 367 new business units from over 200,000 hectares of land. These privatizations have affected as many as 30,000 people. A complete list of the farms that have completed the reorganization process is provided in *Annex 6*.

In an effort to measure the strengths and weaknesses of the model, the farms within the program have been closely monitored, focusing particularly on the legal, economic and social results. The outcome of this monitoring is described below.

Legal Audit

As the farm privatization process is primarily a legal process, IFC initiated a legal audit designed to measure to what extent the legal transfer of land and property was implemented in the field and verify the legal documentation of these asset transfers. The legal audit was conducted in March 1995 at eight new enterprises on four of the five pilot farms. On each enterprise, five land and property entitlement holders were interviewed at random (for a total of forty) to review land and property contracts and title documents.

The two-week audit concluded that reorganizations and distribution of land property at the pilot farms examined had been conducted in accordance with the Russian Civil and Land Codes and adhered to the terms and principles of the model program. Program legal documentation was established to be in order: surveyed enterprises were properly registered by local administrations; land and property rental, sale and gift contracts, and land and property title transfer documents met the necessary criteria for completeness and legality. Legal auditors commented that pilot enterprises examined had some problems supplying documents regarding entitlement distribution. However, local officials and document registration records were able to substantiate a proper paper trail and legality for these transactions. Audited enterprises and individuals were able to verify a legal transfer of ownership through program model documents.

Economic Monitoring

Although economic viability is not the specific objective of the program, it is obviously an essential factor in determining the successfulness of the program. IFC has diligently monitored the five pilot farms since the auction process. A study conducted by the Nizhny Novgorod working group shows pilot farm enterprises increased profitability in their first post-reorganization year, yielding greater production and demonstrating superior performance overall relative to all farms in Nizhny Novgorod oblast. The study also detailed significant new business activity at the pilot enterprises.

As a group, the pilot enterprises fared better in 1994-95 than other farms in Nizhny Novgorod oblast in all measured production, productivity and profitability indices, except vegetable production. Yields for cereals and potatoes at the pilot farms were 31% and 54% higher than the average for the oblast. Livestock productivity indicators, such as annual milk yields and weight gain per cow were also above oblast averages, by 13.5% and 35% respectively. While Nizhny

Novgorod oblast as a whole experienced declines in sown hectares of all crops and livestock production in 1994-95, pilot farms trimmed back cultivation marginally. Pilot enterprises took only about one-half as much land out of cultivation as the average farm in the oblast (225 ha. average for pilot farms--444 ha. average for oblast); and livestock holdings fell by an average of 15.8% at the pilot farms but by 20% for Nizhny Novgorod oblast.

The study also indicated that employees and enterprises alike were benefiting from higher productivity and more careful financial management at pilot enterprises. Complementing growth in (inflation-adjusted) financial flows--receivables per employee increased in 1994-95 to 1.5 times the oblast average--average salaries at the new enterprises of 121,600 rubles/month in the first quarter of 1995 were 38% above the oblast norm. Per capita indebtedness at the pilot farms was only slightly lower (4%) than the same measure for oblast farms as a whole.

Pilot farms recorded significant new business activity in 1994-95. In the 18 months since privatizations began, new enterprises have launched 12 retail stores, 2 food mini-processing facilities, a cafeteria, bakery and a timber processing unit. Four additional food processing units and a second cafeteria are slated to start up in the next six months. This measured growth in pilot farm operations and new ventures is significant against the background of tight credit and falling real wholesale prices for agricultural produce in Nizhny Novgorod oblast.

Social Monitoring

To help new private agricultural enterprises become viable businesses, the model program encourages the reorganizing enterprises to transfer ownership and care of the social sphere to the municipal authorities. Rapid Rural Appraisal Methods of gathering information have shown that transferring the social sphere has generally had little effect on the provision of services. However, over the past decade, the social sphere has declined significantly and the type and provision of services remains poor.

In April 1995, the IFC working group in Nizhny Novgorod finalized plans for a social survey to be conducted during the summer at the pilot farms. The survey will be the second to document local opinion on the model program and will focus on the perceived effects of reorganization on employment, worker motivation, economic status of pensioners, sense of ownership and on whether or not rental and sale agreements are being honored.

PART SIX: Conclusion

Land privatization is arguably the most challenging reform undertaken in Russia to date, and farm privatization is particularly significant as it relates to the availability of food, the standard of living of the rural population, and thus the economic and social stability of the entire country. Given this profile, the importance of the political commitment on behalf of the Russians cannot be underestimated.

Although the model has been proven replicable and can be implemented on a widespread basis, farm privatization should in no way be compared with either the speed nor magnitude with which large-scale privatization was implemented. The land privatization process transforms not businesses but entire villages, many of which are populated by the most vulnerable members of society. Moreover, within the current macroeconomic environment, the transition could prove difficult.

Given this, land privatization should in no way be slowed but rather should be strongly supported and encouraged. Only when ownership rights are clearly defined and individuals can freely choose how best to run and manage their farm will farms and the rural economy begin to revive itself.

ANNEXES

ANNEX 1

Synopsis of Federal Legislation

There are three significant pieces of federal legislation, passed by the government, which are a direct result of the farm reorganization program developed in Nizhny Novgorod.

1. **Regulation 324:** "The Experience of Agrarian Reform in Nizhny Novgorod"

Status: signed by Victor Chernomyrdin, April 15, 1994

2. **Regulation 874:** "The Reorganization of Agricultural Enterprises based on the Experience of the Nizhny Novgorod Province"

Status : signed by Victor Chernomyrdin, July 27, 1994

3. **Regulation 96:** "The Preparation and Issuance of Land Entitlement and Property Entitlement Ownership Documents"

Status: signed by Victor Chernomyrdin, February 1, 1995

All three regulations were initially drafted by the Nizhny Novgorod working group, which consisted of representatives from the IFC/KHF team, the Nizhny Novgorod Department of Agriculture, the Nizhny Novgorod Provincial Administration, and the Nizhny Novgorod Land Committee. All of the drafts were based on provincial legislation which was approved by the Nizhny Novgorod Provincial Soviet in the latter half of 1993.

These drafts were submitted to the Ministry of Agriculture, the federal GKI, the federal Land Committee, and the Ministry of Justice for their review in the spring of 1994. After each ministry commented and compromised, they agreed upon a final draft. The final draft was then submitted to the Prime Minister, Victor Chernomyrdin, for his review and signature.

Below is a synopsis of each piece of legislation.

Regulation 324: This regulation was drafted in response to Victor Chernomyrdin's approval of the program after attending the auction at the third pilot farm, 60 year Anniversary of the October Socialist Revolution, in March 1994. The regulation laid the groundwork for the more detailed regulations 874 and 96.

The regulation:

- recommends that Russian agricultural enterprises study the Nizhny Novgorod experience and emulate it;
- calls upon federal organs to integrate the Nizhny Novgorod model into land legislation defining the rights and obligations of owners of land and property entitlements and into auction procedures for distribution of land and property, and to base standard documents used in transactions connected with land reform on those used in Nizhny Novgorod;
- calls for the creation of a federal center for the study of agricultural enterprises to help develop the technical competence of farm managers;
- calls for legislative changes to provide financial and tax incentives for carrying out transactions related to land reorganization;
- guarantees the distribution of land ownership certificates to land entitlement holders.

Regulation 874: This regulation adopted elements of the Nizhny Novgorod land reorganization model on the federal level. The regulation:

- approves the use, at a national level, of charters and foundation documents for limited liability and mixed partnerships and agricultural associations, and of a sample charter for agricultural cooperatives;
- calls upon federal and local government to cooperate in reforming agricultural enterprises and upon local government to take over social spheres that are voluntarily transferred to it;
- enumerates the steps to be taken to reform agricultural enterprises, which include conducting an information campaign to inform land and property entitlement holders of their rights, the formation and registration of partnerships, enterprises, and other entities, the carrying out of transactions involving land and property entitlements, and the transfer to individuals and entities of land and property acquired at auction.
- approves the land and property auction rules.

Regulation 96: Originally, the provisions in this regulation were part of regulation 874. However, as the GKI, Ministry of Agriculture, Ministry of Justice and Land Committee could not come to an agreement on the issues, the provisions were put in a separate regulation in order not to delay the passage of regulation 874. The regulation:

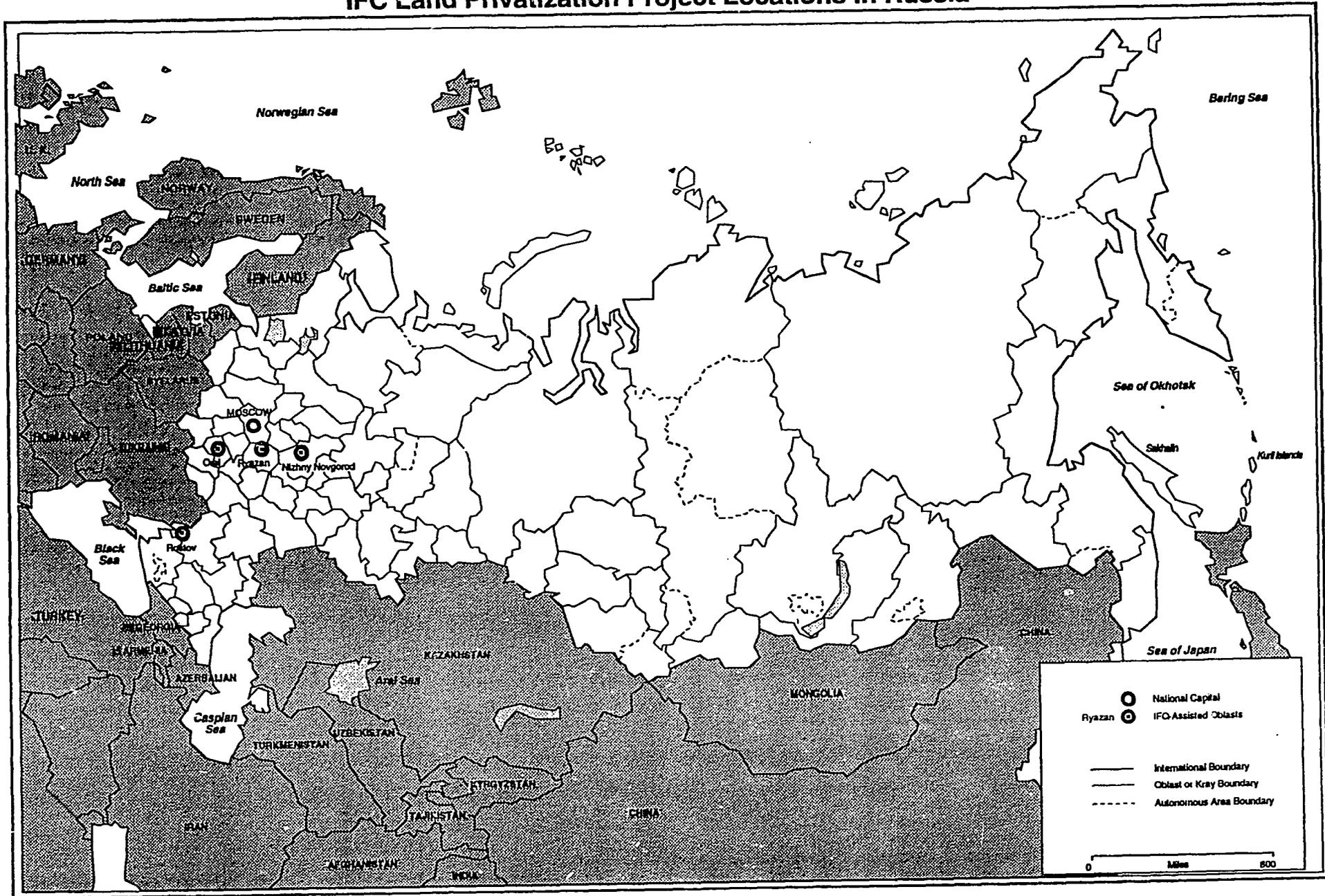
- recommends procedures for issuing land and property entitlements, including the responsibilities of the intra-farm commission and the government in the issuance of land and property entitlements;
- clarifies which citizens have the right to land and/or property entitlements;
- recommends the method for calculating land and property entitlements;
- sets forth the transactions possible with land and property entitlements, as well as approves on a national level contracts for the rent and sale of land entitlements and the sale of property entitlements;
- recommends a process for transferring the social sphere from the farm balance sheet to the local administration.

Although all of the legislation was passed at the federal level, versions of both regulation 874 and regulation 96 were offered for approval in Rostov, Orel, and Ryazan. Passing the legislation at the local level reinforces local support for reorganization, which is important as the federal legislation endorses a voluntary program, not mandatory. The provincial legislature in Rostov and Ryazan approved the legislation in December. The Orel legislature is scheduled to discuss the legislation in early February.

The local versions of the regulations include all of the provisions in the federal versions. In addition, they specifically name all of the pilot farms participating in the reorganization program. This ensures the transfer of the pilot farms' social sphere, the freeing of the pilot farms from government registration and notary fees, and serves as a sign to the pilot farms that their participation in the program is taken seriously by the province.

ANNEX 2

IFC Land Privatization Project Locations in Russia



2/27

ANNEX 3

Table of Program Stages

- | | |
|-------------------|--|
| Pre-stage: | Preparatory Work |
| | <ul style="list-style-type: none">• Discuss and draft a new structure• Vote to reorganize• Inventory land and property• Transfer the social sphere to local authorities• Clarify land and property entitlements lists• Calculate land and property entitlements• Approve the reorganization plan |
| Stage 1: | Distribution of Entitlements |
| | <ul style="list-style-type: none">• Distribute land and property entitlements to qualifying individuals |
| Stage 2: | Creation of New Enterprises and Concluding Contracts |
| | <ul style="list-style-type: none">• Prepare foundation agreements and register new enterprises• Conclude contracts |
| Stage 3: | Auctions |
| | <ul style="list-style-type: none">• Form land and property lots• Submit applications for land and property• Distribute land and property through a closed auction |
| Stage 4: | Land and Property Transfer to New Owners |
| | <ul style="list-style-type: none">• Transfer of land and property and issue land title certificates to new owners• Liquidate old farm• Employ workers• Finalize Charter Documents |

ANNEX 4

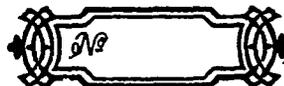
The Guiding Principles of the Model Program

- Principle 1:** **A voluntary system:** a voluntary system based on the decisions of the farm to reorganize and privatize.
- Principle 2:** **Established ownership rights:** a mechanism which establishes the ownership rights of individual farm members and legal entities created from the farm reorganization.
- Principle 3:** **A choice-driven process:** a program which allows entitlement holders to decide on the type of farming activity in which to engage.
- Principle 4:** **Priority to farm members:** a privatization system that gives priority to farm members.
- Principle 5:** **A transparent process for resolving disputes:** a process in which individuals or groups compete for land and property at auction when more than one individual or group desires the same land or property.
- Principle 6:** **Open and public forum:** a privatization process during which information is made available to all farm members, allowing them to make informed choices, and in which the distribution of land and property occurs openly.
- Principle 7:** **A fixed time period for reorganization:** a privatization program in which each stage is conducted within a time period fixed by the farm commission.
- Principle 8:** **Local organization:** implementation of program by each farm's privatization and reorganization commission, with support from local agencies.
- Principle 9:** **A model program:** a generic scheme which is replicable in other regions of Russia.
- Principle 10:** **Continuity:** a program which takes into account previous decisions on land privatization and farm reorganization.
- Principle 11:** **Development of a land market:** a program which creates procedures for the trading, selling, leasing and investing of land entitlements, and in turn establishes the basis for a land market.
- Principle 12:** **Social safety net:** a program which preserves the existing social safety net and allows individuals to receive additional benefits through contract terms for the use of land and property entitlements.

ANNEX 5

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СВИДЕТЕЛЬСТВО О ПРАВЕ НА ЗЕМЕЛЬНУЮ ДОЛЮ



Согласно Приложению № 1 к Государственному Акту № _____ выданному решением

наименование Совета народных депутатов _____
от _____ 199 года № _____

За гражданином _____
Ф. И. О. _____
являющимся собственником земельного участка, предоставленного в коллективно-долевую собственность

наименование предприятия, которому выдан Государственный Акт _____
Закреплена земельная доля площадью _____ га (_____ баблогектаров) сельскохозяйственных

угодий, в том числе _____ га пашни. Стоимость земельной доли составляет _____ тыс. рублей

Председатель _____
наименование _____
сельского (поселкового) Совета народных депутатов

М. П.

Дата выдачи _____ Ф. И. О. _____ 199 года

подпись

ПРАВА ВЛАДЕЛЬЦА ЗЕМЕЛЬНОЙ ДОЛИ

Использование земельных долей допускается только с разрешения владельца.

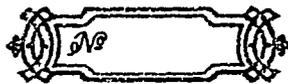
Владельцу земельной доли может:

- получить земельный участок для организации крестьянского хозяйства и других сельскохозяйственных предприятий;*
- внести земельную долю в качестве учредительного взноса в создаваемое товарищество, акционерное общество, сельскохозяйственный кооператив;*
- продать или сдать в аренду долю по договорной цене крестьянскому хозяйству, другим владельцам земельных долей и имущественных паев и предприятиям, организованным ими, или сельскому Совету;*
- обменять земельную долю на имущественный пай;*
- подарить свою долю, передать по наследству.*

Владельцу земельной доли обязан подать заявление во внутрихозяйственную комиссию и указать одну из форм его использования.

СВИДЕТЕЛЬСТВО

О ПРАВЕ НА ИМУЩЕСТВЕННЫЙ ПАЙ



Согласно решению Общего Собрания трудового коллектива

наименование предприятия

от

1999 года №

гражданин

Ф. И. О.

имеет право на имущественный пай в общем паевом фонде

Стоимость имущественного пая составляет

рублей

Председателя внутрихозяйственной комиссии по

приватизации земли и реорганизации

М. П.

Ф. И. О.

Дата

подпись

П Р А В А

ВЛАДЕЛЬЦА ИМУЩЕСТВЕННОГО ПАЯ

Использование имущественных паев допускается только с разрешения владельца.

Владельцу имущественного пая может:

- получить имущество в натуре для организации крестьянского хозяйства и других сельскохозяйственных предприятий;
- внести имущественный пай в качестве учредительного взноса в создаваемое товарищество, акционерное общество, сельскохозяйственный кооператив;
- продать или сдать в аренду пай по договорной цене крестьянскому хозяйству, другим владельцам земельных долей и имущественных паев и предприятиям, организованным ими.
- обменять имущественный пай на земельную долю.
- подарить имущественный пай, передать его по наследству.

Владельцу имущественного пая обязан подать заявление во внутрихозяйственную комиссию и указать одну из форм его использования.

ANNEX 6

IFC Russian Land Privatization
1994 - 1995 Auction Schedule
(As of April 30, 1995)

	Oblast/Farm	Entitlement Distribution	Auction
	<u>Nizhny Novgorod</u>		
1	Rodina	10/1/94	10/27/94
2	Shahunskoya	12/9/94	12/23/94
3	Serebranskoya	12/7/94	12/29/94
4	Oktyaber	12/6/94	1/12/95
5	Tubanayevskoya	12/14/94	1/20/95
6	Bachtezenskoya	12/9/94	1/20/95
7	Privolnaya Zheezin	12/8/94	1/24/95
8	Kluchishchenoya	12/7/95	1/25/95
9	Novaya Zheezia	12/9/94	1/26/95
10	Motizleskoya	12/13/94	1/31/95
11	Niva (TOO) (Northeast)	1/19/95	2/9/95
12	Koorihinskoya	12/20/94	2/14/95
13	Rus	2/10/95	2/17/95
14	Nadyejda	2/15/95	2/23/95
15	Vasilyevskoya	1/27/95	2/24/95
16	Voshod	12/28/94	3/2/95
17	Kalinina	2/2/95	3/6/95
18	Trechozyersky	10/1/94	3/6/95
19	Rossiya	1/28/95	3/10/95
20	Niva (AOZT) (Northeast)	3/2/95	3/16/95
21	Narishkinskoya	1/11/95	3/16/95
22	Bolshevik	3/7/95	3/17/95
23	Talizeenskoya	2/10/95	3/18/95
24	Alexeyevskoya	3/15/95	3/24/95
25	Mokrinskoya	12/9/94	3/28/95
26	Dvigatel Revolutsi	3/6/95	3/29/95
27	Kirovskoya	3/23/95	3/30/95
28	Dokukinsky	3/15/95	3/30/95
29	Kirova	3/18/95	3/31/95
30	Rossiya (TOO)	3/3/95	4/5/95
31	Lenina	10/1/94	4/6/95
32	Kriushinskoya	1/5/95	4/6/95
33	Pravda	3/30/95	4/7/95
34	Pamyat Chkalova	2/26/95	4/14/95
35	Lukoyanovskoya	3/7/95	4/15/95
36	Teplovskoya	4/3/95	4/15/95
37	Lenina	3/4/95	4/18/95
38	Sarminsky Maidan	4/4/95	4/20/95

IFC Russian Land Privatization
1994 - 1995 Auction Schedule
(As of April 30, 1995)

	Oblast/Farm	Entitlement Distribution	Auction
	<u>Nizhny Novgorod (continued)</u>		
39	Vyakshener	3/6/95	4/21/95
40	Kovaksinskoya	2/27/95	4/21/95
41	Ustinskoya	4/10/95	4/25/95
42	Krasni Oktyaber	2/28/95	4/26/95
43	Kemari	3/6/95	4/28/95
44	Krasni Vostock	4/10/95	4/28/95
45	Naiumovsky	4/10/95	4/29/95
46	Lenina (Spassky)	3/31/95	4/29/95
47	Valkovskoya	4/2/95	4/29/95
	<u>Rostov</u>		
50	Malchevsky	1/30/95	3/22/95
	<u>Orel</u>		
51	Rodina	12/10/94	2/28/95
52	Karpova	12/12/94	3/18/95
53	Dzershinsky	1/31/95	3/21/95
54	Pobeda	12/20/94	3/23/95
55	Cheremashnaya	2/2/95	3/27/95
56	Mukhanovsky	1/26/95	4/3/95
	<u>Ryazan</u>		
57	40 Years of October	12/28/94	2/22/95
58	Leynoye	2/7/95	3/23/95
59	Rassvet	2/21/95	3/29/95

SMALL-SCALE PRIVATIZATION IN UKRAINE

International Finance Corporation
Final Operational Report
June 1995

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PART ONE: Executive Summary

The Ukrainian government's small-scale privatization program has become one of the most demonstrably successful economic reforms undertaken in Ukraine since the collapse of the Soviet Union in 1991. In a relatively short period of time, a large class of Ukrainian small business entrepreneurs has been established and start-up businesses are now prevalent. Perhaps more importantly, momentum for small-scale privatization has been achieved which should allow for the majority of small state enterprises to be privatized by year's end. With the foundations of a market economy now in place, other market-based reforms, such as large-scale privatization, have been initiated.

A legislative framework for small-scale privatization was created in July 1992 when the first State Privatization Program was approved by Parliament. At that time, the Ukrainian government decided to initiate a privatization scheme which would allow for a speedy, fair, and transparent transfer of the local retail trade, catering, and services sectors into private hands. The process had to achieve support of the population at large as well as a wide range of political groups, including those of enterprise managers, workers, and local governments. Based on IFC's success with a similar scheme in Russia, the Ukrainian government approached IFC in mid-1992 with a request for assisting in the development and implementation of an auction-based small-scale privatization program for Ukraine. With funding from USAID, IFC began working in Ukraine in July 1992 by providing assistance to the pilot city of L'viv, in a program that is ongoing across Ukraine. USAID funding for this project extends through December 1995.

IFC has based its approach to program design on the grassroots principles employed successfully in Russia for various technical assistance programs. Resident teams work alongside local officials, identifying problems and working to create local consensus needed for privatization to move forward. Specifically, IFC supports small-scale privatization on the local level by providing technical, legal, and public relations assistance to city, oblast, and regional State Property Fund (SPF) officials involved in the privatization process. IFC teams tailor their advisory services to the specific needs of the city.

On the national level, IFC works with the Cabinet of Ministers, the Parliament, presidential advisors and the SPF to promote speedy small-scale privatization and propose improvements to existing privatization-related legislation. IFC also draws the central government's attention to key issues and obstacles encountered at the local level.

Privatization in Ukraine began in the city of L'viv on February 20, 1993 when the first auction was held with IFC assistance and USAID funding. A manual based on the L'viv model was produced and distributed to privatization officials throughout the country. Shortly thereafter, IFC assistance was requested from other cities and a rollout of IFC resident teams began in May 1993. To date, IFC has assisted 14 Ukrainian cities with their small-scale privatization programs, and expansion continues. By June 1, 1995, most IFC-assisted cities had privatized between 50 and 80 percent of available small enterprises.

This amounts to the privatization of 2,374 small enterprises, including 331 sold through 67 competitive auctions, 1,825 through leased and state-owned enterprise buyout, and 72 through tender. The revenues generated from auction privatization alone in these cities are equivalent to more than US \$10.6 million.

Ukrainian officials estimate that about 9,000 of the approximately 50,000 small state enterprises subject to privatization have been privatized. The pace of privatization has increased significantly in the last year and is expected to accelerate sharply in the second half of 1995 due to the signing of the December 1994 Presidential Decree on Small-Scale Privatization, which calls for the completion of small-scale privatization in 1995.

PART TWO: IFC's Approach and Scope of Work

Rationale

Privatization is defined as the transfer of ownership of state enterprises and assets to the private sector. Worldwide, privatization is considered to be the most effective method of enhancing the productivity of underutilized state assets and creating competitive and efficient industries. For countries in transition from centrally-planned to market economic systems, privatization is a crucial step in creating private businesses that provide private-sector employment and an increased level of goods and services. The improvement of the economy is made possible by the fact that private owners are given financial incentives to operate enterprises in a responsible and responsive way.

Small-scale privatization--the transfer to private hands of small, state-owned retail outlets such as food and goods shops, restaurants, and consumer services--is a key step toward building an efficient market economy since it generates demand for finished and processed goods. Small private businesses, through competition, sell better-quality goods at lower prices, thereby improving consumers' standards of living. If privatization is carried out quickly, it creates grassroots support for further economic reforms by illustrating the immediate benefits that a market economy can offer ordinary citizens.

Overview/Summary of IFC Approach

In cooperation with the State Property Fund of Ukraine and with funding provided by USAID, IFC and L'viv city officials developed an open auction process for the privatization of the city's retail and service sectors. In February 1993, small-scale privatization was launched with the public sale of 17 small-scale enterprises in L'viv. A second auction followed in March 1993.

IFC's approach to conducting small-scale privatization was to develop a model privatization scheme in one pilot region. The pilot program was to be generic and simple, so as to be easily replicated in other cities. After the successful launch of the pilot, the model would be replicated in other cities through two means. First, resident teams would be deployed to additional cities to provide direct IFC assistance. Second, information

would be disseminated nationwide through the media, training seminars, and production and distribution of program manuals. The objective was to achieve a self-sustaining process such that when assistance was withdrawn, the local administration would be fully trained in maintaining the momentum of privatization.

A description of assistance provided under the Small-Scale Privatization Program in Ukraine is given below. Note: Because the Program is ongoing, this report summarizes achievements to date, but does not draw overall conclusions about program results.

Selection of Assisted Regions

L'viv, one of largest cities in Ukraine, was chosen as the pilot city for the Small-Scale Privatization Program for several reasons. First, L'viv, unlike the capital city of Kiev, was considered by the SPF to be a "typical" Ukrainian city. The regional economy was characterized by an underdeveloped wholesale and retail trade network for consumer goods and services. A pilot project successfully implemented in L'viv could be replicated in other Ukrainian cities.

Second, L'viv was chosen because the local authorities were committed to reform and ready to take the risks of being first in privatization. Experience in Czechoslovakia, Poland, and Russia demonstrated that political leadership was essential to the privatization process.

With USAID funding, the model privatization scheme developed in L'viv was extended to other Ukrainian regions. The basis for selection of new client cities has been primarily the political will shown by local officials, as well as a desire to represent various regions throughout the country. A "first wave" of expansion began after the successful implementation of the L'viv model and the dissemination of the how-to manual. By the end of 1994, IFC had expanded to 13 cities in nine oblasts. A "second wave" of expansion began after the signing in December 1994 of the Presidential Decree on Small-Scale Privatization. In light of the Decree's mandate to complete privatization by the end of 1995, many additional cities have requested IFC assistance. IFC is currently negotiating with several interested cities and expects to expand into as many as seven additional major cities by the end of the project in December 1995.

Establishing Resident Teams

To implement the model scheme in L'viv, an international team of experts was assembled with experience in conducting privatization through auction. In addition to IFC staff, consultants, auctioneers, and lawyers specializing in privatization were brought in from Poland and Russia. Foreign consultants are always complemented by local staff and lawyers to assist the IFC long-term objective of transferring institutional knowledge about the privatization process. Today, the Ukraine Small-Scale Privatization Program is staffed almost exclusively by Ukrainians.

To assist more Ukrainian regions in the final phase of the Small-Scale Privatization Program, IFC will create mobile consultant teams similar to those used in the final stage of the Russia Small-Scale Privatization Program. These two- to three-person itinerant teams will travel to cities on working visits for up to two weeks to advise local authorities on ways to expedite the small-scale privatization process. Assistance will be provided in: resolving legal and administrative problems arising during and after privatization; increasing the number of enterprises in the "privatization pipeline;" and fine-tuning a public relations campaign.

Determination of Guiding Principles

The small-scale privatization program in Ukraine was derived from the Nizhny Novgorod model designed and successfully implemented by IFC in Russia. As in Russia, IFC advocated a system of open auctions and assisted local authorities in developing legislation and procedures to support this system. In addition to the key principles of fairness, transparency, and speed, the Ukrainian model is driven by a set of concrete guiding principles, including:

- *Demonopolization through Sale of Separate Outlets:* By separating individual retail outlets from their wholesale structures (torgs) and selling them as discrete units, competition is created.
- *Immediate Transfer of Property:* The physical transfer of property to the new owner should take place as soon as legally permissible to facilitate rapid change in the operation of a business.
- *Transferable Right to Lease Properties in Multiple-Purpose Buildings:* The majority of small businesses are located in multi-purpose buildings. To date, legislation has not yet been approved to provide for the rights of several distinct property owners in one building. Therefore, the city should guarantee the transferable right to lease that portion of the building in which the privatized enterprise is located. The city should also ensure stable lease rights for new owners.
- *Special Privileges for Employees:* To take account of the rights of employees in the privatization process and to encourage them to participate in the process, workers' collectives are given special privileges in the auction of the businesses in which they work.
- *Valuation Determined Solely by Auction:* City officials should avoid imposing discretionary valuation systems and setting reserve minimum prices at auction, since this leads to artificial valuation and damages the reputation of the privatization process.

Legislation and Legal Documentation

It was recognized early on that L'viv city officials and IFC would need to create a local legal framework for small-scale privatization which would define procedures and provide a standard set of privatization working documents lacking in national privatization legislation. This local legislation would have to accord with national legislation, as well as provide a mechanism for streamlining the process.

City officials and IFC drafted model legislation that laid out the tasks, delegated responsibilities, and determined the methodology to be used in the privatization process. This framework was embodied in the following legislative documents:

- ***City Privatization Program:*** This document defined in detail how the small-scale privatization process should proceed. Provisions included the city's privatization goals; participant and buyer eligibility; timetable for preparing enterprises for privatization; determination of privatization methods; conditions of sale of enterprises; workers' collectives incentives and social protection measures; and a forecast of how privatization revenues would be spent. The privatization program also referred to supporting documents described below.
- ***Other City Regulations:*** Together with the City Privatization Program, these other city regulations provided all the necessary guidelines for implementing a municipal small-scale privatization program. They included a regulation mandating the commercialization of small-scale communal enterprises before their privatization, i.e., endowing each business with a separate legal status; a regulation creating the means for leasing non-residential premises necessary to auction transferable leaseholds for those premises located in shared ("multi-purpose") buildings; a regulation opening an extra-budgetary privatization account for privatization revenues; and regulations designating lists of enterprises to be privatized.
- ***Transaction Documentation and Contracts:*** A full set of standard legal documents establishing rights and obligations of buyers and sellers of privatized enterprises was created. These included: the Application for Participation in Auction; the Contract of Purchase and Sale; the Contract of Lease of Non-Residential Premises; the Act of Transfer and Acceptance; and the Certificate of Ownership.

Building a Pipeline

Once the local body of legislation regulating municipal privatization was established, the next step was to structure a regular cycle of auctions. IFC experience with privatization in Poland, Czechoslovakia, and Russia showed that regularly scheduled auctions of municipal enterprises sustained a high level of interest in privatization programs from potential buyers and the general public alike. A steady stream of auctions permitted a

"critical mass" of private enterprises to emerge within a short timeframe, generating visible, local results: price competition, product diversity, and improved services.

In order to systematize the auction process, IFC developed a framework to organize the processing and sale of enterprises. Working backward from auction dates, responsible officials and IFC created uniform methodologies and set deadlines for each step of the privatization process. The flow of enterprises, from selection through the approval process to auction, was scheduled for groups of enterprises several months in advance. In each city, consultant teams worked with privatization officials to create or streamline these "pipelines," taking into account national and local regulations affecting the privatization program.

Employee Buyout Method of Privatization

Although IFC's recommended methodology for sale of small enterprises remained based on auction privatization, changes in national legislation created a situation in which the majority of small enterprises were leased to their workers and, therefore, were unavailable for auction. To resolve this problem, IFC designed and implemented a strategy for speedy privatization of leased enterprises through employee buyout. This involved informing lessees/worker collectives of incentives to privatize their enterprises and assisting city officials in streamlining the buyout application process to facilitate speedier privatization. In June 1994, IFC began working in the city of Cherkassy to carry out a pilot project for this new strategy. After initial success, the project was expanded to all cities receiving IFC assistance where large numbers of leased enterprises existed.

Public Relations Campaign

The public relations campaign has been a key component of the small-scale privatization project in Ukraine in all its phases. One of the campaign's objectives was to raise awareness and understanding of local privatization programs among officials, workers' collectives, journalists, and the general public. Equally important was the goal of encouraging participation in the auction process (and later, in buyouts of leased enterprises) by providing accurate information about properties for sale and the necessary procedures for taking part in privatization.

Public relations in Ukraine is, like the rest of the project, characterized by a grassroots approach and conducted primarily by "in-house" local public relations consultants. It quickly became apparent that each city had its unique cultural, media and political character and that public relations would be most effective by decentralizing the message, allowing for the development of individualized campaigns in each city. Regional linguistic differences further supported this decentralized approach. To implement this strategy effectively, an IFC public relations consultant is part of the resident team in each city where IFC works.

From the central office in Kiev, efforts are directed at creating supportive venues for the dissemination of privatization information at the local and national levels. Public relations has developed strategically and efforts have been concentrated along three lines: 1) auction publicity, 2) public education involving several target groups, and 3) public opinion surveys.

Auction Publicity

The initial task of the public relations effort was to set up a widespread publicity campaign for the first small-scale auction in L'viv. IFC provided consultative assistance to local officials as well as financial assistance for advertising production and media placement. The goals of auction publicity were to: 1) maximize the number of applicants for all lots in the auction, 2) create grassroots awareness of and interest in the beginning of the auction process in Ukraine, and 3) encourage attendance by local officials from other cities, national government officials and the press. All forms of standard advertising were employed, including radio, television, newspapers, direct mail, and information kiosks.

Auction publicity is the primary focus of IFC's local public relations consultants. The basic package of advertisements includes information grids published in the local press giving the name, nature of business, location, size and starting price of the enterprises. Radio and TV commercials are produced, posters are placed in public areas, and leaflets featuring photos and information on the auction lots are distributed to target groups. Large bulletin boards depicting auction lots and giving full information are set up in government buildings, including at the site of the upcoming auction.

IFC's local public relations consultants work closely with city administration press offices to provide guidance in developing a public relations strategy. They encourage local officials to take on as much of the effort and expense of the auction publicity campaign as possible. The overall objective is to wean local officials from dependence on IFC's support.

Most auction advertising is placed at the city and oblast levels. During the Project's first year, auction advertising for all cities was also placed in national newspapers. This was done to provide support for local officials' privatization efforts and to make the general public aware that the new phenomenon of auctions was taking place. Research showed that national advertising did not contribute to increasing participation at auctions, and this costly form of advertising was discontinued once the general public was accustomed to the idea of auctions. Instead, contracts were signed with large regional newspapers allowing IFC to submit an unlimited amount of privatization articles every month.

Research

Various types of research activity have been carried out with the goal of gauging the effectiveness of the public relations strategy and determining if and how it should be adjusted. Research has included: exit polls to determine which media sources were most

effective in attracting auction participants; public opinion polls aimed at learning the population's changing attitude towards privatization; and surveys of privatized enterprises.

In the summer and fall of 1993, IFC conducted a series of surveys in all IFC-assisted cities with the assistance of a local research firm. Separate surveys were directed at entrepreneurs, the local population, and workers' collectives. In general, the surveys provided a great deal of information on different populations' knowledge about and attitudes toward privatization and reform.

One particularly useful survey given to 300 owners and directors of privatized businesses nationwide included questions regarding changes in inventory, working hours, personnel, capital improvement, profitability, financing and problems facing private businesses. This survey was based on two hypotheses: first, that businesses become more efficient after privatization and, second, that businesses privatized through auction would show greater improvement than those bought out by workers' collectives. The results supported these hypotheses. The greater improvement by privatized enterprises was largely due to the greater availability of investment capital and the more extensive management experience of the owners. The largely positive results of this survey were used extensively and effectively in the public relations campaign. A follow-up study will be conducted in the summer of 1995.

Public Education

An important aim of the public relations campaign has been to raise awareness and understanding among the public at large of the principles, goals, and mechanics of local privatization programs. The strategy for public education has focused on four target groups: 1) journalists, 2) average citizens, 3) government officials, and 4) leaseholding workers' collectives.

- *Journalists:* IFC created strong contacts with journalists from both local- and republican-level media sources in order to inform them about the privatization process and to encourage them to cover economic reform issues more widely. Cultivation of contacts with individual journalists has proven to be an extremely effective method for generating coverage of privatization issues.

Journalists are provided with a regular flow of information and have open-door access to IFC's operational and public relations consultants. Press conferences are held after each auction, upon the initiation of IFC's work in a new city, and during other newsworthy events. IFC public relations consultants prepare press releases on privatization events for distribution to journalists nationwide. IFC also works with the Burson-Marsteller national and regional press clubs in organizing press meetings on privatization-related issues. Press visits are organized to cities where newsworthy privatization events are taking place.

In July 1995, in conjunction with the Ministry of Information, Burson-Marsteller, and the Eurasia Foundation, IFC will participate in the organization of a large regional press education seminar in L'viv. Over 100 journalists will be invited to attend a two-day seminar to examine reform and privatization issues. The seminar will provide journalists with a forum in which to discuss economic reform issues in transitional economies with journalists from other countries.

- *The Public:* IFC reaches the general public through the sorts of newspaper articles as described above. IFC has also organized and financed the production of several films and television commercials, which have been broadcast on national and local television. The films aim to describe the benefits of privatization by showing improvements made to newly-privatized stores and interviewing store employees, new owners and managers, and city officials. IFC also works closely with the National Education Program and other radio and TV producers to develop national radio and television programs on privatization-related issues.
- *Government Officials:* Following the successful initiation of the L'viv pilot project, IFC wrote, produced, and distributed nationwide a how-to manual on the L'viv model, which describes the procedures, local legislation, and administrative structure necessary for small-scale privatization to be implemented in any Ukrainian city (see next section for more details).

IFC also meets with government officials interested in learning more about the privatization process. Up-to-date information on privatization results in IFC-assisted cities, data on improvements made to stores after privatization, and results of surveys on the public's support for small-scale privatization are regularly provided to central- and local-level officials. For newly-appointed and newly-elected officials, IFC has organized and conducted training seminars to explain existing legislation, methodologies, and administrative responsibility for carrying out privatization. These seminars have received positive appraisals by participants. Additional seminars focusing on legal issues have been organized for city and regional property fund officials, particularly following the promulgation of new privatization related legislation.

A national seminar was organized in Kiev in February 1995 by the State Property Fund and IFC with the goal of clarifying the December 1994 Presidential Decree on Small-Scale Privatization to all regional representatives of the State Property Fund. All 120 participants received information packages which included: copies of all relevant legal, normative and methodological documents; legal interpretations; letters of encouragement from high-ranking government officials; privatization success stories from the near-abroad and Ukraine; telephone contact sheets and background information on the work of IFC. A press conference was held, resulting in the publication of several newspaper articles and TV evening news coverage.

- *Workers' Collectives*: With the initiation of a new strategy to encourage employee buyout of leased enterprises, IFC began an active public relations campaign in support of this strategy. Local seminars for leaseholding workers' collectives sought to explain existing legislation and delineate available options. The first series of such seminars was organized in May 1994, when changes in valuation methods provided a window of opportunity for leaseholders to buy out their enterprises at lower prices. IFC prepared informational material, including a methodological handbook, *How to Become an Owner*. The worker collective seminars clarified the laws and methodologies governing buyouts, resulting in the buyout of a record 840 small enterprises in June 1994 alone.

Subsequently, as the legal and methodological framework for buyouts changed, new seminars were developed. These seminars are organized in IFC-assisted cities on an as-needed basis. Participation in such seminars has ranged from 30 to 600 participants.

Distribution of "How-To" Manual

The privatization model developed in L'viv was documented for use by privatization authorities nationwide. During the second phase (the expansion phase) of the Small-Scale Privatization Program, a "how-to" manual, *Small-Scale Privatization in Ukraine*, was distributed to officials in every city in Ukraine with a population over 20,000. A total of 23,800 manuals were distributed. The manual provides officials with standard documents and procedures and a compendium of laws regulating small-scale privatization. This manual has become the standard reference for municipal and regional property funds all over Ukraine, and many cities have reported using the manuals to design their own privatization programs. The manual contains two volumes:

- *An Official's Guide*: The L'viv Model - Discusses privatization in the Ukrainian context, outlines the principles behind the auction approach used in L'viv, and provides step-by-step direction for officials and their responsible agencies to implement a municipal small-scale privatization program. Legislative, administrative, and procedural issues are discussed, as well as corollary issues of financial management and employee participation in privatization.
- *Annexes: The L'viv Model* - Contains national privatization legislation, model local legislation, city regulations, working documents, and contracts necessary to support the municipal small-scale privatization program described in *An Official's Guide*.

Central Advisory Unit

On the national level, IFC's Kiev-based coordination center maintains close relations with various government bodies working on privatization related legislation. This includes officials in the Cabinet of Ministers, the Parliament, and the State Property Fund (SPF). IFC's objective is to draw the central government's attention to key issues and obstacles encountered at the local level. Using the knowledge gained from a constant presence in

field cities, IFC provides advice on new draft privatization documents and proposes improvements to current legislation.

IFC has responded to a steady flow of requests from representatives of the central government to assist in writing, amending, or providing analysis of current or draft legislation. To date, IFC recommendations have figured in the following documents: the December 1992 amendment to the Lease Law; the 1994 State Privatization Program; Orders (Prikazes) emanating from the SPF on implementation of small-scale privatization and methodology for valuing assets of enterprises; city privatization programs; and the December 1994 Presidential Decree on Small-Scale Privatization.

PART THREE: Results

IFC-Assisted Cities

As of June 1, 1995, IFC-assisted cities had privatized 2,374 small enterprises, including 331 through 67 competitive auctions, and 1,825 through state-owned and leased enterprise employee buyout, and 72 through tender. A breakdown of cumulative privatization results in IFC-assisted cities is provided in Annex 1, and auction results are provided in Annex 2.1.

IFC-assisted cities are widely recognized as leaders in small-scale privatization and have served as models for many other small and large cities across Ukraine as they attempt to fulfill the December 1994 Presidential Decree calling for the completion of small-scale privatization by the end of 1995. A majority of IFC's cities have already privatized over 60 percent of their small-scale enterprises and are expected to be the first Ukrainian cities to complete privatization.

Pilot Project: The L'viv Model

IFC chose L'viv (population 850,000), located in western Ukraine, as the pilot city for its Small-Scale Privatization Project in July 1992. After seven months of extensive planning and analysis during which city authorities and IFC staff developed an auction-based privatization procedure, L'viv held Ukraine's first auction of small enterprises on February 20, 1993.

To date, the L'viv City Property Fund (now transformed into the City Branch of the Regional State Property Fund) has privatized 336 small enterprises, or 20 percent of the city's enterprises slated for privatization, including 45 sold at seven auctions and 290 sold through state-owned and leased enterprise employee buyout.

Shortly after the first L'viv auction, IFC began receiving requests from cities across Ukraine interested in working with IFC on designing and implementing small-scale privatization projects based on the L'viv Model. In May 1993, IFC began expanding its

assistance to additional cities, and currently has resident teams in 11 cities across Ukraine. As current client cities near completion of their small-scale privatization targets, IFC will begin phasing out full-time resident assistance in these cities. Instead, IFC will provide periodic oversight of privatization activities and other assistance on an as-needed basis.

Zaporizhye

In May 1993, IFC chose Zaporizhye (population 900,000), located in southeast Ukraine, as its first expansion site. The city's first two auctions of small enterprises were held in June and July 1993. To date, Zaporizhye has privatized more enterprises (686) than any other city in Ukraine, including 20 sold at four auctions, 572 sold through state-owned and leased enterprise buyout, and 92 sold through the formation of open joint-stock companies. The total number of small enterprises sold represents over 60 percent of the city's enterprises subject to privatization. IFC also assisted Tokmak, a city of 50,000 located in Zaporizhye Oblast, in selling 21 enterprises at four auctions in 1993.

Uzhorod

IFC began assisting Uzhorod (population 130,000), an oblast capital located near the Carpathian Mountains in western Ukraine, in July 1993. The city's first auction of small enterprises was held with IFC assistance in September 1993. To date, IFC has assisted the city in privatizing 139 enterprises, or 81 percent of available enterprises, including 39 sold through four auctions and 94 sold through state-owned and leased enterprise employee buyout.

Cherkassy

In August 1993, IFC started work in Cherkassy (population 320,000), located in central Ukraine. The city held its first auction in September 1993. In May 1994, Cherkassy was chosen as IFC's pilot city for a project to accelerate the privatization of leased enterprises. To date, Cherkassy has privatized 195 small enterprises, or 75 percent of its total, including 18 sold at seven auctions, 119 sold through state-owned and leased enterprise buyout, and 55 through formation of an open joint-stock company.

Rivne

Also in August 1993, IFC began providing assistance to Rivne (population 250,000), located in northwest Ukraine. The city's first auction was held with IFC assistance in September 1993. To date, Rivne has privatized 49 small enterprises, or approximately 20 percent of its total, including 31 sold at seven auctions and 18 sold through state-owned and leased enterprise buyout. The city's privatization officials strongly support the auction method and, therefore, have been reluctant to allow a significant number of leased enterprises to be sold through employee buyout. Still, most of the city's leased enterprises are expected to be sold through buyout by June 1995.

Lugansk

IFC expanded to Lugansk (population 520,000), located in eastern Ukraine on the border with Russia, in September 1993. The city held its first auction with IFC assistance in October 1993 and subsequently became a leader in small-scale privatization and other economic reforms despite a strong leftist presence in the region. To date, Lugansk has privatized 281 enterprises, or 73 percent of its small enterprises subject to privatization, including 40 enterprises sold at ten auctions, 219 sold through state-owned and leased enterprise buyout, and 12 privatized through tender. Due to the large number of privatized small enterprises in the city and the strong pro-reform attitude of the young mayor, Lugansk was chosen in October 1994 as IFC's pilot city for a post-privatization project in support of small privatized enterprises, funded by the British Know-How Fund. IFC expects Lugansk to complete 80 percent of its small-scale privatization target by June 1995.

Ivano -Frankivsk

In November 1993, IFC began work in Ivano-Frankivsk (population 250,000), located in western Ukraine. The city held its first auction with IFC assistance in January 1994, and subsequently became the first city in Ukraine to hold "joint" auctions at which enterprises from various property funds throughout the oblast were offered for sale. To date, the city has privatized 52 enterprises, or 22 percent of its total. IFC also actively assists the oblast authorities responsible for small-scale privatization. IFC has assisted in the privatization of 189 enterprises in Ivano-Frankivsk Oblast.

Khmelnitskyj

In March 1994, IFC opened its project in Khmelnitskyj (population 260,000), located in western Ukraine. The city has privatized 140 enterprises, or 76 percent of its total, including 115 through state-owned and leased enterprise buyout and 10 through competitive sales. IFC has also assisted the city of Kamyanets-Podilskyj (population 115,000), located in Khmelnitska Oblast, in auctioning off small enterprises. IFC expects Khmelnitskyj to complete 90 percent of its small-scale privatization target in June 1995.

Mariupol

At the request of First Deputy Prime Minister Viktor Pynzenyk, IFC expanded its project to Mariupol (population 550,000) in October 1994. Located in southeast Ukraine on the Azov Sea, Mariupol is a regional center of Donetsk Oblast. With the strong support of the young, pro-reform Mayor, who is also a member of the Ukrainian Parliament, IFC has assisted in transforming the city into a model of small-scale privatization. In April 1995, Mariupol became the first city in Ukraine to hold three auctions in one month. To date, the city has privatized 335 small enterprises, or 71 percent of its total, including 66 sold at eight auctions, 235 sold through state-owned and leased enterprise buyout, and 34 sold by

tender. IFC expects the city to complete 80 percent of its small-scale privatization target in June 1995.

Project Expansion

Beginning in April 1995, IFC's Project began expansion into additional cities. An IFC team began working in April in Odessa (population 1.1 million), the famous Black Sea port city located in southern Ukraine. In May, permanent IFC teams began working in Kherson (population 380,000), also in southern Ukraine, and Lutsk (population 230,000), located in northwest Ukraine. IFC expects to begin work in as many as seven additional oblast capitals in accordance with its expansion objectives.

PART FOUR: Conclusion

Small-scale privatization in Ukraine has clearly proceeded far more slowly than its architects envisioned. Less than 10,000 of the roughly 50,000 state-owned trade, service, and public catering enterprises have been privatized to date, whereas the 1992 target foresaw the completion of small-scale privatization in 1994. Moreover, given the legislative and ideological bias toward leasing and employee buyouts, competitive methods of sale have been employed in less than 20 percent of the privatizations.

IFC-assisted cities have, nevertheless, proven that small-scale privatization can be rapidly and successfully carried out. As of June 1, 1995, six IFC-assisted cities had privatized over 60 percent of their small enterprises, and are expected to reach 80 percent completion by late summer. These and other IFC-assisted cities have provided positive examples to numerous other large and small cities across Ukraine and are frequently cited by central government officials as leaders in small-scale privatization.

Through its advisory work with the SPF, Cabinet of Ministers, President's administration, and First Deputy Prime Minister Pynzenyk, IFC's project has had a positive impact on the small-scale privatization process not only in client cities, but in the country as a whole. For example, the December 30, 1994 Presidential Decree on Measures to Accelerate Small-Scale Privatization, drafted with significant IFC support, calls for key improvements to be introduced at the local level and mandates the completion of small-scale privatization by the end of 1995.

Even with continued support from President Kuchma and government officials responsible for privatization, small-scale privatization will probably not be completed in 1995 given continued resistance to economic reform in Parliament and in local councils. However, IFC agrees with supporters of privatization in the government that the process can be considered a success if a majority of small enterprises are privatized by year's end. In IFC's view, this is a strong possibility.

Annex One

Cumulative Privatization Results

**CUMULATIVE PRIVATIZATION FIGURES IN
IFC ASSISTED CITIES
as of May 31, 1995**

LOCATION	METHODS OF PRIVATIZATION				TOTAL
	AUCTION	LEASE WITH BUYOUT	BUYOUT	TENDER	
L'viv	45	127	163	1	336
Rivne	31	4	14	0	49
Uzhorod	39	44	50	6	139
Ivano-Frankivsk (C,O,R)	38	50	103	3	194
Zaporizhya/Tokmak	41	490	82	3	707*
Khmelnitskyj	13	20	95	10	138
Checkassy	18	72	47	3	195**
Luhansk	40	169	60	12	281
Mariupol	66	149	86	34	335
TOTAL	331	1125	700	72	2374

*The total includes 91 objects privatized in September 1994 as one open joint-stock company owned by employees and outside investors.

** The total includes 55 objects privatized as one open joint stock company.

Annex Two

Cumulative Auction Results

**CUMULATIVE RESULTS OF SMALL-SCALE PRIVATIZATION THROUGH AUCTION
WITH IFC ASSISTANCE
May 1995**

Locations	Total Number Privatized via IFC Assisted Auction	Number IFC Assisted Auction	Revenues Generated via Auction (million karbovantsi)	Revenues Generated via Auction (USD)	% Sold into Full Ownership	% Sold to Workers' Collectives
L'vivska Oblast						
• L'viv	44	7	37,968	986,070	16%	28%
• Mykolayiv	1	1	200	4,301	100%	0%
Zaporizka Oblast						
• Zaporizhya	20	4	26,336	865,076	65%	35%
• Tokmak	21	4	5,794	639,300	48%	24%
Rivnenska Oblast						
• Rivne	31	7	31,004	2,038,209	6%	26%
Cherkaska oblast						
• Cherkassy	18	7	23,307	624,368	61%	28%
Zakarpatska oblast						
• Uzhorod	39	4	77,121	2,948,072	26%	41%
Luhanska Oblast						
• Luhansk	40	10	26,902	604,774	50%	20%
Ivano-Frankivska oblast						
• Ivano-Frankivsk	37	7	77,577	998,462	29%	40%
• Tlumach	1	1	110	16,021	100%	0%
Khmelnitska Oblast						
• Khmelnytskyj	4	2	2,260	48,100	50%	25%
• Kamyanets-Podilskyj	8	5	3,065	177,497	38%	0
Donetska oblas						
• Mariupol	58	8	98,745	669,556	64%	43%
TOTAL	322	67	410,389	10,619,806	39%	31%

Annex Three

IFC Staffing in Ukraine

IFC SMALL-SCALE STAFFING IN UKRAINE

Annex Three
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Management:

Stephanie Miller	D.C. Coordinator
Robert Foresman	Project Manager
Elena Voloshina	Deputy Project Manager
Valerie Wright	Deputy Project Manager/ Public Relations Director

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Maciej Gadamski	Odessa/Kherson

Local Operational Consultants:

Miroslav Kravchuk	Uzhorod/Ivano-Frankivsk
Viktor Kurilets	Mariupol
Valentina Lioghkaya	Mariupol
Ihor Melnichuk	Odessa/Zaporizhyya
Andrei Mikhnev	Rivne/Khmel'nitskyj
Volodia Oliynyk	L'viv
Igor Rykov	Odesa/Zaporizhyya
Volodia Spivak	Uzhorod/Ivano-Frankivsk
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Driver
Secretarial Assistant
Office manager
Accountant
Programmer
Secretary
Translator

SMALL-SCALE PRIVATIZATION IN BELARUS

International Finance Corporation
Final Operational Report
June 1995

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PART ONE: Executive Summary

The Belarussian Government's small-scale privatization program has become one of the most demonstrably successful economic reforms undertaken in Belarus since the collapse of the Soviet Union in 1991. In a relatively short period of time, a large class of Belarussian small business entrepreneurs has been established and start-up businesses are now prevalent throughout the country. Perhaps more importantly, the positive results evident in those cities which have moved furthest ahead with privatization are setting an example for other Belarussian cities to follow.

The legislative framework for small-scale privatization was put in place in 1993. On the national level, the Destatization and Privatization Law, passed in January 1993, and the State Privatization Program, passed in June 1993, gave the green light for city officials to develop their own small-scale privatization programs allowing for the transfer of the local retail trade, catering, and services sectors into private hands. By that time, IFC had assisted the Russian and Ukrainian governments in successfully implementing pilot programs for the facilitation of such a transfer. With this in mind, the Belarussian government approached IFC in mid-1993 with a request for assisting in the development and implementation of similar auction-based small-scale privatization program for Belarus. With funding from USAID, IFC began working in Belarus in May 1993 by providing assistance to the pilot city of Brest, in a program that is ongoing across Belarus.

IFC has based its approach to program design on the grassroots principles used successfully in Russia and Ukraine for various technical assistance programs. Resident teams work alongside local officials, identifying problems and working to create local consensus needed for privatization to move forward. Specifically, IFC supports small-scale privatization on the local level by providing technical, legal, and public relations assistance to city and oblast officials involved in the privatization process. IFC teams tailor their advisory services to the specific needs of the city. IFC's central advisory unit in Minsk assists government officials and legislators in improving privatization-related legislation and updates them on the privatization situation in the localities where IFC works.

On September 29, 1993, exactly two months after the Brest City Council had passed its City Privatization Program, the first open, legal auction of small-scale enterprises in Belarus was held in Brest. IFC subsequently worked with Brest city officials to establish an auction "pipeline" of small enterprises for privatization. Central-level officials fully endorsed the Brest model and, together with IFC, organized a seminar in January 1994 for privatization officials from across the country to learn more about how to implement the model. Present at the seminar were representatives of the central government including Deputy Prime Minister for Economic Issues, Sergei Ling, Brest city and oblast officials, and 300 officials from localities throughout Belarus. IFC produced a how-to manual based on the Brest model which was given to all seminar participants and subsequently distributed to privatization officials in all cities with populations over 20,000.

Shortly after the seminar, other cities began requesting direct IFC assistance. To date, IFC has expanded work to two additional Belarussian cities: Grodno, located in northwest Belarus; and Orsha, located near the eastern border with Russia. By June 1, 1995, IFC-assisted cities had privatized between 20 and 50 percent of available small enterprises. This amounts to the privatization of 186 small enterprises, including 133 through 27 competitive auctions. The revenues generated from auction privatization alone in these cities are equivalent to approximately US \$3.5 million.

Belarussian officials estimate that about 1,200 of an estimated 15,000-20,000 small state enterprises subject to privatization have been privatized. The pace of privatization increased somewhat in 1994 and could increase significantly in the second half of 1995 if Belarussian cities step up to the challenge posed by the central government of privatizing 70 percent of available small enterprises by the end of the year.

PART TWO: IFC's Approach and Scope of Work

Rationale

Privatization is defined as the transfer of ownership of state enterprises and assets to the private sector. Worldwide, privatization is considered to be the most effective method of enhancing the productivity of underutilized state assets and creating competitive and efficient industries. For countries in transition from centrally-planned to market economic systems, privatization is a crucial step in creating private businesses that provide private-sector employment and an increased level of goods and services. Private owners, responding to financial incentives, ensure that businesses are operated in a responsible and responsive way.

Small-scale privatization--the transfer to private hands of small, state-owned retail outlets such as food and goods shops, restaurants, and consumer services is a key step toward building an efficient market economy since it generates demand for finished and processed goods. Small private businesses, through competition, sell better-quality goods at lower prices, thereby improving consumers' standards of living. If the process of privatization is carried out quickly, it creates grassroots support for further economic reforms by illustrating the immediate benefits that a market economy can offer ordinary citizens.

Overview

In cooperation with the Ministry of Privatization of Belarus and with funding provided by USAID, IFC and Brest city officials developed an open auction process for the privatization of the city's retail and service sectors. In September 1993, this process began with the public sale of six small-scale enterprises in Brest. The auction was hailed as a success by city and Belarussian government officials. A second auction followed in November 1993.

IFC's approach to conducting small-scale privatization was to develop a model privatization scheme in one pilot region. The pilot program was to be generic and simple, so as to be easily replicated in other cities. After the successful launch of the pilot, the model would be replicated in other cities through two means. First, resident teams would be deployed to additional cities to provide direct IFC assistance. Second, information would be disseminated nationwide through the media, training seminars, and production and distribution of program manuals. The objective was to achieve a self-sustaining process such that when assistance was withdrawn, the local administration would be fully trained in maintaining the momentum of privatization.

A description of assistance provided under the Small-Scale Privatization Program in Belarus is given below. Note: Because the project is ongoing, this report summarizes achievements to date, but does not draw overall conclusions about program results.

Selection of Assisted Regions

Brest, one of the largest cities in Belarus, was chosen as the pilot city for the Small-Scale Privatization Program for several reasons. First, Brest, unlike the capital city of Minsk, was considered by the Government and IFC to be a "typical" Belarussian city. Like most cities in Belarus, the regional economy was characterized by an underdeveloped wholesale and retail trade network for consumer goods and services. A pilot project successfully implemented in Brest could be replicated in other Belarussian cities.

Second, Brest was chosen because the local authorities were committed to reform and ready to take the risks of being first in privatization. Experience in Czechoslovakia, Poland, Russia, and Ukraine demonstrated that political leadership was essential to the privatization process.

With USAID funding, the model privatization scheme developed in Brest was extended to other Belarussian cities. The basis for selection of new client cities has been primarily the political will and progressiveness shown by local officials. IFC also aims to represent various regions throughout the country. Thus, IFC is currently working in three of the six oblasts (regions) in Belarus: in the city of Brest (located in Brest oblast); the city of Grodno (in Grodno oblast); and the city of Orsha (in Vitebsk oblast). These cities are also characterized by a low level of leased enterprises (usually difficult to privatize through auction), thus providing the maximum amount of city-owned property available for sale through competitive means. Several other cities have requested IFC assistance, and negotiations are currently underway with officials from these cities.

Since approximately one third of Belarus has been contaminated by the Chernobyl disaster, IFC has sought an alternative to deploying resident teams to these areas. The two oblasts most affected by Chernobyl contamination are Gomel and Mogilyov oblasts. In order to address the small-scale privatization needs of cities located in these regions, IFC developed and implemented a set of seminars in November/December 1994 for all city authorities from these two oblasts. Follow-up workshops are being planned with the goal

of providing intensive training to local privatization officials. Organizational, legal, and public relations support is available to them on an as-needed basis.

Establishing Resident Teams

To implement the model scheme in Brest, an international team of experts was assembled with experience in conducting privatization through auction. In addition to IFC staff, consultants, auctioneers, and lawyers specializing in privatization were brought in from Poland, Russia, and Ukraine. Foreign consultants are always complemented by local staff and lawyers to assist the IFC long-term objective of transferring institutional knowledge about the privatization process. Today, the Belarus Small-Scale Privatization Program is staffed mostly by Belarussians.

To assist more Belarussian regions in the final phase of the Small-Scale Privatization Program, IFC will create mobile consultant teams similar to those used in the final stage of the Russia Small-Scale Privatization Program. These two- to three-person itinerant teams will travel to cities on working visits for up to two weeks to advise local authorities on ways to expedite the small-scale privatization process. Assistance will be provided in: resolving legal and administrative problems arising during and after privatization; increasing the number of enterprises included in the "privatization pipeline"; and fine-tuning a public relations campaign.

Determination of Guiding Principles

The small-scale privatization program in Belarus was derived from the Nizhny Novgorod model created and successfully implemented by IFC in Russia. As in Russia, IFC advocated a system of open auctions and assisted local authorities in developing legislation and procedures to support this system. In addition to the key principles of fairness, transparency, and speed, the Belarussian model is driven by a set of concrete guiding principles, including:

Demonopolization through Sale of Separate Outlets: By separating individual retail outlets from their wholesale structures (torgs) and selling them as discrete units, competition is created.

Immediate Transfer of Property: The physical transfer of property to the new owner should take place as soon as legally permissible to facilitate rapid change in the operation of a business.

Transferable Right to Lease Properties in Multiple-Purpose Buildings: The majority of small businesses are located in multi-purpose buildings. To date, republican legislation has not yet been approved to provide for the rights of several distinct property owners in one building. Therefore, the city should guarantee the transferable right to lease that portion of the building in which the privatized enterprise is located. The city should also ensure stable lease rights for new owners.

Special Privileges for Employees: To take account of the rights of employees in the privatization process and to encourage them to participate in the process, workers' collectives are given special privileges in the auction of the businesses in which they work.

Valuation Determined Solely by Auction: City officials should avoid imposing discretionary valuation systems and setting reserve minimum prices at auction, since this leads to artificial valuation and damages the reputation of the privatization process.

Legislation and Legal Documentation

It was recognized early on that Brest city officials and IFC would need to create a local legal framework for small-scale privatization which would define procedures and provide a standard set of privatization working documents lacking in national privatization legislation. This local legislation would have to accord with national legislation, as well as provide a mechanism for streamlining the process.

City officials and IFC drafted model legislation that laid out the tasks, delegated responsibilities, and determined methodology to be used in the privatization process. This framework was embodied in the following legislative documents:

City Privatization Program: This document defined in detail how the small-scale privatization process should proceed. Provisions included the city's privatization goals; participant and buyer eligibility; relations among local administrative bodies in the privatization process; timetable for preparing enterprises for privatization; determination of privatization methods; conditions of sale of enterprises; workers' collectives incentives and social protection measures; and a forecast of how privatization revenues would be spent. The privatization program also referred to supporting documents described below.

Other City Regulations: Together with the City Privatization Program, these other city regulations provided all the necessary legislation for implementing a municipal small-scale privatization program. They included regulations specifying the method of privatization to be used; detailing the privatization timetable; establishing penalties for failure to meet obligations; and describing the auction procedure.

Transaction Documentation and Contracts: A full set of standard legal documents establishing rights and obligations of buyers and sellers of privatized enterprises was created. These included: the Application for Participation in Auction; the Contract of Purchase and Sale; the Contract of Lease of Non-Residential Premises; the Act of Transfer and Acceptance; and the Certificate of Ownership.

Building a Pipeline

Once the local body of legislation regulating municipal privatization was established, the next step was to structure a regular cycle of auctions. IFC experience with privatization in

Poland, Czechoslovakia, and Russia showed that regularly scheduled auctions of municipal enterprises sustained a high level of interest in privatization programs from potential buyers and the general public alike. A steady stream of auctions permitted a "critical mass" of private enterprises to emerge within a short timeframe, generating visible, local results: price competition, product diversity, and improved services.

In order to systematize a process of regular auctions, IFC developed a framework to organize the processing and sale of enterprises. Working backward from auction dates, responsible officials and IFC created uniform methodologies and set deadlines for each step of the privatization process. The flow of enterprises from selection through the approval process to auction was scheduled for groups of enterprises several months in advance. In each city, consultant teams worked with privatization officials to create these "pipelines," taking into account national and local regulations affecting the privatization program.

Public Relations Campaign

A key component of IFC's assistance on small-scale privatization has been an extensive and multi-faceted media campaign designed to lend support to the auction process, increase general public awareness of privatization, and help officials, workers' collectives, and journalists to understand the process in detail. Support in the IFC-assisted cities of Brest, Grodno, and Orsha has consisted of a regular flow of information in the form of seminars, round-tables, auction press conferences, and written materials, as well as a multi-media advertising campaign. By producing and distributing manuals and other hand-out materials, and by holding periodic seminars based on work in Brest, Grodno, and Orsha, IFC has promoted the process of privatization in other cities throughout Belarus.

From the central office in Minsk, efforts are directed at creating supportive venues for the dissemination of privatization information at the local and national levels. Public relations has developed strategically and efforts have been concentrated along three lines: 1) auction publicity; 2) public opinion research; and 3) public education involving several target groups.

Auction Publicity

One of the most active areas of the public relations campaign has involved running a consistent publicity campaign that provides privatization participants full and accurate financial and inventory information about properties being offered for sale. For a given auction, informational grids describing the details of objects slated for upcoming auctions are distributed to local and national newspapers for publication. Creative ads are also developed to give the auction notices wider appeal. A direct mail system of invitations to several hundred entrepreneurs and businesses has been established, featuring leaflets with photos of the objects and information on location, price, and other points of interest. IFC also runs regular radio spots on news and music radio programs prior to auctions. Following an auction, IFC issues and distributes press releases to the media. Journalists

often use these press releases as a basis for publishing articles on the progress of privatization.

Initially, IFC employed television media, but because surveys found few of the buyers used this as their source of information on auctions and because of the prohibitively high commercial rates for television advertising, IFC discontinued this type of advertising. Recently, at the request of city officials in Brest and Grodno, IFC has expanded its advertising range to areas in neighboring Poland in order to attract additional participants to auctions.

The majority of IFC auction advertising is conducted at the oblast and city levels. Where possible, IFC encourages city privatization departments to use a small percentage of the revenues from privatization to finance a part of the publicity campaign. In Brest, for example, all local advertising is now financed by the city government. At seminars for city officials, IFC emphasizes the importance of creating an advertising and public relations campaign.

Public Opinion Research

IFC organizes public opinion surveys periodically to determine how the population views the privatization process, and what their perception is of changes made to stores after privatization. An initial survey conducted in Brest before the privatization process began helped the IFC public relations team focus its efforts toward specific target groups for the public education campaign (see section below).

More recent surveys were conducted in Brest and Grodno approximately one year after privatization began in these cities in order to assess local opinion on privatized stores. Results showed that a majority of respondents in both cities could not only identify privatized stores in the city, but noted preferences for living near or working at a privatized enterprise. The positive results of the survey have constituted an important tool for convincing officials at the local level that privatization is widely supported and should be accelerated. Central-level officials have also been impressed with the results of such surveys.

Public Education

Another goal of public relations work has been to assist the public at large in understanding the principles, goals, and mechanics of the small-scale privatization process. The strategy for public education has focused on four target groups: 1) journalists, 2) the general public, 3) government officials, and 4) workers' collectives.

- *Journalists:* IFC created strong contacts with journalists from both local- and republican-level media sources in order to inform them about the privatization process and encourage them to cover economic reform issues more widely. Cultivation of

contacts with individual journalists has proven to be an effective method for generating coverage of privatization issues.

Journalists are provided with a regular flow of information and have open-door access to IFC's technical and public relations consultants. Press conferences are often organized following an auction, as well as upon the initiation of work in a new city. IFC's public relations consultants work closely with government press offices to provide guidance in developing public relations strategies.

- *The Public:* Creating support for privatization among the general public has been addressed largely through the generation of newspaper articles as described above. IFC has also organized and financed the production of several films, which have been broadcast on national and local television. These films aim to describe the benefits of privatization by showing improvements made to newly-privatized stores and interviewing store employees, new owners and managers, and city officials. Advertisements on city transport (metro and bus) are currently being considered as a way to reach a broader audience.
- *Government Officials:* Following the successful initiation of the Brest pilot project, IFC wrote, produced, and distributed nationwide a how-to manual on the Brest model describing the procedures, local legislation, and administrative structure necessary for small-scale privatization to be implemented in any other Belarussian city (see next section for more details).

IFC also meets with newly-appointed government officials interested in learning more about the privatization process. Up-to-date information on privatization results in IFC-assisted cities, data on improvements made to stores after privatization, and results of surveys on the public's support for the process of small-scale privatization are regularly provided to central- and local-level officials.

Initially, the organization of official visits to other countries to view the successes of small-scale privatization had proved to be extremely effective. A visit of Brest officials to the Russian city of Nizhny Novgorod was organized at the outset of IFC's work in Brest. Later, a trip to the Russian city of Volgograd for Brest and Grodno city authorities and representatives of the Belarussian press swayed some opponents of privatization to change their stance. More recently, however, Belarus has produced "success stories" of its own. IFC sponsored a trip to Brest for Orsha officials and journalists to view first-hand the benefits of small-scale privatization. The success of this visit prompted the Ministry of Privatization to request another such visit to Brest for Mayors from other Belarussian cities and representatives from the central government.

- *Workers' Collectives:* In IFC-assisted cities, IFC has urged city officials to organize workers' collective seminars. The purpose of these seminars is to inform workers' collectives employed at stores slated for privatization of their rights and privileges in

the privatization process so that they may prepare for participation in upcoming auctions. The seminars typically feature city privatization leaders, IFC legal counsel, and a lengthy question-and-answer session. Information packets are also distributed to all participants. Employees have rated the seminars highly and have often chosen to participate in auctions following the seminar.

Distribution of "How-To" Manual

The privatization model developed in Brest was documented for use by privatization authorities nationwide. During the second, expansionary stage of the Small-Scale Privatization Program, a "how-to" manual, Small-Scale Privatization in Belarus, was distributed to officials in every city in Belarus with a population over 20,000. A total of 6,000 manuals were distributed. The manual provides officials with standard documents and procedures, and a compendium of laws regulating small-scale privatization. This manual has become the standard reference for municipal and oblast privatization divisions all over Belarus, and many cities have reported using the manuals to design their own privatization programs. The handbook contains two volumes:

- *An Official's Guide: The Brest Model* - Discusses privatization in the Belarussian context, outlines the principles behind the auction approach used in Brest, provides step-by-step direction for officials and their responsible agencies to implement a municipal small-scale privatization program. Legislative, administrative, and procedural practices are discussed, as well as corollary issues of financial management and employee participation in privatization.
- *Annexes: The Brest Model* - Contains national level privatization legislation, model local legislation, city regulations, working documents, and contracts necessary to support the municipal small-scale privatization program described in An Official's Guide.

Central Advisory Unit

On the national level, IFC's Minsk-based coordination center maintains close relations with various government bodies working on privatization related legislation. This includes officials in the Cabinet of Ministers, the Parliament, and the Ministry of Privatization. IFC's objective is to draw the central government's attention to key issues and obstacles encountered at the local level. Using the knowledge gained from its constant presence in field cities, IFC provides advice on new draft privatization documents and proposes improvements to current legislation.

IFC has responded to a steady flow of requests from representatives of the central government to assist in writing, amending, or providing analysis of current or draft legislation. To date, IFC's recommendations have been applied to the following documents: amended voucher privatization legislation as it affects small-scale privatization; letters of clarification for regional privatization officials on carrying out and

accelerating the privatization process; a draft of the Clarification to the March 1995 Presidential Decree on Privatization; the 1995 Republican Privatization Program; and city privatization programs. IFC has also been asked by the Ministry of Privatization for its suggestions in dealing with the leased enterprise issue in Belarus. IFC will begin exploring the development of a strategy similar to the one adopted in Ukraine, whereby employee-leaseholders are persuaded to buy out their enterprises or give them up for privatization through auctions.

PART THREE: Results

IFC-Assisted Cities

As of June 1, 1995, IFC-assisted cities had privatized 186 small enterprises, including 133 through 29 competitive auctions. A breakdown of cumulative privatization results in IFC-assisted cities is provided in Annex 1, and cumulative auctions results are provided in Annex 2.

IFC-assisted cities are widely recognized as leaders in small-scale privatization and have served as models for other large and smaller cities across Belarus. While less than 8 percent of the 15,000-20,000 small enterprises owned by the state have been privatized to date, the trend is positive, as the rate of privatization accelerated significantly in 1994. In the three major IFC-assisted cities, between 20 and 50 percent of available small enterprises have been privatized.

Pilot Project: The Brest Model

The first city in Belarus to receive USAID/IFC assistance and the first to conduct an open, legal auction, Brest (population 289,200) remains Belarus' small-scale privatization leader. Brest has held 12 auctions at which 57 small enterprises were sold and close to the equivalent of US \$2 million in revenues earned. Forty-nine percent of city-owned property has been transferred to private ownership. The city's center contains many popular privatized stores, the success of which IFC publicizes throughout Belarus in order to demonstrate the benefits of small-scale privatization.

With USAID/IFC assistance, Brest Oblast and the city of Kobrin have also begun implementing small-scale privatization programs, privatizing 11 small enterprises thus far. IFC helped Kobrin, a small city in Brest Oblast, organize its first auction of communal (city-owned) property in February 1994. IFC subsequently helped prepare an agreement between Brest city and oblast, according to which the oblast can offer its property at city-organized auctions. IFC is in the process of developing a similar agreement between the city of Brest and the Republic of Belarus to allow for the sale of republic-owned small-scale enterprises to be sold at city auctions.

In order to facilitate the sale of premises of stores located in multi-purpose buildings, IFC has also assisted Brest city officials in developing a local condominium ordinance. IFC is currently helping city officials create a condominium system on the basis of several buildings in Brest.

Grodno

The city of Grodno (population 296,200), located in northwest Belarus, became the second city to receive full-time IFC assistance in April 1994. Grodno has held ten auctions at which 46 objects were sold and the equivalent of more than US \$1 million in revenues earned. Grodno has privatized 31 percent of available small enterprises, making the city one of Belarus' privatization leaders.

Orsha

IFC began working in Orsha (population 126,400), located on the eastern border with Russia, in September 1994. Orsha has held a total of seven auctions at which 33 enterprises were privatized. The city has earned the equivalent of more than US \$170,000 in revenues from auction sales. Workers' collectives have been particularly active in Orsha auctions, purchasing six enterprises. Twenty-two percent of Orsha city property has been sold to date.

Central Government

The Ministry of Privatization reports that slightly over 1,200 of an estimated 15,000-20,000 small enterprises, or less than eight percent, have been privatized thus far. Many cities in Belarus have not yet begun the small-scale privatization process. A variety of factors have led to this slow pace, including the lack of a clear commitment from the central government.

Nonetheless, several recent developments suggest that the central government may be ready to spur privatization on the local level:

- Presidential Decree No. 101 of March 3 "On Measures to Improve Process of State Property Reform" encourages local governments to implement small-scale privatization according to the principles outlined in the Decree and charges the Ministry of Privatization with providing methodological support for privatization at the local level.
- A Privatization Ministry letter "On the Improvement of the Reformation of Communal Property", written to supplement the above-mentioned Presidential Decree, calls for local oblast and city governments to privatize no less than 70 percent of communal property by the end of 1995.

- An official conclusion issued by the central decision making body of the Parliamentary Controlling Commission faults cities for stalling on small-scale privatization. In particular, the Controlling Commission points to local governments' failure to form privatization organs, develop local privatization legislation, and pass lists of objects subject to privatization in the coming year.
- A recent meeting at the Ministry of Trade, at which Deputy Prime Minister Myasnikovich ordered local trade representatives to meet the government's target of privatizing 70 percent of the cities' trade sectors by the end of 1995.

PART FOUR: Conclusion

Small-scale privatization in Belarus still has a long way to go. Privatization Ministry statistics indicate that fewer than 1,200 out of an estimated 15,000-20,000 trade, catering and service enterprises--or less than 10 percent--had been privatized by the end of the first quarter of 1995. Many cities have not even started the small-scale privatization process.

While privatization nationwide has proceeded at a slow pace, IFC-assisted cities of Brest, Grodno, and Orsha have made significant progress by privatizing 49, 31, and 22 percent of city-owned small enterprises, respectively. Furthermore, each of these cities has adopted open, competitive auctions as its primary method of privatization. The auction methods accounts for 68 percent of privatized objects in Brest, 91 percent in Orsha and 66 percent in Grodno.

The Belarussian government and IFC have encouraged cities throughout Belarus to follow the example set by Brest, Grodno and Orsha by conducting seminars, distributing the "how-to" manual based on the Brest model of privatization, and disseminating information on successfully privatized stores. As a result of these activities, many Belarussian cities have adopted Brest's approach to privatization.

IFC also has been able to positively affect the small-scale privatization process nationwide through its work with central government officials. Most recently, IFC helped the Ministry of Privatization draft a Clarification to the March 1995 Presidential Decree on Privatization. This Clarification encourages local officials to privatize no less than 70 percent of communal property by end 1995 and to employ competitive methods of sale for privatization of small-scale enterprises.

It is unlikely that most local governments will meet the above-mentioned 70 percent target due to the sheer enormity of the task. Furthermore, the lack of clear commitment to privatization on the part of Belarussian President Lukashenko may discourage some local Belarussian officials from moving ahead decisively with privatization. Nonetheless, many cities in Belarus seem to be taking the Privatization Ministry directive seriously. IFC, therefore, expects a "critical mass" of privatized enterprises to be created in Brest,

Grodno, and Orsha by the end of the year, and for small-scale privatization in other Belarussian cities to accelerate in the second half of 1995.

Annex One

Cumulative Privatization Results

**CUMULATIVE PRIVATIZATION FIGURES IN
IFC ASSISTED CITIES*
as of May 31, 1995**

LOCATIONS	METHODS OF PRIVATIZATION				TOTAL # OF CITY-OWNED OBJECTS PRIVATIZED	% OF CITY- OWNED OBJECTS PRIVATIZED
	AUCTION	BUYOUT	TENDER	JSC		
-Grodno	46	16	7	-	69	31
-Brest+	57	8	9	10	84	49
-Orsha	30	3	-		33	22
TOTAL	133	27	16	10	186	-

- * Includes objects privatized prior to IFC assistance.
- + Excludes obast-owned objects privatized at auction.

Annex Two

Cumulative Auction Results

2051

**CUMULATIVE RESULTS OF SMALL-SCALE PRIVATIZATION
WITH DIRECT IFC ASSISTANCE
May 31, 1995**

Locations	Total Number of Objects Privatized via IFC-assisted Auctions	Total Number of IFC assisted Auctions [#]	Revenues Generated via Privatization by Auction (BR rules)*	Revenues Generated via Privatization by Auction (USD)	Number of Privatized Objects Sold to Foreigners	Number of Privatized Objects Sold to Workers' Collectives
Brest Oblast+						
-Brest	57	12	8,942,800,000	1,719,203	5	11
-Other+	11	2	650,730,000	182,678	1	0
Grodno Oblast						
-Grodno	44	9	39,600,000	1,377,354	0	1
Vitebsk Oblast						
-Orsha	20	5	1,832,850,000	172,041	0	6
TOTAL	132	28	20,815,980,000	3,451,276	6	18

*Prices before August 20, 1994 have been adjusted to denote denominated Belarussian ruble values.

+ IFC has also assisted Brest oblast in selling privatization objects. Two oblast-owned privatization objects were sold at an IFC-assisted oblast auction on February 25, 1994, one privatization object (oblast-owned) was sold at an IFC-assisted Brest city auction on September 14, 1994, and two privatization objects (oblast owned) were sold at an IFC-assisted Brest city auction on December 14, 1994. In addition, IFC provided assistance to Kobrin, a city located in Brest oblast, in holding an auction on July 29, 1994 at which six privatization objects were sold.

[#] Three additional auctions were conducted prior to IFC assistance (2 in Orsha; 1 in Grodno). Thus the total number of auctions conducted in Brest, Orsha and Grodno is 31.

Annex Three

IFC Staffing in Belarus

IFC SMALL-SCALE STAFFING IN BELARUS

Management:

Stephanie Miller	D.C. Coordinator
Caryn Young	Project Manager

Foreign Professional Consultants:

Yana Kushner	Office Manager
Rebecca Rosenblum	Grodno Team Leader
Lesia Rudakewych	Public Relations Director
Robert Wiklund	Orsha Team Leader

Local Operational Consultants:

Sergei Sachkov	Brest Team Leader
Raisa Sinelnikova	Special Projects Coordinator
Oleg Sivograkov	Condominium Team Leader

Local Legal Consultants:

Larisa Savina	Brest
Olga Zudova	Orsha

Local Public Relations Consultants:

Elena Yegorova	Minsk
Olga Perskaya	Grodno
Larisa Sysoeva	Orsha
Nezhdana Bukowa	Brest

Local Support Staff:

Natalia Kuzmina	Accountant (Minsk)
Mikhail Lagun	Translator (Brest)
Mikhail Sokolov	Translator (Minsk)
Irena Kiptikova	Secretary (Minsk)
Anna Novosolova	Secretary (Minsk)
Ella Korotkova	Secretary (Brest)
Olga Zemlanaya	Secretary (Grodno)
Oksana Korotkevich	Secretary (Orsha)

Natan Consultants:

(three at a time)

Tatyana Medvedeva	Minsk
Natalia Lisimenko	Minsk
Olga Shishlyannikova	Brest
Elena Drozhzhina	Grodno