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FINAL REPORT Submitted to USAID

for the

**Local Privatization Center
Operations Support Project
Omnibus Contract Task Order 11**

PRICE WATERHOUSE LLP
Final Report

Local Privatization Center Operations Support Project
Omnibus Contract Task Order 11

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A. Background

The Russian privatization program, initiated in 1992, has been a very successful component of economic reform in Russia. By 1995, more than 16,000 enterprises, from small-scale retail traders to large-scale oil and gas companies, had been privatized. Through privatization, government-owned enterprises were corporatized and auctioned to the public through a voucher privatization program. The United States Agency for International Development (USAID) funded several programs to support the mass privatization program, many of which were carried out by Price Waterhouse LLP (PW) under the NIS and Omnibus contracts.

By 1994, it was clear that Russia had neither the institutional infrastructure nor the financial resources to provide significant restructuring support to medium and large scale enterprises. The Russian government believed that it was necessary to develop an institutional infrastructure that was capable of channeling donor assistance targeting rehabilitation and restructuring of these privatized enterprises. With this goal in mind, the Government of Russia worked with several donor agencies to form the Russian Privatization Center (RPC), a non-profit, quasi-governmental organization. One of the first mandates of the RPC was to create a network of up to ten Local Privatization Centers (LPCs) which would be charged with facilitating and coordinating donor-funded technical assistance required by privatized enterprises at the local level. In May 1994, PW was contracted by USAID (Contract No. CCN-0005-C-00-3107-00) to develop and support three of these newly-formed Local Privatization Centers.

This final report addresses the accomplishments achieved by PW since the inception of the USAID contract in May 1994 through its completion in March 1996. The report is divided into three parts, the first of which summarizes how PW successfully met or exceeded each component of the task order. The second section provides a detailed analysis of the activities accomplished under each component as specified by the task order's scope of work. The third section concludes with observations and lessons learned from the project which could have potential application to other future USAID projects.

B. Executive Summary

In May 1994, PW was contracted by USAID to develop and support three LPCs of the Russian Privatization Center. Price Waterhouse supported the following three LPCs identified by the RPC:

The Mid-Russian LPC began operations under the auspices of the RPC in February 1994. PW assumed financial and operational support for the LPC in August 1994 and continued to provide assistance to the LPC until December 1995. This LPC included the regions of Vladimir (LPC headquarters), Ivanovo, and Yaroslavl.

The St. Petersburg LPC began operations under the auspices of the RPC in March 1994. PW assumed financial and operational support for the LPC in August 1994 and continued to support the LPC until December 1995. This center included St. Petersburg (city) and the surrounding region; one center for the region was maintained.

The Volga-Vyatski LPC was provided operational and financial support by PW from its inception in October 1994. This support continued until July 1995, when assistance was transferred to the British Know-How Fund (BKHF). PW continued to provide support to the Business Advisor, Kendrick White, until December 1995, when he was seconded to the BKHF. This LPC includes the regions of Nizhny Novgorod (LPC regional headquarters), Kirov, and Seransk.

Task Order 11 originally outlined three tasks to be performed: (1) hiring of the Business Advisor and LPC staff, (2) procuring equipment, and (3) managing contracts and disbursement. In addition to these specific tasks, PW provided a management team located in Moscow to oversee all aspects of the project, initiated and delivered several training programs to the regional enterprises and LPC staff, developed and managed a financial systems installation and transition plan for all eight of the LPCs, and funded a public education advisor to provide post-privatization support to the programs of First Deputy Prime Minister Chubais.

Within the scope of the tasks outlined above, two specific areas provided the greatest challenges to a successful implementation of the program. The first challenge was managing the financial operations of the LPCs in an environment that provided no clear guidance to the banking system, NGOs or tax inspectorate regarding transfers of donor funds through privately-owned legal entities to branch offices of an NGO. Finding a legal, non-taxable route that could facilitate this process proved to be a challenge that was resolved through the trial-and-error of a variety of mechanisms which in the end resulted in the satisfaction of all parties concerned. PW allocated a substantial amount of time to identifying the issues, briefing the RPC on points that required resolution, providing access to legal and tax advice, and implementing solutions.

The second challenge was the placement of a Business Advisor in each LPC. During the course of the project it became clear that the role and purpose of the Business Advisor within the LPC was not clearly defined by the RPC nor sufficiently explained to the LPC directors or the advisors prior to their placement. Once in the field, the RPC failed to adequately support the advisors, and in fact appeared to discourage the directors from working closely with the advisors specifically on the roll-out of RPC-initiated projects. In most cases, the advisors were given office space removed from the main operations of the LPC, relegated to performing meaningless or administrative tasks, denied the opportunity to participate in meetings with enterprises, contractors, donors, etc., and given the impression that their presence was a burden to the busy LPC staff. The exception to this case was Kendrick White, advisor to the Volga-Vyatski LPC. His success could be attributed to a number of factors, including his 2-years of prior experience in the region with the Peace Corps, his ability to speak and understand Russian, his placement in the LPC at the beginning of its operations, and the warm reception that he received from the LPC staff.

C. Activities Performed and Project Personnel

By the end of the project in March 1996, the scope of activities that had been identified in the task order had been broadened, and additional tasks were added, which encompassed seven areas of activity. Accomplishments under these project components are detailed in the following pages of the report.

- **Project Coordination:** Establish and maintain a centrally-located team in Moscow to manage all task order components and work closely with the RPC to develop the LPCs.
- **Contract Management and Disbursement:** Monitor LPC expenditures and work with the RPC to establish a disbursement mechanism and procedures for the LPCs; coordinate contract disbursement procedures with RPC, USAID, and other subcontractors; introduce relevant taxation and accounting issues to the RPC to clarify the specifications required for operating an RPC branch office in any region; distribute a financial procedures manual to the LPCs and provide the necessary training; draft internal auditing procedures for monitoring the disbursement and use of funds at the LPC level; and conduct periodic site audits at the LPCs.
- **Business Advisor Placement and Support:** Recruit and hire one western Business Advisor per LPC and assist the LPC management in administering Russian Privatization Center (RPC) and LPC-based technical assistance programs.
- **Training Programs:** Develop and deliver appropriate training courses and seminars to the LPC staff and regional enterprises.
- **Equipment Procurement:** Provide the LPCs/RPC with sufficient technical and communications facilities to effectively manage the activities and programs of the office: procure, install and support a standard set of equipment to each LPC including a high-quality telephone line and a pre-requisite number of computers, printers, photocopier, fax, modems, software, telephones handsets, etc; and fund maintenance contracts to support servicing of the equipment.
- **Financial Management Systems:** Continue the installation and support roll-out of the RPC's financial system in all existing LPCs (this task was a continuation of work conducted under Task Order 10); and provide continuing support as needed to the maintenance of the RPC's system.
- **Public Education Advisor:** Support the privatization and post-privatization public education efforts of the Russian Government by providing technical assistance to First Deputy Prime Minister Chubias.

Project Personnel. The following Price Waterhouse personnel performed the majority of the work under Task Order #11:

Moscow-based Personnel:

Jeffrey Schwartz, Project Director
Zoanne Nelson, Project Manager (4/94-12/94)
Sigrid Olson, Project Manager (1/95-8/95)
Gayle Greenlee, Project Manager and Financial Systems Manager (6/95-3/96)
Daria Koukhar, Project Coordinator
Maya Stepanova, Project Assistant
Olga Elnikova, IT Consultant for Financial Systems
Yaroslav Zubarev, IT Consultant for Financial Systems
Igor Livitsky, IT Consultant for Financial Systems
Natalia Ershova, IT Consultant for Financial Systems
Olga Krylova, IT Consultant for Financial Systems

Business Advisors:

Tony Alcock, St. Petersburg LPC (7/94-4/95)
Joshua Eckhaus, St. Petersburg LPC (1/95-12/95)
Theo Van Tricht, Mid-Russian LPC (10/94-12/95)
Kendrick White, Volga-Vyatski LPC (1/95-12/95; continues to be present with follow-up funding from the British Know-How Fund)

PROJECT COMPONENT: LPC Project Coordination

Objective: *Establish and maintain a centrally-located team in Moscow to manage all task order components and work closely with the RPC to develop the LPCs.*

Accomplishments: Price Waterhouse accomplished the following tasks:

- Established a team of three individuals located in Moscow who were fully dedicated to overall management of the project.
- Met on a weekly/bi-weekly basis with the RPC to discuss current issues related to the project such as the process for reimbursing LPC expenses, operational implications related to the legal status of the LPCs, negotiation of a signed agreement of cooperation between PW and the LPCs, hiring issues related to the Russian LPC staff, business advisor placement issues, etc.
- Initiated a weekly meeting with all the contractors (PW, Carana, and Arthur Andersen) and USAID to discuss relevant project issues and to provide a forum for meeting other contractors on related projects which could leverage USAID resources. PW took the initiative in this area as our firm had by far the most relevant and timely experience in dealing with LPC project issues such as funds disbursement, taxation, and business advisor placement.
- Maintained almost daily contact with the LPCs to effectively manage the operations, staffing, financing, equipment procurement, business advisor relationships, and other aspects of the project. Frequently traveled to the regions to resolve these issues.
- Coordinated dissemination of information and materials to the LPCs for the delivery of training programs intended either for LPC staff or local, privatized enterprises. For example, the eight-week Business Planning Seminar Series was successfully initiated in all three LPCs by the business advisors, and the one-day Strategy and Action Planning course was conducted by a PW team in the St. Petersburg and Mid-Russian LPCs. All of the LPCs sent senior representatives to Moscow to participate in a four-day PW course on Managing the Consulting Process.
- Managed the coordination and implementation of the financial management system installation in all of the LPCs, and worked closely with the RPC to monitor, upgrade, and provide support to the system.

PROJECT COMPONENT: **Contract Management and Disbursement**

Objective: *Monitor LPC expenditures and work with the RPC to establish a disbursement mechanism and procedures for the LPCs; coordinate contract disbursement procedures with the RPC, USAID, and other subcontractors; introduce relevant taxation and accounting issues to the RPC to clarify the specifications required for operating an RPC branch office in any region; distribute a financial procedures manual to the LPCs and provide the necessary training; draft internal auditing procedures for monitoring the disbursement and use of funds at the LPC level; conduct periodic site audits at the LPCs.*

Achievements: Price Waterhouse accomplished the following tasks:

Financial Management and Disbursement

- Created and implemented a financial disbursement mechanism for the LPCs. Over the course of the project, three different mechanisms were consecutively implemented due to the legal and tax complexities of the project. At the time, there was no clearly defined Russian law which allowed for a privately-held company to forward donor funds to the branch of a Russian non-profit organization. Interpretation of existing laws was effectively left up to the local tax inspector, who was in a position to impose penalties on either PW or the LPC, depending on his/her view of the situation. Funds disbursement required first that the RPC provide the initial funds (ruble equivalent of \$5,000) to each LPC, after which the LPC was requested to submit receipts to PW. In general, the procedure for reimbursement took the following forms:
 - Cash reimbursement by PW to the LPC against submitted receipts. This method was utilized from 9/94-10/94, but was discarded due to the time lapse between expenditure and reimbursement, and the legal constraints of either depositing cash directly into the LPC account or keeping more than a minimum amount of cash in the office safe.
 - PW payment of LPC financial obligations directly to vendors. LPC requests for transfers of funds directly to vendors were submitted to the PW Moscow office where payment was initiated directly by PW to the vendor. This process was utilized from 11/94 to the early months of 1995. It was discontinued due to the time lapse between submission of the request and receipt of payment by the vendor (this resulted in frequent occurrences where the vendor refused to release the goods purchased or perform services agreed upon until funds were received), and the inordinate level of effort required by the LPCs and project staff to manage this procedure.
 - Direct wire payments from PW to the LPC. This procedure became a viable option only when each LPC received a letter from the local tax inspectorate recognizing the legality of the procedure (and clearing the LPC of tax obligations),

combined with a letter of agreement between PW and each LPC. This procedure was utilized in the St. Petersburg and Mid-Russian LPCs until December 1995, when the RPC assumed responsibility for the financial operations of the LPCs. In the Volga-Vyatski LPC, the BKHF assumed financial responsibility for the LPC on July 1, 1995.

- Drafted a manual on budgeting and reporting procedures which was distributed to and reviewed by every LPC. These procedures included guidelines on allowable/unallowable expenditures as specified by USAID. PW reviewed monthly budgets submitted by each LPC and reviewed subsequent reports and receipts on expenditures on a monthly or bi-monthly basis. PW expedited reimbursement of approved expenses to the LPCs.

Contract Management

- Reviewed and approved contracts entered into by either PW or the LPC that facilitated the set-up and operations of the LPCs. This included, but was not limited to, the rental of office space, office renovations, furniture, equipment maintenance and insurance, security systems, telecommunications, transportation, health care, etc. The LPC was required to use the USAID guidelines for procurement which included obtaining a certain number of quotes or bids from service providers.
- Contracted between 10-15 employees per LPC as Price Waterhouse staff. PW took responsibility for interviewing and approving LPC staff below hired in all positions of the LPC except director, deputy director, and chief accountant (these individuals were hired directly by the RPC). PW managed the contracting process, drafted the employment contract, managed the handling of Russian "work books", facilitated timely payment of wages into local bank accounts, managed payment of taxes to the appropriate authorities, established employee benefits packages that included health care, vacation, etc., and managed the reporting of their time according to USAID standards.

Site Visits and On-going Support

- Constantly maintained contact between the PW Coordination Team in Moscow and the LPCs in the region. PW was almost in daily telephone contact with the LPCs to manage the task order activities and respond to numerous requests for assistance from the LPCs. The Coordination Team also made frequent site visits to the region to oversee the operations of the LPCs, review financial records, deliver and install equipment, visit and approve office space and renovations, interview and contract employees, conduct training courses, introduce prospective business advisors and facilitate the preparation of their living and work arrangements, etc. The LPCs were always very considerate and helpful in providing PW staff with all of the necessary accommodations and assistance that was required during these visits.

PROJECT COMPONENT: Business Advisor Recruitment

Objective: *Recruit and hire one western Business Advisor per LPC and assist the LPC management in administering the Russian Privatization Center and LPC based technical assistance programs.*

Achievements: Price Waterhouse accomplished the following tasks:

- PW submitted approximately 20 resumes to the RPC during the course of the project, out of which four were selected to be interviewed for the position of Business Advisor. The project coordination team in Moscow organized interviews, arranged pre-acceptance site visits and introductions, ensured the provision of living and working accommodations for each advisor, and provided continuous support to the advisors during their stay.
- All Business Advisors provided direct assistance to their respective LPCs in the areas of operations, contract management, and disbursement. To the extent that their advice was requested by the LPC Director, each advisor provided guidance in terms of selecting, renovating, and utilizing the office space, properly equipping the office, facilitating the installation, maintenance, and use of equipment, soliciting bids from vendors and managing the contracting process, reviewing and monitoring expenditures according to the budget, etc.
- Each Business Advisor completed at least one round of the Business Planning Seminar Series which was originally conceived of and designed by Tony Alcock, Business Advisor to the St. Petersburg LPC. This course provided direct assistance to numerous regional firms, both through classroom learning and one-on-one meetings with the advisors. It also provided ample opportunity for LPC staff to expand and use their knowledge in business planning areas.
- Each Business Advisor established his own portfolio of local enterprises whereby they were able to provide direct technical assistance to these enterprises in a variety of areas such as marketing, partner searches, financing, etc.
- In all three centers Business Advisors worked with LPC management to draft a set of objectives and workplans. The results were presented to the Coordinating Council in June 1994. Workplans were finalized and presented to the RPC in July of 1994 for the St. Petersburg and Mid-Russian LPCs.
- Business Advisors played an active liaison role between the LPC and representatives from USAID and other donor organizations, as well as consulting organizations and NGOs working in the region.
- Business Advisors met with local businessmen and acquired a knowledge of key industries and businesses for each region. The information and introductions were useful to western investors, and a key source of contacts for the New Issues Facility project under Task

Order 21. Introductions to key companies in the regions were made by the business advisors in St. Petersburg, Vladimir, and Nizhny Novgorod to the New Issues Facility project teams and resulted in three potential public offerings including Polygram in St. Petersburg, and many diagnostic reviews.

Below is a brief summary of the specific accomplishments of each Business Advisor. Detailed reports written by Kendrick White, Theo Van Tricht, and Joshua Eckhaus can be found in Appendices I-III, respectively, of this report.

- ***Mr. Kendrick White: Volga-Vyatski LPC Advisor from 1/95-present.***
 - Conducted five sessions of the Business Planning Seminar Series (2 in Nizhny Novgorod, 2 in Kirov, and 1 in Seransk). More than 250 enterprises participated.
 - Participated on the steering committee for an International Stock Market Conference. This conference lasted 3 days and hosted 400 participants from 80 regions in Russia.
 - Delivered a wide variety of lectures on Corporate Governance, MIS accounting systems and "Change Integration".
 - Assisted the LPC with the roll-out of RPC projects, including the PIES project, Condominium project, FMA-20 project, BIS Database project, and others.
 - Initiated LPC projects such as a municipal property inventory system project, a PAZ IPO secondary issuance project, and a "Zarya" reorganization project.
 - Developed, with the LPC staff, a client base of more than 30 regular clients who will form the basis for the LPC's future growth.
 - Developed, with the director of the LPC, a long-term self-sufficiency strategy paper which was submitted to the RPC.

- ***Mr. Theo Van Tricht: Mid-Russia LPC Advisor from 11/94-12/95.***
 - Conducted the Business Planning Seminar Series in Vladimir and Ivanovo.
 - Provided one-on-one assistance to enterprises in the area of identifying technical assistance needs, project preparation and identification of foreign trade information and contacts. Industries that were served included the textile, glass, food, and housing construction industries.
 - Coordinated activities with the International Executive Service Corps., which had a strong presence and fielded many volunteers in the Mid-Russian LPC regions.

- Coordinated with the CAST project funded by TACIS to support restructuring of the textile industry; worked intensively with two textile factories and visited several others.

- Provided on-the-job training to LPC staff through the preparation of business plans for local enterprises. Training was performed according to the staff member's area of interest: one in marketing, two in finance, and one in planning.

- Assisted the LPC in the collection and compilation of research and resource materials for the LPC library. Attempted to facilitate the development of a simplified, working database of regional enterprises, but there was no interest on the part of the LPC.

- ***Mr. Joshua Eckhaus: St. Petersburg LPC Advisor from 1/95-12/95.***

- Revived the relationship between the LPC management and Business Advisor. After the breakdown in relations between the previous advisor and LPC management, Mr. Eckhaus was able to establish a solid working relationship with the LPC director in particular. For the first nine months of his placement, Mr. Eckhaus was included in meetings, informed of the LPC's activities, and encouraged to develop client contacts.

- Conducted the Business Planning Seminar Series. As with the first series conducted in St. Petersburg, the advisor worked closely with the local office of the IESC. Eighteen enterprises participated in the seminar.

- Maintained a client base of five to seven local enterprises which received on-going assistance. These clients included a capacitor manufacturer, steel-mesh conveyor belt manufacturer, radio/television components manufacturer, metal components for nuclear power plants manufacturer, and a labeling/packaging manufacturer.

- Assisted the LPC in the collection and compilation of research and resource materials for the LPC library.

- Participated in the role plays and delivery of the 4-day course on Managing the Consulting Process, held in Moscow for management from all LPCs.

- ***Tony Alcock: St. Petersburg LPC Advisor from 7/94-4/95.***

- Mr. Alcock was the first advisor to be placed in any LPC. In the first two months, Mr. Alcock became involved in negotiating the lease for new office space and reviewing bids for office furniture, security systems, renovations, and other similar requirements. A contract was successfully negotiated for prime office space located across from the local government. However, during this time, relations became strained between Mr. Alcock and the LPC Director and staff, to the point where Mr. Alcock was effectively shut off from all but the most minimal contact with the staff. This was attributed to a number of

reasons, the most significant being:

- lack of a clear definition on the role of an advisor, which led to misunderstandings about the relationship;
 - a sizeable difference in age and professional experience between the Director and Advisor, which was perceived as undermining the authority of the Director;
 - lack of cultural understanding, especially in the area of conflict resolution, and language ability.
- Despite the relationship with LPC management, Mr. Alcock successfully initiated and conducted the first Business Planning Seminar Series offered by any LPC. This was coordinated closely with the International Executive Service Corps (IESC); approximately 15 companies participated. Although the LPC staff was invited to attend, participate, and assist in the one-on-one sessions with the enterprises, they declined to participate
- Mr. Alcock maintained an on-going relationship with six local enterprises which he advised on preparation of business plans, project finance, identification of foreign trade partners, etc.

PROJECT COMPONENT: LPC Training Programs

Objective: *Implement a series of training programs directed towards newly privatized enterprises and LPC staff.*

Achievements: Price Waterhouse completed the following tasks:

- Developed and delivered a Business Planning Seminar Series in most of the LPC regions, including St. Petersburg, Nizhny Novgorod, Kirov (two series of seminars were conducted in each of these regions), Seransk, and Vladimir. Seminars were conducted by the local PW business advisor for the benefit of local enterprises. Many enterprises received one-on-one consulting to develop viable business plans, and LPC staff were invited by the advisors to observe the seminars and attend subsequent meetings.
- Coordinated and conducted a three-day workshop on Corporate Governance and Competitiveness in St. Petersburg with the assistance of the LPC. Several PW staff worked with the St. Petersburg LPC to organize the participation of directors from approximately 35 St. Petersburg enterprises and eight local training institutes. The workshop, which included a train-the-trainer component for representatives from the training institutes, was led by experienced PW instructors.
- Organized and conducted one-day workshops on Strategy and Action Planning for LPC staff in the St. Petersburg LPC (conducted October 7, 1994), and the Mid-Russian LPC (conducted October 11, 1994). This seminar provided the opportunity for LPC staff to discuss their mission, develop a strategy, define goals and objectives, and identify action items to be carried out by LPC staff. In order to complete the action planning process in St. Petersburg, a follow-up action planning session was held for the St. Petersburg staff in December 1994.
- Developed and delivered a four-day intensive course for all LPC directors and deputy directors on Managing Consulting Projects. This course was conducted in Moscow in November 1994. The objective of the course was to introduce a structured approach to managing consulting projects for private clients and to provide an environment where the participants could practice their consulting skills in a role-play environment.
- Provided on-the-job training for accounting staff at all of the existing LPCs in the use of the RPC/LPC financial management systems, including the IDEAS accounting software package, Russian/western accounting principles, USAID reporting requirements, etc.
- Encouraged and facilitated opportunities for the LPC staff to participate in locally-offered courses covering such topics as English language, software applications, and general business/accounting.
- Encouraged LPC staff participation in other courses offered by USAID contractors, such as the Financial Management course developed by Carana.

PROJECT COMPONENT: Equipment Procurement for the RPC/LPC Network

Objectives: *Provide the RPC/LPC network with sufficient technical and communications facilities to effectively manage the activities and programs of the office; procure, install and support a standard set of equipment to each LPC including a high-quality telephone line and a pre-requisite number of computers, printers, photocopier, fax, modems, software, telephones handsets, etc; and fund maintenance contracts to support servicing of the equipment.*

Achievements: Price Waterhouse accomplished the following tasks:

- Submitted equipment procurement plans and specifications to the RPC for approval; initiated the procurement process for all of the LPCs according to USAID requirements. Received shipment of the equipment in Moscow, ensured customs clearance, and delivered the equipment to the PW warehouse to be catalogued and prepared for delivery. Procurement included desk-top and laptop computers, fax machines, copiers, printers, modems, software and LAN networks, telephones, etc.
- Organized preliminary installation of equipment in the temporary offices of the St. Petersburg LPC, then assisted with the relocation and installation of additional equipment in the new offices in September 1995. The PW-IT team provided training to the LPC staff, and reviewed, approved, and financed contracts for high-quality telephone lines, equipment maintenance and insurance, and office security.
- Organized delivery and installation of equipment to the Mid-Russian LPC offices in Vladimir, Ivanovo and Yaroslavl in July 1994. A PW IT-team provided training to the Vladimir center staff on LAN network operations and provided off-site assistance. PW also reviewed, approved, and financed contracts for a high-quality phone line, equipment maintenance and insurance, and office security.
- Organized delivery and installation of equipment to the Volga-Vyatski LPC offices in Nizhny Novgorod, Saransk, and Kirov in December 1994. A PW IT-team provided training to center staff on LAN network operations and provided off-site assistance. PW also reviewed, approved, and financed contracts for a high-quality phone line, equipment maintenance and insurance, and office security.
- In August 1995, the RPC requested all LPC contractors to finance the upgrade of the existing equipment and to purchase additional equipment for increased needs of the LPC operations. The upgrade of the existing equipment was completed by December 1995 and new equipment was delivered to the LPCs in early 1996.
- A complete list of equipment procured for the LPC project is listed in Appendix IV.

PROJECT COMPONENT: Russian Privatization Center Financial Systems Development and Implementation

Objective: *Develop and implement an overall financial management and transition plan for the LPCs; and provide support to the RPC staff on the operations and maintenance of the financial management system.*

Achievements: Price Waterhouse accomplished the following tasks:

- Designed an overall implementation and transition plan for the eight existing LPCs to utilize the RPCs financial management system and operate independently of the USAID contractors. The operational and financial assistance provided by Carana, Arthur Andersen, and Price Waterhouse expired between November 1994 and February 1995, at which point, all LPCs had to be prepared to perform financial operations in accordance with existing RPC practices.
- Developed and implemented a transition plan for the Volga-Vyatski LPC as a pilot for the transition of the remaining LPCs. The scope of work included customizing RPC systems and procedures for the LPCs, installing the IDEAS financial management system, identifying roles and responsibilities of the RPC and LPC personnel, training accounting personnel to manage financial operations, providing on-site support for the initial data entry and generation of reports followed by off-site support through the end of the project.
- Based on the success of the pilot transition plan, PW received approval to roll-out the plan throughout the entire LPC network (8 LPCs total). Prior to roll-out, the transition plan was presented at the annual meeting of RPC and LPC Directors in Nizny Novgorod.
- Developed financial report formats, i.e., monthly budgets, expenditure reports, payroll worksheets and computerized payroll tax calculation models. Developed timelines for reporting and financial activities.
- Strengthened the relationship and communication channels between the RPC and LPCs, and the relationships between Cogent, IDEAS software and maintenance support vendor, and the RPC. Conducted weekly status meetings with the RPC and LPC representatives.
- Established a national hot-line for inquiries and problem resolution on the financial system.
- Tested, installed, and conducted training at the RPC on a consolidation module of the financial software. Installed or upgraded financial systems at the LPCs and the RPC.
- Conducted national training program on the transition plan in Moscow for LPC chief accountants and deputy chief accountants. Conducted a national training program in Moscow on the operation and technological features of the financial system for LPC accountants and IT managers.

PROJECT COMPONENT: Public Education Advisor

Objective: *Oversee the day-to-day management of the public education projects and act as a liaison between the public education contractors and the Press Service of the Commission on Economic Reform (Commission) in the sphere of public education and information in support of economic reform.*

Achievements: The public education advisor accomplished the following tasks:

- Monitored the quality of contract deliverables from the principal foreign contractor, Chemonics International. In connection with the implementation of Chemonics' task order, the public education advisor oversaw on behalf of the Commission a variety of communication activities, including:
 - review of overall communication strategy and alignment with results of the quantitative national public opinion survey
 - production and broadcast of national radio programs and regional television programs
 - publication of national newspaper supplements
 - distribution of targeted direct mail packages to the regions
 - production and distribution of the Commission's weekly bulletins on macroeconomic reform issues
 - organization of macroeconomic seminars
- Worked with the Commission to develop project and budget proposals for submission to USAID and other international donor organizations.

D. Observations and Lessons Learned

Mission/strategy of the LPCs. The RPC and LPCs have tremendous potential for success in a wide range of areas. With the resources of both the Russian and American (western) governments, there is no reason why the LPC cannot become a leader in guiding the Russian reform process at many levels. The role of the LPCs as a coordinating body for numerous types of assistance, from infrastructure development projects to education and social services, could have a great impact on the Russian economic development process. However, to achieve its potential, the LPC network must show progress in a number of areas, such as:

- development of a clearly-defined mission and long-term strategy for the LPC network. This strategy needs to provide clear guidance from the RPC, but should have enough flexibility to accommodate the unique strengths and weaknesses of each LPC. A significant part of this strategy should be the development of regional private-sector clients who would be willing to pay the LPC for value-added services. Financial self-sufficiency is crucial to the long-term existence of the LPC network.
- strong leadership and direction on the part of the LPC management, who should have the drive to not only follow directions from the RPC on the implementation of national programs, but be able to go above and beyond in terms of developing and marketing value-added "products" to the private sector client base. The RPC should develop a defined set of performance goals that can be used to objectively measure the LPC's progress. Not all of the LPCs have demonstrated that they have the management capability to succeed in this area.
- employee training programs and/or internships for the staff in areas that are vital for the LPC's long-term strategy. In addition to the many short-term courses that LPC employees have had opportunities to take, a number of employees would benefit from practical training as interns in management consulting organizations. Training needs to focus not only on the development of "products", i.e. how to conduct market analysis, how to perform an organizational review, how to conduct a systems implementation, etc., but also on how to effectively manage an organization, i.e. managing company resources, staff performance evaluation, managing information, etc. PW saw a number of problems in this area that indicated poor management performance.

Business Advisor Role. Several discussions on the role of the advisor took place between the RPC, USAID, LPCs, and subcontractors over the last two years. Although this role will not continue to be a part of the RPC/LPC strategy, a number of lessons learned have emerged that may benefit the development of future USAID-funded initiatives. These include:

- Clear acceptance from the local client organization on the presence and role of advisors. Much of the tension and strained relations between many of the advisors and LPC managers could be attributed to the lack of understanding on the part of the LPC directors regarding the purpose and role of the advisors, the lack of encouragement and support from the RPC for the LPCs and advisors to work together, and the persistent attitude on

behalf of the LPCs that the advisors had very few contributions to make. Many advisors related that they were regarded with suspicion because of their connections to the contractors, considered to be too "demanding" in their requests for english-speaking assistants and drivers, excluded from important meetings with clients, relegated to the worst and furthest removed office space, and kept largely uninformed and uninvolved in management of RPC/LPC projects.

As a result, advisors tended to take on projects that required minimal involvement with the LPCs, such as one-on-one consulting for local enterprises, and business planning seminars. The only occasion where the advisor and director seemed to develop a true professional working relationship was in the Volga-Vyatski LPC. In this case, the advisor was on hand from the time the LPC was formed, had Russian language and culture skills, had his own network of contacts in the region, and was accepted by the LPC management.

- One advisor per center. It was physically impossible for one advisor to be sufficiently effective in an LPC consisting of more than one oblast. The result was that advisors focused on one or more regions to the exclusion of the rest. The distances to be covered and the wide range of tasks to be accomplished were too great for one person to manage alone.

Financial Control and Operational Support. The financial control built-in to the relationship between the contractors and the LPCs proved to be an important project component in terms of reviewing and approving start-up and on-going operational costs of the LPCs, and monitoring expenditures according to USAID guidelines. Given that the USAID funding was considered "free money" to many of the LPC managers, the contractors were able to deter expenditures that would have been considered unnecessary or excessive by USAID. PW was also successful in training the LPCs on the concept of allowable/unallowable USAID expenditures. For example, one LPC thought it was their obligation to buy all visitors lunch and take them on museum tours, while others thought that the offices should be fully equipped with radios in every room, televisions, vacuum cleaners, multiple sets of serving dishes, and wall mirrors.

Second only to negotiating the business advisor's role was the challenge of finding an effective and legal mechanism for reimbursing the LPCs for USAID-allowable expenditures and managing the multitude of contractual relationships required between the RPC, LPCs, contractors, and vendors. The legal, tax, and banking structures prevailing at the time of the project were complex, conflicting, sometimes non-existent, and often open to interpretation by the local authorities. This made conducting financial transactions in a manner that avoided excessively high and inappropriate taxes, or potential fines, very challenging. The transition to direct funding of the LPCs from the RPC should have significantly reduced these issues, but an inordinate amount of the contractor's time was spent before this occurred. Future projects should not underestimate the resources required to undertake these administrative-type activities.

Appendix I. Business Advisor Reports: Kendrick White

**Appendix I.A. 1995 Summary Report on VVPC Activities,
Results and Recommendations**

Regional office of the Russian Privatisation Center

VOLGO-VYATSKY PRIVATISATION CENTER
NIZHNY NOVGOROD

150 Gorky Street # 302
603082, Nizhny Novgorod, Russia

Tel.: (8312) 35-48-03
Fax: (8312) 35-82-09

Date: May 27, 1996

To: Zoann Nelson, Washington
cc: Jeffrey Schwartz, Geoff Upton, Daria Kukhar

From: Kendrick D. White, Technical Advisor, VVPC

Re: 1995 Summary Report on VVPC activities, results and recommendations

As we discussed last week, the Nizhny Novgorod LPC underwent a great deal of development over the course of 1995 and is now rapidly developing into a self-sustaining consulting firm. The real result of our PW work in 1995 was to establish the comprehensive foundation on which to build a competitive consulting practice and to create a specific consulting methodology to assist local companies in their efforts to emerge from the difficult period of privatisation into the competitive market oriented economy. By the end of 1995, we had made great strides in this effort and had achieved the following specific results:

1. The logistical base of the LPC office was created, including the establishment of office space, computer equipment, staff hiring, office procedures and accounting/reporting mechanisms and procedures as well as an effective accounting and bookkeeping system.
2. A comprehensive Business Planning training workshop program and methodology was designed and then delivered throughout the region, including two workshop series in Nizhny Novgorod (March & October) plus two training seminars in Kirov (June & November) and one training seminar in Seransk in December. In total, over 250 firms participated in these training seminars.
3. International Stock Market Conference, March (NN). The Nizhny Novgorod LPC and PW participated on the steering committee of this major international conference which lasted three days and hosted over 400 participants from over eighty regions of Russia. As one of the lead sponsors, we successfully organized fully 1/2 of the program lectures and secured approximately 40% of the financing for this successful conference.
4. Price Waterhouse organized and delivered a wide variety of lectures devoted to such topics as Corporate Governance, MIS accounting systems and "Change Integration". We also participated with the Nizhny LPC in organizing lectures by other visiting consultants from various RPC centrally initiated projects such as the PIES project and the "Title Transfer" project implemented by the firm "PADCO".
5. Numerous centrally initiated projects were successfully implemented by the Nizhny Novgorod LPC office and fully supported by the Technical Advisor and PW staff, including the PIES project, the Condominium project, FMA -20, the "BIS" D&B database and others.
6. Several locally initiated projects were developed by the LPC/PW team and accepted by the RPC, including the municipal property inventory system project, the PAZ IPO secondary issuance project, and the "Zarya" reorganization project. These projects, as well as several others, are now in the process of being implemented.
7. Through the successful implementation of the above mentioned projects and training programs the Nizhny Novgorod LPC established for itself a positive local reputation of hard work and achievement resulting in a regular "client" list including over thirty (December 1995) local medium and large

scale firms. (fifty clients by April 1996). This is an achievement that we are very proud of in that through this work we have built a solid foundation for the LPC's future growth and long-term success.

The training programs in particular have been extremely valuable in attracting new companies, and potential long term clients, to the Nizhny Novgorod LPC. Through these programs we have been able to positively demonstrate the abilities of the RPC/LPC network to channel the talents of a wide variety of consulting firms into both centrally initiated as well as locally initiated project needs.

The building of a positive reputation has been particularly valuable to the Nizhny LPC in that we have now developed a very strong relationship with the local Governor, Boris Nemstov, who is quite active in turning to our LPC for legal and technical assistance in such areas as land reform, free trade zones and oil and gas industry restructuring. The following list represents the training programs that we have organised from June to December of 1995:

Seven Month Training Schedule (June - December, 1995)

| # | Training Events | Month | Date |
|-----|---|--------|-------|
| 1. | Business Planning Seminar in Kirov | June | 22-23 |
| 2. | Russian Companies Restructuring Seminar (VVCP/McKinsey & Co.) | July | 5 |
| 3. | Corporate Management Seminar (VVCP/PW) | July | 6 |
| 4. | Business Planning Seminar in Saransk | August | 10-11 |
| 5. | Strategic Planning/Restructuring Seminar with clients | August | 21 |
| 6. | Kick off new 2,5 Mo. Business Planning Workshop | Sept. | 12 |
| 7. | Foreign Investing Seminar (together with Privatisation Institute) | Sept. | 26 |
| 8. | Marketing (Products, Services, Sales...) Seminar | Oct. | 10 |
| 9. | Finance (Cash Flow, Statements, Analysis) Seminar | Oct. | 24 |
| 10. | Sources of Financing. Appendices. Conclusions. Seminar | Novem. | 10 |
| 11. | Business Planning Seminar in Kirov | Novem. | 16-17 |
| 12. | Business Planning Seminar in Saransk | Dec. | 7- 8 |
| | | | |

Key Lessons:

While the last year has afforded the Nizhny Novgorod LPC the time to develop its resources and operation, and this in turn as allowed the LPC to build a positive reputation and potentially lucrative client database, several lessons have been learned that warrant further discussion.

1. First, centrally initiated projects can be quite valuable in providing intellectual Know-How to the RPC and its affiliate LPC offices, but this knowledge should be developed in conjunction with the RPC/LPC staff and not exclusive of their direct involvement. Project implementation that involves the use of LPC staff and resources would be far more valuable to the RPC in developing its own "in-house" expertise in the given fields and know-how covered by the contracted consulting and accounting firms. As an example, as project teams are brought in from outside consulting organisations, it would be extremely valuable for them to utilise the talented resources of the LPC consulting staff in their assignments. Unfortunately, there is no provision for this to take place according the RPC guidelines and therefore no procedural allowances to internalise the "know-how" that is being accumulated by the RPC.
2. Second, Know-How that is accumulated, such as the BIS database, should be utilised more effectively by the RPC/LPC management and staff. Unfortunately, the database of BIS information, for example,

is considered so valuable that it is kept out of reach of the staff and most management of the LPC and therefore under-utilised as a database of potential clients. The BIS database is considered as an asset that should be "sold" rather than "mined". As the RPC/LPC network develops into a self-sustaining consulting firm, it will have to move to more aggressively to capitalise on its assets. This process should however, begin as soon as possible in that outside commercial firms are quickly gaining the same experience and information databases as the RPC, and will undoubtedly move very aggressively to take advantage of this knowledge.

3. Third, as the RPC/LPC network begins to develop into a self-sustaining consulting firm, it will have to develop a more comprehensive system of management accounting that will help to reduce overhead waste and expenses, and a more effective system of decentralised control over financial decisions.. The system in place now is quite effective in tracking expenses and budgeting, but the centralised control procedures leaves very little room for flexibility of individual circumstances affecting individual LPC's. Centralised decision making control over every expenditure over \$200 is not only a poor use of management time, but is also extremely unproductive in the delays that are caused by simple response times. As the RPC evolves into the realm of commercial activity, such ineffective management controls will have to be replaced by more commercially realistic profitability measures such as cost reduction incentives and revenues generation and collection rewards.
4. As the RPC/LPC network moves toward achieving self sufficiency, the current "services" offered such as (1) Group training classes and seminars (2) Individual firm training classes and seminars (3) one-on-one consulting on reorganisation and privatisation, and (4) Client Representation, will have to develop specific fee rates and charges for such services. Before this can happen however, it is critical for the RPC to understand that the fees and charges for such services primarily depend on the *value added* of such services. What this means is a reorientation of the "services" provided away from simply "free assistance" that can be won like a lottery and given away, to a sales philosophy which emphasises the VAUE of the consulting service rendered and therefore requires appropriate compensation. As long as "know-how" is allowed to accumulate in the RPC for free, there is no incentive for the RPC to begin to truly leverage this knowledge and actually grow beyond the accumulation stage. This time lag is potentially damaging and should be considered as a treat to long term viability.
5. Finally, it should be pointed out that in spite of all of the difficulties of the Russian environment, the RPC and its partner/donor agencies have been very successful in establishing a comprehensive network of Local Privatisation Centers across Russia. This network has been established in a relatively short amount of time and has been able to accumulate a positive record of achievements in only its first year of existence. For example, in Nizhny Novgorod, PW has worked to firmly establish within the LPC a working consulting methodology, a solid reputation of results achieved and a future client database, and at present, we have been able to use these assets to establish a comprehensive self-sufficiency plan that eliminates the need for donor financing by the end of 1998. The strategic plans that we have developed here in Nizhny have not only been approved by the RPC for submission to our current partner/donor, the British Know-How Fund, but have also been accepted by the RPC management as the generally accepted path through which the entire LPC network must follow. In spite of all of the political and economic complexities affecting such technical assistance programs as USAID's sponsorship of the RPC/LPC network, the fact that this program has proved its ability to not only survive the times, but to grow into a successful consulting enterprise shows both the wisdom of the initial investment as well as the rewards of real achievements.

The Nizhny Novgorod LPC is not a typical LPC office, but through the special efforts of our local "team" oriented relationship between the LPC management and staff and the PW Technical Advisor and PW support, it has proven itself to be a leader among its peers in the LPC network. The credit for the success of this LPC must be shared by many people including a host of outside consultants and PW resources who have consistently supported our efforts. The primary source of our success, however, must go to our local LPC Director, Mr. Evgenny I. Bistrov who has firmly supported and consistently moved to implement our agreed upon long term strategy. In spite of the various attitudes towards our strategy from the RPC, Mr. Bistrov has consistently supported our "step by step" approach to building a positive reputation, and

without his support, this LPC would not be the example that it is today and the above achievements could not be recorded.

Finally, you will find attached several documents supporting the above mentioned programs and statistics, including our December client listing, my proposed training and consulting programs for 1996, as well as a recent long-term self-sufficiency strategy paper that Evgenny Bistrov and I submitted to the RPC and the British Know-How Fund. Please feel free to review these documents and let me know of your comments and any questions that you may have. I can easily be reached at my work or home address or telephone number in Nizhny Novgorod, Russia.

Appendix I. Business Advisor Reports: Kendrick White

Appendix I.B. Proposed Consulting Services to Develop

Regional office of the Russian Privatisation Center

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NIZHNY NOVGOROD

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Office of British KHF Technical Advisor

Date: April 3, 1996

To: Maxim Boyko, General Director, RPC-Moscow
Janet Persey, Programme Manager, British KHF
All members of the VVPC Supervisory Board

From: Kendrick D. White, Technical Advisor, British KHF
Evgenny I. Bistrov, Director, VVPC

Re: Proposed Consulting Services to Develop

As we discussed, the RPC/VVPC is currently in the process of transitioning itself from an intermediary Technical Assistance agency to a commercially self-sustaining consulting organisation. This is, of course, a process that will take several years to fully realise and will greatly depend upon the nature of economic reform in Russia and the evolution of the "market" of industrial and commercial organisations which require such services as reorganisation, accounting, finance and management strategy advice. This evolution will also depend heavily on this "markets" ability to pay for such services as well as the competitive supply of such services.

With this transition in mind, we would like to suggest several "product" lines of consulting services that we should begin to develop in the VVPC based on our unique situation here in Nizhny Novgorod. These ideas, it should be noted, are based on the particular foundation of successful company relationships that we have built in this region, and are not necessarily ready to be "sold" throughout the entire RPC network of branch offices.

The reason behind the VVPC's advantageous position in this situation, as you well know, lies in our early decision to support, organise and promote a locally initiated set of "Business Planning" seminars and workshops throughout 1995 and now 1996 which have been quite successful in developing an initial foundation of client relationships and an "inventory" of client projects from which to base an extended set of "value-added" client services. Without this base of clients and contacts, it would be infinitely more difficult for the VVPC to develop potential new revenue streams and eventual self-sufficiency. Please refer to our updated client list for a review of the client relationships that we have developed based on our training programs.

The value in this client data base lies in our specific understanding of the problems facing the management of these companies. As managers from these firms have met with the staff of the VVPC over extended periods of time during our training programs, we have been able to develop direct personal relationships with these managers and in turn have developed a positive reputation as to our ability to provide assistance to their firms. This assistance has come in the form of information, contacts, and direct advice on developing business plans and investment proposals.

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Many of the companies with whom we are now working have come from specific references from the local administration, friendly contacts with local business leaders, our own consulting staff and of course the database of companies with whom we made contact through the BIS project.

It should also be pointed out that many of the companies that have participated with the VVPC in centrally initiated RPC technical assistance projects have also found our easily accessible and readily availability resources such as on-going advice, our business library and our ability to promote investment projects and ideas directly to the RPC, to be a strong incentive to maintain close contact with our office and to consider themselves "Clients" of the RPC/VVPC.

As the consulting services market develops in Russia, the ability to draw in and maintain a strong data-base of clients will be the key to developing and growing a successful consulting business. The results of the last years work in the VVPC is that we have now successfully developed this data-base and the importance of this first step cannot be overstated.

The next step in this process has been the development of our "Investment Planning & Promotion" (IPP-96) program which we launched on January 25th of this year. This program represents the next logical phase in our development as a professional consulting services firm.

Through the use of our new case study materials, we can now take the experience built up over the last year and apply it directly toward the creation of specific investment proposals for our clients. As our program is currently organised, we are firstly presenting all of our materials directly to our clients via the seminar and workshop series. At a certain point however, we must begin to work on a one-on-one basis with these clients in order to help them understand the detailed cash-flow and financial analysis spreadsheets needed to complete their final investment proposals.

Every one of the clients that we are working with through this process represents an opportunity for the VVPC to accumulate intellectual knowledge on a wide variety of both macro and micro economic situations. In addition, this information is collected first hand, rather than simply observed, and as a result is invaluable in training the VVPC consulting staff. Just as we are accumulating intellectual knowledge from many such RPC initiated technical assistance projects, the knowledge gained from our IPP-96 program will be indispensable to our future.

As a strictly technical assistance organisation at this point in time, it is critical for the RPC/VVPC to use its grant financing to both spread assistance and information to its current clients, and also to accumulate the knowledge gained through the grant financing, and subsequent work with international consultants, as its own intellectual property to be used as a basis for future such consulting engagements which will be managed directly by the RPC/VVPC.

This knowledge is the most valuable asset that we can possibly obtain at this stage of our development, and combined with the positive reputation that we will build as we achieve results with these clients, will lead us directly to the next step in our professional development.

As we successfully move from delivering lectures to working on a one-on-one basis with clients, we establish new working relationship with these firms. As the relationship deepens, it can easily become quite apparent to our clients that the advice that we have been providing free of charge is actually resulting in specific cost savings or other such implicit values and that the relationship is therefore "valuable" to the client. How valuable is the determining factor in setting consulting service fee charges and is a matter to be discussed at a later time.

As this situation continues to evolve, it will become clear to management that our advice and services can be extremely important to them. At this point we will be able to "justify" fees for our services based on

the value that it will bring to the client in the form of cost savings, partnerships or access to new financing, and our clients will understand the need to pay for this advice.

The developmental time of creating such relationships often can take months or years, which is why we are currently in a very advantageous position, for the time being, in that this developmental time is currently being financially supported by the British KHF. The length of time of this financing, however, is not yet determined and in fact will in no small part only be determined once we have established a reasonable time frame regarding our own expected target date of "self-sufficiency" through successful fee income generation.

The situation that we are therefore currently facing is the necessity to create a series of specific consulting services that we can be prepared to offer to our clients as we move into this next phase of development. This is necessary in order to begin to forecast the long-term revenue streams that we must begin to generate in order to offset our own costs of operations and therefore achieve financial "self-sufficiency".

Given all of the above, we would like to suggest the following list of consulting services that we should develop and be prepared to offer to our current and future clients.

PHASE I: Training (Relatively low per company or per person attendance charges)

- *Training seminars for target clients* = *Business Planning, IPP-96, Corp. Governance*
- *Individual company workshops* = *SWOT Analysis & Mission Statement creation*
- *Speciality Training for specific themes* = *Project Profitability, Cost and Quality Control*
- *Long Term Strategic Planning* = *Training for general directors & senior mgt.*

PHASE II: Consulting (Fees to be determined based on value added and company profile)

- *Special "case study" training workshops* = *Sales Forecasting & Cash-Flow Analysis*
- *Special "case study" individual consulting* = *Follow-up training on case study spreadsheets*
- *Diagnostic Analysis Engagements* = *Review of initial business plans & project ideas*
- *Business Plan Development Engagements* = *Consulting assignment to draft initial bus plan*
- *SBU Analysis Engagements* = *Review of SBU viability and L/T Strategy*
- *Information Memorandum Engagements* = *Drafting of Investment Promotion Materials*
- *Finance & Operational Activities Analysis* = *Review of capital expenditure procedures*
- *Financial Solvency Analysis* = *Review of financial position and liquidity*
- *Tax & Audit Related Advice* = *Advice on tax matters & required documents*
- *Reorganisation of Bankrupt firm assets* = *Analysis of asset utilisation and disposal*
- *Real Estate Appraisal Services* = *Analysis of land and capital asset valuations*
- *Pre- Privatisation Restructuring Services* = *Advice to GKI on restructuring state firms*

PHASE III: Representation (Retainer fees paid by clients, success fees paid by third party)

- *Representation of Client proposals* = *Promotion of projects to outside parties*
- *Strategic Partner Searches* = *Promotion of projects to outside parties*
- *Market Research Studies* = *Advice in finding market & demographic data*
- *Contract Negotiation Engagements* = *Advice & Council during JV negotiations*
- *Executive Search and Placements* = *Assistance in locating executives and contacts*

PHASE IV: Long-Term Strategic Advisor (Retainer fees and placement commissions)

- *On-going advice and consulting assistance* = *Cost cutting and product profitability analysis*
- *Advisor on capital structure and finance* = *Assistance on structuring new stock issuance's*
- *Advisor to GD & Sr Mgt on L/T strategy* = *Organisational structure & decision process*
- *Advisor on Corporate Finance Strategy* = *Legal and Advisory services on finance raising*

As we move from the initial "training" phase of our client relationships into the "consulting" phase, it will be critical to firmly establish our role with the client as their official consultant. In order to do this, we suggest that we clarify our legal status and ability to enter into legal contracts with our clients. Towards this end, we should work with the RPC on the creation of specific guidelines that we must follow in order to be able to establish a clear legal framework on which we can base successful commercially viable client relationships.

Included in the legal consulting contract, we also suggest that we lay the verbal foundations for the RPC/VVPC to act as the official investment advisor and representative for our client in all contract negotiations as part of our initial consulting service. This will prove to be useful at such time that the relationship becomes ready to move to Phase III and then on the Phase IV.

The goal at each stage of this evolution is to advance our relationship with the client to a higher level of value added interaction, thus laying the foundation for eventual payment for the value that we provide to the client. For example, as we complete the PIES work with PAZ or Saransk Cable, we should endeavour to maintain our relationship with these firms and in fact extend this relationship and build on the work done by the outside western consultants.

If we do not pro-actively seek out the extension of our current consulting relationships, we will surely lose these clients to other more aggressive firms seeking to provide additional consulting services to them. No one will do this work for us, we must be pro-active and behave as if we are in a competition for these clients business.

To take another example, each and every firm attending any one of our lecture series, should be considered a potential client that we should court and seek to assist. Many of these firms may in fact be rather unattractive, but as foreign firms seek out local partnerships, it is in our interest to compile an "inventory" of local projects and relationships whom we "represent". We need not invest the same amount of time in the development of each project/relationship, but if we can gather a minimum amount of "Diagnostic Analysis" information on our inventory of client projects, this information may prove to be extremely useful in establishing Joint-Venture partnerships.

With this in mind, we suggest that we position ourselves to be the designated organisation that foreign firms or investors turn to in order to *assist them* in identifying possible strategic partners or acquisition candidates. If we are able to secure contracts representing our local clients, (rich or poor), the "finders fees" or "success fees" normally paid in such cases would be obtained from the third party as part of our "representative" contract with our client.

Finally, in order to begin the development of all of the above mentioned fee generating consulting services, we suggest that we review our current client listing closely and start to determine specific long-term consulting strategies for each client. Our objective should be to determine how to move each client through from phase to phase over the next six months. Through the end of this year, it will be rather difficult to start to generate any significant revenues. At this stage, it is far more important for us to achieve specific results and successes with our clients, and this should continue to be done without charge.

As we enter 1997, however, we should take the opportunity to revise any contractual relationships that we may have and move toward more commercial relations with our best clients. If we are able to establish the legal basis to implement the above mentioned plans, we should be well positioned to see a constant flow of revenues from both the training and consulting phases of our work. Phase III Representation and Phase IV long-term advisory relationship will take longer to develop, but will also offer potentially much higher rewards in that fees from these services tend to be based on a percentage of the asset size of the transaction and could therefore run into six figures.

Please think carefully about the above proposals and let us know of your thoughts on these ideas and your recommendations on how we should proceed. We will look forward to your comments and suggestions.

**List of Nizhny Novgorod Companies for the Volgo-Vyatski Privatization Center to work with
January 1996**

| | Company | Product | Current situation/ results achieved | Comments |
|--|----------------|----------------|--|-----------------|
|--|----------------|----------------|--|-----------------|

I. Automobile Industry

| | | | | |
|---|--|--|--|---|
| 1 | "PAZ (Pavlovo Bus Factory) NN Region 9,200 employees | "PAZ-3205" buses, transport-related consumer goods | On November 3 PW experts have presented the letter of confidentiality on the IPO project. A Haden expert proposed a painting facility and agreed to submit a \$25 million bid in late January. Final report to the management on PIES project is due on December 20. Restructuring is to be started in January. Progressive and well educated management team. | Client #1 for various technical assistance projects. Investment prospect near completion. |
| 2 | Zavolzhye Motor Factory (ZMZ) NN Region | Engines (4 cylinders) for cars (the GAZ); Engines (8 cylinders) for trucks and buses (the GAZ and the PAZ). | Have all Business Planning Seminar materials. Are looking forward to developing of a business plan. Submitted an investment proposal, will meet to discuss it in January | The meeting with Management is planned within next weeks |
| 3 | GAZ 100 000 employees | Volga Sedan Model, "Gazelle", 1.5 ton trucks and numerous other models | Have met with GAZ Management several times and have discussed long-term investment needs and various sources of financing | Waiting for response on diagnostic analysis proposal |
| 4 | "PAVLOVSKAYA SELKHOZTECHNICA" The Pavlovo Agricultural Equipment Producing Factory | Chairs for the PAZ buses | 40% completed business plan, established new pricing policy, started a new agreement with PAZ for the supply of a specific amount of seats in 1996. | Will meet with them when a draft of a business plan will be ready |
| 5 | SEMAR, Semyonov | Gazelle-based trucks, lorries and vans | General Director attended the fall seminar series in 1995 along with the Chief Accountant. | Participate in the IPP program |
| 6 | START | | | Invited to January 25 presentation |
| 7 | Special Automobiles Plant | Gazelle-based trucks, lorries and vans. Intend to assemble Hyundai Accent cars. | | Invited to January 25 presentation |
| 8 | Kirov Tire Company | Tires, including tires for Gazelle. | Develop a project for the production of tires for sport utility cars and off-roaders. | Participate in the IPP program |

| | Company | Product | Current situation/ results achieved | Comments |
|--|---------|---------|-------------------------------------|----------|
|--|---------|---------|-------------------------------------|----------|

II. Petrochemical and Chemical Industry

| | | | | |
|----|------------------------------------|--------------------------------|---|--|
| 9 | "PLASTIC" 2 825 employees | Chemical products from plastic | Attended the Business Planning Seminars. Are interested in cooperation with VVPC. | A meeting with Management will be set when a draft of a business plan will be developed. |
| 10 | "NEFTE-PRODUCT" 2 500 employees | Oil products distribution | 18% of stock is owned by state. Specializes in oil refining and distribution and is looking for a reliable source of raw oil. Part of Norski Oil holding. | Good prospective for the cooperation after Joint Stock Company registration |
| 11 | ZARYA, Dzerzhinsk | Chemicals | Intensive locally initiated project is being developed. | Participate in the IPP program |

III. Construction

| | | | | |
|----|--|--|---|--|
| 12 | GREMIACHEV- NERUD NN Region 780 employees | Detritus exploration and crushed stone production, limestone flour | Very attractive company, but are located far (400 km) from Nizhny. Have two projects developed, have an investment proposal and seem to be extremely active in business planning. An investment proposal is finalised by the LPC/PW specialists and is presented to TAC | VVPC will continue to work closely with the company on an one-on-one basis |
| 13 | "GRAZHDAN-STROY" NN 1,233 employees | Construction works | Have no strategy, are looking forward to electing new management at the shareholders' meeting. | Time will show |
| 14 | "PROMIX" 200 employees | Production for construction works | Business-plan is being completed. Currently advising. Final negotiations with investment fund. | Attended the IPP presentation on January 25. |

| | Company | Product | Current situation/ results achieved | Comments |
|--|---------|---------|-------------------------------------|----------|
|--|---------|---------|-------------------------------------|----------|

IV. Metallurgy and Machine-Building Industry

| | | | | |
|----|--|--|---|--|
| 15 | ETNA NN 7,628 employees | Rolling mill, rolled metal and steel goods: wire, tubes, springs | The company recently has used business planning guide and other materials of the seminars to successfully receive two bank credits on a basis of a specific investment proposal they developed. Business plan is developed with assistance from the LPC/PW. The restructuring and marketing recommendations from CDC volunteer will be implemented in 1996. | A very serious client, lots of opportunities to work on different projects together |
| 16 | "MELINVEST" (NN) 1,184 employees | Different and unique mill equipment | A draft of a business plan has been developed. At the present moment representatives of the IFC work with the company on a specific project. | Good relationship with the management. Possible client for future projects |
| 17 | Shipbuilding Plant "VOLGA" NN 1,412 employees | Vessels on underwater wings (ecranoplanes) | Are very active in developing a business plan, but there is a serious political internal conflict. Looking forward to the upcoming meeting of the Board of Directors | Very attractive producer, in case the progressive managing team wins the battle there will be lots of opportunities Participate in the IPP program |
| 18 | OCM, Kirov (Non-ferrous Metals Processing Plant) | Copper, brass and bronze band, wire, sheets, pipes. | Had a meeting with the Chief Engineer, discussed the status of the equity offer for investment tender after the winning investor's failure to fulfill the specific obligations because of force-majeur. | Management is expected to provide an investment proposal to VVPC. |
| 19 | May 1 Machine Building Plant, Kirov | Railroad cranes and repair machinery | Submitted two investment proposals for review | Invited to January 25 VVPC presentation |
| 20 | Dzerzhinsk Chimmash | Machines used to process chemicals | Participated in all seminars, but the representatives are rather pessimistic, financial position is shaky. All clients are government companies, senior management is not fully supportive. Plans on production of new railroad tankers. Submitted two investment proposals to VVPC | Invited to January 25 VVPC presentation |
| 21 | Arzamas Machine Tool Plant | | Company faces too many problems but is keen to work with us. Set a meeting for January. | Invited to January 25 presentation |

| | Company | Product | Current situation/ results achieved | Comments |
|--|---------|---------|-------------------------------------|----------|
|--|---------|---------|-------------------------------------|----------|

V. Telecommunication

| | | | | |
|----|---|--|--|---|
| 22 | ROSSVIAZ- INFORM "NIZHE- GORODSKI TELEGRAPH". NN 350 employees | Various communication services and networks | The company is becoming more and more active in cooperation with VVPC due to the efforts of a newly appointed director, well known in our Center as a former colleague from Regional Administration. She is one of the best experts in business planning and a very talented person. | Good prospective for the cooperation in different spheres of activity |
| 23 | "NIS" 50 employees | Communication services | Completed the business plan, had final negotiations with investment funds and started receiving the \$1.5m investment. | Attended the IPP presentation on January 25. |
| 24 | Kirsinsky Cable Plant, Kirov Oblast | Military and space technology advanced cables, heating cables. | Requested assistance in export marketing and financial planning. Met | Will introduce to PW who will evaluate export opportunities. |
| 25 | Saransk Cable | All kinds of cable | Met the General Director, Considering projects for fiber-optic cables and advanced conventional cables production. | Invited to January 25 VVPC presentation |

VI. Pharmaceutical and Health Care

| | | | | |
|----|--|---|--|--|
| 26 | Farmaks R&D and Production, Kirov | Prostaglandin-based pharmaceuticals and cosmetics | Submitted a completed business plan that is now being reviewed | Attended the IPP presentation on January 25. |
|----|--|---|--|--|

| | Company | Product | Current situation/ results achieved | Comments |
|--|---------|---------|-------------------------------------|----------|
|--|---------|---------|-------------------------------------|----------|

VII. Other Companies

| | | | | |
|----|--|--|--|---|
| 27 | RIAP NN 1,460 employees | Radio communication equipment, power supply devices, broadcasting studio equipment | Very attractive company, once (before conversion) the major military producer. Good management team, looking forward to finishing the privatization by selling the remaining 22% of stock to an Israeli investor through investment tender. Have developed a draft of a business plan. | Good prospective for the cooperation after the tender |
| 28 | "NIZHEGOROD-TORF" NN | Peatery for agricultural farms, peat-blocks for heating systems | Management: well-known scientists with a significant experience but are not business people by nature, are "devoted students" - attend all the seminars and | VVPC will continue to work closely with them |

| | | | | |
|----|--|---|--|---|
| | 500 employees | | lectures on business issues, are serious about developing a business plan | |
| 29 | "NIZHEGOROD-SKAYA OBUV" NN 236 employees | Footwear production | Didn't start developing a business plan, have no strategy, have been selling their equipment piece by piece and looking for a partner to develop the company. | Good relationship, trying to find a partner to develop/buy their business |
| 30 | "CHAIKA" NN 440 employees | Knitted fabric and knitwear production | Are surviving hard times, are in danger of loosing the ownership over the company, looking forward to electing new management at the shareholders' meeting. | Too uncertain but there's a potential for growth |
| 31 | "SETKA" NN Region 1,001 employees | Fishing nets and other fishing facilities for fishing companies | Business plan is being developed. Participated in PIES project. At the present moment discuss the terms of another technical assistance project to be launched together with BESO (British consultants). | Good relationship, stay in contact |
| 32 | "NIKO" Meat-Packing Factory #1 (NN) 1,750 employees | Meat purveyance; sausages; prepared foods (200 different meat products) | All attendees of the seminars are no longer with the company. A new appointed chief economist has started the business planning process and is serious in cooperation with the LPC. The next meeting is scheduled. | Probably good perspective |

Appendix I. Business Advisor Reports: Kendrick White

**Appendix I.C. 1996 Management Training and Consulting
Program**

Regional office of the Russian Privatisation Center

VOLGO-VYATSKY PRIVATISATION CENTER
NIZHNY NOVGOROD

Kremlin, Building # 1
603082, Nizhny Novgorod
Russia

Tel.: (8312) 35-38-65
(8312) 35-49-79
Fax: (8312) 35-49-79

Date: December 19, 1995

To: Evgeny Bistrov, Regional Director, Volga-Vyatsky Privatization Center

cc: Raef Courage, British KHF - London
Geoffrey Sankey, TAC - Nizhny Novgorod
Pierce Edwards, IFC - Washington
Geoff Upton, PW - Moscow

From: Kendrick D. White, Technical Advisor, VVPC

Re: 1996 management training and consulting programs

Attached you will find a complete description, schedule and budget for our proposed 1996 management training and consulting program. This program is designed to utilise the full resources of the Volga Vyatsky Privatization Center (VVPC) in providing a comprehensive consulting and advisory service to our target clients within the Volga Vyatsky region.

Supported by the British Know How Fund (KHF), our efforts will work in concert with other programs and agencies supported by the KHF, including the International Finance Corporation (IFC) and its one-week Business Planning seminars, as well as the newly formed Technical Assistance Center (TAC) which is providing technical support, advice and consulting assistance to both domestic and international investors who are actively seeking local partners and investment opportunities.

Our proposed program will be structured in the following way:

Phase ONE: *IFC "Principles of Analysis and Business Planning" Seminar*
The IFC and its team will deliver two intensive one-week seminars on "Business Planning" to an audience of firms from the surrounding regions. This seminar will be conducted by Prof. Roy Crum and will focus on training senior management in the business planning and financial analysis process.

Phase TWO: *VVPC Investment Planning & Promotion Workshops*
The VVPC will begin a one-month training/consulting program, consisting of four individual one-day seminars conducted weekly, each of which will focus on a separate component of the investment planning and promotion process. Our methodology will be to explore each aspect of this process by using a case study example of a typical Russian organization seeking financing for its own reorganization and investment projects. The four seminars will cover the following themes:

1. Strategic Planning, Organisational Structure and Marketing
2. Financial Statement preparation and Ratio Analysis

3. Project Forecasting and Cash-Flow Analysis

4. Reorganization Planning, the Investment Proposal and Due Diligence

These presentations will utilise a "case study" methodology designed to help managers understand the decision making processes involved in investment planning and therefore understand the need for and importance of collecting the relevant information needed to develop a business plan, a reorganization strategy and finally a specific investment proposal.

The role of the VVPC training lectures will be to help the company managers understand what information that they must collect and why it is important. The case study materials will be accompanied by specific questionnaires designed to help company managers to collect specific information regarding their own firms and designated investment projects.

The role of the individual VVPC consultants and the consulting team as a whole will be to work with the individual managers to help them collect the information needed, input the information into our standard business plan format and utilise specialised software to develop a comprehensive cash flow analysis of the investment project(s) under consideration.

The objective of this stage of our program will be the collection and input of all relevant company information into standard bus plan & cash flow analysis formats for each of the companies participating in our training/consulting program.

Phase THREE: VVPC One-On-One Consulting

Following the one month of technical training and information gathering, the VVPC consulting team will then begin to work closely, on a one-on-one basis, with each firm which has demonstrated its willingness and interest in working directly with the VVPC to develop a specific investment proposal.

The process of one-on-one consulting will last for up to one month and will involve constant contact between the LPC and the participating client firms, including numerous site visits, interviews and any presentations to senior management which may be required.

The VVPC consulting team will take the initiative in this process and will lead each consulting engagement and actively work to assist its clients by utilising all of the information gathered in the creation of individualised investment proposals. The VVPC consultants will also actively advise the management of its client firms on the viability of each investment proposal and how to proceed with their plans.

Phase FOUR: Presentation of Proposals to the TAC

Following the completion of specific investment proposals, the VVPC consulting team will undertake to assist its training program clients in the presentation of their investment proposals to interested parties such as the TAC, the IFC, the RPC and other such agencies and organizations which are actively involved in providing technical investment assistance within the Russian Federation.

Specifically, the VVPC will present selected investment proposals to the TAC, which as an integral component of the KHF's co-ordinated technical

assistance efforts in this region, will provide an investment review and analysis service to the VVPC clients and deliver feedback and advice to the management of these firms on the viability and potential success of the investment proposal presented.

In addition, the TAC may, at its discretion, include particularly attractive investment proposals into its regular Newsletter to investors outlining particular investment opportunities located in the Nizhny Novgorod region.

Phase FIVE: *Investment Development Program ("IDP")*

The "IDP" has been specifically developed jointly by the VVPC and the TAC and is a program designed to both co-ordinate and maximise our joint efforts to assist local companies to achieve investment results.

The purpose of this program is to create a mechanism through which the VVPC and the TAC can work together to promote investment within the region by assisting the VVPC clients in the promotion of their investment projects to the interested investment community.

The VVPC is well placed in this program in that it is our mandate to work with and assist local Russian companies to develop investment proposals and reorganisation plans which will inevitably require external financing from either domestic or international sources.

The TAC is perfectly positioned according to this program to assist both domestic and international investors who become interested in the projects promoted through the "IDP", and as a result will be able to provide the critical assistance needed to complete the final investment process.

Together the VVPC and the TAC, through the "IDP" will be able to maximise the effect of the British KHF's technical assistance program in the Volga Vyatsky region and achieve the concrete results needed to further develop this regions market reforms and international economic co-operation. Additional details on the IDP are outlined in the TAC letter to the VVPC dated, December 7th, 1995.

Continuous: *VVPC On-Going Client Consulting and Assistance*

All clients of the VVPC will continue to receive assistance, advice and on-going support in their business development and reorganization efforts, to the extent that they request and require our services. It goes without saying that as a consulting organization, we can only assist our clients to the degree that we are invited and asked to do so. As a result, it is understood that some clients may choose to or be able to move faster in the acceptance and implementation of our suggestions than others.

Given this situation, the VVPC will be committed to working with the TAC on the above mentioned "IDP" by actively presenting only those selected business plans and investment proposals which we feel are truly ready to be reviewed by the TAC and its staff.

We expect that, on average this will result in an on-going flow of approximately five proposals per quarter to be presented to the TAC. This figure may fluctuate on a monthly basis, but should even out during the course of the year, resulting in no less than twenty proposals.

We also expect that a number of the organizations that work with the VVPC during our "Investment Planning and Promotion" management training and consulting program will, for what ever reason, decide not to pursue a serious reorganization plan in the short term, and therefore fail to actively work with our VVPC consulting team to complete a realistic investment proposal during the time frame of our training program .

The organizations falling into this category, however, may continue to

receive assistance and advice form the VVPC, and if at some future time they decide to work more actively on their reorganization and investment plans, we will actively assist them in their efforts and upon completion of their proposals we will introduce them to the TAC and the "IDP".

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Appendix II. Business Advisor Reports: Theo Van Tricht





To Jeffrey Schwartz, Zoanne Nelson
From/Location Theo Van Tricht
Date December 1, 1995
Re Mid-Russian LPC: Final Report

The following is my final report as Business Advisor of the Mid-Russian Local Privatization Center. The report consists of four sections: objectives and accomplishments, strengths and weaknesses of the LPC, regional analysis, and improvements and suggestions. My comments address the overall performance of the LPC as well as my own involvement.

Objectives and Accomplishments: The following list of objectives was taken from the LPC Operational Support Task Order #11. Each objective is followed by results and comments.

1) Key responsibilities of the western advisers are:

a) *Training of Russian staff.* Training of the staff occurred by example and on the job training (OJT). OJT started with four LPC specialists, one interested in Marketing, two in Finance and one in Planning. These employees worked with me to prepare their respective sections in the Business Planning seminars. Because of scheduling conflicts, they were unable to work with me in the one-on-one sessions with the companies taking the course. However all were trained extensively in their specialty through RPC-sponsored seminars. OJT is not necessarily the right approach for training since LPC Advisors do not have line responsibility, and the LPC has primarily been only facilitating, but not managing, RPC projects. To be effective, formal training should be limited with a good opportunity to put it into practice.

b) *Procurement of equipment for LPC's.* Most equipment was purchased by the time I came. However, during the last six months I was asked by the LPC to manage a \$28,645 "computer hardware and software" budget. I tried to obtain a definition of what kind of outputs the LPC wanted to have, but this effort was side-tracked by standards that the RPC required of all equipment and the logic that requirements were based on having what other LPCs had. No capital expenditure request system showing the merits and priorities of the proposals is in place. This resembles the exact same procedure that companies trying to attract investment or financing for their projects should use, and should be an area where the LPC is able to help.

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c) *Compilation and establishment of an information data-base..* BIS was the LPC's electronic data-base system that was supposed to contain information on enterprises in the region. Access to it was reserved to one person for security reasons. A simplified data-base was being developed in the LPC, but was not yet completed, nor was staff trained to use it. The use of such data-bases within the enterprises is also a major need; it would be relatively easy to teach and install the basics of starting a marketing data-base.

Reference and teaching material have been accumulated in a library. Basic information on business environment is also being gathered, mainly with the purpose of making periodical reports. The primary sources are the regional statistical agency and newspapers. There is still a need to transform data into useful information and to validate the inputs, and to put the data into spreadsheets to search for meaningful correlation or comparisons. The responsibility to collect this information rests with one person, but this person's primary responsibility is report writing.

d) *Contract management and disbursement.* This was mainly done through PW in Moscow. The MRPC has the lowest cost structure of all LPCs and strives to keep this image, while at the same time striving for the highest marks in performance.

e) *Identifying technical assistance needs of local companies.* The LPC determines which companies to visit and to focus on for technical assistance. On occasion, it coordinates with the regional administration, especially in selection for major programs. Companies sometimes refuse to participate, as it appears that they still rely on the old economic structures to keep things moving. All enterprises state that their first need is financial resources. The problem is to develop a saleable argument for their needs and finding available money. In the industries that I worked with, I found that :

- the textile sector needs modernization of equipment with high investments (tens of US\$ millions per factory) but has no established marketing channels.
- the glass industry also needs equipment renewal; the bottles and containers sectors have market demand. There are sand quality problems to make bottles of international standard. This sector has been targeted by the Germans, who are working with the top 4 enterprises, according to a German survey, while the LPC initiated work with the 5th ranked.
- the food industry, such as bread and cookies, is profitable and has a market; manufacturers are battling for market gains. Equipment is needed to develop a

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variety of products and packaging. Financing amounts are relatively small, projects take a long time to develop and the financing is uncertain.

- the house construction industry is basically obsolete. Most factories produce modular concrete panels which require expensive inputs of raw material and energy, high mobilization costs (cranes), are inflexible in design, lack comfort for users and are great energy wasters. Also, they don't meet established heat retention criteria. This sector needs equipment change, but people cannot afford to buy the housing facilities that would justify the investment, nor is there practical mortgage financing available.

f) *Monitor technical assistance programs.* On the RPC-initiated projects taking place in the region, the LPC is aware that they are going on, but has very little knowledge of what is really happening in the company. The General Director of the company usually determines what information is communicated with the outside. Most information is centralized at this level, so that answers to simple questions can take a long time or are not answered at all. LPC staff prepares and submits reports to the RPC on these programs.

- 2) Transfer to the Russian staff, over a period of 12 months (with option to renew), sufficient know-how and capabilities.

Most staff members lack critical analytical and problem-solving business skills. The shortcomings with the staff and within the enterprises are at very basic levels; Finance and Marketing 101 will go a long way. The staff has been trained in these subjects, however they are not ready to act on their knowledge since they have been trained to wait for instructions. Some members of the staff have begun demonstrating more initiative lately, resulting from the need to learn on their own to solve business problems that have been presented to them. They are becoming more committed to improving their social and business environment.

- 3) Provide enterprises with experienced western managers/advisors, in co-operation with I.E.S.C, US Trade Associations and US corporations; with training programs focused on middle managers, and with assistance in business plan development.

I have co-operated closely with the IESC, as many volunteers have been deployed, and will continue to come to work, in this region. IESC has placed permanent project managers at the LPC offices in Vladimir and Yaroslavl. The business planning guide of IESC is being used in the training and preparation of business plans at local enterprises. Requests for IESC volunteers often result from the business planning seminar series being conducted in the region.

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- 4) Provide commercial partner identification services and co-manage focused technical assistance programs, especially in the area of financial management support.

The services of ABLE (a business partnering program run by IESC) are regularly proposed and used in appropriate cases. Sometimes the IESC volunteers continue partner research in the USA after completion of their missions here. The Dun & Bradstreet international data-base is also consulted when needed for such tasks as checking partners for joint venture proposals. This information system is available through the BIS project. Specific trade information such as supplier names, prices, or services such as contacts with potential foreign customers, providing samples of products, has been provided to local enterprises.

Companies are generally not prepared to start a meaningful strategic partner search. They have limited strategic evaluations of their company and industry, and little supporting material (catalogues) or concerted action (organized/efficient fair attendance) in pursuing the objective. Until now, the region of Vladimir has registered 290 J/V's for an amount of 15.1 billion Rbl, or approximately US\$6-10 million.

- 5) Assist RPC in the provision of in-depth restructuring assistance to enterprises.

These activities have been carried out in relation to Project 12, FMA-20, PIES, etc. and my involvement has been in assisting on presentations given by McKinsey, Arthur D. Little and Deloitte & Touche, where they discuss their experiences and talk to enterprise managers of the companies where restructuring efforts were undertaken. The Vladimir Tractor company has benefited from many of the programs and the General Director understands the process. He studied at Harvard and worked at the World Bank. However, the implementation of restructuring efforts is difficult due to a lack of qualified staff, financial resources and government dependence.

In the textile sector, the selection of companies for restructuring assistance is currently being done by an Italian contractor CAST and funded by TACIS. The pre-selection (short list) was done by British experts funded by the World Bank. The LPC has supported those activities and the program originated from the LPC. I was more closely involved in supporting the British experts and also worked intensively with two textile factories, visited and spoke with managers of other textile factories.

- 6) Determine technical assistance & training requirements of enterprises.

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- For "All Russian " programs such as Project 12, FMA-20, PIES, guidelines for the selection of enterprises were given through RPC; the LPC provided candidates.
 - For "Local" programs such as the Textile program, the selection was stratified by region, discussed with the regional authorities for their recommendations and finally the list was proposed by the LPC.
 - Training programs, including trips abroad were included in some of the above programs for enterprise managers and program facilitators. These programs are highly sought-after benefits.
 - There is no overall data-base to store and reference enterprise data. The material used e.g. in Vladimir region is a listing from the Statistics Bureau of privatized enterprises with more than 500 employees, a 1993 phone list from the GKI and personal relations.
 - The area does not have currently many medium/large enterprises with a bright outlook. I visited many enterprises that didn't make the first selection for assistance. Company-specific problems cover the whole range from understanding the business, vision, goals, action planning, financial and operational information, marketing and organization. Personal computers are unknown as a managerial tool (to write, calculate, analyze, control) among the managers of companies I visited. Most managers never used nor saw a financial calculator. Assistance provided has been business plan training for top and middle managers of enterprises, direct assistance in project preparation and foreign trade information or contacts.
- 7) Provide physical and communications infrastructure to technical assistance activities.
- Space. The offices are in separate locations in Vladimir and the space itself is divided in small rooms. The layout is not conducive to efficiency nor communication. Since the building is shared with other tenants, the rooms are locked when people are out, which limits access to the fax, copier, printer or office supplies. There are no meeting rooms, except in the Director's or Deputy Director's office. Allocated space was given to the Chemonics' project.
 - Office furniture, equipment and supplies. Furniture was purchased locally and is not really meant for office use. Much of it is in disrepair. No ergonomics are noticeable in the set-up. The equipment, especially the computers, is superior. The full benefit from the equipment and software available is not exploited due to inability of the staff to integrate it into their business activities. A lack of space

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ensures that the equipment is placed where there is room for it rather than where it would be practical to have it.

Office supplies in Vladimir are limited, regularly unavailable, and often doled out one-by-one. When you need the use of a copier or printer, it is not uncommon to need to wait for warm-up and ask for paper.

- Utilities. There are regular problems with water supply, heating, electricity and with ventilation in the summer. Electricity is cut off or the voltage drops low enough for the machines to become erratic. The large copy machine is at times unable to copy through the stacker feeder.
- Communications. Available telephone lines are limited. The main office in Vladimir has two, with more than nine people trying to use the lines. Interregional contact is frustrating. A special telephone connection was purchased for direct dialing abroad, which works reasonably well for voice and fax. During the day voice communications with Moscow or branches are time consuming but possible. I convinced the LPC to install e-mail. A new local node works well and is used regularly.

8) Activities based on company screens, diagnostics, partner search, training.

There are no systematic company screens or diagnostics in place. Work is geared towards the project and screening to suit the purpose is put in place. The LPC only works with privatized (at least 75%) enterprises of larger size (500+ employees, but can be less) and with a progressive and co-operative management. A usual requirement is "with probability of improvement and success"; this is difficult to evaluate or comply with.

Some attempts have been made to develop a rating system, including calculation of the Z-score (bankruptcy prediction), but it is not proven or established yet. There are some questionnaires to guide an enterprise visit, e.g. for a IESC request. The BIS program has a system to collect these kind of data but isn't used because access is limited. Now intention is to use a simplified data-base to manage the contacts with the enterprises.

9) Contract Management and Disbursement; provide and monitor LPC expenditures.

These tasks were mostly done through PW in Moscow. The concept of MIS needs to be integrated in the LPC organization. Currently it is handled on a case by case basis without a system of shared availability. However the LPC will only do what the RPC instructs them to do and doesn't seem to be confident in taking other initiatives.

10) Provision of Commercial Counselling and Contact Services at LPC's.

The position of commercial advisor at the MRPC was not filled. However, the LPC helped local enterprises establish contacts with foreign ones. Although there were several dozens instances, they were all handled case by case. The LPC needs to develop effective partner identification and contact approaches, as well as develop relevant material for the exchange of information.

Results

The MRPC team has managed effectively the major technical assistance programs directed by the RPC. The role of the team in most of the projects is mainly to provide contacts with administration and enterprises needed by the project contractors, as well as providing logistical support (lodging, transport, translation, communications, work space, office equipment and help). The LPC-initiated projects (where more LPC commitment would be involved) are still new and LPC staff have not participated in the professional work of the contractors yet.

Experience of the MRPC team in investment is low since there are no investment funds established in Vladimir or Ivanovo. The IFC-operated investment fund is operating out of Nizhny Novgorod and members from enterprises and LPC have been trained there. A German Investment Fund has been announced for Vladimir but has not started yet. The regional administration co-ordinates some loans to small and medium enterprises.

Strengths and Weaknesses of the LPC

- (+) MRPC has good relations with local administration and many enterprises and have a wide network of regional contacts. They have been effective in representing the RPC's activities in the region.
- (+) In their internal operations, the computer system is more than adequate for their needs.
- (+) MRPC works well with a number of contractors, from whom they should begin to learn the types of business skills that they will need to support local enterprises in the future.
- (-) The LPC does not "practice what it preaches", i.e. business planning, organizational alignment, investment proposals, open communications, environment fostering initiative, etc.

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- (-) The LPC's lack of access to adequate communications facilities limits their ability to work effectively.
- (-) Although it would be expected that most staff members have a limited knowledge of English, this restricts their ability to learn western techniques or use reference materials that are available in English, but not in Russian.

Regional Analysis

- The MRPC covers 3 regions with a total population approaching 5 million. Using the Vladimir region as a reference point, Ivanovo has a higher concentration in textiles, has lower income and higher unemployment. Yaroslavl has attracted more foreign capital.
- Vladimir has a 1.5 million population and has attracted less than US\$ 10 million in J/V investments, compared to East Germany which has a population of 16 million and has benefited from US\$ 500 billion of investments, although they obviously benefit from the reuniting of Germany and make products that have the "Made in Germany" label.
- In the MRPC area the productivity deficits are important, the area does not have natural resources except for some wood. Industrial production is mainly transformation.
- Investments are not attractive to foreigners because they cannot foresee immediate payoffs.
- The socio-economic situation of the population is ranked in the lower third of the Russian regions. Official, hidden and real unemployment are high. Average salaries were 250.000 Rbl/month during the first semester 1995. (I believe some people are paid at a minimum level to keep the average down and pay less excess wage tax).
- The people in charge of the local administration and enterprises are mostly from the old leadership system and open positions are filled on the basis of relations. There is no practice of defining job objectives, content, developing the profile of candidate most likely to succeed and trying to find him or her. Understandably it is difficult to find marketing managers with 5 years of successful experience.

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Improvements and Suggestions

- When foreign experts arrive, the LPC should have all logistics prepared. This was true for me but it repeats itself for almost anybody arriving, from sector experts and contractors to IESC volunteers. They require work space, access to computers, copiers, communications, transport, initial contacts, living arrangements.
- Provide additional secretarial and personal assistance support. Telephone or fax connections are time consuming, just as getting some information or products. As everything is paid by cash in these regions, the foreign expert will have to take 1 to 2 hours to cash against a Visa card at the bank. Regional transport is time consuming especially in the winter. Due to the high cost of hiring consultants, they should waste as little time as possible on miscellaneous activities.
- Develop adequate target lists for seminars or other presentations and programs, market them timely and correctly, and follow-up on results.
- For the enterprises, develop simple assistance programs such as basic tools for setting up a financial managerial information system, a marketing data-base, a data collection system for planning, etc. This should be explained to interested management and installed; it may be a computer with basic software and maybe some templates adapted for their specific use. Managers would like to use a spreadsheet and graphs but don't know how or dare to start. I believe it would develop company understanding of itself and the market environment.
- Major consulting programs leave the entrepreneurs with a lot to absorb with limited managerial and financial capabilities. To improve the implementation's chances of success, it may be advisable to allocate managerial competence in a line capacity on a longer term basis (e.g. 2 years). This would be most critical in Marketing and Finance. Ideally, these opportunities should be sought in J/Vs with the right international potential.
- Co-ordinate regional development efforts and concentrate resources on realistic and agreed goals. USAID sponsored seminars on this subject in Vladimir, but the participants do nothing with the information provided to them.

Appendix III. Business Advisor Reports: Joshua Eckhaus



To Jeffrey Schwartz, Zoanne Nelson
From/Location Joshua Eckhaus
Date December 8, 1995
Re St. Petersburg LPC: Final Report

The following is my final report as Business Advisor of the St. Petersburg Local Privatization Center. The report is broken down into three sections: activities and accomplishments of the Business Advisor; summary of the LPC staff, structure, and activities; and lessons learned.

Background Summary:

Beginning in January, 1995, I was assigned to the St. Petersburg LPC to replace the existing business advisor, Tony Alcock. At the time of my arrival, relations between Mr. Alcock and the LPC management were strained. My immediate task was to re-establish a good working rapport with the LPC personnel and to gain their acceptance of and involvement with a business advisor.

This was done through persistent personal interaction between myself and the LPC staff. It quickly became apparent that for this LPC, the advisor's language proficiency and understanding of Russian values and culture were equally as important as the technical expertise and experience that was required for the position. The LPC management (specifically the Director, Mr. Radchenko) was eager to present a positive image of the LPC, especially after a breakdown in communication with Mr. Alcock. I was treated very well by the staff and spent my initial time at the LPC seated in Mr. Radchenko's office, where I was made aware of many of the activities of the LPC.

Accomplishments:

During the first eight weeks, I deferred to the current advisor, Mr. Alcock, who remained at the LPC until April to finish the first series of Business Planning Seminars. My role during this time was to become acquainted with the LPC staff and understand what could be done to identify and resolve outstanding issues which had strained relations between the LPC, the advisor and PW. For example, the accounting staff soon brought to my attention their dissatisfaction with the current LPC accounting procedures for cost reimbursements. Through interaction with PW Moscow and the LPC accountants, I was able to resolve this issue by negotiating minor changes to the reimbursement procedures that were acceptable to both PW and the LPC.

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Building the LPC Library. Another accomplishment during this period included obtaining a library of Russian- translated western business textbooks which continue to be utilized by the LPC in their work with client businesses. These were mainly gift items given free of charge to enterprises with whom the LPC and the advisor were working and which did much to improve the faltering image of the LPC relative to deliverables.

Conducting Business Planning Seminars. After the departure of Mr. Alcock in April, I moved into his office and took over the projects he had been working on, specifically, the ongoing series of Business Planning Seminars for local enterprises and individual consulting with businesses. In conjunction with IESC staff, who had organized the first series with Mr. Alcock, I undertook a second series of seminars on behalf of the LPC. This eight week series of business planning seminars aimed at local privatized enterprises was offered during the summer of 1995. The materials were adapted from those developed by Mr. Alcock, and delivered by myself along with selected speakers that were brought in to assist.

To further develop my relationship with the LPC and encourage their involvement in this course, I asked the LPC management to provide clients for this second seminar series given certain criteria that I had established. This differed from the first series in that Mr. Alcock did not receive any support from the LPC for his seminars and therefore recruited candidates on his own. The end result was that Mr. Alcock's approach achieved better results in that the quality and commitment of the participants that he selected exceeded that of the enterprises recommended by the LPC.

Eighteen businesses participated in the second Business Planning seminar series. Five of these were LPC clients with whom I worked both during and after the seminars to improve their business plans and assist in incremental ways regarding the structure and management of their respective businesses.

Kulon: This manufacturer of capacitors was one of Mr. Alcock's clients that completed a good business plan. My interaction with them included assisting them in negotiations with Johannsen Dielectric, Inc. of Sylmar, CA. This American capacitor manufacture has expressed interest in working with Kulon through an exchange of technical knowledge, assistance in re-tooling, and possibly taking an equity position in Kulon in the future. At the present time, Kulon is suffering from cash flow problems due to raw material shortages and is aggressively pursuing the investment aspect of this relationship. The PW Technical Advisor was instrumental in bridging the culture and business climate gap with Johannsen Dielectric's president and cementing further interaction between the two.

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Viasm: This steel-mesh conveyor belt manufacturer was also a client of Mr. Alcock and also produced a good business plan. I was able to promote their business plan to several local investment funds, including the EBRD sponsored Venture Fund, and they have since conducted negotiations with numerous potential investors including TUSRIF, among others. At this writing, VIASM management was attempting to secure credit from these funds which is a major stumbling block for them as they are resistant to allowing outside entities to gain equity positions in the firm.

Morion: This company did not participate in the Business Planning Seminar but was on the LPC's list of clients. They are a producer of quartz components for radio and television apparatus and are very progressive. They have secured investment on their own from a U.S. venture capitalist and are attempting to construct new production facilities (called "clean rooms") on their premises. Though they did not complete a full business plan, I was able to consult with them regarding their financial statements and some misguided perceptions they had on proper income statement preparation which assisted them in their relations with their investor.

FIND: This company was created by employees of the Sosnovi Bor Nuclear Power station 100 kilometers outside of St. Petersburg. They build metal components of nuclear power plants and are looking for new clients. I advised them to broaden their focus to include other sectors. Given their expertise in constructing Chernobyl style power plants, they had the potential to transform themselves into a consulting and/or de-construction company that could assist in the dismantling of Chernobyl-style reactors throughout the CIS. Because Sosnovi Bor recently became a "re-closed" city (it was opened after the fall of the Soviet Union but has now been re-designate as a strategic area), access to the client was difficult. I was able to make them aware, however, of an EBRD-sponsored program to address infrastructure and safety concerns of outdated nuclear plants and construct new nuclear plants in the area. When I left they were struggling with a competitor for assistance from the EBRD.

Poligraformlenye: Located in St. Petersburg, this progressive firm makes labels and packaging materials for consumer goods such as beer and soft drinks. They have made good progress in the business planning process. In addition, they are the first Russian company I have seen which is focusing on quality concepts and ISO and Deming quality standards. This company has since signed a contract with the PW IPO project and are well on their way to their first public share offering and are meeting regularly with PW IPO consultants.

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Other Training. I also participated in the "Managing Consulting Projects" course produced by PW for LPC Directors and Deputy Directors in November. In addition to leading some of the course presentations, I played a key role as the client in the case study/role play exercises which were conducted throughout the course. This seminar was a success in that it imparted greatly needed and valuable knowledge to the participants regarding their potential future activities as consultants. All of the LPCs were represented at the workshop by the Director and/or Deputy Directors, except for St. Petersburg, who sent the Chief Accountant.

LPC Structure, Staff, Activities:

The above activities kept me very involved for the first eight months of my tenure at the LPC. After September, however, the mood and atmosphere at the LPC changed dramatically and I was effectively isolated from LPC activities, meetings, and decisions. I was intentionally limited to my own individual tasks, with the exception of providing financial and budgetary oversight. No specific reason was given, and consistent, enthusiastic offers of assistance and requests to be involved were declined. I spent the last three months at the LPC engaged in independent consulting activities and had almost no interaction with LPC staff. This environment persisted until the end of my service at the LPC in mid-December.

The LPC staff, in the meantime, was going through changes as well. One of the two deputy directors employed by the LPC, Pavel Belkovitch, resigned to pursue other career options, apparently to work for a major local brokerage house. The other deputy director, Vladimir Karabelnikov was consistently an influential player in the LPC given his status and connections as a St. Petersburg native, as opposed to the Director, Alexander Radchenko who was originally from Vladimir. Mr. Radchenko often deferred to the opinions of Mr. Karabelnikov and Mr. Buret, another senior staff member.

The Chief Accountant, Elena Sovostikova, was in frequent conflict with Mr. Karabelnikov. Ms. Sovostikova proved to be technically skilled but not always politically sensitive, and earned the disapproval of several staff members of the LPC through her less than tactful responses to situations. The remainder of the LPC staff consisted of one secretary, one "specialist", two information technology specialists, and one accounting assistant. With the exception of the accounting assistant (who was bright, eager, and career-minded) the staff generally lacked initiative or any motivation from management, and primarily performed secretarial work for the director and deputy.

The LPC seemed to be doing very little to assist local enterprises. They had no major projects in the works to provide technical assistance to deserving enterprises and were

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mainly involved with satisfying RPC directions regarding RPC managed projects. The LPC was reluctant to undertake any independent activities and considered the RPC, not privatized enterprises, to be their main "client".

Lessons Learned

Unfortunately, the role of LPC Technical Advisor in St. Petersburg has been an extremely frustrating experience. Despite numerous attempts to address the LPC management's apparent unwillingness to work constructively with it's advisors, the advisors have played a relatively negligible role in the development and functioning of the LPC.

The St. Petersburg LPC appears to exist more for political reasons than to assist local privatized enterprises. They have the highest overhead, by far, of any of LPC, yet do not appear to generate a proportional level of assistance to the region. In fact, the LPC seems unable to progress beyond the role of facilitator to RPC-initiated projects, as management seems to have very little interest in, or enthusiasm for, developing a self-sustaining organization. In my opinion, a significant amount of funds have been spent supporting an organization that has no future. Had the contractor, Price Waterhouse, been permitted to operate the LPC as the project was first envisioned, and had the contractor been given some authority to influence the activities of the LPC, it is reasonable to presume that the organization would have been much more effective and would have more significant results to show for the large amount of money that has been expended on it's existence. However, this was not the case.

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**Appendix IV. Equipment Procurement for RPC/LPC
Network**

Appendix IV.

a) List of Equipment in St. Petersburg LPC

| Equipment | Serial Number | Contract/PO | Acquired | Price | Delivered | Location |
|---------------------------------|---------------|----------------|------------|--------------|------------|----------------|
| Novell Netware 3.12 & HUB | n/a | 110.0005.0012 | 06/21/94 | 1755 | 7.14.94 | St. Petersburg |
| File Server 486dx33/8/1.2Gb | c4002232 | 110.0005.0012 | 06/21/94 | 3559 | 7.14.94 | St. Petersburg |
| Computer 486dx33/8/120 | c4006549 | 110.0005.0012 | 06/21/94 | 1837 | 7.14.94 | St. Petersburg |
| Computer 486dx33/8/120 | c4006880 | 110.0005.0012 | 06/21/94 | 1837 | 7.14.94 | St. Petersburg |
| Computer 486dx33/8/120 | c4001282 | 110.0005.0012 | 06/21/94 | 1837 | 7.14.94 | St. Petersburg |
| Computer 486dx33/8/120 | c4001282 | 110.0005.0012 | 06/21/94 | 1837 | 10.8.1995 | St. Petersburg |
| Computer 486dx33/8/120 | c4002004 | 110.0005.0012 | 06/21/94 | 1837 | 10.8.1995 | St. Petersburg |
| Computer 486dx33/8/120 | c4002676 | 110.0005.0012 | 06/21/94 | 1837 | 10.8.1995 | St. Petersburg |
| Computer 486dx33/8/120 | c4002690 | 110.0005.0012 | 06/21/94 | 1837 | 10.8.1995 | St. Petersburg |
| Computer 486dx33/8/120 | c4002719 | 110.0005.0012 | 06/21/94 | 1837 | 10.8.1995 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300383 | 110.0005.0012 | 06/21/94 | (incl.) | 7.14.94 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300264 | 110.0005.0012 | 06/21/94 | (incl.) | 7.14.94 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300275 | 110.0005.0012 | 06/21/94 | (incl.) | 7.14.94 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300233 | 110.0005.0012 | 06/21/94 | (incl.) | 7.14.94 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300220 | 110.0005.0012 | 06/21/94 | (incl.) | 10.8.1995 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300252 | 110.0005.0012 | 06/21/94 | (incl.) | 10.8.1995 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300256 | 110.0005.0012 | 06/21/94 | (incl.) | 10.8.1995 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300257 | 110.0005.0012 | 06/21/94 | (incl.) | 10.8.1995 | St. Petersburg |
| Monitor vga clr cmc 1418ad 14" | 4015300288 | 110.0005.0012 | 06/21/94 | (incl.) | 10.8.1995 | St. Petersburg |
| HP laser jet 4 printer 220v | jpbq069142 | 110.0005.0012 | 06/21/94 | 1700 | 7.14.94 | St. Petersburg |
| HP laser jet 4 printer 220v | jpbq065594 | 110.0005.0012 | 06/21/94 | 1700 | 7.14.94 | St. Petersburg |
| HP laser jet 4 printer 220v | jpbq065590 | 110.0005.0012 | 06/21/94 | 1700 | 10.8.1995 | St. Petersburg |
| HP laser jet 4 printer 220v | jpbq065591 | 110.0005.0012 | 06/21/94 | 1700 | 10.8.1995 | St. Petersburg |
| HP laser jet 4 printer 220v | jpbq069135 | 110.0005.0012 | 06/21/94 | 1700 | 10.8.1995 | St. Petersburg |
| Laptop TravelMate 4000E | 33736401800 | 22.94.11 | 08/29/94 | 2327 | 10.8.1995 | St. Petersburg |
| Laptop TravelMate 4000E | 3473640192X | 22.94.11 | 08/29/94 | 2327 | 10.8.1995 | St. Petersburg |
| Laptop TravelMate 4000E | 34736402096 | 22.94.11 | 08/29/94 | 2327 | 10.8.1995 | St. Petersburg |
| Laptop TravelMate 4000E | 34736402435 | 22.94.11 | 08/29/94 | 2327 | 10.8.1995 | St. Petersburg |
| | | | | | | |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 09.29.94 | St. Petersburg |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 12.26.94 | St. Petersburg |
| Rank Xerox Copier RX 5350 | KRO-200K4250 | IPG.IT.014 | 04/12/94. | 18587 | 10.8.1994 | St. Petersburg |
| Desktop Copier RX 5220 | 2995728829 | IPG.IT.014 | 04/12/94. | 715 | 09.29.94 | St. Petersburg |
| | | | | | | |
| Modem US Robotics Ext.vers. | n/a | Invoice: 10272 | 11/11/94. | 195 | 11.24.94 | St. Petersburg |
| | | | | | | |
| cc: Mail, cc: Link | | | 29.11.1995 | 1170 | 29.11.1995 | St. Petersburg |
| Upgrade of equipment | | | 30.8.1995 | 4490 | 30.8.1995 | St. Petersburg |
| File server HP NetServer 5/66LF | SG52840336 | | 23.2.1996 | 10415 | 23.2.1996 | St. Petersburg |
| Monitor HP Mono 14" | TW52946336 | | 23.2.1996 | (incl.) | 23.2.1996 | St. Petersburg |
| Keyboard HP Cyrillic | 3526M60019 | | 23.2.1996 | (incl.) | 23.2.1996 | St. Petersburg |
| | | | | | | |
| TOTAL | | | | 74302 | | |

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b) List of Equipment in Central Russian LPC

| Equipment | Serial Number | Contract/PO | Acquired | Price | Delivered | Location |
|--------------------------------|------------------|---------------|-----------|---------|-----------|------------|
| Novell Netware 3.12 & HUB | S25490319 | 110.0005.0012 | 06/21/94 | 1755 | 8.1.1994 | Vladimir |
| File Server 486dx33/8/1.2Gb | c4002679 | 110.0005.0012 | 06/21/94 | 3559 | 8.1.1994 | Vladimir |
| Computer 486dx33/4/120 | c4006539 | 110.0005.0012 | 06/21/94 | 1837 | 11.14.94 | Vladimir2 |
| Computer 486dx33/8/120 | c4006978 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Vladimir |
| Computer 486dx33/8/120 | c4002469 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Vladimir |
| Computer 486dx33/8/120 | c4001984 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Vladimir |
| Computer 486dx33/8/120 | c4006510 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Vladimir |
| Computer 486dx33/8/120 | c4002525 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Vladimir |
| Computer 486dx33/8/120 | c4006983 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Vladimir |
| Computer 486dx33/8/120 | c4002330 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Ivanovo |
| Computer 486dx33/8/120 | c4006957 | 110.0005.0012 | 06/21/94 | 1837 | 8.1.1994 | Yaroslavl |
| Monitor vga clr cmc 1418ad 14" | 4015300381 | 110.0005.0012 | 06/21/94 | (incl.) | 11.14.94 | Vladimir2 |
| Monitor vga clr cmc 1418ad 14" | 4015300415 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300304 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300251 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300336 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300253 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300145 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300728 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Vladimir |
| Monitor vga clr cmc 1418ad 14" | 4015300387 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Ivanovo |
| Monitor vga clr cmc 1418ad 14" | 4015300158 | 110.0005.0012 | 06/21/94 | (incl.) | 8.1.1994 | Yaroslavl |
| HP laser jet 4 printer 220v | jpbq069136 | 110.0005.0012 | 06/21/94 | 1700 | 8.1.1994 | Vladimir |
| HP laser jet 4 printer 220v | jpbq010015 | 110.0005.0012 | 06/21/94 | 1700 | 8.1.1994 | Vladimir |
| HP laser jet 4 printer 220v | jpbq069139 | 110.0005.0012 | 06/21/94 | 1700 | 8.1.1994 | Vladimir2 |
| HP laser jet 4 printer 220v | jpbq069137 | 110.0005.0012 | 06/21/94 | 1700 | 8.1.1994 | Yaroslavl |
| HP laser jet 4 printer 220v | jpbq071972 | 110.0005.0012 | 06/21/94 | 1700 | 8.1.1994 | Ivanovo |
| Laptop TravelMate 4000E | 33736401668 | 22.94.11 | 08/29/94 | 2327 | 9.29.94 | Vladimir2 |
| Laptop TravelMate 4000E | 33736400781 | 22.94.11 | 08/29/94 | 2327 | 9.29.94 | Vladimir |
| Laptop TravelMate 4000E | 34736402747 | 22.94.11 | 08/29/94 | 2327 | 9.29.94 | Yaroslavl |
| Laptop TravelMate 4000E | 3473640286X | 22.94.11 | 08/29/94 | 2327 | 9.29.94 | Ivanovo |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 6.20.94 | Vladimir |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 6.20.94 | Vladimir2 |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 6.20.94 | Ivanovo |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 6.20.94 | Yaroslavl |
| Fax Panasonic KX-F550 | n/a | | | 407 | | Vladimir 1 |
| Rank Xerox Copier RX 5350 | 2212823344 | IPG.IT.014 | 04/12/94. | 18587 | 6.20.94 | Vladimir |
| Desktop Copier RX 5220 | 2995732540 | IPG.IT.014 | 04/12/94. | 842 | 9.29.94 | Vladimir |
| Desktop Copier RX 5220 | 2995712937 | IPG.IT.014 | 04/12/94. | 715 | 6.20.94 | Vladimir2 |
| Desktop Copier RX 5220 | 2995743933 | IPG.IT.014 | 04/12/94. | 715 | 6.20.94 | Ivanovo |
| Desktop Copier RX 5220 | 2995743313 | IPG.IT.014 | 04/12/94. | 715 | 6.20.94 | Yaroslavl |
| Modem US Robotics Ext.vers. | 0002680205574967 | Invoice: 9942 | 11/11/94. | 195 | 11.24.94 | Vladimir |

| Equipment | Serial Number | Contract/PO | Aquired | Price | Delivered | Location |
|-------------------------------------|------------------|----------------|------------|---------------|------------|------------------|
| Modem US Robotics Ext.vers. | 0002680205574672 | Invoice: 11060 | 01/12/95. | 195 | 1.18.95 | Vladimir |
| Modem US Robotics Ext.vers. | 0002680206585127 | Invoice: 11060 | 01/12/95. | 195 | 1.18.95 | Vladimir |
| Modem US Robotics Ext.vers. | 0002680206024413 | Invoice: 9942 | 11/11/94. | 195 | 11.24.94 | Ivanovo |
| Modem US Robotics Ext.vers. | 0002680206585265 | Invoice: 9942 | 11/11/94. | 195 | 11.24.94 | Yaroslavl |
| Scanner | US00028326 | 299/m | 19.6.1995 | 1370 | 19.6.1995 | Vladimir |
| Color Printer | USA5205528 | 300/m | 19.6.1995 | 1508 | 19.6.1995 | Vladimir |
| Dot Printer | MY4CS2MOD7 | 302/m | 19.6.1995 | 509 | 19.6.1995 | Vladimir |
| Dot Printer | MY4CS2MOHV | 302/m | 19.6.1995 | 509 | 19.6.1995 | Vladimir |
| Dot Printer | MY4CS2MODN | 302/m | 19.6.1995 | 509 | 19.6.1995 | Ivanovo |
| Dot Printer | MY4CS2MOGR | 302/m | 19.6.1995 | 509 | 19.6.1995 | Yaroslavl |
| | | | | | | |
| Power Stabilizator | | | 1.12.1995 | 2288 | 1.12.1995 | Vladimir |
| Upgrade of equipment | | | 30.11.1995 | 2590 | 30.11.1995 | Vladimir |
| Software packages | | | 28.11.1995 | 1553 | 28.11.1995 | Vladimir |
| Program "Analytic" | | | 30.11.1995 | 1193 | 30.11.1995 | Ivanovo, Yarosl. |
| cc:Mail | | | 6.10.1995 | 1265 | 6.10.1995 | Vladimir |
| Upgrade of equipment | | | 5.9.1995 | 3053 | 5.9.1995 | Vladimir |
| Program "Analytic" | | | 22.9.1995 | 1191 | 22.9.1995 | Vladimir |
| Computer HP Vectra VL2 | 3447F54263 | | 13.3.1995 | 2264 | 13.3.1995 | Vladimir |
| Computer HP Vectra VL2 | 3452F55802 | | 13.3.1995 | 2264 | 13.3.1995 | Vladimir |
| Monitor HP 14"S-VGA | KR43071983 | | 13.3.1995 | (incl.) | 13.3.1995 | Vladimir |
| Monitor HP 14"S-VGA | KR43058878 | | 13.3.1995 | (incl.) | 13.3.1995 | Vladimir |
| | | | | | | |
| File server HP NetServer 5/66LF | SG52840336 | | 8.2.1996 | 10415 | 8.2.1996 | Vladimir |
| Monitor HP Mono 14" | TW52946336 | | 8.2.1996 | (incl.) | 8.2.1996 | Vladimir |
| Keyboard HP Cyrillic | 3526M60019 | | 8.2.1996 | (incl.) | 8.2.1996 | Vladimir |
| | | | | | | |
| Software package (4 sets) | n/a | | | 1792 | | Vladimir 1,2, |
| (MS Windows 3.1 CE, MS Excel 5.0, | | | | | | Ivanovo, |
| MS Word 6.0, Propis 3.2) | | | | | | Yaroslavl |
| | | | | | | |
| Software package (9 sets) | | | | 4527 | | Vladimir1 (6 |
| (MS Windows 3.1 CE, MS Excel 5.0, | | | | | | Vladimir 2, |
| MS Word 6.0, Propis 3.2, MS DOS6.2) | | | | | | Ivanovo, Yarosl. |
| | | | | | | |
| | | | | | | |
| TOTAL | | | | 103744 | | |

c) List of Equipment in Volgo-Vyatsky LPC

| Equipment | Serial Number | Contract/PO | Aquired | Price | Delivered | Location |
|---|---------------|----------------|-----------|---------|------------|----------|
| Novell Netware 3.12 & HUB | n/a | 110.0005.0012 | 06/21/94 | 1755 | 29.12.1995 | Nyzhny |
| File Server 486dx33/8/1.2Gb | c4002373 | 110.0005.0012 | 06/21/94 | 3559 | 13.12.1994 | Nyzhny |
| Computer 486dx33/8/120 | c4002686 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Kirov |
| Computer 486dx33/8/120 | c4002764 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Saransk |
| Computer 486dx33/8/120 | c4006240 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Nyzhny |
| Computer 486dx33/8/120 | c4006553 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Nyzhny |
| Computer 486dx33/8/120 | c4006853 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Nyzhny |
| Computer 486dx33/8/120 | c4006876 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Nyzhny |
| Computer 486dx33/8/120 | c4006881 | 110.0005.0012 | 06/21/94 | 1837 | 13.12.1994 | Nyzhny |
| Monitor vga clr cmc 1418ad 14" | 4015300338 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Saransk |
| Monitor vga clr cmc 1418ad 14" | 4015300301 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Kirov |
| Monitor vga clr cmc 1418ad 14" | 4015300347 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Nyzhny |
| Monitor vga clr cmc 1418ad 14" | 4015300389 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Nyzhny |
| Monitor vga clr cmc 1418ad 14" | 4015300391 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Nyzhny |
| Monitor vga clr cmc 1418ad 14" | 4015300401 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Nyzhny |
| Monitor vga clr cmc 1418ad 14" | 4015300410 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Nyzhny |
| Monitor vga clr cmc 1418ad 14" | 4015300411 | 110.0005.0012 | 06/21/94 | (incl.) | 13.12.1994 | Nyzhny |
| HP laser jet 4 printer 220v | USFN004054 | 38.95.10 | 10/13/94 | 1700 | 13.12.1994 | Nyzhny |
| HP laser jet 4 printer 220v | USFN004048 | 38.95.10 | 10/13/94 | 1700 | 13.12.1994 | Nyzhny |
| HP laser jet 4 printer 220v | USFN004049 | 38.95.10 | 10/13/94 | 1700 | 13.12.1994 | Nyzhny |
| HP laser jet 4 printer 220v | jpbq071971 | 38.95.10 | 10/13/94 | 1700 | 13.12.1994 | Kirov |
| HP laser jet 4 printer 220v | jpbby010016 | 38.95.10 | 10/13/94 | 1700 | 13.12.1994 | Saransk |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 11.30.94 | Nyzhny |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 11.30.94 | Kirov |
| Rank Xerox Fax RX 7210 | n/a | IPG.IT.014 | 04/12/94. | 456 | 11.30.94 | Saransk |
| Rank Xerox Copier RX 5352 | 2996222155 | P/I: q705776 | 12/08/94. | 17215 | 01.23.95 | Nyzhny |
| Desktop Copier RX 5220 | 2213434139 | P/I: q705776 | 12/08/94. | 1832 | 01.25.95 | Nyzhny |
| Desktop Copier RX 5220 | 2996229869 | P/I: q705776 | 12/08/94. | 1832 | 01.25.95 | Kirov |
| Desktop Copier RX 5220 | 2996225901 | P/I: q705776 | 12/08/94. | 1832 | 01.25.95 | Saransk |
| Modem US Robotics Ext.vers. | n/a | Invoice: 11057 | 01/12/95. | 195 | no | Nyzhny |
| Modem US Robotics Ext.vers. | n/a | Invoice: 11057 | 01/12/95. | 195 | no | Kirov |
| Modem US Robotics Ext.vers. | n/a | Invoice: 11057 | 01/12/95. | 195 | no | Saransk |
| MS DOS 6.0 x 14 | n/a | | | 770 | 12.29.94 | |
| Software - (Windows, Excel, Word, Propis) x 13 | n/a | | | 5824 | 12.29.95 | |
| Aidstest | n/a | | | 255 | 01.03.95 | |
| Computer HP VL2 66/16/540 | 3505F51498 | MP5/328, 333 | 3.13.95 | 4100 | 3.13.95 | Nyzhny |

| Equipment | Serial Number | Contract/PO | Acquired | Price | Delivered | Location |
|--|---------------|----------------|----------|--------------|-----------|----------|
| Monitor HP S-VGA 14" Ergon. | KR 43528339 | MP5/328, 333 | 3.13.95 | (incl.) | 3.13.95 | Nyzhny |
| PBX Panasonic KX-T616108 | 4JBF047154 | Invoice: 60 | 2.10.95 | 2319 | 2.10.95 | Nyzhny |
| Smart UPS-600 | S94093942675 | Invoice: 5038 | 2.22.95 | 542 | 2.22.95 | Nyzhny |
| Database Consultant + | 17118 | Invoice: 133 | 2.24.95 | 731 | 2.22.95 | Nyzhny |
| Laptop Toshiba 1910 | 47246 | Invoice 1710 | 4.20.95 | 2000 | 4.20.95 | Nyzhny |
| Laptop Toshiba 1910 | 31064 | Invoice 1710 | 4.20.95 | 2000 | 4.20.95 | Nyzhny |
| Laptop Toshiba 1910 | 40030 | Invoice 1710 | 4.20.95 | 2000 | 4.20.95 | Nyzhny |
| Laptop Toshiba 1910 | 39592 | Invoice 1710 | 4.20.95 | 2000 | 4.20.95 | Nyzhny |
| Laptop Toshiba 1910 | 46609 | Invoice 1710 | 4.20.95 | 2000 | 4.20.95 | Nyzhny |
| SVEC Net Cards x 3 | n/a | Invoice: 2003 | 4.26.95 | 334 | 4.26.95 | Nyzhny |
| Equipment Upgrade (on 5 computers in Nyzhny: Processor 486dx33 to 486dx2-66 RAM 8Mb to 16 Mb) | n/a | Invoice: 5086 | 4.24.95 | 2960 | 4.24.95 | Nyzhny |
| Database Consultant + | | Invoice: 43 | 4.24.95 | 493 | 4.24.95 | Kirov |
| Computer Pentium-60/16/340 | K70411192 | Contr.22/05/95 | 5.15.95 | 3408 | 5.15.95 | Nyzhny |
| Monitor SVGA 14" 0.28 LR TVM | 1250206211 | Contr.22/05/95 | 5.15.95 | (incl.) | 5.15.95 | Nyzhny |
| Printer HP LaserJet 4L | NLCC430573 | Contr.22/05/95 | 5.15.95 | 827 | 5.15.95 | Nyzhny |
| TOTAL | | | | 83900 | | |

