

**Deloitte Touche
Tohmatsu**



***Privatization of
Civilian and Defense
Industries Project
No. 110-0005***

Final Report

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**Deloitte Touche
Tohmatsu
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Contractor's Final Report

This report covers the period July 9, 1993 - September 30, 1996.

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A. INTRODUCTION

Background

The United States Agency for International Development (USAID), in support of its program for privatization in the New Independent States (NIS) of the former Soviet Union, contracted with Deloitte Touche Tohmatsu ILA Group Ltd. (the ILA Group) to provide technical assistance. The resulting contract, Privatization of Civilian and Defense Industries (PCDI), No. CCN-0005-C-00-3123-00, has a total level of effort (LOE) of 51,100 days and has reached a total estimated cost of \$41,518,000 under Modification # 8 signed on June 27th, 1995.

The contract objectives were accomplished through task orders that provided a quick response capability for requests from the NIS region for privatization support. Over the life of the project, twenty-one task orders were executed in seven different countries. These countries include the Russian Federation, Moldova, Ukraine, Kazakstan, Uzbekistan, Kyrgyzstan, and Tajikistan.

Per the terms of the PCDI contract, a final summary report follows, detailing planned actions and accomplishments against each task order workplan, lessons learned, and replication opportunities. This information is provided by task order. Planned versus actual accomplishments are presented in a concise, comparative form. Planned tasks are taken from each task order scope of work and are presented in italics. Actual accomplishments are summarized from individual task order final reports submitted to USAID upon completion of each task order. If additional detail on accomplishments and deliverables is desired, it is requested that the reader refer to the individual task order final reports. Primary emphasis is being placed in this final report on the lessons learned from each task order activity and the opportunities for replicating successful activities.

TASK ORDERS 1-0006-DTT AND 3-0010-DTT

1. Title

Development of Share Registration, Transfer, Custody and Depository Institutions in the Russian Federation (Transfer Agents I & II)

2. Country and Period of Performance and Objectives

	<u>Task Order 1</u>	<u>Task Order 3</u>
Country of Performance:	Russia	Russia
Effective Start Date:	July 19, 1993	August 17, 1993
Final Completion Date:	February 8, 1994	December 1, 1994

Sub-Task 1 Objective: To conduct a review of Russian capital markets and identify a framework which would facilitate their development.

Sub-Task 2 Objective: To develop pilot institutions capable of assuming roles in the secondary securities markets in Russia.

Sub-Task 3 Objective: To conduct an analytical review of the policy, legal, and regulatory measures required to promote broad-based and economically viable growth of Russian securities markets.

3. Planned vs. Actual Accomplishments

Task 1: Review of capital markets and identification of pilot institutions to: (a) identify critical constraints that inhibit rapid market reform; (b) quickly design strategies/proposed solutions to allow for rapid resolution of these constraints; and (c) identify capital market candidates for institutional development.

Discussions were held with key Russian capital market participants, government bodies, and independent legal advisors, in order to determine the current status of capital market development. This included the existence of share registrar businesses, the incentives or disincentives provided by the legal and regulatory environment, and attitudes toward future market growth.

Seven Russian registrar pilots were selected through a competitive process, including completion of a questionnaire and screening through a set of agreed-upon criteria. Profiles describing the capabilities and qualities of each pilot were prepared to support nominations of the pilots made to the Russian State Property Committee (*Goskomimushchestvo*, GKI). The GKI approved the final selection of pilot registrars.

Task 2: Pilot institutional development projects including senior consulting assistance; legal services to evaluate procedures and develop legal documentation; training for managers and operations staff; implementation assistance; equipment support; and roll-out of standard documentation, procedures, and approaches by selected Russian experts.

The seven selected pilots received assistance in the development of their registrar businesses, specifically in areas such as business planning, organizational structure, work flows and procedures, risk management, and marketing strategy. Procedures manuals describing the responsibilities of a registrar, sample reports and contracts, and detailed action plans were produced for each registrar. The consultants' recommendations and products were based on internationally consistent registrar policies and procedures developed at the initial stage of the project and tailored to the specific pilot's requirements.

Together with another USAID contractor, the consultants established a dedicated Registrar Support Center to promote industry standards and to help emerging Russian registrars develop their businesses. The Center played a leading role in setting up a self-regulatory Professional Association of Registrars, Transfer Agents and Depositories (PARTAD) which became one of the advisory bodies to the Russian Securities Commission and Russian Parliament for development of securities legislation.

Four Russian software vendors were identified and functional specifications were developed to upgrade their products. The registrar pilots received software packages and equipment necessary to develop their registrar business. This resulted in the increased functionality of the pilots and helped to establish basic systems/hardware requirements for the whole industry. These requirements were further used by the Registrar Support Center to certify local software vendors.

Task 3: Develop and implement recommendations related to policy, legal and regulatory requirements of capital markets, including examination of institutions, standards, and policies, and formulation of scenarios for the structural development of registrar, transfer agent, and depository functions.

Based upon a comprehensive review of Russian law, regulations and standards for registrars and clearing and settlement organizations, and overall industry guidelines and standards, were developed and recommended to Russian regulatory bodies and professional market participants. These standards were compared with international practice. New concepts such as "nominee," "sub-registrar," and "transfer agent" were introduced and incorporated into Russian laws governing registrar businesses.

Furthermore, as described above, many of the activities undertaken in Tasks 1 and 2 resulted in the structural development of the registrar, transfer agent, and depository functions in the Russian capital market. For example, the consultants worked with market participants to establish PARTAD, the industry's self-regulatory organization. While independent from the capital market regulator, PARTAD received technical assistance to build its capacity and regulatory standards in line with the Russian legal framework under development.

4. Lessons Learned

These two task orders were among the first in the NIS privatization program to move beyond provision of technical assistance for the sale of shares in state-owned enterprises to the development of a capital market, which would provide continued private sector ownership of those shares. The result sought was to change the conditions in the Russian economy through the creation of sustainable *private sector* capital market institutions. The market infrastructure would provide for the protection of shareholders' investments, facilitate corporate actions, and provide the vehicles for newly privatized enterprises to raise capital.

- The first lesson learned was that viable share registrar businesses could be founded by encouraging the private sector directly. The principle of "market-led" development -- identifying private sector participants who wished to establish registrars themselves -- was found to be more effective than if the Russian government had chosen to start up these businesses from scratch. Based upon the business plans developed, the registrars were to be viable and sustainable, and were not to require any financial support from USAID or the Russian government. As a result, over time, technical assistance could be phased out as the share registrars' businesses developed with market demand.
- Furthermore, on-site work was found to be critical for the success of the project and was a routine activity for the consultant teams. At first, all the pilots needed constant assistance with respect to business and strategic planning, marketing and organizational structure. After this initial phase, during which intensive assistance was provided, detailed action plans were developed, resulting in a contract between the registrar and the consultants which defined each party's responsibilities. It was then up to each registrar to implement their own action plan. A post-implementation monitoring system was developed to check the pilots' performance on a monthly basis. As the pilots evolved, each began to respond to particular market demands and take shape as businesses specializing in specific market needs. Two examples are the Rinanco and Grant companies, which have now become key players in the Russian financial services industry and are well known in the capital markets.
- Another approach taken in these task orders -- and in general, in most of the task orders executed under the PCDI contract -- was that two international consulting firms were provided with identical scopes of work in different regions throughout the country. The two firms then had to work together to create a single industry standard. The purpose of this approach was to test different approaches in different geographic areas. This approach proved effective: it allowed for indigenous development of the share registrar businesses and the development of customized Operations Manuals for each registrar, while resulting in a Registrar Support Center and a self-regulatory organization which served the entire registrar industry.

5. Replication Opportunities

These task orders can be replicated in countries where privatization through share offerings has begun and private sector market participants are present. Replication is probably limited to countries where the economy and geographic size are large enough to accommodate multiple enterprises engaged in provision of “after the trade” market services.

When replicated, technical assistance should emphasize development of practical tools, such as business plans and operating manuals, to ensure sustainability of the resulting private businesses.

TASK ORDERS 2-0007-DTT AND 4-0015-DTT

1. Title

Public Education and Support Campaign for the Russian Mass Privatization Program

2. Country and Period of Performance and Objectives

	<u>Task Order 2</u>	<u>Task Order 4</u>
Country of Performance	Russia	Russia
Effective Start Date:	July 22, 1993	August 17, 1993
Final Completion Date:	August 16, 1994	February 28, 1994

Objective: To continue the public information program begun in October 1992 seeking to increase public understanding of privatization, vouchers, and the auction process, and to improve public perceptions about the rate of privatization.

3. Planned vs. Actual Accomplishments

Task 1: Conduct a public education and support campaign throughout Russia through advertising and public relations efforts. Advertising activities will include: television, print and radio advertising of auctions, investment funds, special events and profiles, and distribution of posters, logo designs, etc.

An extensive public education campaign was conducted throughout Russia, which produced substantial positive results. Contracts were negotiated with VID-TV, a major Russian television production company, to produce a series of prime-time shows dealing with privatization. Regional television documentaries were produced and aired in 15 regions, and profiles of managers of successfully privatized enterprises were produced and aired on Russian State Television.

Campaign advertising resulted in a series of ads for the National Auction System; television, radio and press campaigns for industry-specific auctions; and regional advertising campaigns for voucher auctions in 27 newspapers selected by the GKI.

A brochure for the National Auction Center was designed and printed, and press release stationary, press folders, and pins were produced.

Privatization news flashes providing information on GKI press conferences, voucher and cash auctions, statistics on investment fund activities, etc. were produced and faxed to 50 major central television, radio, print and foreign news organizations. The news flashes were regularly carried on Channel 1, Radio Russia, Radio Echo Moscow and Open Radio and published in several publications. They were also used by senior GKI officials to make official announcements.

Public relations achievements included the hiring of an economics journalist who drafted articles on privatization topics in mass circulation publications, and specialized public relations campaigns for the privatization of the vegetable wholesale industry; the first large-scale military conversion enterprise in St. Petersburg, and the first major privatized oil enterprise.

Privatization information was regularly and widely disseminated to national and local press. Voucher auction tables were published on a regular basis in several publications. Statistical charts on the progress of privatization were produced and published in free publications. Three major press briefings on the progress of voucher auctions were held for leading economics and business reporters for major central press organizations. These briefings generated some 45 major news stories in the central press.

A weekly radio program on privatization was carried by Echo Moscow Radio to the Moscow and St. Petersburg regions. In addition, numerous nationwide radio interviews with GKI officials and experts were conducted on several radio stations.

Task 2: Public relations activities will include disseminating success stories about specific enterprises which have been successfully privatized through the voucher auction process; communications campaigns in support of national and regional auctions; media monitoring and creation of a database of Russian and English language clips; opposition research and response, and special projects.

A database of 59 large- and medium-scale successfully-privatized enterprises was developed. Press trips were arranged in which reporters for major central media toured successfully privatized enterprises and interviewed management and workers. Regular coverage of these stories was provided by ITAR-TASS, Russian TV, Radio Mayak, Mercury, Rossiskiy Vestnik and Segodnya.

Central newspapers were monitored and a weekly press review was supplied to the GKI summarizing information published in the press. Clippings on privatization were gathered, annotated, coded by theme, and entered into a database, and English-language clips were also provided to the GKI.

Task 3: Conduct privatization days in twenty cities throughout Russia to inform the general public on their rights as shareholders and the opportunities that exist in a free-market economy, inform enterprise managers of techniques to attract investment, publicize successfully privatized enterprises, and generate favorable press for officials committed to the privatization process.

Provide regional outreach to local Property Funds and GKI offices, build coalitions with chambers of commerce and student and farmer associations; gather success stories and produce a monthly newsletter.

Privatization days were organized in Irkutsk, Chita, Novosibirsk, Omsk, St. Petersburg, Yekaterinburg, Perm, and Krasnoyarsk. Seminars on specific topics were offered, press trips were organized and newspaper, radio and television coverage was generated.

Regional offices were established in Vladivostok, Krasnoyarsk, Yekaterinburg and Volgograd staffed by a public information specialist and a regional field organizer. They compiled lists of media organizations in 40 regions, provided weekly regional press summaries and clippings, intelligence on regional anti-reform activities, etc. At the request of the GKI, these offices ceased operation in October 1993.

Task 4: Implement a corporate governance and shareholders' rights program encompassing training, organizing Shareholders' Rights Committees, implementation of corporate governance and internal communications programs for large-scale enterprises; organize a speakers program; develop a corporate governance guidelines manual for distribution to enterprises, investment funds, and public officials; develop systems for gathering reports on and publicizing violations of corporate governance guidelines; conduct research on evolving shareholder attitudes; prepare and distribute through the Shareholders' Rights Committees a "Privatization in Your Pocket" brochure.

Public Committees for Shareholder Rights were organized in Moscow, St. Petersburg and Yekaterinburg. Organizing meetings were also held in Nizhny Novgorod, Saratov, Voronezh, Perm, Khabarovsk, and Krasnoyarsk. Informational materials on shareholder rights were developed and disseminated; training sessions for committee leaders were conducted; shareholder hotlines were organized in Moscow, St. Petersburg, and Yekaterinburg; and weekly newspaper columns answered questions received via the hotlines.

Responsibility for developing a corporate governance guidelines manual was transferred, at the request of the GKI, to another AID contractor.

A shareholder rights pamphlet was developed and disseminated to Shareholder Rights Committees. However, at the request of the GKI, the information originally contained in the pamphlet was subsequently disseminated through regional newspapers and other print outlets.

Task 5: Conduct quantitative and qualitative public opinion research to track political and economic issues, test specific messages and advertising, and probe and analyze specific issues of concern to the GKI.

A nationwide poll and focus groups were conducted to refine the message and tactics of the communications effort. Focus groups and in-depth interviews were utilized to support the advertising and shareholder rights activities.

4. Lessons Learned

- The public information efforts in this task order provided targeted messages to the Russian public. The challenge of future public information efforts will be developing the kinds of privatization-related information the Russian population needs and wants to obtain. This includes detailed information about future stages in the privatization process and about individual enterprises, investment funds, stock markets, and other such institutions.

- The regional outreach efforts created a two-way flow of information between the local, grass roots level and the entities driving the national privatization process. Future public relations campaigns in support of privatization should rely heavily on grass roots events to inform the larger national campaign.
- Making information available to the public will become even more important during the next stages of privatization, when widespread bankruptcies of privatized enterprises begin to occur. The Russian public needs to be prepared for this inevitable development to minimize fear and confusion and possible exploitation of this fear by anti-privatization forces. Educating shareholders about the function of, and participation in, secondary stock markets will help minimize the impact of individual bankruptcies.
- USAID support for independent shareholder rights committees should be continued. The consultant team recommended, however, that the GKI and the Russian Government be removed from any involvement in the committees. Their continued involvement threatened the public credibility of the committees, which were starting to be viewed as mouthpieces for the government. Government involvement also hampered the ability of the committees to conduct their business.
- Shareholder rights committees should be staffed with the following professionals: executive director, legal counsel, press secretary, 1-2 company analysts, 1-2 hotline specialists, 1-2 data managers, and a secretary. Company analysts could develop reliability ratings and comment on the financial health of the company and the reasonableness of the company's business strategy.
- Long-form television programming disseminated GKI's information campaign to tens of millions of people in a cost-efficient manner. This type of programming allowed for the kind of detailed reporting necessary to address the more complicated aspects of privatization. This type of programming should continue to be a major aspect of GKI's public information efforts.
- Advertising was important to expanding participation in national and regional auctions. As the privatization process unfolds, advertising will need to explain to new shareholders their rights and new roles.

5. Replication Opportunities

Based upon lessons learned in Russia and privatization activities in both developed and developing countries, these task orders can and should be replicated when technical assistance for privatization is provided. As mentioned above, government involvement in the communication of key privatization messages should be approached with caution. Replication of advertising and outreach in which the private sector is seen as an advocate for continued privatization should be considered.

A critical first-step in replicating this task order is the development of a sound communications strategy based upon quantitative and qualitative public opinion research that tracks political and

economic issues, tests specific messages and advertising, and probes and analyzes specific issues. The development of the communications strategy and resulting public information campaign should accompany development of overall privatization objectives and goals, so that the privatization process gains momentum and is not derailed.

TASK ORDER 3-0006-DTT

Please see Tab #1

TASK ORDER 4-0015-DTT

Please see Tab #2

TASK ORDER 5-0014-DTT

1. Title

Implementation of Additional Regional Depository Centers (Voucher Clearing)

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: September 27, 1993
Final Completion Date: June 15, 1994

Objectives: Under a preceding stand-alone contract, No. CCN-0005-C-00-3053-00, Deloitte Touche Tohmatsu had been contracted to establish a network of Regional Depository Centers (RDCs) in 20 selected regions in Russia to assist with the redemption and clearing of mass privatization auction vouchers. The original objective of Task Order #5 was to expand the RDCs to at least 15 more sites. The number of sites was later reduced by USAID and GKI to 10 sites and the scope of activities was also modified.

3. Planned vs. Actual Accomplishments

Task 1: Establish an additional 10 Regional Depository Centers as follows:

- A. IDENTIFY, IN CONJUNCTION WITH THE GKI, ADDITIONAL REGIONS WHICH WOULD BENEFIT FROM THE IMPLEMENTATION OF AN RDC. RECRUIT A SUITABLE ORGANIZATION WITHIN EACH SELECTED REGION TO ACT AS AN RDC. EVALUATE EACH SITE'S POTENTIAL TO BECOME A VIABLE SECONDARY MARKET INSTITUTION PARTICULARLY AS REGARDS REGISTRAR AND CLEARING, SETTLEMENT, AND CUSTODIAN FUNCTIONS.

A standard recruitment process was established and a team of recruiters was assembled and trained. Visits were made to one or more prospective financial institutions in each of the cities identified by the GKI. Ten sites were ultimately recommended and accepted.

- B. IN ACCORDANCE WITH USAID REGULATIONS AND IN LINE WITH GOOD COMMERCIAL PRACTICE, ISSUE AN INVITATION TO TENDER AND SELECT A SUPPLIER CAPABLE OF SUPPLYING THE ADDITIONAL EQUIPMENT NEEDED FOR EXTENSION OF THE RDC NETWORK.

Over \$300,000 worth of microcomputer equipment and software was procured; the procurement process was organized in accordance with USAID regulations.

- C. PREPARE FOR ARRIVAL OF IMPLEMENTATION TEAMS AT EACH SITE BY ARRANGING FOR DELIVERY OF EQUIPMENT, PREPARING APPLICATIONS SOFTWARE, ASSEMBLING BACKGROUND INFORMATION AND MATERIALS FOR THE TEAMS, AND MAKING TRAVEL,

LODGING, AND OTHER LOGISTICAL ARRANGEMENTS. UPON ARRIVAL OF THE IMPLEMENTATION TEAMS, PROVIDE ONGOING CENTRAL COORDINATION OF TASK ORDER ACTIVITIES.

All tasks were completed. In addition, the following activities were also completed:

- Post-implementation visits to RDCs experiencing various levels of problems;
- Release of updated accounting system software to existing and new sites;
- Verification and updating of microcomputer equipment inventory;
- Procurement of office equipment for the Yekaterinburg Local Privatization Center;
- Assistance to the Russia Privatization Center in communicating capital market data requirements to all RDCs.

D. FIELD TEAMS TO EACH SITE COMPRISED OF THREE MEMBERS: TEAM LEADER RESPONSIBLE FOR COORDINATING THE TEAM'S ACTIVITIES AND ENSURING THE EFFECTIVE OPERATION OF THE RDC; IMPLEMENTOR RESPONSIBLE FOR TRAINING RDC PERSONNEL IN MESSAGING AND ACCOUNTING SYSTEMS AND PROCEDURES; AND INSTALLER RESPONSIBLE FOR ALL HARDWARE- AND SOFTWARE-RELATED. ACTIVITIES AND FOR ENSURING THAT THE RDC TECHNICAL STAFF IS CAPABLE OF MAINTAINING THE HARDWARE AND SOFTWARE.

Three field teams participated in a three-day "training-of-trainers" program prior to making site visits. Pre-installation checks of all equipment were made in Moscow prior to delivery to the RDCs, ensuring the successful installation of the equipment on-site. RDC technical personnel were trained by field teams in hardware and software maintenance.

E. FACILITATE TRANSITION OF EACH RDC INTO A SECONDARY MARKET INSTITUTION SUCH AS SHARE REGISTRAR, SHARE DEPOSITORY OR TRANSFER AGENT. THIS WORK MAY INCLUDE: (I) PROVISION OF COUNSELING, TRAINING AND DOCUMENTATION; (II) ASSISTANCE WITH DEVELOPING THE FUNCTION OF THE INSTITUTION; AND (III) ADOPTING PROCEDURES DEVELOPED BY OTHER GKI ADVISORS..

Financial institutions were made aware of their potential obligations as a secondary market institution. Each RDC signed a three-party contract between the GKI, the RDC, and DTTI consultants, outlining roles and responsibilities of each party, as well as guidelines for the potential role of the RDC in the securities markets. DTTI consultants facilitated ongoing dialogue and meetings in Moscow between the RDCs, local authorities, and the GKI on the development of each RDC.

Task 2: Establish a set of criteria for choosing registrars to be served.

Agreement was reached with the GKI on the selection criteria for assessing an RDC's potential as a registrar. Agreement was also reached on the list of RDCs to be invited to the registrar seminar and those RDCs to be included on the seminar agenda.

Task 3: Arrange a two-day seminar in Moscow covering the following topics: (i) The role of registrars, the nature of relationships with CSOs/brokers/dealers/banks, the legal background, issues of independence and non-partisan operation, the role of the Russian SEC, activities of the Registrar Support Center, current standards and procedures, potential for earnings as a registrar, plans for technical support, and other capital market involvement options open to the RDCs; and (ii) interview all attendees to determine their commitment to business principles and their need for assistance.

The seminar was delivered in April 1994, according to the two-part agenda stipulated in the task order. Attendance at the seminar was significant, with over 30 RDCs represented and only a few unable to attend. Participants interviewed stated that the seminar was a useful contribution.

Task 4: Conduct site visits to a short list of registrar candidates to assess such things as business management skills, knowledge and use of suitable controls and procedures and relationships with local capital market participants.

Questionnaires were disseminated to seminar participants prior to the seminar. Based on the interviews held on Day 2, 12 sites were selected. Site visits were made to the 12 RDCs experiencing various levels of problems and targeted technical assistance recommended.

Task 5: Make recommendations on which RDCs should be considered for full technical support.

The information obtained through the questionnaires, interviews, and site visits was compiled. The 12 sites visited under Task 4 were recommended for further support to promote their activities in the secondary market.

4. Lessons Learned

- The most significant lesson learned as a result of this task order was the limited ability of the contractor and of USAID to ensure continued viability of the RDCs once technical assistance was concluded. Extensive research was conducted by the consultant team one year after the conclusion of the task order and attempts were made to contact each pilot RDC. It was found that the provision of a high-specification messaging system supported by locally-networked microcomputers and attached to a nationwide telecommunications network gave each RDC a significant start to their involvement in Russian secondary markets.

However, over time, the private sector owners of the RDCs may have redeployed the equipment and software provided to develop other lines of business. As the national auction process was concluded in June 1995, this outcome was to be expected and was provided for by the signing of contracts between the consultants and the RDCs turning over the network systems within one year of conclusion of the task order. This facilitated the transition of the RDC into a secondary market institution, such as share registrar, share depository, or transfer agent, or other business lines.

Furthermore, while the network provided an effective method for citizens to participate in national auctions, for purely regional auctions, vouchers were normally handled manually. In some regions, demand for participation at the national level was low. In the future, the relative benefits of development of a national capacity for participation vis-à-vis demand for national participation should be considered. Access to a national network, even if usage is low, was considered critical in the implementation of this task order.

- Significant problems and costs in procurement of the required computer equipment were incurred during the implementation of this project and are documented in the task order final report. For example, the work of the consultant team was delayed by difficulty clearing procured equipment through Russian customs. A new payment instrument was introduced in later stages of the procurement, which forced a change in business practices by the equipment vendors. It is recommended that USAID develop clear protocols and customs arrangements and put those in place in advance of issuing task orders that require procurement.

5. Replication Opportunities

Replication of this task order, and its predecessor activities, will result in a national auction network to facilitate participation in the privatization process and make a significant contribution to the development of capital market structures. Again, replication is probably limited to countries in which the economy and the geographic size of the country are large enough to accommodate a decentralized network system.

Replication should rely upon the standard recruitment, training, procurement, and installation procedures developed under this task order; these procedures may be easily replicated in other countries. Use of a standard contract between the implementing agency, the contractor, and the RDC, describing the responsibilities of each, is another critical success factor that should be replicated.

TASK ORDER 6-051-DTT

1. Title

Design of Ukrainian Privatization Certificates

2. Country and Period of Performance and Objectives

Country of Performance: Ukraine
Effective Start Date: March 21, 1994
Final Completion Date: March 25, 1994

Objective: Assistance to USAID in the design of a Ukrainian privatization certificate.

3. Planned vs. Actual Accomplishments

Task 1: Provide consultant to participate in a working group to design a privatization certificate in conformance with the Government of Ukraine law on certifications and other design specifications.

A draft certificate was designed by the working group and presented to the Ukraine Council of Ministers.

4. Lessons Learned

- The success of the assignment was constrained by the fact that the National Bank of Ukraine (NBU) and the Ministry of Finance (MOF) claimed that a system of paper certificates was not official policy. The Ukraine State Property Fund did not attend the working group meetings, which contributed to the reluctance of the NBU and MOF to examine the merits of a certificate system.
- It is not atypical for inter-agency conflict and differences among various government agencies to impact the progress of privatization. In fact, the development of the working group was intended to provide a forum for overcoming this conflict. The task order should have required obtaining leadership and direction from the highest levels of government on the respective roles and responsibilities of the working group participants, as well as a clear statement that the certificates were official policy. This high-level approval may have helped to bring the State Property Fund into the process.

5. Replication Opportunities

Replication of the use of privatization vouchers or certificates has been widespread throughout the NIS. The use of vouchers has been considered in other regions with different economic history and conditions (and in fact implemented in Bolivia) to encourage widespread distribution of shares in privatized companies.

TASK ORDER 7-0054-DTT

1. Title

Ian Freed Consulting Inc.: Russian Telecommunications

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: July 1, 1994
Final Completion Date: March 15, 1996

Objective: To develop telecommunications infrastructure that can serve as the backbone for the operation of USAID-sponsored Capital Markets Development Projects and that can become a model for the future development of telecommunications for Russia's emerging capital markets.

3. Planned vs. Actual Accomplishments

Task 1. Research and Development

A. RESEARCH AND RECOMMEND STANDARD TELECOMMUNICATIONS PROTOCOLS AND PROVIDERS FOR THE SYSTEM AND STANDARD SPECIFICATIONS FOR SOFTWARE.

The team consulted the Russian Federation Commission on Securities and Exchanges (RFSCE) on a general system design and implementation plan for the first Russian real time electronic securities trading system, launched the system in 4 pilot sites, and extended it to 15 other cities.

The most appropriate local and long-distance telecommunication providers for Russian Trading System members were identified. Equipment providers for four pilot local telecommunication hosts were identified, tenders conducted, and oversight to equipment delivery and installation was provided.

B. DESIGN A TELECOMMUNICATIONS SYSTEM AND PRODUCE A SYSTEM DESIGN AND IMPLEMENTATION PLAN, AND REVIEW THE PLAN WITH THE RFSCE, USAID AND OTHERS INVOLVED IN IMPLEMENTING THE MARKET DEVELOPMENT ACTIVITIES.

A telecommunications system design was recommended that is modular and flexible to allow for rapid changes in market needs. Each component is independent to allow simple upgrades. The system can use high- and low-speed dial-up or dedicated leased-line services through any transport medium and all major protocols.

- C. AS APPROPRIATE, DEVELOP THE FILE TRANSFER MANAGEMENT SOFTWARE AND MESSAGING SOFTWARE.

Custom messaging and file transfer management software was authored to reflect the specifics of the Russian market. Wherever possible, off-the-shelf components were used.

- D. OVERSEE THE DEVELOPMENT OR SELECTION OF ENCRYPTION SOFTWARE FOR TELECOMMUNICATIONS.

A standard, high-security public key encryption and electronic signature package was recommended for integration into the communications and messaging software developed for CSOs and CSO members.

Task 2. Telecommunications Pilot. Perform a pilot implementation of the systems at one or more sites. Consultant activities will include:

- A. OVERSEEING THE FUNCTIONING OF THE EQUIPMENT, INCLUDING DIAGNOSIS AND REPORT OF PROBLEMS ON SITE AND TRAINING LOCAL TELECOMMUNICATIONS SPECIALISTS IN MAINTENANCE.

A pilot broker training program was begun in each region, which tested the application of all system components, including software, hardware, and provider services. Modems, documentation, and training materials were provided to system administrators and users. Individual staff members from each region received training in specialized UNIX and system administration training.

Ian Freed Consulting (IFC) oversaw line installation, equipment procurement, installation and testing of the Russian Trading System.

- B. WORK CLOSELY WITH DISTRIBUTED USERS OF THE SYSTEM(S) SELECTED BY THE ADVISORS TO THE MARKET DEVELOPMENT PROJECT.

IFC installed necessary system components and trained administrators, technicians and users in each region. During the pilot program, IFC selected groups of users and performed installation and application training to familiarize system users and administrators with the system.

- C. PROVIDE PILOT SITE(S) WITH TELECOMMUNICATION LINES AND MODEMS AND CLOSELY OVERSEE TRAINING AND INSTALLATION AT THESE SITES.

Modems and communications channels were provided to all participants, either by selecting special services where other channels were not available or installing the system such that existing services could be used.

- D. DEVELOP TRAINING AND SITE PREPARATION MATERIALS DURING THE PILOT(S) FOR USE IN IMPLEMENTATION.

Extensive training and demonstration materials were developed specifically for the pilot program and for implementation.

- E. PROVIDE A WRITTEN REPORT ON THE PILOT(S).

A written report is included in the task order final report as Attachment A.

Task 3. Implementation. After the pilot site(s) for a Market Development Project have been installed, the Consultant will implement the telecommunications system at the number of sites agreed to with the RFSCE and the advisors to the Project. At these additional sites, the Consultant will, as appropriate:

- A. TRAIN LOCAL TECHNICAL PERSONNEL TO IMPLEMENT THE SYSTEM. TRAINING WILL INCLUDE USE OF THE MESSAGING AND COMMUNICATION SYSTEM HARDWARE, SOFTWARE AND PERIPHERALS, AS WELL AS SYSTEM DIAGNOSTICS.

Local personnel were sent to professional training seminars. Additionally, IFC technical specialists traveled to each of the sites to train local personnel in site-specific applications and system components.

After RTS startup, IFC technical specialists traveled to an additional 15 cities to identify local broker needs, test their communications lines, and make appropriate recommendations for improving service.

- B. PROCURE EQUIPMENT NECESSARY FOR IMPLEMENTATION.

All necessary equipment was procured.

- C. OVERSEE THE INSTALLATION OF TELECOMMUNICATION LINES.

Appropriate line services were identified for each region and line procurement was overseen.

- D. INSTALL TELECOMMUNICATIONS AND MESSAGING SOFTWARE.

Each location received distribution media and accompanying documentation for installation and use. Software was installed on location to ensure local users and administrators could perform the same tasks in IFC's absence. The installed system was tested to ensure it operated as intended.

- E. PROVIDE INSTALLATION AND USER DOCUMENTATION FOR ALL SOFTWARE. PRODUCE WRITTEN SPECIFICATIONS FOR THE SYSTEM AND PROVIDE THEM UPON RFSCCE'S REQUEST TO INSTITUTIONS INTERESTED IN PARTICIPATING IN THE SYSTEM.

All necessary documentation was provided. In addition, a copy of all documentation was provided to each CSO on electronic media as data files for future editing, modification or distribution. System specifications and, in some cases, source text, were submitted to several institutions. The documentation and other relevant documents are available in Russian from IFC in Microsoft Word for Windows 6.0 format at URL <http://www.ifci.ru/cso/>.

- F. TRAIN THE STAFF AT EACH IMPLEMENTATION SITE IN THE USE AND MAINTENANCE OF THE TELECOMMUNICATIONS SYSTEM. STAFF WILL BE TRAINED TO USE HARDWARE, SOFTWARE, PERIPHERALS AND COMMUNICATIONS SYSTEMS AS NEEDED.

Professional training was organized for regional technical staff at leading technical institutes in Moscow. IFC staff traveled to regional CSOs to train local brokers, administrators and technical staff on installed equipment.

Task 4: Post-Implementation Support. Provide on-going operational and technical assistance to users of the system for several months after implementation. Such assistance will include:

- A. CENTRAL TECHNICAL HELP DESK MANNED INITIALLY BY IFC AND SUBSEQUENTLY BY LOCAL SUPPORT STAFF TRAINED BY IFC.

IFC maintains a central help desk at its Moscow offices which is available via mail, telephone, fax, e-mail, or WWW during regular office hours. Regional support staff were trained to be self-sufficient.

- B. AS SOFTWARE ENHANCES, AND INCOMPATIBILITIES AND BUGS ARE IDENTIFIED, THE CONSULTANT WILL MODIFY AND UPGRADE MESSAGING AND COMMUNICATION SOFTWARE AS APPROPRIATE. AS NEW OFF-THE-SHELF VERSIONS OF SOFTWARE ARE RELEASED, THE CONSULTANT WILL DETERMINE WHETHER THE BENEFITS FROM THE UPGRADE, AS WELL AS COSTING, ARE WARRANTED.

IFC continues to support the system and document changes. As new versions of off-the-shelf software have become available, recommendations have been made and changes to its software have been implemented to take advantage of the improvements.

- C. COORDINATE COMMUNICATIONS STANDARDS AMONG ALL SYSTEM PARTICIPANTS, INCLUDING COMMUNICATION PROTOCOLS, SITE AND USER IDENTIFIERS.

The implementation of standards has been coordinated wherever possible. The message format is based on SWIFT standards and the communications modules are based on standard protocols.

- D. PROVIDE TECHNICAL ASSISTANCE TO OTHER ORGANIZATIONS (NOT YET IDENTIFIED) THAT WISH TO JOIN THE SYSTEM. WORK WITH THE RFSCE AND OTHER ADVISORS TO IDENTIFY A COORDINATING ENTITY WHICH WOULD BE APPROPRIATE TO ASSUME THIS ROLE AND TRANSFER RESPONSIBILITY FOR ONGOING SUPPORT TO THIS ENTITY.

The RFSCE and the PAUFOR (Moscow brokers self-regulating organization) technical support branch are the coordinators for ongoing support and project guidance. Additionally, a users' group, made up of staff from the technical support departments of each CSO, pools knowledge and experience to provide all CSOs with ongoing support.

4. Lessons Learned

- A specific task in the task order should be the designation of an Authority by project sponsors and beneficiaries. This Authority should have full legal and administrative powers to make final, binding decisions on any issues related to the project. It should have the full support of the Government of Russia in its decisions and decision-making process, should be knowledgeable of the types and uses of the technology to be implemented, and should have experience using the technology in the applicable fields. An appeal mechanism should be established allowing the Consultant to request reconsideration of decisions made by the Authority that are unrealistic, impossible, or unreasonable for application to the systems and models recommended by the Consultant.
- A clear process of implementation must be established, with sanctions for local participants when they fail to fulfill program tasks. The above-mentioned Authority could use a progressive series of warnings, with a maximum sanction being removal from the development program and designation of a new local beneficiary.
- A more effective administrative decision-making body is required for the task order.
- Russian legislative actions should serve as the basis for future decisions and project implementation and provide a more stable environment within which the project could progress.
- Local talent is usually well-equipped to develop systems that fulfill local needs. With additional guidance and professional consultations from experienced specialists, local models can serve as the basis for global systems. Local users are more willing to accept locally developed technology and administrative models than completely foreign models.
- It is impossible to accurately anticipate the speed of local infrastructure development and the learning curve of new technologies in a market that has no experience with such technologies. Therefore, many technologies implemented out of necessity today may become obsolescent in only six months. Any project must have room for constant reevaluation of needs and opportunities, and the appropriate administrative flexibility to adapt to rapid change.

- Anticipated legislative decisions that directly affect a project of this depth should be evaluated by the consultants before they are made. With an appropriate authority that is fully supported by the government, decisions such as that to make internationally accepted standard encryption and message content/sender verification illegal might be avoided, or at least made with appropriate alternatives considered. In this case, a major system element necessary for the entire system's ability to perform intended tasks has been legislatively blocked, with no clear alternative made available.
- The decision to require secure transmission for financial data is appropriate and desirable, but the decision to make internationally accepted means of fulfilling data integrity requirements illegal, coupled with the absence of locally produced legal alternatives, is very unfortunate for the Russian financial industry as a whole.
- Although USAID issued documents stating that IFC had tax and duty-free status for the purpose of this task order, the documents were not legally binding within the Russian Federation. In several instances, local vendors refused to honor these documents. Necessary documents enabling consultants to make local purchases or import equipment tax-free for task order activities should be provided.
- Documentation enabling consultants to acquire communications services tax-free should be provided for task order activities.
- The consultant required access to telephone stations to install and configure communications equipment but did not have the right to such access.

5. Replication Opportunities

The implementation and use of sophisticated telecommunications technology are important to the growth of developing countries. However, the investment in such technology is high. USAID can play a useful role and have an impact by providing technical assistance to accompany the acquisition of telecommunications, defraying some of the investment costs, and ensuring the development of local skill and capacity to operate such systems once installed. Before such assistance is rendered, however, USAID should ensure that private sector vendors are not willing or able to provide this technical assistance without U.S. government funding. As when evaluating the replicability of any task order, the ability of local beneficiaries to sustain the use of the technology once technical assistance is completed must also be assessed.

TASK ORDER 8-0043-DTT

1. Title

Technical Assistance in the Area of Share Distribution, Registration, and Clearing and Settlement (CSO)

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: February 28, 1994
Final Completion Date: July 1, 1996

Objectives:

1. To complete the development of the basic institutional framework upon which clearing and settlement can continue to develop in Russia, in particular by:
 - Assisting in the establishment of one or two more clearing and settlement organizations (CSOs) in regions that are emerging as important financial centers,
 - Providing ongoing assistance to each CSO to enhance its long-term commercial viability,
 - Working with the CSOs as a group to integrate their activities into a common system,
 - Establishing funds settlement arrangements and implementing first generation (trade-by-trade delivery versus payment) securities clearing and settlement services at the Depository Clearing Company. (This objective added through T.O. Amendment #2.)
2. To promote the establishment of one or more third party registrars capable of maintaining the shareholder registers of large privatized issuers.
3. To encourage the establishment of efficient and reliable share distribution mechanisms to support the public offering of new issues throughout the Russian Federation.
4. To promote the efforts of enterprises in attracting equity capital through training of enterprise management and/or advisors, development of appropriate market standards with respect to accounting, information disclosure, corporate governance, and other undertakings expected by investors.

3. Planned vs. Actual Accomplishments

Task 1: Clearing and Settlement Organizations

- A. PROVIDE ADVICE IN THE DEVELOPMENT OF POLICIES AND A LEGAL AND REGULATORY FRAMEWORK APPLICABLE TO CLEARING AND SETTLEMENT SERVICES.

Comprehensive procedures and practices for a clearing and settlement system were developed. The CSO System Detailed Functional Specification, CSO System Acceptance Report, and a CSO Disaster Recovery Manual were drafted, issued for review, and finalized. DTTI developed key operating procedures for CSOs (except for funds settlement) in both English and Russian; completed the development of Phase II (nominee and non-nominee) CSO software; reviewed the staffing, business and information systems capabilities of a bank nominated as the Moscow CSO's settlement bank; and completed the general design of funds settlement arrangements for the Moscow CSO, subject to review by management and participants of the Moscow CSO.

- B. IMPLEMENTATION OF PILOT PROGRAMS BY PROVIDING TECHNICAL AND OTHER ASSISTANCE TO SELECTED RUSSIAN INSTITUTIONS.

Assistance was provided to the CSOs for development of business plans, computer hardware procurement and development of application software. Final computer system hardware was installed at the Moscow, Yekaterinburg and Novosibirsk CSOs, and user testing and acceptance of Phase II (nominee and non-nominee) Diasoft software at the Moscow CSO was completed. Phase II Diasoft software was installed at the Moscow, Yekaterinburg and Novosibirsk CSOs, and systems administrators and operations personnel at all three locations were trained in system features and operations.

- C. CONTINUED DEVELOPMENT OF INTRA- AND INTER-REGIONAL PAYMENT METHODOLOGIES FOR THE RUSSIAN FEDERATION.

The substantive work related to the CSO Association (inter-regional procedures, standardization, etc.) was completed and an information package was provided to the follow-on contractor (Barents Group - KPMG).

- D. WORK WITH THE CSOs AS A GROUP TO PROMOTE INTEGRATION OF THEIR ACTIVITIES AND SERVICES INTO AN INTER-REGIONAL COOPERATIVE ASSOCIATION OR SYSTEM OF RELATED CSOs ("UMBRELLA CSO") FOR CERTAIN PURPOSES.

Based in part on the slower than anticipated development of the individual CSOs, a decision was made to downscale the importance of an "umbrella CSO" and to defer the development of a Self-Regulating Organization (SRO) for CSOs. Instead, support was provided to five CSOs recognized by the RFSCE and approved by USAID. A seminar was held for the five CSOs, which resulted in a clear desire on their part to harmonize efforts in developing clearing and settlement mechanisms across Russia.

A second seminar was held in conjunction with KPMG-Barents Group and Arthur Andersen for the same five CSOs. This seminar, which focused on various aspects of the clearing and settlement of trades and the re-registration of shares, also produced a strong consensus among the CSOs on unifying their operational procedures.

Individual CSOs received assistance in drafting agreements on inter-regional operations, approaches to standardization of operations, CSO participant agreements, and other integration issues.

Task 2: Large-Issuer Registrar

- A. IDENTIFY INSTITUTIONS (OR POTENTIAL JOINT VENTURES OF INSTITUTIONS) THAT HAVE A STRONG INTEREST IN DEVELOPING A LARGE ISSUER REGISTRAR BUSINESS. WORK WITH EACH INSTITUTION TO DETERMINE ANY SIGNIFICANT IMPEDIMENTS TO THE INSTITUTION'S DECIDING TO ENTER THE BUSINESS AS WELL AS THE GENERAL TYPES OF RESOURCES OR CAPACITIES THAT THE INSTITUTION WILL NEED TO OBTAIN IN ORDER TO SUCCESSFULLY ESTABLISH A LARGE ISSUER REGISTRAR. REPORT ON THOSE CANDIDATE INSTITUTIONS WITH WHICH THE CONSULTANT PROPOSES TO WORK.

An appraisal of the structure and capacity of the existing registrar "industry" was conducted. The team found that, although there were some small regional registrars interested in becoming part of an LIR, none could easily or logically evolve into an LIR in less than 5-10 years.

Potential interest on the part of foreign technical/investment partners (i.e., transfer agents or registrars) was explored. All major transfer agents/registrar in the United Kingdom and North America were contacted to ascertain their interest in acting as a technical/investment partner in the proposed Russian LIR. Of those contacted, four major North American transfer agents expressed concrete interest in participating.

Functional requirements and a hypothetical design for a proposed large-issuer registrar (LIR) were developed. During this process, it became clear that a multi-branch structure linked to a corporate headquarters by means of relatively high-speed data communications links was required. To operate existing, fully functional software packages, a mainframe computer would be needed at headquarters.

Practical possibilities for the commercial capitalization of the LIR were explored. An outline design and tentative capital cost for an LIR were developed. One Russian sponsor agreed to invest \$2 million or more as necessary. The International Finance Corporation agreed in principle to participate as an equity investor and to approach the EBRD about participating as well.

- B. CONDUCT A SERIES OF MEETINGS WITH THE PROPOSED INSTITUTION(S) TO DETERMINE THE SPECIFIC AREAS OF ASSISTANCE. FOR EACH INSTITUTION, PREPARE A DETAILED IMPLEMENTATION PLAN THAT IDENTIFIES THE STEPS REQUIRED, TIME FRAMES, RESOURCES AND RESPONSIBILITIES, AND ESTIMATES OF COSTS FOR EACH ACTIVITY AND AREA OF ASSISTANCE.

Data were gathered over a three-month period on the organizational and technical design and capital and operating cost estimates for LIR operations in Moscow and other centers. Agreement was reached to: (a) establish a network of LIR branches that could be formed from existing third party registrars (or from the registry operations of prospective issuing company clients); (b) subsequently connect these branches to each other by means of data communications and initiation of inter-regional registration services; and (c) commission the main data center and main software package and implementation of full transfer agent/registrar services.

A business plan and financial projections were furnished to prospective investors in January 1995. The Bank of New York was ultimately selected as the foreign partner.

A National Registry Company (NRC) was formed and registered with the Government of Russia in August 1995 with charter capital totaling \$10 million.

- C. CONTINUE TO WORK WITH THE RFSCE, ITS LEGAL ADVISERS, AND OTHER CONSULTANTS WORKING ON PROJECTS SUPPORTING THE DEVELOPMENT OF THIRD-PARTY REGISTRARS, TO IDENTIFY AND RESOLVE COMMON ISSUES CONCERNING THE PERFORMANCE OF REGISTRAR FUNCTIONS. PROVIDE TECHNICAL ADVICE TO DEVELOP OPERATIONAL GUIDELINES AND, WHERE APPROPRIATE, WORK WITH A LARGE ISSUER REGISTRAR TO IMPLEMENT SUCH GUIDELINES ON A "PILOT" BASIS. REVIEW AND PROVIDE COMMENTS ON RECOMMENDED POLICIES, LAWS OR REGULATIONS DEVELOPED.

Operating procedures to support initial NRC operations were developed. The NRC is capable of providing a complete range of transfer agent/registrar services to privatized issuing companies in Russia with more than 100,000 shareholders.

In the formation of the Large Issuer, ongoing dialogue between consultants, investors, the RFSCE, and the legal team continued to build the regulatory and enabling environment for registrants. Regulatory issues included nominee, material vs. dematerialized shares, and so on. The project team overcame a major obstacle to capitalization of the company, with the removal of part of the Russian Civil Code that delimited the liability of foreign enterprises (such as the Bank of New York) having a significant influence on the management of a Russian joint-venture enterprise. BNY could not invest in NRC under these conditions without the permission of the U.S. Federal Reserve Bank. The President of Russia issued a decree on July 29, 1995 removing the relevant part of the Civil Code; the NRC was finally registered as a company with charter capital of US \$10 million on August 12, 1995.

Task 3: Share Distribution System

- A. DEVELOP A HIGH-LEVEL "WHITE PAPER" DETAILING A PROPOSED SHARE DISTRIBUTION SYSTEM.
- B. ASSIST IN THE SELECTION OF ONE OR MORE NEW ISSUES TO SERVE AS "PILOTS" FOR THE SHARES DISTRIBUTION SYSTEM

Responsibility for these activities was transferred to other USAID contractors per Task Order Amendment No. 1.

Task 4: Promotion of Efforts to Attract Equity Capital

- A. ESTABLISH A UNIT THAT WILL BE RESPONSIBLE FOR WORKING WITH ISSUERS AND THEIR ADVISORS TO FACILITATE SHARE ISSUANCE. THE UNIT WILL BE RESPONSIBLE FOR PROMOTING STANDARDS DEVELOPED BY SELF-REGULATORY ORGANIZATIONS, THE RFSCE, AS WELL AS RELEVANT INTERNATIONAL STANDARDS. THE UNIT WILL SUBCONTRACT WITH RUSSIAN ORGANIZATIONS THAT AGREE TO PREPARE NEW SHARE ISSUES ACCORDING TO STANDARDS AND WORK WITH RUSSIAN INVESTMENT ADVISORS OF NEW ISSUERS.

Some initial activities were undertaken to promote listing requirements and attract new equity capital. However, in an attempt to consolidate and streamline the scope of activities undertaken in this task order, this task was dropped in the amendment to the task order and activities transferred to other USAID contractors.

Task 5: Establish funds settlement arrangements and implement first generation trade-by-trade, (delivery versus payment) securities clearing and settlement services at the Depository Clearing Company (DCC).

Development of funds settlement procedures and delivery versus payment operations were delayed, due to delays by the DCC in hiring a qualified Settlements Manager and appointing a settlement bank. These actions were completed in January 1996.

Clearing and Settlement Procedures, Volumes 1 and 2, were finalized and submitted to USAID in March 1996.

4. Lessons Learned

Initially, the scope for this task order was defined too widely for the contractor to be equally effective in implementation of all tasks. Also, the level of development and readiness of the Russian capital markets was not sufficient to absorb some of the technical assistance anticipated. Over time, the scope for implementation of the task order was narrowed and two task order amendments were executed to remedy project scope problems. Regular and frequent communication between USAID, the RFSCE and the contractor facilitated the ease with which

scope changes were made; all parties were in consensus about the progress of activities contributing to the success of the project.

A. Clearing and Settlement Organizations

- Over the course of this two-year project, the consultant team, the RFSCE, USAID, and the CSOs learned innumerable lessons. Overall, the most significant lesson learned was that assisting in the construction of a CSO as a viable business entity was a much longer-term prospect than originally anticipated. Due to the thinness of the Russian capital market, there is still not sufficient business volume to support adequately the Moscow-based Deposit Clearing Corporation. Even in the U.S., probably the most robust capital market, the CSO business results in low margins, creating the need for multiple business lines by the DCC-equivalent, the Depository Trust Corporation. As a result, USAID and other donors have had to contribute to ongoing costs of the DCC (such as rent for facilities) to continue its operations until it can generate revenues sufficient to become viable.

B. Large-Issuer Registrars

- Sponsors should anticipate that an elapsed time of 9-12 months will be necessary to execute the necessary work and put together an international joint venture enterprise.
- Conducting marketing studies in emerging markets is a difficult and demanding undertaking. It is recommended that the implementation timeframe should be double that required for a developed economy and the level of effort should be triple. At least one-third of the technical experts should be expatriates, in order to ensure appropriate analysis and documentation of results.
- When a foreign technical/investment partner is critical to the success of a proposed enterprise, selection of that partner should be made on a competitive basis whenever possible. The critical selection factor should be the qualifications of specific personnel to be assigned to the project by the foreign partner.
- If possible, prospective investors in a joint venture should be asked to put up approximately 10% of their planned final investment as "venture" capital, with the objective of maximizing the transfer of knowledge and data from consultants to operating personnel during the formative stages of this joint venture.

C. Funds Settlement Arrangements

- During implementation of the task order, it became necessary for the consultant team to review the general scheme of the funds settlement process and its interaction with the securities settlement process with a number of market participants. The acceptance of the funds settlement arrangements by market participants is key to ensuring they will actually use the procedures once defined.

- Another lesson learned in the development of funds settlement arrangements is the necessity to involve other governmental agencies, such as the Central Bank and the Ministry of Finance, in the process. Gaining consensus among these officials is often difficult, so sufficient time for involving them in a working group must be provided.

5. Replication Opportunities

As mentioned above with regard to other capital market activities, opportunities to replicate this task order depend upon the size of the economy and level of capital market development in the countries considered. While clearing and settlement functions are critical to the success of capital markets everywhere, whether or not those functions are performed by individual CSO enterprises depends on market size. Development of alternative structures, or assignment of CSO functions to broker/dealers or existing financial institutions such as banks, might be required in smaller or less developed economies.

Some have criticized USAID's involvement in capital markets activities such as this one, stating that the private sector will develop market institutions without technical assistance. Lessons learned in this project, on the contrary, reaffirm that USAID serves as a vital catalyst and financial bridge in the development of market infrastructure, in partnership with the private sector.

TASK ORDER 9-0057-DTT

1. Title

Small-Scale Privatization Program in Kazakstan (Kazakstan SSP)

2. Country and Period of Performance and Objectives

Country of Performance: Kazakstan
Effective Start Date: May 5, 1994
Final Completion Date: April 15, 1995

Objective: To provide follow-on assistance to the AID grant-funded Small-Scale Privatization Program managed under World Bank direction in Kazakstan. USAID funding supported the training of local Kazaks, the acceleration of the auction process, and the elimination of obstacles hindering the speed of the program at legal and policy levels.

3. Planned vs. Actual Accomplishments

Task 1: Resolution of Key Legal, Regulatory and Policy Issues

A. DELINEATE OWNERSHIP RIGHTS OVER SMALL-SCALE ENTERPRISES AND TRANSACTION IMPLEMENTATION AUTHORITY.

In order to launch new entrepreneurs with unfettered rights to the small scale "objects" they purchased, it was essential to ensure that small-scale entities were sold at auction with full rights of ownership. The project's legal team developed documentation applicable to all transfers which was adopted and utilized by the GKI. This accomplished the transfer of the physical assets of the small-scale object to its new owner. It would also have been desirable to transfer the accompanying land parcel related to the object and the team devoted a significant level of effort to resolving this issue. However, there was a larger policy debate about land reform going on in Kazakstan and the SSP project found it impossible to overtake the outcome of this serious matter. In lieu of dramatic reform entitling the new owner to land title, it was agreed that the auction transfer price also included the rights to a long-term lease of the accompanying land.

B.. DESIGN POLICIES, PROCEDURES, AND/OR LEGAL MECHANISMS GOVERNING ALLOCATION OF PRIVATIZATION PROCEEDS.

The project recommended that a portion of the privatization proceeds be retained by public authorities at the oblast level. It was felt that this would give the local authorities greater incentives and resources to speed the process of transfer. There was a great deal of resistance to this at the national level and in the end a compromise was reached whereby a de facto split of the proceeds was achieved allowing the oblasts to reimburse themselves for the "cost" of the transaction before remitting residual funds to the center.

- C. EXAMINE THE CURRENT LEGISLATION/REGULATIONS REGARDING HOUSING COUPONS TO ENSURE IT FOSTERS EXPEDITIOUS AND SIMPLIFIED TRANSFER OF OWNERSHIP OF AUCTIONED OBJECTS. REACH AGREEMENT WITH GKI TO ELIMINATE HOUSING COUPONS FROM SMALL-SCALE AUCTIONS AND INITIATE ALL CASH AUCTIONS.

A President's Committee was formed to resolve the housing coupon issue. A recommendation that housing coupons in the SSP program be optional, not mandatory, was drafted and submitted to the Committee. With the work of the consultant team, and subsequent contractors, all housing coupons have now been absorbed by the small-scale privatization program.

- D. RESOLVE OUTSTANDING ISSUES CONCERNING THE LAW ON LEASING BY PROVIDING A CLEAR DEFINITION OF THE RIGHTS AND RESPONSIBILITIES OF LEASEHOLDERS AND DESIGNING A COMPENSATION MECHANISM FOR TERMINATED LEASES.

Comprehensive recommendations were made to the authorities on matters of leasing, though by project end the GOK had not yet enacted any changes in existing legislation.

- E. ESTABLISH THE LEGAL FRAMEWORK FOR PROHIBITION OF DISCRIMINATION BETWEEN STATE AND PRIVATE SECTOR ENTERPRISES IN PRICING AND THE PROVISION OF NECESSARY INPUTS AND CONDOMINIUM BUILDINGS AND CONDOMINIUM RIGHTS ALLOWING THE SALE AND USE OF FREEHOLDS IN MULTI-PURPOSE BUILDINGS.

The project was not able to cause the GOK to enact formal legislation which would usher in a framework for condominium rights; however, the housing sales and coupon program did result in the effective transfer of many units within larger or multi-purpose buildings into private hands. The project observed the emergence of a market for condominium space which displayed the characteristics of freehold rights.

- F. DESIGN ANTI-FRAUD PROVISIONS.

Rigorous auction procedures ensured that all auctions were run on a transparent basis with full and open competition. These included advance public notice to elicit wide participation and pre-registration of potential bidders to ensure that potential buyers were serious and qualified.

- G. ELIMINATE ALL MINIMUM BIDS FOR ANY OBJECTS IN SMALL-SCALE AUCTIONS IN FAVOR OF LETTING THE MARKET DETERMINE THE INITIAL AND FINAL PRICE.

Throughout the duration of the small-scale privatization program the project team attempted to convince the GOK to eliminate minimum bids on small scale objects. There was strenuous objection to this on the part of the GKI, local authorities and the population at large as it was felt that depreciated historical cost was a fair representation of "value". It was believed that to let the market determine prices below "minimums" would give unfair advantage to certain buyers and give rise to abuse. Multiple arguments were presented to the authorities on this topic with an aim of re-directing attention away from financial "opportunity loss" and towards the economic gains

to be made from re-mobilizing stale assets. The authorities remained unconvinced. Towards the end of the project we proposed that deep discounts be authorized for objects that had been unsuccessfully transferred after one or two previous turns on the auction block. GKI at the central level approved of the principle that withdrawn objects should be reoffered at more rural locations and at deep discounts. Although an official letter was issued to the TerComs to this effect, it is still being challenged in local courts on the grounds that objects are being sold for too low a price. GKI has been reluctant to take a more aggressive stance on this issue.

H. DESIGN POLICIES, PROCEDURES AND/OR LEGAL MECHANISMS ALTERING THE CURRENT ALLOCATION OF SMALL-SCALE PRIVATIZATION PROCEEDS.

A recommendation was made to the GKI that a significant percentage of the proceeds from the auctions remain with the local TerCom instead of being transferred directly to the State budget as is currently the case. The GKI approved the proposal and submitted it to the Ministry of Finance for approval. This ministry blocked its passage. Under the effort of subsequent contractors, this constraint was removed and TerComs were able to retain a portion of proceeds.

I. IDENTIFY VIABLE ALTERNATIVE SYSTEMS TO THE CURRENT PROCEDURES, WHICH RESTRICT POST-PRIVATIZATION OPERATIONS, AND ATTEMPT TO REACH AGREEMENT WITH THE GKI TO REDUCE, AND IF POSSIBLE ELIMINATE, THE NUMBER OF OBJECTS AT AUCTION THAT HAVE CONDITIONS ATTACHED TO THEIR USE AFTER PURCHASE.

There was a downward trend in the number of objects sold with conditions. In the first quarter of 1994, 50% of objects were sold with conditions; in the last quarter of 1994, only 32% were sold with conditions. The 50% rate generally included multiple layers of conditions per object whereas most conditions are now limited to profile. Of the current 32%, many have only a single profile condition on food stores, which has traditionally been an "acceptable" condition.

J. DRAFT REGULATIONS WHICH INSURE THAT LAND RIGHTS UNDER THE OBJECT ARE INCLUDED AS PART OF THE OBJECT DURING THE AUCTION PROCESS.

A new law was passed in late March/early April 1995, which declared that new owners of objects were to be made fully aware of the total price, including the price of land, at the time of auction. The new law also stipulates that new owners should be given all available information on the procedure for legal ownership. By April 15, 1995, this legal system was operating in nearly all of the oblasts.

K. UNDERTAKE ON A PILOT BASIS IN TWO OR THREE OBLASTS A SURVEY OF ALL THE SMALL-SCALE OBJECTS SUBJECT TO PRIVATIZATION. AFTER THE PILOT SURVEYS ARE COMPLETED, THE CONSULTANTS, IN CONSULTATION WITH USAID, WILL DETERMINE WHETHER THERE IS A NEED FOR A NATIONAL SURVEY.

A preliminary survey to estimate the number of objects in the small-scale universe was completed in 1994. It was determined that there are 8,000-12,000 readily privatizable small-

scale objects in Kazakstan and that there may be as many as 19,000 additional objects that should be analyzed as potential privatization candidates.

Task 2. Implementation of Small-Scale Privatization Auctions

- A. IF NECESSARY, DEVELOP MODIFICATIONS OF EXISTING AUCTION PROCEDURES TO INCLUDE: (I) PROCEDURES IN ACCORDANCE WITH THE NATIONAL PRIVATIZATION NORMS AND ESTABLISHED REGULATIONS; AND (II) INCORPORATION OF ALTERNATE MECHANISMS SUCH AS RAPID ESTABLISHMENT OF CONDOMINIUM RIGHTS AND SELLING OF FREEHOLDS IN MOST CASES.

Comprehensive auction procedures conforming to national privatization norms and objectives were developed during the first phase of the SSP project under World Bank guidance. As explained above, the emergence of de facto freehold property rights was facilitated by the project.

- B. ASSEMBLE REGIONAL AUCTION TEAMS COMPOSED OF EXPERIENCED PROFESSIONALS WHO WILL RESIDE IN THE REGION TO PROVIDE INTENSIVE IMPLEMENTATION ASSISTANCE TO A CITY/REGION. STRONG EMPHASIS WILL BE PLACED ON TRAINING KAZAKSTANI PRIVATIZATION SPECIALISTS WHO WILL CONTINUE TO IMPLEMENT AND EXPAND THE PROGRAM THROUGHOUT KAZAKSTAN. THE TEAMS WILL WORK CLOSELY WITH LOCAL GOVERNMENT OFFICIALS TO IMPLEMENT SMALL-SCALE PRIVATIZATION AUCTIONS.

Over the course of the project, expatriate privatization specialists progressively trained Kazak counterparts and were phased out. By the end of the project we only had one remaining expatriate regional specialist. The TerComs in all regions had built up expertise in managing the auction and transfer processes related to small scale objects.

- C. RESOLVE OUTSTANDING PIPELINE MANAGEMENT ISSUES SUCH AS THE NUMBER, QUALITY AND DIVERSITY OF ENTERPRISES PROPOSED FOR AUCTION.

Kazak nationals were trained in the skills necessary to run the six regional auction centers without expatriate supervision. They also participated in the roll-out phase of the auctions.

DTTI worked closely with both Central GKI and the local TerComs to establish accurate lists of available objects. This was both the most important task undertaken and one of the most difficult. Unforeseen difficulties had made completion of the SSP object list by the beginning of 1995 impossible. DTTI undertook several steps to compensate for the lack of a list and still substantially increase the object transfer rate. The GKI was convinced to proceed on the basis of quarterly lists in 1995.

Several categories, containing many thousands of objects, were identified. In addition to a general category of small business, numbering around 3,000 - 3,500 objects, there are several other distinct categories including: gas stations, ORS's (enterprise-specific worker supply facilities usually comprising warehouses, distribution and retail outlets), joint stock company

objects, pharmaceutical retail outlets, cultural objects, leased objects and buildings. Conservative estimates place the number of objects in these categories at 8,000 to 10,000.

The GKI verbally agreed to bring to auction all eligible objects reflected in the February 7 GKI Collegium Resolution which called for completion of small-scale privatization by the end of 1995. This verbal agreement was followed by a signed commitment to auction off 8,000 objects.

- D. PERFORM A RE-EVALUATION OF THE SYSTEMS REQUIREMENTS OF THE SMALL-SCALE AUCTION STRUCTURE IN THE CONTEXT OF AN EXPECTED EXPANSION IN THE NUMBER OF OBJECTS IN THE PIPELINE. CONSULTANT SHALL ALSO IMPLEMENT CHANGES IN THEIR OWN DATABASE TRACKING SYSTEM TO INSURE THAT IT CAN ACCOMMODATE AN INCREASING NUMBER OF OBJECTS GOING THROUGH THE PIPELINE AND AUCTION PROCESSES.

Our database was enhanced throughout the project in order to track increasing numbers of objects as well as extract more useful management information. For example, changes were introduced to track the performance of objects which were withdrawn and later re-offered for sale as well as to track the psychographic profiles of buyers. Largely due to the quality of this database, it was possible to extract a large amount of information both on "auction throughput" as well as the potential impact of the small-scale privatization program overall. The World Bank relied heavily upon our database for their publication entitled Small Scale Privatization in Kazakstan authored by Aldo Baietti.

- E. ASSIST REGIONAL GKI PERSONNEL TO ADAPT TO THE CHANGES IN THE SMALL-SCALE PROGRAM BY: (I) SENDING LOCAL LEGAL STAFF INTO THE FIELD TO MEET WITH REGIONAL OFFICIALS TO INSURE THEY ARE AWARE OF AND UNDERSTAND THE NEW FRAMEWORK; (II) HOLD REGIONAL SEMINARS TO REINFORCE THE CHANGES; (III) REVISE THE CURRENT AUCTION PROCEDURES AND PRODUCE A MANUAL DESCRIBING THE CHANGES; (IV) ASSIST REGIONAL GKIS TO EFFECTIVELY USE THE NEW HARDWARE AND SOFTWARE PURCHASED AS A RESULT OF THE SYSTEMS REVIEW.

A two-person legal team was formed and trained to work in the field. They provided assistance in several oblasts in such areas as: proper evaluation, registration documents, legality of lease procedures and interpretation of the law on object selection, passport preparation, auction notification, advertising, auction organization, bidders' rights and payment mechanisms.

The team also worked on segmentation of joint stock company retail units which should be spun off for auction through the SSP process.

- F. CONTINUE LIMITED POST-PRIVATIZATION INITIATIVES, SUCH AS THE "TRAIN-THE-TRAINERS" PROGRAM, AS WELL AS EFFORTS TO HELP NEW OBJECT OWNERS TO DEAL WITH ISSUES OF CONCERN TO THEM SUCH AS BUREAUCRATIC HARASSMENT AND EXCESSIVE TAXATION.

Over 900 new business owners in 20 different cities attended training seminars presented by a team of local specialists trained by DTTI. The seminars covered a wide range of topics essential

for owners of newly-privatized objects, including marketing and advertising, accounting, tax law, employee relations, management, and developing a business plan. A manual entitled *How to Run Your Business* was drafted in Russian and distributed to seminar participants.

- G. PROVIDE SUPPORT TO THE AUCTION PROCESS THROUGH MAINTAINING THE AUCTION INFRASTRUCTURE; ASSIST IN ENTERPRISE PREPARATION TO ENSURE A CONTINUOUS SUPPLY OF ENTERPRISES SUITABLE FOR AUCTIONS, PREPARING LEGAL DOCUMENTS; AND COORDINATE WITH GKI'S PUBLIC EDUCATION SPECIALIST IN THE DESIGN AND DEVELOPMENT OF AN APPROPRIATE PUBLIC INFORMATION PROGRAM TO EDUCATE THE PUBLIC ON THE FUNDAMENTAL COMPONENTS OF THE SMALL-SCALE PRIVATIZATION PROGRAM AND AUCTION PROCEDURES.

The six regional SSP centers provided the required support to the auction process and the rate of object throughput was increased over the life of the project.

4. Lessons Learned

In our role as consultants engaged in small-scale privatization in Kazakhstan, we found ourselves in the constant role of intermediary between GOK and USAID. While both parties agreed upon privatization objectives at the highest levels, the two institutions placed differing priorities upon operational matters. The GOK, represented by the State Property Committee (GKI), placed greater relative value on "*integrity of process*" while USAID placed greater value on "*object throughput*" as a proxy for measuring economic transformation. From USAID's perspective, speed was the most critical variable to program success, while from the GOK's perspective it was important to maintain a consistent process as well as to extract the maximum possible fiscal proceeds from the transfer price. Try as we might to influence the GOK towards the merits of USAID's stance, we were unable in the final analysis to convince the GKI to forego minimum bid levels and other key policies which could have propelled the program forward with greater speed. In an impasse situation such as this one, we believe that USAID should understand it must take on greater direct involvement if it is to influence its client to its total satisfaction. As consultants we did not have the weight nor the potential to reward behavior with the adjustment of resources as would be available to USAID. Furthermore, in similar situations in the future, USAID might wish to consider alternative means of compensating Governments for foregone privatization proceeds in order to gain greater speed.

5. Replication Opportunities

The small-scale privatization program in Kazakhstan should be viewed as largely successful and it will serve as a good model for similar programs in other countries. We know for a fact, for example, that Tajikistan is actively examining the Kazak SSP experience with a view to adopting the same or similar approaches to their economic reform program.

TASK ORDER 10-0071-DTT

1. Title

Review of Moldova National Subscription for Shares System Linkages (Moldova Share Linkages)

2. Country and Period of Performance and Objectives

Country of Performance: Moldova
Effective Start Date: June 20, 1994
Final Completion Date: July 12, 1994

Objective: Review of proposed automation linkages for the national subscription for shares system in Moldova to ensure that the linkages are simple, cost effective, and supportive of the development of the capital markets.

3. Planned vs. Actual Accomplishments

Task 1: Conduct a critical review of the proposed linkages for the national registration for shares system as currently proposed by Price Waterhouse and the MOP. Review the: (i) existing telecommunications infrastructure in Moldova; (ii) proposed infrastructure for private bid collection and data entry sites, including placement of equipment in strategic locations; and (iii) specifications of equipment procured, including hardware and software, to determine best usage for the national system.

Task 2: Provide recommendations for, and implement the refinement of, the proposed national auction infrastructure. In preparation for the pilot auctions in June/July 1994, assist in the linkage of bid collection and data entry sites to the national center. Refine procedures based on the outcome of the first pilot auction in June. Make recommendations for the linkages of the entire national registration for shares system.

Interviews were conducted with representatives of organizations involved in Moldovan privatization, including Price Waterhouse personnel heading up all areas of the auction system, and important players in Moldovan telecommunications, including the Moldovan Ministry of Telecommunications department heads, private enterprise telecommunications vendors, and Moldovan e-mail and networking specialists.

A final report was submitted setting forth the following conclusions:

- Telecommunications infrastructure in Moldova is limited to only the simplest technology and relies on an antiquated and undependable Moldovan telephone system.

- Relatively short distances between bid centers and Chisinau and the centralized nature of the Price Waterhouse system make it more efficient to transport bid data via hard copy or disk.
- The primary justification for implementing a telecommunications component is to lay the ground work for capital markets.
- The advanced telecommunications networks that the capital markets will require are unavailable in Moldova, and the direction capital markets will take has not been defined; therefore, it would be premature to implement a telecommunications component at this time.

4. Lessons Learned

The objective of this task order was to provide the input of a telecommunications specialist to review the work of another contractor, based upon the Russian experience. It was quite easy for the consultant mobilized under this effort to review accomplishments and to provide USAID with an objective, third party opinion on the possible success of a telecommunications network in Moldova. The consultant was released for 10 days effort from his assignment in Russia to travel to Moldova to confirm the plan for automation of share transfers. As mentioned above, it was determined that it would be premature to implement a telecommunications component in Moldova at that time. This was the type of input needed by USAID to determine the course of action for continued U.S. technical assistance.

5. Replication Opportunities

In its continued efforts to ensure that U.S. technical assistance is cost effective and has impact, it is worthwhile to use the knowledge gained and expertise of consultants working in other countries. The conclusion was not to attempt the replication of the Russian telecommunications network in a smaller, less technologically developed economy like Moldova. However, commitment of a resource to analyze the opportunities for replication, should certainly be repeated in other task orders.

TASK ORDER 11-0076-DTT

1. Title

Recruitment for the Russian Privatization Center and Resource Secretariat (RPC Recruitment)

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: July 9, 1994
Final Completion Date: July 8, 1996

Objective: To assist the Russian Privatization Center and the Resource Secretariat for the Russian Federation Commission on Securities and Exchanges in locating qualified staff for 20 key positions to be based in the RPC headquarters in Moscow.

3. Planned vs. Actual Accomplishments

Task 1: Recruit Russian and expatriate professionals for 20 key positions for the Russian Privatization Center and the Resource Secretariat for the Russian Federation Commission on Securities and Exchange. The recruitment process will include establishment of written specifications for each position, identification of qualified candidates, assessment of prospective candidates' qualifications, introduction of a panel of qualified candidates for each position, selection of the finalists, and structure and presentation of job offers.

The original list of twenty positions for which Ward Howell International was to recruit candidates was revised during the life of the project. Of the 21 positions included in the revised list, 14 candidates were recruited and hired by either the RPC, the Resource Secretariat or the Legal Reform Project. The following is the revised list of positions and candidates recruited.

RUSSIAN POSITIONS	CANDIDATES HIRED	EXPATRIATE POSITIONS	CANDIDATES HIRED
Chief Counsel	Julia Mozhareko	Executive Director, Resource Secretariat	Richard Bernard
Chief Operating Officer	Alexander Lyutikov	Resident Advisor, Financial Projects	Holly Nielsen
Project Manager 1	Valery Alexandrovitch	Resident Advisor, Secondary Markets	Donald Beskine
Project Manager 2	Konstantin Abramov	Director, Training Initiatives	--
Project Manager 3	Alexei Pankin	Project Manager, Enterprise Restructuring	--
Project Manager 4	Alexey Neradovsky	Manager, Regional Support Team	--
Project Manager 5	--	Director, Land & Real Estate Reform	Roderick Matthews
Project Manager 6	--	Chief Financial Officer	Chris Parks
Lawyer 1	Julia Anoufrieva		
Lawyer 2	Igor Redkin		
Lawyer 3	Alexander Timofeyev		
Land Specialist 1	--		
Manager, Regional Support Team	--		
Total No. of Russian Positions	13	Total No. of Expatriate Positions	8
Total Russian Candidates Hired:	9	Total Expatriate Candidates Hired:	5

4. Lessons Learned

Ward Howell International worked closely with the RPC and the Resource Secretariat and was effective in identifying qualified candidates. Ward Howell was very responsive to the frequently changing staff needs of these institutions which ultimately led to a divergence from the original list of positions for which Ward Howell was expected to recruit candidates. Although these changes were ultimately approved by USAID, considerable time and effort was required on the part of all parties to explain the various changes. It is recommended that regular meetings be held between the host country institutions, USAID personnel and Ward Howell to discuss evolving staffing needs and to get recruitment changes approved on an ongoing basis.

5. Replication Opportunities

The use of an executive search firm to recruit personnel through a USAID-funded task order was unusual. The use of this type of firm was effective in meeting the staffing needs of the client institutions and can easily be replicated anywhere.

TASK ORDER 12-0079-DTT

1. Title

Demonopolization of the Wholesale, Transportation, and Distribution Sectors in Uzbekistan (Uzbekistan Demonopolization)

2. Country and Period of Performance and Objectives

Country of Performance: Uzbekistan
Effective Start Date: July 7, 1994
Final Completion Date: January 31, 1995

Objective: Provision of technical assistance to the privatization of the wholesale, transportation, and distribution sectors in Uzbekistan through design of policy and deregulatory initiatives and implementation of pilot programs.

3. Planned vs. Actual Accomplishments

Task 1: Identify policies which can, if adopted, quickly create private transport, wholesale and distribution enterprises which operate on a competitive basis.

The team met with high-ranking officials in relevant government organizations, including the GKI, the State Corporation for Automobile Transport (the former Ministry of Transport) and its regional transport associations, Regional Governments (Khokimiyats), the Republican Real Estate Exchange, the State Share Depository, and the former Ministry of Trade. The meetings included a presentation and discussion of the team's proposed policy initiatives in the trucking and wholesaling sectors, based on four tenets: private ownership, competition, use of real money (as opposed to intragovernmental credit), and improved service provision.

An Origin and Destination Survey of freight and truck movements was conducted in order to understand the nature, size, and significance of trucking.

A report describing the team's policy initiatives and its presentation, entitled *Policy Initiatives in the Trucking Sector in Uzbekistan*, was submitted to USAID.

Task 2: Identify deregulatory initiatives in the relevant sectors that will: (i) decentralize administrative authority; (ii) introduce competition into the means and sources of supply for privatized small-scale businesses by encouraging open entry for new participants in these sectors; (iii) downsize individual enterprises into more affordable and salable units; and (iv) preserve some of the economies of scale enjoyed by large companies.

Seven pilot project proposals were submitted to the GKI but were virtually ignored. These proposals were subsequently replaced with the truck auctions and share valuation projects described elsewhere.

Task 3: Simultaneously and in conjunction with the policy and deregulatory initiatives, organize implementation teams which can quickly put in place pilot projects to privatize wholesale, transport and distribution organizations. Identify pilot initiatives for approval of GKI and USAID.

Task 4: After identifying the pilot projects to be privatized, implementation teams will quickly implement those projects.

Auctions of state-owned trucks were held in Tashkent and the Tashkent region and others were planned for Samarkand and other regions. The team helped secure the provision of trucks for auction by various branches of the Uzbek State Corporation for Automobile Transport and worked with the State Property Committee and the Republican Real Estate Exchange to organize the auctions themselves.

Task 5: With the pilot work mentioned above serving as the foundation, a national privatization program will be implemented by Uzbek professionals trained during the pilot phase. In support of this roll-out phase, Consultant will develop materials to assist wholesalers to deal with optimal approaches to privatization.

A method for revaluing the assets of joint-stock companies (in particular vehicles which constitute over 75% of asset-value) was developed. Charts were prepared assigning broad-based values, based on age and average physical condition, to every major model of truck and trailer employed by Uzbek autobases. The valuation exercise became the basis for the team's proposed method of the staged sale via the stock exchange of all of the GKI's current 51% holding in trucking joint-stock companies.

A report on the team's share sale pilot project and guidelines for national extension was submitted to USAID in English and Russian. The report is entitled *Recommended Method for Asset and Share Valuation to Enable the Public Sale of Joint-Stock Company Shares in Uzbekistan*.

Task 6: Approximately eight local consultants will be recruited and trained by the contractor. They will form the "field team" for implementing the roll out in various cities.

Five local consultants, including generalists, accounting specialists, and technical transport specialists, were hired and trained.

4. Lessons Learned

- After several years of independence, the framework for privatization in each former Soviet republic has matured to the point at which fundamental changes will be very difficult to achieve without broad political consensus. Furthermore, each individual republic has followed a path divergent from that of its neighbors in terms of timing and substance. Programs must be developed and implemented with a discerning eye to the individual peculiarities of each country including its laws, economic situation, political climate regarding privatization and economic reform, and other factors.
- Task order implementation was hampered from the beginning by the lack of prior knowledge and/or agreement to the scope of work by the GKI. Over the life of the task order, this lack of consensus, combined with significant resistance to job-threatening privatization at nearly all levels of the Uzbek government, forced the team to seek compromises that would be acceptable to the government and yet still achieve the basic goals of demonopolization and ownership transfer set out by USAID. This was the cause for deviations from the original scope of work.

5. Replication Opportunities

This trucking and demonopolization task order was already a duplicate of successful work which had been undertaken with USAID funding by the International Finance Corporation (IFC) in Nizhny Novgorod. The effort was replicated throughout Central Asia with mixed success. While it is recommended that the lessons learned from the Nizhny, Uzbek, Kazak, and Kyrgyz pilot programs be replicated, adjustments and tailoring of the approach to each country circumstance is required.

TASK ORDERS 13-0086-DTT AND TASK ORDER 14 -0099-DTT

1. Title

Ukraine Capital Markets Development

2. Country and Period of Performance and Objectives

	<i>Task Order 13</i>	<i>Task Order 14</i>
Country of Performance:	Ukraine	
Effective Start Date:	September 29, 1994	November 14, 1994
Final Completion Date:	October 20, 1994	December 15, 1994

Objective: Provision of technical assistance to the Ministry of Finance Working Group currently coordinating capital market development in Ukraine for the Cabinet of Ministers.

3. Planned vs. Actual Accomplishments

Task 1: Assist a working group established by the Cabinet of Ministers of Ukraine to draft a policy document on the development of securities markets. Consultants will review and comment on existing draft policies; advise counterparts on the pros and cons of alternate policies as demonstrated by experience in other countries; suggest specific language for the policy paper, and assist the working group to ensure the consistency and comprehensiveness of the policy to be proposed to the Parliament. Promote independence of the SEC from the government to the greatest possible degree and discuss typical functions, procedures, etc.

The team found that there was no universal opinion among the Working Group participants on the "right" model for a future securities market in Ukraine. The team spent time talking through alternative methods, aspects and development outcomes of a securities market and discussing optimal options for Ukraine.

Basic current regulation governing the Ukraine securities market was reviewed. The basic infrastructure supporting the securities market was analyzed.

A paper was prepared outlining the key features of the French securities market model versus the United States/United Kingdom model.

The team found that the majority of Ukraine government officials and Stock Exchange and Depository executives who were contacted inclined towards strong centralization of the major securities market functions and a high level of detailed government regulation and control. Little interest was shown in how to develop a class of investors, create sufficient stable capital and money supply, package enterprises in need of debt and equity infusions, and match enterprises

with investors. The team continually stressed that adopting the centralized approach would slow development of the securities market and economy as a whole, promote the emergence of a few gigantic investors, instead of thousands of investors of different sizes, and would create a market incompatible with the major financial markets. This would result in difficulties raising funds internationally.

Task 2: Develop a list of legislative acts and/or regulations needed to implement fully the proposed policy for securities market development.

A Ukraine securities market issues paper was prepared covering the following: adequate supply (volume and diversity) of securities, liquidity, market participants, regulators, and a capital market environment for foreign investments.

Task 3: Submit a report describing accomplishments and providing recommendations for a future course of action with respect to developing a market-oriented capital market framework.

A final report was submitted on October 14, 1994.

Task 4: Work with the Cabinet of Ministers' Inter-Agency Working group, other appropriate officials, and potential members of the Securities and Exchange Commission on creating a framework for Ukrainian securities market development.

A concept paper outlining the general framework for securities market development in Ukraine was presented to the Ukrainian Ministry of Finance and USAID. Following the presentation, the team held extensive meetings with government officials to discuss the various concepts.

Task 5: Review and provide the Ministry of Finance and USAID with written analysis on the proposed capital market framework paper to be submitted to Ukraine's Cabinet of Ministers.

The Cabinet of Ministers' Inter-Agency Working Group prepared its own concept paper which the team reviewed. It became clear to the team that this concept paper, rather than the team's paper, would be the formal vehicle for dialogue among Ukrainian government officials. The team chose, therefore, to import major ideas from its paper into the Working Group's draft. This approach allowed the Working Group to have ownership of the document and the process. The team's written comments on the Working Group's concept paper are attached to the final report.

4. Lessons Learned

USAID sought to influence the progress of the development of the Ukrainian capital markets, based upon the positive experience in Russia. By working at the highest levels of government, the consultant team was successful at entering the policy debate about capital market development and providing government decision makers with alternative models to pursue. The important lesson learned here was that continued donor coordination -- to be sure that approaches

from multiple nations are considered -- and entry at the highest point of government debate are important to ensure that solutions to development problems are well-considered and well-thought out in order to have impact.

5. Replication Opportunities

As described above with regard to the Russian capital markets task orders, this effort can be replicated in countries where privatization through share offerings has begun and private sector market participants are present. By working at the government policy level, in addition to the institution-building and enterprise-specific levels, technical assistance interventions can achieve maximum development impact.

TASK ORDER 14-0099-DTT

Please see Tab #13

TASK ORDER 15-0107-DTT

1. Title

Program for Financial Management Assistance (FMA): Financial Skills Development

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: February 20, 1995
Final Completion Date: December 22, 1995

Objective: To train and develop Russian management consulting teams to specialize in financial management. Following training, eight teams consisting of four Russian consultants shall work with eight competitively-selected medium and large enterprises in the Russian Federation, aiding the enterprises in financial management.

3. Planned vs. Actual Accomplishments

Task 1: The Program will cover financial management accounting, managerial accounting, cash management and operational improvements. Training for the selected consulting teams and assistance for selected enterprises will be provided in three main areas: (i) Understanding overall profitability (financial and management accounting); (ii) Manage cash flow (cash/financial management); and (iii) Managing costs within the system (management accounting and operation improvements).

- A. DURING THE FIRST SIX MONTHS, THE TEAM WILL FOCUS ON THE DUAL ASPECTS OF TRANSFER OF TECHNICAL KNOWLEDGE TO AN EMERGING CONSULTING SECTOR AND TO ASSISTING EIGHT ENTERPRISES TO BECOME BETTER PREPARED MARKET PARTICIPANTS WITH APPROPRIATE FINANCIAL ASSISTANCE AND TRAINING.

A financial management manual for managers and consultants was developed and served as the basis for the consultant training program. This training program was divided into two sessions: the first for eight consultants chosen to serve as enterprise team leaders; the second for the twenty-four enterprise team members. In addition to the classroom training held at Moscow State University (MGU), the eight team leaders participated in a two-week case study at one of two enterprises selected for task order assistance.

- B. ENTERPRISE ASSISTANCE WILL BEGIN BY AN ANALYSIS PHASE WHICH WILL DEFINE THE SPECIFIC ENTERPRISE ISSUES AND NEEDS. THIS WILL BE FOLLOWED BY A PROJECT DEFINITION PHASE STATING CLEAR GOALS AND OBJECTIVES TO BE ACHIEVED IN TERMS OF TRAINING AND IMPLEMENTED CHANGES. APPROPRIATE TRAINING MODULES WILL THEN HELP BOTH THE CONSULTANTS AND THE ENTERPRISE MANAGERS TO REACH THE REQUIRED

LEVELS OF EXPERTISE. AN ACTION PLAN PRESENTING THE FINANCIAL PROCESSES TO BE RESTRUCTURED WILL BE DRAWN.

Enterprise teams were deployed in July and August 1995. The types of technical assistance provided to enterprises was tailored to the needs of each. The range of assistance provided to the eight enterprises included:

- Preparation of financial statements, including balance sheets, income statements, and cash flow statements. Transformation of company balance sheets to Western standards.
- Financial analysis of enterprise operations, including profitability and liquidity, accounts payable and receivable, and cost structure. Calculated contribution margins of main products and services and established break-even points.
- Provided basic elements of an information system to generate financial information for management decision making.
- Provided formal and on-the-job training for enterprise management and staff.

C. AFTER THE ANALYSIS AND PROJECT DEFINITION PHASES, THE CONTRACTOR WILL CONTINUE TO SUPPORT THE ENTERPRISE FOR THREE MONTHS BUT WITH MUCH LESS INVOLVEMENT. THE IMPLEMENTATION PHASE WILL FOCUS ON: (I) PROVIDING "ON-THE-JOB TRAINING AND SUPPORT" TO THE NEWLY TRAINED RUSSIAN CONSULTANTS; (II) PROVIDING FURTHER TRANSFER OF KNOW-HOW ON PRACTICAL AND FAMILIAR ISSUES TO THE ENTERPRISE FINANCIAL MANAGERS; AND (III) IMPLEMENTING THE FINANCIAL MANAGEMENT CHANGES AS HIGHLIGHTED DURING THE ENTERPRISE ANALYSIS AND PROJECT DEFINITION PHASES. THE CONTRACTOR'S INVOLVEMENT DURING THE PERIOD WILL BE RELATIVELY LOW BUT OF A SENIOR TYPE. MOST OF THE WORK IS EXPECTED TO BE PERFORMED BY THE NEWLY TRAINED RUSSIAN CONSULTANTS.

During this phase of the task order, full teams of four Russian consultants were maintained at three of the eight original enterprises and one Russian consultant was maintained at each of two additional original enterprises.

Five roll-out seminars were organized between late October and late December 1995. The purpose of the roll-out seminars was to disseminate information about the technical assistance provided through FMA and to expose participants to the use of financial management documentation for decision-making purposes. Participants were management personnel from enterprises that had not participated in the original task order activity.

4. Lessons Learned

- The combination of Russian nationals and experienced expatriate consultants used during implementation was an excellent method of achieving optimum results.

- It is recommended that sufficient financial resources be budgeted to field one senior expatriate advisor per enterprise management team. During implementation of the task order, each senior expatriate was responsible for two enterprise teams, which required him/her to split time between them. This proved somewhat disruptive to each team's workflow.
- A majority of Russian companies probably cannot afford the full market rate for consultants, either expatriate or Russian. Enterprises can be persuaded, however, to make relatively significant contributions to the cost of technical assistance.
- Regular visits to a central project office are important for team effectiveness, cross-fertilization of on-site experiences and ideas, and team morale.

5. Replication Opportunities

The training provided to the thirty-two Russian consultants proved very effective and resulted in a permanent cadre of Russian financial management consultants whose services can be contracted for on a commercial basis. The training manual developed through this task order used the Russian accounting system as its starting point. This means that the manual is readily transferable for use in training consultants throughout the former Soviet Union.

The cost per enterprise of the financial management assistance provided through this task order will probably prohibit replicating it elsewhere.

TASK ORDER 16-0114-DTT

1. Title

Program for Intensive Enterprise Support (PIES)

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: March 1, 1995
Final Completion Date: July 8, 1996

Objective: To commence addressing on a limited, but significant, scale pervasive problems of Russian enterprises, to document successful and "standard" approaches and solutions to those problems, and to transfer know-how to managers and Russian consultants. The objectives are to provide overall restructuring assistance, general strategic advice, the realization of specific enterprise-level operational improvements, and the implementation of specific investments and business development projects.

3. Planned vs. Actual Accomplishments

Task 1: The contractor will work with eight enterprises, commencing work with one or two on a pilot basis. After selection of each enterprise, the Contractor is expected to develop and agree with enterprise management and the Russian Privatization Center (RPC) a restructuring plan of post privatization assistance. A restructuring plan is defined as a medium-term strategy document highlighting the areas in need of restructuring, practical suggestions and implementation support for such restructuring. The definition of success of an individual enterprise restructuring exercise will be the creation of a bankable enterprise, i.e., an enterprise able to secure medium- to long-term financing for its operations in generally acceptable commercial form against the strength of the restructuring plan developed and implemented.

Upon agreement by the RPC and USAID, the Contractor will commence work with managers in designing and implementing restructuring programs for the enterprise. The work program will be designed to produce early results and to generate approaches with a potential of applicability in other companies.

The number of enterprises receiving assistance was reduced by USAID from eight to seven. Each enterprise team followed the same basic work plan, tailored wherever necessary to the specifics of the company. The basic plan centered around four key reviews: financial, strategic/marketing, technological, and organizational. Data in each of these areas were collected and analyzed, including benchmarking against Western industry best practices. On the basis of these analyses, the teams developed a strategic blueprint for change, which was presented to the

enterprise's top management. After ensuring management acceptance of the blueprint, the consultants assisted management with the development and implementation of action plans.

Three major types of restructuring strategies were identified to help bring enterprises out of crisis and put them on the path of increased competitiveness and sustainable growth. Each type of strategy is appropriate for a particular type of firm, given its strategic position.

- **Turnaround.** Enterprises on the verge of bankruptcy need to implement radical turnaround strategies immediately. This type of strategy could entail shutdowns of major parts of the business, other cost reductions, rigorous cash management, and short-term revenue generation.
- **Unstable.** Other enterprises may be unstable but without such an imminent threat of shutdown. These require short-term revenue-generation strategies. These strategies involve an increased focus on the most profitable product lines and the rationalization of secondary activities, efficiency improvements in production, and efforts to expand into new markets.
- **Short-term stable.** A third type of enterprise may be stable in the short-term but would benefit from a medium-term repositioning strategy to correct longer-term problems. This is primarily oriented towards targeting new markets, improving performance, and preparing for longer-term investments.

Accomplishments varied by enterprise but included the following: restructuring of the corporate organization of the company; closing non-profitable product lines; employing new technologies (e.g., quality assurance systems, uniform coding, reorganizing shop floors, etc.); developing market networks; receiving bank credit; setting up joint ventures; receiving new orders; and putting new accounting or management systems into place.

4. **Lessons Learned**

- Most Russian enterprises have problems that stem from inadequacies in organizational structure and management practices inherited from the Soviet period. The consulting team identified a syndrome endemic to Russian enterprises in need of restructuring: plummeting sales and a liquidity crisis coupled with an unchanging or worsening cost structure and a lack of an effective pricing policy. Enterprises lack the financial means to correct their decline in competitiveness unless they undertake radical change. Restructuring must, therefore, address each aspect of the syndrome: establish an effective marketing and sales function with a strong distribution network; create a market-oriented organization capable of generating attractive and cost-competitive products; introduce market-driven pricing processes that truly reflect customers' expectations and produce value; organizing financial activity to manage cash and working capital effectively; making the necessary preparations to attract investment; introducing management systems to monitor, control, and optimize the cost structure; and making the difficult decisions to achieve major cost reductions.

- Training in basic business skills is essential for enterprise staff to implement recommendations for restructuring.
- An effective change management process that is suitable for enterprises operating in the Russian environment increases the likelihood that recommendations will be implemented, and that enterprise restructuring will continue even after completion of the consulting project.
- Supportive shareholders can facilitate restructuring and, in some cases, force change from the outside over the objections of management. Conversely, when shareholders fail to provide support, management may hesitate to make the tough decisions necessary, or may even face obstacles to doing so. Shareholders may be able to draw lessons from successful restructuring at one enterprise and utilize the information to promote change at other enterprises in which they have a stake. This role, though just beginning, may be important in disseminating the lessons learned among private enterprises in Russia.
- Enterprises selected for participation in enterprise restructuring activities should have managers committed to change and should not be in such a severe financial crisis as to preclude the possibility of a successful project. Management commitment is essential for insuring cooperation with consultants and for guaranteeing that restructuring suggestions will be implemented. Limited financial resources should not be expended on enterprises with little chance of survival at the expense of companies that could use the assistance to become viable in the long run.

5. Replication Opportunities

The expense of the PIES project likely precludes any major replication opportunities in Russia or elsewhere. However, it is clear that many enterprises do require this type of broad-ranging restructuring assistance, and that the potential benefits are clear. In other markets, restructuring projects could be trimmed and focused, in order to make them more cost-effective.

TASK ORDER 17-0114-DTT

1. Title

Independent Share Registrar Operations in Ukraine

2. Country and Period of Performance and Objectives

Country of Performance: Ukraine
Effective Start Date: March 9, 1995
Final Completion Date: July 29, 1995

Objective: To assist in the development of an independent share registration strategy in Ukraine and to obtain consensus on this strategy from the various governmental officials and market participants. The underlying principle for such a strategy was that registrars should be independent, privately-owned commercial enterprises that would provide services that are consistent with international standards.

3. Planned vs. Actual Accomplishments

Task 1: Reach a consensus with Government of Ukraine leadership to develop an independent share registrar operation within the private sector. This may include several registrars.

Task 2: Examine the viability of owning and operating registrars in Ukraine based on the Russian experience.

Task 3: Undertake discussion/negotiation with the government of the crucial interface between registrars and other key securities market institutions.

A model registry system was developed and submitted to the Ukrainian government and industry officials for review. The model incorporated lessons learned from securities market development work performed by Deloitte Touche Tohmatsu International (DTTI) in other countries, including Russia. The critical concepts of an independent registrar system resident in the private sector and the need for an empowered government regulator were universally accepted, with the exception of the Depository of the Ukrainian Exchange, which maintains that it can serve as a single national registrar.

Based on the preliminary model, and working with USAID, the World Bank, ECU TACIS and Credit Commerce de France, the team prepared a concept paper further detailing the requirements of an independent registrar system. It was presented to and accepted by the Ukraine government and industry officials, and an action plan to implement the model was prepared.

Although there is consensus on the need for and attributes of such a system, there remains disagreement on how best to implement the system, particularly in the short term. The State Property Fund proposed that it assume an interim role as registrar and regulator. This approach had not been fully accepted by the Working Group of the Supreme Rada of Ukraine upon completion of the task order.

4. Lessons Learned

- Implementation of an independent registrar system in Ukraine will be evolutionary as the market matures and laws and regulations are developed. While interim policies will be required to facilitate entry of commercial enterprises into the registrar industry, it is critical that these compromises not become institutionalized.
- For an independent registrar system to be successful over the near- and long-term, there must be clear and enforceable laws and regulations. This requires that either a new securities body (e.g., a Securities Commission) be created, or that another entity be empowered in the near term to develop policies and set standards, and be vested with the authority to enforce them.
- For a pilot development program to be successful, there needs to be a Ukrainian government sponsor with the authority and good will to get things done. The pilot program will need to be integrated with other development efforts to ensure consistency and ultimate success. Other areas that should be integrated with this program include depositories, self-regulatory organizations, and overall development of the legal and regulatory environment.

5. Replication Opportunities

As mentioned above with regard to Task Orders 1 and 3, these task orders can be replicated in countries where privatization through share offerings has begun and private sector market participants are present. Replication is probably limited to countries where the economy and geographic size are large enough to accommodate multiple enterprises engaged in provision of “after the trade” market services.

When replicated, technical assistance should emphasize development of practical tools, such as business plans and operating manuals, to ensure sustainability of the resulting private businesses.

TASK ORDER 18-125-DDT

1. Title

A Farm Finance Company for Ukraine

2. Country and Period of Performance and Objectives

Country: Ukraine
Effective Start Date: October 2, 1995
Final Completion Date: January 12, 1996

Objective: To facilitate the rapid assessment, design and development of a financially self-sustaining private agricultural finance company for the Ukraine, specifically targeted to provide short- and medium-term financing to Ukrainian farmers.

3. Planned vs. Actual Accomplishments

Task 1: Investigate and analyze the requirements for establishing a fully functional, freestanding agricultural finance company for Ukraine. The team will: (i) coordinate their activities with The Citizens Network for Foreign Affairs (CNFA); (ii) review the rules and regulations governing establishing and operating a private financial institution; (iii) meet with appropriate financial institutions, regulatory authorities, and ministries which might be involved in prudential supervision of the Ukrainian financial institutions; and (iv) work with CNFA to engage and consult with appropriate private sector representatives and other donor institutions to seek advice and support for the initiative.

The team worked in close collaboration with the representatives of The Citizens Network for Foreign Affairs (CNFA). A series of information gathering meetings was held with executives of U.S. and multinational agribusinesses in the U.S., Brussels, London, and Kiev. In Kiev, the team met with Ukrainian agribusiness executives, farmers, government officials, and banking institutions. In New York and London, members of the team discussed potential leveraging options with international financial institutions, insurance companies, and commercial banks. To evaluate possibilities for incorporating a leasing company into the structure, team members and interested companies met with representatives from an existing leasing company already serving countries in the region. The team also conducted field reviews of distributor facilities and gathered agricultural and banking data relevant to the objective of the project. Consultations were also held with potential stakeholders such as the World Bank, the International Bank for Reconstruction and Development, the European Bank for Reconstruction and Development, the International Finance Corporation and the Western-NIS Enterprise Fund.

Task 2: Analyze the existing legal and regulatory framework for the start-up and operations of an independent financial institution and indicate what legal and organizational structure (including nationality and location of operations) will permit the facility to begin operations in a timely manner under existing laws and regulations.

The team conducted a full review of Ukrainian regulations governing financial institutions, assessed the needs and requirements of Ukrainian farmers and agricultural intermediaries, and began to formulate the structural alternatives for the proposed farm finance company. The team worked in close cooperation with USAID/Kiev, who provided guidance as to USAID's integrated agricultural/agribusiness assistance strategy for Ukraine. DTTI/Kiev provided administrative support as well as specific assistance in assessing legal and fiscal issues.

The team returned to Washington, D.C., and began preparation of the design for the proposed Ukraine Agricultural Development Company (UADC). Working in close cooperation with CNFA, arrangements were made for a detailed presentation of the design to the private companies who had indicated an interest in the UADC. A full-day meeting was held at DTTI's Washington offices, with the participants including the team, representatives of USAID, CNFA, and the companies interested in the UADC. Following the team leader's presentation of the design, the representatives of the private companies interested in participating in the UADC engaged in a full discussion of the proposal. The meeting concluded with the companies making several recommendations as to changes in the design structure as well as agreeing on a suggested series of next steps needed to further develop the project. Following the meeting, the team incorporated the suggested changes and the modified design proposal was submitted to the potential sponsoring companies for further consideration. The group of interested companies had also agreed to hold another meeting on December 19, 1995, by which time those participating were expected to have obtained preliminary approval to participate in the UADC.

The December 19 meeting was held at the offices of CNFA and included the team, CNFA and the representatives of eight companies interested in participating in the UADC. The company representatives agreed on a number of issues, including the acceptance of the final design, recognition that the further development of the UADC was now incumbent on themselves, and proceeded to form an interim steering committee with the selection of the President of CNFA as Chairman. The companies also agreed upon a series of further actions to be taken.

Task 3: Prepare a final report including the following: (a) description of the economic and policy framework; (b) legal status; (c) organizational and management structure; (d) satellite offices; (e) capitalization; (f) lending guidelines; (g) eligibility of borrowers; (h) security for loans; (i) loan making and servicing procedures; (j) accounts and audit; (k) cost of administration and financial sustainability; and (l) schedule of lending operations start-up.

A final report was prepared providing a detailed design of a Ukraine Agricultural Development Company (UADC). The UADC, as designed, is capable of being self-sustaining and providing significant credit capacity to serve a substantial segment of Ukrainian farms. Further, this facility, when formed and operational, has the potential to attract additional investment in

Ukraine from other countries and international sources supporting the development of Ukraine agriculture and agribusiness. The proposed design focuses on initial credit extensions for secondary or wholesale financing of suppliers/distributors' farm customers. It also provides for the formation of guaranteed and non-guaranteed "loan pools" at the suggestion of the potential investors. The guaranteed loan pools may be funded or unfunded depending on the interest of the companies and the terms offered by international banks. This will provide the opportunity for UADC to leverage its capital to meet the anticipated needs of the participating companies for loanable funds during the start-up period of the company. The refocus of the UADC design to that of a secondary or wholesale financing institution resulted from active involvement in the design process on the part of interested investors. The resulting design is intended to attract the broadest possible participation by U.S. and multi-national agribusinesses in the capital funding and support of UADC.

The final incorporation and implementation of the UADC is dependent on the positive resolution of a number of issues that exceed the scope of this Task Order. These include the further negotiations between the companies themselves, between the companies and USAID, and between the UADC and its potential funding sources and creditors.

4. Lessons Learned

A major conclusion of the study was that the U.S. Government should commit to supporting the creation of the UADC. A principal objective should be to encourage participation by the largest group of agribusinesses possible in the establishment of the UADC. While it is clear that USAID should strive not to dilute the ownership nor erode the sense of responsibility of the UADC's private sponsors, without further USAID involvement the creation of the UADC will stall. USAID involvement in catalyzing the creation of the UADC adds significant value and should be pursued.

5. Replication Opportunities

THERE IS SCOPE FOR USAID TO CONTINUE TO UNDERTAKE THIS TYPE OF RAPID ASSESSMENT AND DESIGN TASK ORDERS WHEN CONSIDERING INVESTMENTS OF THIS TYPE. THE DEVELOPMENT OF FINANCIALLY SELF-SUSTAINING PRIVATE AGRICULTURAL FINANCING FACILITIES IN COUNTRIES OTHER THAN THE UKRAINE SHOULD BE CONSIDERED.

TASK ORDER 19-0132-DTT

1. Title

Business Toolkit for Russian Enterprises

2. Country and Period of Performance and Objectives

Country of Performance: Russia
Effective Start Date: April 1, 1996
Final Completion Date: September 30, 1996

Objective: To consolidate appropriate methodological approaches to enterprise restructuring and disseminate the successful restructuring methodologies among a large number of Russian enterprise managers, consultants, funding institutions, and commercial entities.

3. Planned vs. Actual Accomplishments

Tasks under the original task order

Task 1: Develop complete drafts for field testing of the following Toolkits/modules:

Financial Management Toolkit

- *Cash & Working Capital Management*
- *Cost Management*

Management Support Toolkit

- *Maximizing Enterprise Performance through Information-Based Decision Making*
- *Product Portfolio Management*
- *Obtaining Financing in Russia*
- *Designing and Establishing an Effective Finance Department*

Each module is to consist of a slide presentation, detailed presenter's notes, tools to be used by the beneficiary enterprise, handout materials, description of the targeted audience, and update procedures for perishable data. The focus of the toolkits should be on designing practical "how-to" approaches that can be immediately implemented by seminar participants.

Furthermore, an extensive review process, managed by the RPC, will take place, to ensure that the overall set of modules is coherent and cross-referenced, and that the acquired experience of all of the Contractors is embedded in the toolkits.

The first phase of the Toolkit project, completed in July 1996, resulted in the development of all six of the modules listed in the task order, while incorporating a cross-review by another USAID contractor, Bain Link. Three of the module titles changed slightly -- the final titles were:

“Management Reporting Systems,” “Principles of Corporate Finance and Obtaining Finance,” and “Restructuring an Organization’s Finance Function.”

The Toolkit modules were designed to address areas that are critical for improving the performance of Russian enterprises. The modules each contain “tools” that enterprise managers can employ to implement the ideas presented, such as checklists, reporting forms, analytical methods and templates, etc. To explain and provide the opportunity to practice using these management tools, the modules also include examples based on experiences with real Russian enterprises, interactive exercises for seminar sessions, and homework. Finally, each of the slide presentations were accompanied by detailed presenter’s notes.

The cross-referencing and updating procedures for perishable data were incorporated into the Support Reference task as part of the task order extension, described below.

Task 2: Field testing of the toolkits in three Local Privatization Center (LPC) sites. Specifically, conducting 8 seminars in total: one for each of the modules developed for the Financial and Management Support toolkits, and two for modules developed by Bain Link for the Marketing toolkit. The feedback from the field tests should be documented in a list of proposed modifications. The Contractors should then modify the toolkits and generate final versions of the toolkits.

All six of the DTTI Toolkit modules were presented once each during the pilot phase. In addition, DTTI staff presented three of the four Bain Link seminars on marketing during the pilot phase. Participants in each seminar completed questionnaires. The feedback was analyzed and we proposed areas for improvement for each of the seminars. The incorporation of this feedback into the seminar materials was later shifted into a task under the project extension.

Tasks under the task order extension:

Task 1: Develop two additional modules for the Financial Management Toolkit:

- *Converting Russian Accounts to Generally Accepted Accounting Principles*
- *Tax Planning*

Two new modules were produced under the task order extension: “Conversion to International Accounting Standards” and “Tax Planning.”

Task 2: The Contractor will make adjustments to the original toolkits in order to reflect needs of different groups of audiences (e.g. top-level management, enterprise specialists in finance/marketing, local administration), and provide the materials to a broad range of industries. The consultants will continue to improve and calibrate the toolkit materials in response to wider audience feedback.

DTTI refined all six of the original modules, including the addition of worked examples and case studies, reduction of theoretical material in favor of more practical material, and additional

material on topics identified in the field testing as being particularly effective and/or popular. The final versions of all of the modules were delivered to USAID and the RPC by the end of the task order.

Task 3: Further disseminate the toolkits by holding seminars and follow-up sessions in 12 or more additional LPC cities. In total, not less than 24 sessions on financial management and marketing must be conducted by the end of the task order. It is estimated that the seminars will be conducted for more than 400 enterprises and local consultants.

Between August 19 and September 27, 1996, DTTI conducted 44 seminars of the 8 modules in 17 cities throughout Western Russia, the Urals, and Siberia. The presentation of each module consisted of a first day seminar, followed by a wrap-up session two weeks later, during which homework material and individual case studies were reviewed.

Seminars were delivered primarily by experienced Russian consultants from DTTI. In addition, DTTI trained several representatives from the Business Support Centers (Basics) and other key business associations. This was undertaken in order to: 1) expand the number of seminars, and thus the number of enterprises reached; and 2) provide the BSCs and professional associations with newly-trained resources capable of facilitating continued dissemination of the Toolkit modules in the Russian regions.

All of the eight DTTI modules and all four Bain modules were videotaped by a professional videotaping subcontractor, GELLA, during the task order extension.

Task 4: Report on the status of professional and academic institutions as well as other professional bodies (e.g., unions of entrepreneurs, chambers of commerce) in regard to their operations and future objectives. Assess their relationship to government and their future plans in regard to servicing business and the development of professionals, funding mechanisms and what assistance they are receiving to achieve their aims. Assess their willingness and ability to work with the LPC network in the promotion of training seminars and workshops. Assess the impact of other assistance programs (OECD, World Bank) to establish their role in the development of professional and academic institutions and the possibility of their participation in a program of workshops and joint cooperative programs.

To ensure that the impact of the Toolkit modules could be expanded beyond the time and scope of the Toolkit Task Order, DTTI undertook to identify key business associations that have the capability to present and further develop the seminar materials. After a thorough and comprehensive process of research, surveys, and interviewing, 25 key associations were identified with the interest and capability to deliver Toolkit seminars. Of these, the Russian Chamber of Commerce, the Association of Accountants and Auditors of Russia, the Association of Moscow Enterprises, the Association of Consultants on Management and Organization Development, and the Association of Consultants on Economics and Management could make

updates to the materials due to legal, political, and/or economic developments, and to meet the changing needs of the Russian business community.

Questionnaires designed to gather general information about professional and academic institutions and to determine their interest in, and suitability for, participating in training seminars and workshops were disseminated. Information was thereby obtained on approximately 200 associations and professional unions throughout Russia and entered into a database especially created for this purpose. Other assistance programs were identified and assessed in terms of further opportunities for the dissemination of Toolkit materials. These included the European Union, the British Know How Fund, the World Bank and the Organization for Economic Cooperation and Development.

Professional associations have already played a crucial role in the delivery of Toolkit seminars. Seven presenters from the key business associations received specialized training and delivered Toolkit modules. The network of Local Privatization Centers and Business Support Centers provided outreach and logistical support for the seminars.

A report setting forth the findings of this portion of the task order was submitted to USAID/Moscow in September 1996.

Task 5: Building Support Reference Capabilities. The Contractor shall cross-reference the modules systematically and index them on an electronic data base, to be made available to the RPCs and LPCs. The contractor will also create a data base of illustrative examples and case studies for major concepts covered by the seminars.

DTTI archived, indexed, and cross-referenced the Toolkit modules on a database system that allows users to quickly and systematically identify Toolkit material relevant to their subjects of interest. The system is sufficiently flexible to be adapted to future changes and needs. In addition, supplementary case studies, worked examples, and exercises have been developed, so that the Toolkit modules may be tailored to audiences from different industrial sectors and with differing needs.

The database system has been installed at the Business Collaboration Center, which will, together with the RPC, be responsible for archiving the material and coordinating with the professional associations the updating and dissemination of the material.

4. Lessons Learned

The Toolkit modules should be distributed quickly. There is a great demand for basic management tools in Russia, and the Toolkit modules can generate immediate benefits. In the next two-to-three years, enterprises throughout Russia will need to master the basic management skills that are presented in the Toolkit materials in order to survive in the increasingly competitive business environment in Russia. The seminars already presented have generated interest in further training and dissemination of the Toolkit materials, and this momentum should be maintained. Promotion of the Toolkit materials, in the form of advertisements in newspapers,

on the Internet, and at universities and other training centers, together with regional campaigns by LPCs, BSCs, and other professional associations, should begin immediately.

The Toolkit materials should be disseminated widely, particularly in regions that have not received much Western assistance. Demand is particularly great in provincial regions of Russia, outside of Moscow, St. Petersburg, and Nizhny Novgorod, which may have already been saturated with business training programs.

The distribution network should be strengthened. The foundation for a strong distribution network has already been laid, with the RPC and BCC serving as clearinghouses, and a variety of professional associations identified as possible channels of distribution. The RPC and BCC should coordinate efforts immediately in distribution and dissemination of the Toolkit materials, and jointly determine a fee structure to ensure that the Toolkits will reach a large audience. A kick-off conference should be convened to bring all of the relevant organizations together, and a plan should be developed to roll out the seminars and distribute the Toolkit modules to a wider audience as quickly as possible.

High-impact follow-up visits to enterprises by trainers to answer questions and to help with implementation are recommended. Once enterprises have understood the tools presented in the seminars, additional on-site training could maximize their effect by providing additional assistance to managers in applying these techniques to their everyday activities.

An ongoing approach to updating the materials should be implemented. The RPC, BCC, and the five key business associations should define roles and responsibilities for updating the Toolkit modules when necessary. A plan should be developed to determine how the updates will be made and paid for.

5. Replication Opportunities

There are a number of replication opportunities that stem from this task order.

1. Additional toolkit modules could be developed. There remain a number of topics that we have found to be relevant to Russian enterprises, but have not yet been covered by any of the toolkit materials. Some examples include: production management, overall organizational structure of the enterprise, export/import, and corporate governance.
2. Additional seminars could be organized. As discussed above, we have identified numerous potential low-cost providers of the seminars. An official program for further seminar dissemination could be organized around these providers.
3. The toolkits could be used in other environments undergoing a similar process of privatization and emerging from a centrally-controlled economic system. With a minimum of fine-tuning, the materials could be used throughout the former U.S.S.R. and in Eastern Europe. With a greater amount of refinement, they could be relevant to enterprises in China, Viet Nam, Indonesia, Egypt, and other emerging economies throughout the world.

TASK ORDER 20-0137-DTT

1. Title

Tajikistan Privatization

2. Country and Period of Performance and Objectives

Country of Performance: Tajikistan
Effective Start Date: July 20, 1996
Final Completion Date: September 30, 1996

Objective: To identify policy and organizational constraints in the Tajik Privatization Program and to lessen those constraints.

3. Planned vs. Actual Accomplishments

Task 1: Engage in a dialogue with the Tajik Privatization Agency and other relevant government officials on possible privatization strategies. Help build a constituency for reform by ensuring the majority of stakeholders in the country have some stake in the process. This includes citizens, enterprise workers and managers, and regional authorities. Ensure that key Tajik privatization officials understand and support the basic principles of speed, transparency and popular participation.

The consultant met with the Prime Minister, the Chairman of the State Property Committee (SPC), and personnel from the Office of the President. In addition, meetings were held with all of the senior, and most of the junior, officers of the SPC, several of the senior officers of the Economic Court and the Antimonopoly Board, and the Deputy Governor of the Central Bank. The discussions were successful and follow-up efforts are planned. These include a national-level seminar on privatization-related issues to be organized through the new UNDP-funded Enterprise Development Board (EDB).

Another outcome of the discussions was an endorsement of the need for an MIS system, and a recognition of the flawed nature of both the valuation and bankruptcy methodologies in Tajikistan. In addition, there is a new awareness that the administrative capabilities of the Tajiks are not up to the complexity of their current programs and that simplified, transparent, and mass methods must be utilized.

The consultant worked with the UNDP consultant developing the EDB concept to find ways to link the EDB to the privatization effort as a buyer feedback mechanism. The EDB will also focus discussion on the needs and the role of business in the privatization process and the transformation of the economy.

Task 2: Identify the key policy, legal and institutional constraints to rapid and transparent privatization.

Constraints currently affecting the privatization process include the following:

- The civil war in Tajikistan has created a situation where central governance is difficult at best. Regional centrifugal tendencies and suspicions combined with ignorance and irresolute leadership create a situation where inaction is tolerated or ignored. This is the basic circumstance governing the stalled privatization process.
- Tajikistan is a country increasingly short on skills, trained manpower, and initiative. Despite this, the principal of “keep it simple” has been ignored. The privatization process is overly complex, its basic principles not understood, and the rules governing the process frequently in conflict. In addition, the communication of what should be done, and how, is not undertaken.
- With the exception of the very top of the leadership structure and a few officially generated documents for external consumption, no clear vision or understanding of privatization in Tajikistan is being enunciated.
- There is enough legislation to get the privatization process underway, but there needs to be more will and other means behind it.
- The SPC is involved in the discretionary politics of the privatization process rather than being the institution impartially committed to moving the privatization process forward. The SPC, as currently functioning, is in the way and not part of the solution.
- The privatization process is over-centralized and there is every indication the government wants to further that process. While nominally independent, the regional centers are undertrained, guided from the center, and over-controlled in critical ways.
- An informed constituency either within or outside the privatization process has not been developed. The natural constituencies are the buyers and sellers, i.e., the business community and government.
- Central and SPC regional personnel are, in general, undertrained, understaffed, undermanaged, under-equipped, and have low morale.
- Lack of a valuation methodology and lack of a working bankruptcy law are examples of institutional items needing adjustment. A broad range of business-friendly legislation is also needed.

The World Bank IBTA facility is appropriately designed to begin addressing some of the major issues in the privatization arena. The IBTA facility ties disbursements principally to concrete progress in the privatization arena. This conditionality will focus attention on constraints to privatization and the need to overcome them.

The Tajikistan privatization effort has not focused on the problems of the agricultural sector, which is the largest sector of the economy. Agriculture has several fundamental problems that must be understood.

Task 3: Provide recommendations on the establishment of a public enterprise monitoring unit. Assist the State Property Committee and the Ministry of Finance in identifying the most appropriate location for establishing a Public Enterprise Monitoring Unit and determining what its functions should be.

If a public enterprise monitoring unit is established, it should be considered a long-term activity and should be established within the Office of the President. The office should be fully funded and staffed primarily by offshore resources rather than the limited stock of capable Tajik administrators. The office will have a long start-up period and a massive administrative task to accomplish. It should, however, be used as a training ground for bright young Tajiks. It should be noted, however, that establishing this type of office is not a priority. Getting enterprises moving toward privatization is more important than trying to govern what has been virtually ungovernable or ungoverned for years.

Task 4: Make recommendations and initiate actions, within the scope of the resources of the project, that contribute to the vitalization of the Tajik Privatization Program.

There is a heightened awareness of the importance of the privatization effort and the significance of the arrival of the World Bank team. Concentrated efforts on the part of the World Bank, International Monetary Fund (IMF), U.S. Government, and the United Nations Development Program (UNDP) culminated in two watershed events: the World Bank loan signings; and meetings held by the IMF/IBRD in Washington and by the U.S. Government. These meetings made clear to the Tajik delegation the importance of progress in economic reform and privatization. The activities conducted through this task order helped the Tajiks to focus on the content of the discussions. Special impact was made in the Prime Minister's Office, the Office of the Chairman of the SPC, and the Office of the President.

Thirteen republic and regional SPC staff departed on the Privatization II training course; five people attended a one-week training course on bankruptcy, valuation, and liquidation in Bishkek; 19 out of 45 staff members were scheduled for computer training; the initial computer inputs to the SPC were ordered; the need for an MIS has been recognized and a suitable start of a program identified.

The leadership of the SPC has accepted the need for and importance of an MIS, and has agreed to allocate two of its six incoming computers to that effort. This will foster greater transparency, accountability, and efficiency.

Linkage of privatization stakeholders was begun. The EDB and the privatization support program are collaborating; training programs incorporating mixed groups of business and government representatives was instituted; joint seminars were held; and the Chairman of the SPC participated in his first face-to-face meeting with assembled businessmen to field

comments. The critical step of getting businessmen accepted as part of the core privatization debate was achieved.

The Antimonopoly Board and the Economic Court have been brought into the issue of bankruptcy and valuation methodologies along with the SPC and business community. The Prime Minister, the Chairman of the SPC, and the Office of the President have received the UNDP Phase I report and the summary of the privatization situation in Tajikistan prepared by this Project that discusses what can be done constructively and quickly to get the process moving.

Several proposals for programs to establish and maintain momentum in the privatization process have been made. Specific design assistance was given to AED/NET for courses that would impact the privatization and business development link. Joint strategies were developed with the U.S. Embassy, particularly the Economic section, on such things as the Prime Minister's visit. The UNDP has worked on developing the link between their Phase I effort, their EDB effort and the continuing privatization assistance. Suggestions were made at the level of the Chairman of the SPC, the Office of the President, and the Prime Minister on concrete ways to begin to move the privatization process forward.

4. Lessons Learned

It is recommended that a long-term or intermittent policy advisor be positioned in the Office of the Prime Minister, the President's Office, or within the Privatization Commission. This individual could coordinate USAID's various economic transition efforts and help blend them into the efforts being undertaken by the World Bank, UNDP, EU TACIS, etc.

5. Replication Opportunities

The purpose of this task order was to provide a bridge between the UNDP's initial analytical work on legal and structural issues in the Tajik Privatization Program and the World Bank Institution Building Technical Assistance Program. As such, it is unlikely there would be a need to replicate this activity anywhere else. If such a need would arise, however, this type of technical assistance can be quickly provided.

TASK ORDER 21-0138-DTT

1. Title

Central Asian Accounting Standards, Bank Accounting and Moscow Workshop/Conference

2. Country and Period of Performance and Objectives

Country of Performance: Kazakstan, Kyrgyzstan, Russia
Effective Start Date: August 25, 1996
Final Completion Date: September 30, 1996

Objective:

- To create a set of the initial 11 accounting standards in Kyrgyzstan and round out the 20 standards that make up the comprehensive foundation of Kazakstan standards that will be used for accounting transformation for 1997 in these republics.
- To conduct bank accounting seminars for commercial banks in Kazakstan.
- To conduct a two-day workshop in Moscow where five USAID-supported accounting projects will compare their work and share their work product to date on methodologies and standards to be applied in the CIS.

3. Planned vs. Actual Accomplishments

Task 1: Work with the AMD and the Accounting Reform Work Group to create a set of the initial 11 accounting standards in Kyrgyzstan. Work with the National Accounting Commission (NAC) in Almaty to round out the 17 standards that make up the comprehensive foundation of Kazakstan standards that will be used for accounting reform in these two republics.

At a meeting with USAID and the Barents Group on Tuesday, September 10, it was agreed that the two team members assigned to Kyrgyzstan would assist the Barents team to prepare, on a best efforts basis and in collaboration with the Accounting Work Group, nine draft accounting standards for presentation to the Group by September 30.

The following accounting standards were drafted by the DTTI Team in collaboration with the Accounting Work Group.

Kyrgyzstan Standards	
1. Foreign Exchange	7. Government Grants
2. Revenue	8. Business Combinations
3. Fixed Assets	9. Related Party Disclosures
4. Income Taxes	10. Investments
5. Leases	11. Investments in Associates
6. Consolidated Financial Statements and Investments in Subsidiaries	12. Investments in Joint Ventures

Also at the meeting on September 10, it was agreed that the team assigned to Kazakstan would assist the Barents Team with the review and preparation of commentary by September 30 on the standards developed by the NAC. The overall objective is for the Commission to prepare some 17 to 20 accounting standards to make up the comprehensive foundation of Kazakstan standards.

The following is a list of the accounting standards that were reviewed and commented on by our team. The Construction Contracts Standard was amended by the National Accounting Commission after the first review and was subjected to a second review and commentary by our team.

Kazakstan Standards
1. Inventory
2. Construction Contracts
3. Accounting for Taxes on Income
4. Oil and Gas Producing Companies

In addition, the team reviewed and prepared commentary for the Chairwoman of the National Accounting Commission on the Conceptual Framework and the position paper of Russia entitled "General Principles of Accounting in the NIS." The position paper was discussed at the annual meeting of the OECD Coordinating Council on Accounting Methodology in Moscow on September 16-18.

Task 2: Provide training seminars tailored to the commercial banks focusing on basic accounting and auditing concepts.

Three training seminars were developed to correspond with the topics set forth in the task order with the exception of the module on foreign exchange accounting. In a meeting with USAID and the Barents Group on September 10, it was agreed that this topic would not be included. Then, by combining the two internal control topics into one presentation, a fourth seminar was developed as a flexible module to address one or more topics of particular relevance to each bank.

The four training seminars addressed the following topics:

- The role of internal and external auditors and their relationship to bank management;
- Introduction to internal controls for banks with examples of good and bad practices;
- The accounting cycle for deposits with examples of accounting entries;
- The accounting cycle for loans and interest, accrual accounting, and management information systems.

The training was delivered to a total of 22 banks, 14 of which received both presentations. A total of 565 people were trained, well in excess of the task order's benchmark of 200. Special joint sessions were presented to a group of accountants at the National Bank and to banking students at a local university. In several cases, senior bank management attended the presentations.

Task 3: Conduct a two-day workshop in Moscow where five USAID-supported accounting projects will compare their work product to date on methodologies and standards to be applied in the CIS. A conference report summarizing results will be prepared and provided to all participants after the conference.

A two-day workshop was held in Moscow on September 19 and 20, 1996, as a follow-on to the OECD Sixth Meeting of the Coordinating Council on Accounting Methodology in the CIS. Approximately 26 host country, USAID and USAID contractor personnel involved with USAID-funded accounting reform projects in the NIS attended.

The objectives of the workshop were to: (i) Assist the participants to better understand the varied accounting challenges and limitations in the NIS today and the mid-term future; (ii) Enhance the understanding of, and the relationship between financial, tax, and managerial accounting; (iii) Further the understanding of the role and benefits of professional accounting associations; and (iv) Capture lessons learned to date from current projects and make recommendations to USAID on the role it and other donors should play in accounting reform in the NIS.

4. Lessons Learned

A. Accounting Standards

In most cases, the schedules of the standard writers did not allow them sufficient time to amend the standard after review of our comments and, therefore, a second review was not possible. In the future, pre-planning of the standard writers' schedules should be carried out so as to allow the necessary time for amendment and receipt of a second set of comments, if any.

Definitions of terms should be clearly established and the terms should be used consistently throughout all standards.

One person should be designated as responsible for overall review. This individual should read all standards for consistency of terminology and appropriate cross-referencing. In addition, the

reviewer should identify changes in one standard that affect others and ensure that the subsequent changes are made.

A standardized format should be developed and all standards should be prepared in this format. This format should include a concise cover sheet which lists each major topic addressed in the standard. A numbering system should be used to allow the topic to be located in the standard.

B. Bank Training

A key element to the success of this project was the constructive coordination between USAID, Deloitte Touche Tohmatsu International, and the Barents Group. DTTI received valuable assistance from the Barents Group including scheduling of presentations and background information on their projects' accomplishments to date.

The DTTI Team successfully arranged the logistics necessary to produce, translate, and deliver over 80 presentations at 20 different locations in a three-week period, as required by the task order. This was an ambitious expectation and future teams might find this target excessively challenging.

This bank training component was designed to present basic information on accounting, internal controls and audit methods to commercial banks in Kazakstan, with minor tailoring to adapt the information to the Kazakstan environment. While this component achieved its objective of delivering training in basic concepts to a large number of participants, future training efforts should move beyond this fundamental approach to address the specific needs of the individual banks. This might include the following approaches:

- While the task order suggested that off-the-shelf material be used for these seminars, this approach would not have been pertinent or relevant in this environment. The conditions in Kazakstan are sufficiently unique to merit presentations developed for this market.
- In this component, standard presentations were delivered to each bank. Any tailoring to the specific audience was limited to the presenters' abilities to respond to feedback from the audience while presenting the standard material. While the presenters made an effort to learn about the audience and modify the standard materials throughout these presentations, this approach is not always sufficient to address specific areas of interest or concern. Future training will be more useful to the banks if advance work is done to identify specific examples of relevance to the audience and particular areas of concern.
- While the banks were advised of the type of participants who should attend these training seminars, the presenters had no control over the participants who actually attended. In a few cases, the topics were of little or no interest to the participants. In a few other cases, the level of the presentation was not appropriate for the audience. Future training can be improved by screening the participants to assemble groups of similar skill levels who can benefit from the topic of discussion.

- Having presented in these seminars the most basic information on the topics described above, future seminars should go into greater detail to fully address a topic. Training methods should include multiple sessions with homework and case studies and should require greater participant involvement. Longer, more in-depth sessions would require a greater commitment on both the participants' and management's behalves.
- Since most banks in Kazakstan are undergoing similar changes, training can be more effectively delivered through a centralized facility. A standard curriculum should be developed with courses offered at introductory, intermediate and advanced levels in a variety of topics. This approach can reach a larger number of participants more efficiently than the approach of sending presenters to the banks, as used in this task order. It also allows individuals to select the appropriate topic and level.

5. Replication Opportunities

All three principle activities undertaken in this task order can be replicated. For example, the development of accounting standards in former socialist countries is a critical part of the economic transition to a market economy and USAID is well-served to replicate those activities to other countries. Bank training is a substantive, practical way in which to increase local capacity and transfer key skills. And, finally, the objectives and format of the two-day workshop in Moscow was an excellent example of exactly the type of forum USAID should encourage for review, collection and dissemination of lessons learned as well as to foster ideas for replication.