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NIS Omnibus Contract

FINAL REPORT

Task Order No. 8

**Ukraine Market Reform
Public Education**

Price Waterhouse -- Market Reform Public Education
Kiev, Ukraine

Final Report: Task Order No. 8

- I. Introduction
- II. Summary of Accomplishments
- III. Detailed Description of Project Activities
- IV. Lessons Learned and Replicated

I. INTRODUCTION

This final report summarizes the activities of the Ukraine Market Reform Public Education project through May 31, 1994. The project had several notable substantive achievements and successes during the period covered by this task order.

The project was particularly successful in accomplishing the objective of Task #2 in the Task Order to "provide education on market reform and privatization through effective means of communications", by using television and radio and establishing national and regional press clubs and university-based information centers. Fulfillment of other objectives more directly related to support for the mass privatization program proved more difficult because of the Ukrainian government's reluctance to move forward on this front.

II. SUMMARY OF ACCOMPLISHMENTS

Television Department

The television department saw its "Crossroads" program receive a warm reception and achieve a high degree of popularity. After a rebroadcast of the initial set of programs, a new series was developed, the first program of which was broadcast on May 14. This installment aired an exclusive interview which President Kravchuk granted to the "Crossroads" program. In addition, three of the four advertisements developed for the initial series were nominated for inclusion in the list of Ukraine's top ten advertisements. The TV department, in conjunction with a small private company, also developed and began to broadcast its "Privat-Info" series. This venture included the negotiation of the first broadcast contract ever between a private TV company and the State Broadcasting Corporation.

Radio Department

The radio department, new under this Task Order, spent a great deal of time developing programming and recruiting staff. Its major accomplishment was the completion of development of the "Market A to Z" program and the broadcast of several of the series' segments during prime time on State Channel 1. The program proved quite popular, as evidenced by an overwhelming public response during the 2-hour phone-in question and comment period that followed the broadcasts. The department also worked on developing a program for young people and, at the request of State Radio, began looking at ways to provide news on privatization to that organization.

Press Department

The Kiev Press Club of Economic Reform continued its growth, meeting four times each month, and drawing as speakers many top government officials, including President Kravchuk accompanied by U.S. Ambassador William Miller. Regional Press Clubs were opened in Kharkov, Donetsk, Dniepropetrovsk, Odessa, and Lvov. The Press Club meetings generated a great many articles in newspapers throughout the country. In addition, the Press Club published the first issue of its own newspaper in April.

Regional Department

The regional department continued to develop its relationships with local governments and Property Funds. It also opened information centers at 13 universities across Ukraine on April 27, which aroused great interest on the part of both students and the media. In response to this interest, new publications were developed specifically for the centers.

Advertising and Marketing Department

The advertising and marketing department was engaged in a wide range of activities, primarily efforts in support of other departments. In order to advertise and promote the initial wave of privatization, a logo was created, posters designed and distributed to post offices and savings banks throughout the country, and a television commercial produced and broadcast extensively. In addition, the department developed graphics and produced leaflets for the university information centers, designed advertising and graphics for television and advertising for radio programs, published the first issue of the Press Club newspaper, and worked on the design of a new privatization certificate.

III. DETAILED ACCOUNT OF PROJECT ACTIVITIES

Television Department

At the beginning of the new Task Order a great deal of time was devoted to the recruitment of key management staff. This was particularly difficult as there are very few trained television staff outside the State network who are also acceptable to State TV as working partners. This process took longer than anticipated. Considerable effort was also given to the development of the content of the programs in conjunction with the in-house planning unit. It was agreed that the new series should concentrate on the effects of macroeconomic policy on the microeconomic infrastructure, with particular emphasis on how policy affects the people's everyday lives.

The "Crossroads" television series was rebroadcast on consecutive weeks in March on UT3 and on UT1 at prime time. State television research indicated that the programs were very popular and attracted a regular audience of around 10 million viewers. Advertising played a key part in the success of the programs. Three of the four advertisements produced for the series were nominated in the top ten advertisements in Ukraine by a panel of TV experts and viewers. Two ran equal second for the whole month.

The content of the new series of "Crossroads" was finalized after consultations with the planning department and scripts were finalized for the first 6 programs. Camera crews were sent out to film the illustrative examples for the programs, the set design was finalized and assembled and the lists of guest speakers completed. Television and print advertising was finalized and put into production. President Kravchuk granted the "Crossroads" program a 20-minute interview from his private office on the subject of the next steps in market reform. This was recorded for the first program of the new "Crossroads" series which was broadcast on May 14. The program screened the interview with the President and invited four key guests from the previous series to comment on whether the economic situation had changed in any way since their last appearance. The guests were Mr. Sphek, Minister of the Economy; Mr. Vasiliev, Deputy Chairman of the State Property Fund; Mr. Yekhanurov, Deputy Minister of the Economy; and Mr. Lanovoy, a leading economist and presidential candidate. The weekly series will focus on the effects of policy decisions on the lives of ordinary people and gives practical advice and information on salient topics.

Work also started in March on the development of the privatization program "Privat-Info". In addition to information on the general matters of privatization and market reform, "Privat-Info" will offer consumers, investors, and businessmen the type of service features which are immediately applicable to their life and work. This program was developed with a small private television company and was broadcast on State Television Channel UT-1 under the first ever broadcast contract directly between the State Broadcasting Corporation and a private television company.

"Privat-Info" went on air in the third week of April. The program took a critical look at the speed and complexity of the privatization process and invited Mr. Otchenash from the State Property Fund to comment and give advice to companies on how to interpret the laws.

"Privat-Info" continued its pilot series in May, broadcasting the final four episodes of the first series. The program improved considerably from its first show as the format was modified to make better use of the data. Our local private production company proved responsive to constructive criticism and willing to experiment in a manner that was most refreshing after dealing with the hidebound thinking at State television.

In April, work began with the Mass Privatization program to see how television could assist in the delivery of key messages, whether through existing programming or via new delivery vehicles. The TV Department also provides support for the IFC, PADCO, and CFED and has been working with the World Bank and the EU on developing joint TV projects.

In May, work began on a new program featuring news clips on privatization for the national news broadcast which can then be collected into a summary program for the end of the week. Test stories have been filmed and the format of the program finalized. The concept of the program relies on gathering regional stories from throughout the country. Therefore, during May, visits were made to the regions to investigate the potential use of local television stations and companies for the provision of news clips, the broadcast of our programming, and the establishment of a regional network of radio and TV journalists.

Radio Department

This is a new department under the new Task Order and therefore the majority of time was spent in developing the concepts for programming and finding key staff. The department devised the initial concept for the "Market A to Z" program and began to develop it as a series. The concept was to produce a series of 30-minute programs that, each week, looked at a different aspect of market reform through the eyes of the average individual. This took considerable time to research and perfect. A contract was signed with the State Broadcasting Corporation to broadcast the series during the weekend lunch time slot on State Channel 1 which is piped by cable into every household and state office in the country. Considerable time was also spent in the development of radio advertising for the program. This was greatly resisted by State Radio as radio advertising for a State radio program had never been done in Ukraine before.

The first three programs in the "Market A to Z" series were recorded and broadcast in April. The programs dealt with such subjects as:

- The current economic situation in Ukraine
- Ownership
- Inevitability of market development and the necessity of reform
- The necessity of privatization
- The process of privatization
- Mass privatization

The guest speakers included:

L. Kravchuk	President of Ukraine
V. Fokin	Former Prime Minister of Ukraine
V. Babich	President of the Ukrainian Financial Group
V. Kirilyuk	President of the joint stock company "Boreks"
A. Kaptsov	Deputy Head of the State Property Fund
M. Popovich	Specialist on ownership at the Academy of Sciences of Ukraine

and many others.

The program is followed by a phone-in question period during which listeners can pose questions for future programs or comment on what they have just heard. The number of lines had to be increased from 2 to 6 to accommodate the demand and is always jammed solid for the whole two hour period with most of the questions coming from the older generations.

Building on this success, "Market A to Z" continued to expand its subject matter and popularity. UTRC received a considerable volume of mail regarding the program. Four more programs were broadcast in May on subjects such as housing privatization, land reform, and mass privatization.

Work also began on development of the program for young people. This proved to be a very difficult organizational problem, as our first local development partner proved to be a disappointment. The young peoples' program made a step forward in May with the selection of a new local partner. It was recognized that in creating this show we were also creating the basis of a magazine show which would also work on television. This is now being pursued in cooperation with the television department.

State Radio has requested our assistance in the creation of a news program on privatization and market reform. Discussions are now underway to look at providing State Radio with ten minutes of news three days per week. Each segment would be repeated once in the same week and then followed by a digest program on Sundays. Many of the stories would utilize the reporting that is done for the various television programs allowing them to have added impact at little additional cost.

Press Department

The Kiev Press Club of Economic Reform continued to grow. The subjects covered in March included Entrepreneurship in Ukraine, Mass Privatization, State policy on Privatization, Securities markets and improvements in the privatization process.

The Kiev Press Club of Economic Reform met on four occasions in April and discussed the following subjects:

- Responsibility and authority
- Privatization and market reforms in Kiev
- Ukrainian Credit Foundation
- The activities of Commerzbank in Ukraine

The Kiev Press Club of Economic Reform met on four occasions in May and discussed the following subjects:

- Land Reform and Land Privatization
- Small Scale Privatization in Ukraine, Belarus, and Russia
- The Ukrainian economy today
- Culture in the market economy

The principal speakers at the meetings in March were:

Nikolay Sydorenko	Chairman of the State Committee on Small Business and Entrepreneurship in Ukraine
Yuriy Dvorsky	Vice President of the National Fund of Free Entrepreneurship Support and Competition Development
Vadim Vasiliev	Deputy Chairman of the State Property Fund
Evgeniy Grigorenko	Chairman of the Property Reform department of the Cabinet of Ministers
Sergei Oksanich	President of "ISC Kinto"
Anatoliy Kovalyov	Chief Economist of the Institute of the Economy

The guest speakers during April included:

L. Kravchuk	President of Ukraine
L. Kosakovsky	The President's Representative in Kiev
U. Yekhanurov	Deputy Minister of the Economy
B. Sobolev	Deputy Minister of Finance
U. Jensen	Project Director of Commerzbank

The guest speakers during May were:

B. Chepkov	Chairman of the State Land Committee
G. Kaydon	PADCO
D. Bedniakov	Former Mayor of Nizhny Novgorod
M. Litovsky	Mayor of Cherkassy
R. Foresman	IFC
R. Shpek	Minister of the Economy
M. Zhulinsky	Vice Prime Minister

Work began in March on the development of a Press Club newspaper as well as a newspaper for students and on the establishment of regional press clubs in the key cities of Ukraine.

In April, regional Press Clubs were opened in Kharkov, Donetsk, and Dniepropetrovsk. The speakers for these were N. Sydorenko, Chairman of the State Committee on Small Business and Entrepreneurship and S. Pirozkov, Director of the Institute of Strategic Research, both of whom spoke on the subject of Entrepreneurship in Ukraine.

In May, regional Press Clubs were opened in Odessa and Lvov and were attended by N. Sydorenko and V. Pynzenyk who spoke on "Entrepreneurship" and "The Way to the Market Economy". The Lvov Press Club established a first by televising the whole meeting. The broadcast will also be edited down to a 40-minute version on for repeat airings on local television.

The Press Club also published the first issue of its newspaper "Press Club" in April with contributions from President Kravchuk, Victor Pinzenyk, Mr. Lanovoy, and Danny Kauffman of the World Bank. 25,000 copies were printed and distributed to decision makers across the country.

Regional Department

The new department director continued the work commenced in the previous task order in March, concentrating on the development of close working relationships with local administrations and local branches of the State Property Fund. Considerable time was spent in the development of governmental training seminars, and site visits were made to Dniepropetrovsk, Donetsk, Zaporozhie, Kharkov, and Odessa. This project was subsequently deleted from the Task Order. During March, all thirteen university information centers were delivered. Work began on the development of a series of information leaflets for distribution at the centers during the opening ceremonies.

On April 27, the regional department opened all 13 information centers in universities all across Ukraine at the same time. This event was covered by the national television and radio news as a feature story in the main news broadcasts. The story was also covered by 37 national newspapers and countless local papers, local radio broadcasts, and local television shows. It was reported that in many cases the centers ran out of literature within a couple of hours despite each being supplied with 7,500 copies of the students' brochure and three other fact sheets. The universities have reported considerable interest by the students and requested additional information. PW has now started production of single color broad sheet posters on subjects such as privatization, legislation, and economics.

The regional department spent most of May devising and writing new leaflets for the university information centers which appear to have a rapacious appetite for information.

Advertising and Marketing Department

The major part of the work of this department in March was taken up with the planning and execution of the advertising and promotion campaign for the "first wave" of mass privatization. A generic logotype was created, though this was conceived to be a temporary logo that was specific to the first and second waves rather than the improved mass privatization program proposed by USAID and other donors. A television commercial was produced and broadcast in a very intensive campaign. Two posters were created and 75,000 copies of each distributed to every post office and savings bank in the country as well as all governmental and parliamentary offices. The campaign included the saturation of the election night television coverage with first wave advertising. The department also produced graphics for the information centers at the universities, produced television and media advertising concepts for both television and radio programs, and printed 35,000 leaflets for distribution at the universities. We also advertised the first mass privatization wave of 150 companies, including the "Tribute to Chernobyl" evening on State television.

In April, the department spent the majority of its time on the design of the new privatization certificate. In addition, the first edition of the Press Club newspaper was designed and published along with television, press, and radio advertisements for the "Crossroads" and "Market A to Z" programs. Graphics were produced for the radio programs' advertisements and music for the education program was written and recorded.

In May, the department concentrated on the development of advertising for the television and radio programs, producing some eight TV commercials and two radio commercials. In addition to this, intro and exit graphics were designed and produced for the "Crossroads" and news programs.

Also, design concepts were produced for the second wave of privatization; however, there is some confusion on the matter of companies being submitted, with estimates varying from 150 to 1000. This has made the finalization of any graphics difficult.

Planning department

In April, the planning department chose the topics and outline content of some 43 radio programs, 37 television programs, and 22 university leaflets. Scripts were finalized for 6 radio programs and 4 television programs. In addition, research was carried out on 16 topics in support of scripts. The department also monitored and analyzed the content of every broadcast.

The department spent May writing, editing and researching scripts for six television programs and six radio programs, as well as monitoring what has been broadcast.

IV. LESSONS LEARNED AND REPLICATED

No Substitute for Government Support for Reform

Because the Government of Ukraine has not yet embraced necessary design improvements in its mass privatization program, this Phase II Task Order continued the program of general market reform education and pro-reform argumentation initiated during Phase I.

In contrast to Russia, Ukraine does not yet have a cadre of dedicated reformers (i.e., no Yeltsin, Gaidar, or Chubais) able to provide a "supply" of market reform/privatization for consumption by the Ukrainian public. Hence, in both Phase I and Phase II, this program has attempted to create popular and opinion-maker demand for market reform and privatization. Although it is the most efficient method for reforming formerly socialist economies, thorough and rapid privatization is an unsettling prospect for most of the public after more than seventy years of communism.

It is significantly more difficult to create public "demand" for market reform/privatization than to sell a "supply" of market reform/privatization created by dedicated reformers. Thus, in both extent and timing, the success of any public education project will largely depend on the presence of dedicated and capable reformers inside the host government.

Appropriate Host Government Involvement

The host government should take some ownership of any public education program. The extent of host government involvement in shaping program content and messages, however, should reflect the extent and pace of its market reform/privatization program. For instance, if the government has a broad and rapid privatization program, it would make sense for government representatives to play a larger role in the development of both program public education and project public education. If, however, the host government is lagging in its market reform and privatization program, it will be important for the public education program to maintain substantial independence in developing and presenting pro-reform messages.

The Power of Positive Examples

After more than seventy years of communism, many Ukrainians--opinion-leaders as well as the general public--are naturally ignorant or fearful about free market economics and the transition to a market economy. Long exposure to communist propaganda also makes people particularly skeptical about arguments not supported by facts.

The continual presentation of privatization success stories provides the strongest possible support for market reform. Even if official privatization is lagging, as has clearly been the case in Ukraine, it is possible to find numerous examples of private enterprise at a

grassroots level and to demonstrate the superiority of such private enterprise in terms of consumer choice and service, employment potential, and profitability.

To find privatization success stories, as well as to organize local support for market reform, it is essential to get out of the capital city and establish a presence throughout Ukraine. Useful means for establishing such a presence include regional press clubs, regional representatives, and university information centers.

Success stories from within Ukraine provide probably the most compelling support for market reform, especially given the wide and strongly held belief that Ukraine's economic situation is unique. Because official privatization/market reform has lagged in Ukraine, however, attention should also be given to successful official reforms in neighboring countries. Particularly good examples include Russia for mass privatization, Czechoslovakia for small privatization, and Poland for small privatization, monetary stabilization, and pro-business legal and regulatory reform.

Developing Private Sector PR Capabilities

Ukraine has a large and omnipresent state-owned or state-affiliated journalistic and media production apparatus. Hence, some use of this apparatus (e.g., nationwide television channels) is virtually inevitable for a nationwide public education campaign. Unfortunately, Ukraine's state journalistic/media production apparatus tends--in content, presentation, and operating style--to shun innovation. Hence, private sector entities (e.g., independent television producers), which do exist in Ukraine, should be used whenever possible. Failing that alternative, continual efforts should be made to educate journalists and producers, in terms of both content and style. Such efforts eventually produce results. For instance, after holding a press conference in April at the Kiev Press Club of Economic Reform, after six months of weekly Press Club meetings, President Kravchuk commented that the journalists were much better informed and more aggressive than previously.

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To: Walter Coles - USAID/NIS/PSI/TF/Washington

From: Nathan Will - Price Waterhouse LLP/IPG/DC

Re: Monthly Reports

This issue contains monthly reports dated between June and September of 1994. There are several reports which are, as of 10/4/94, forthcoming from Price Waterhouse field offices and, they will be forwarded to your office as soon as they are received, bringing the Omnibus Contract monthly reports deliverable to a current status. If you have any questions, please call (202)331-3621, or fax (202)331-3633.

Memorandum

To: Gary Vanderhoof - USAID Washington
Lyn Dunn - USAID Almaty
William Frenkel - USAID Tashkent

Cc: James Waddell - Price Waterhouse Washington
Richard Bernstrom - Price Waterhouse Tashkent
Peggy Norgren - Price Waterhouse Washington
Barbara Friday - Price Waterhouse Washington

From: Richard B. Nash, Jr.

Subject: Task Order No. 3: Legal Assistance to Uzbekistan's Privatization Committee -- Summary Report of Results and Recommendations

Date: June 5, 1994

The following is the final report of the separate legal assistance program for privatization in the Republic of Uzbekistan. The U.S. Agency for International Development began last fall an initial four-month program to provide legal assistance to Uzbekistan's privatization committee¹ and to long-term privatization advisors working under USAID contract. USAID subsequently extended the project for an additional two months until June, 1994. This final report supplements the interim report which Price Waterhouse submitted to USAID in March, 1994.

I. Summary and Results of Program Extension

The original scope of work identified three primary objectives for the legal assistance program.

A. Undertaking Reforms to Laws and Regulations Affecting Privatization

1. Submitted Changes to Privatization and Foreign Investment Laws: As noted in the interim report, Price Waterhouse submitted recommendations and proposed changes to the law on privatization in January, shortly after publication of President Karimov's decree on accelerating privatization. The proposed legislative changes focused on key deficiencies in the current law and specifically reduced the power and preferences given to worker collectives; set strict deadlines for privatization, eliminated the policy favoring "non-privatization" forms such as leasing and collectives; required that enterprises above a certain size be transformed into joint stock companies with openly-traded shares; streamlined the present cumbersome approval process; and provided broadly for mass privatization. I also submitted recommendations to amend the current foreign investment law to reflect international legal norms on the treatment of foreign investors and to be consistent with the U.S.-Uzbekistan bilateral trade and investment treaty signed last fall.

In the first five months of this year, the government did curtail somewhat the primacy of worker collectives in privatization, by giving the privatization committee greater authority and autonomy to undertake privatization decisions. The government also moved to transform

¹The government last spring officially renamed the privatization committee the "State Committee for Management of State Property and Support of Entrepreneurial Activity."

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closed joint stock companies (the form under which virtually all privatized firms existed) to open form, thus reducing the power of the worker collectives still further. To date, however, the committee has not submitted legislation to the Supreme Soviet, nor proposed its own regulations to implement the other recommendations. Moreover, the government has shelved, at least for the time being, plans to implement mass privatization.

Despite intensive discussion of radical reform by a foreign investment law working group centered around the Supreme Soviet's economic reform committee, the Supreme Soviet in May passed amendments to the foreign investment law that only partially address the problems which Price Waterhouse and organizations such as the World Bank had identified. Specifically, the amendments provide certain protections, including against political risk, for foreign investors, but still do not provide the ease of entry advocated by various technical assistance advisors.

2. Drafted Regulations and Guidelines Relating to Privatization: As discussed in the initial revised workplan (Nov. 9, 1993) and in subsequent reports, the deputy head of the foreign economic relations department requested my assistance with drafting various regulations, guidelines and forms for the privatization committee. At times during the project, we disagreed about providing work product that was conceptually unsound (e.g., price regulations or discriminatory treatment of foreign investors).

PW submitted to the committee draft regulations on privatization through competitive tender, which we believe are simple, transparent, open and fair. Moreover, we provided registration forms for privatization by foreign persons and various model asset purchase agreements. Although PW also submitted an initial draft of regulations for voucher privatization, the government's inaction on mass privatization, including failure to agree upon a general concept (vouchers, investment coupons or "people's shares"), made premature any additional legal work to support mass privatization.

B. Proposed Revisions to Commercial Laws

1. Submitted Draft of Comprehensive Securities Law and Revised Proposed Securities Regulations: In the interim report, I noted that PW had submitted to the Finance Ministry, privatization committee and the Supreme Soviet a draft law to regulate securities markets, which we adapted from a proposed Russian securities and exchange commission statute. If adopted in Uzbekistan, the law would provide somewhat consistent treatment of securities and securities regulation in Russia and Uzbekistan.

In late March, Lew Mendelson, a retired U.S. Securities and Exchange Commission lawyer now directing USAID's Kyrgistan capital markets program, spent several days with officials from Uzbekistan's Ministry of Finance and privatization committee, working on amendments to proposed securities regulations. The Finance Ministry had requested (from the World Bank) immediate review of the drafts, a need which the USAID project was able to meet. The Ministry accepted Mr. Mendelson's changes, but has not yet finalized the regulations.

(As discussed more fully below, USAID also enabled Igor Butikov, the director of the Tashkent stock exchange, to attend three weeks of training with the SEC in May and for Anvar Rasulev, the director of the Finance Ministry's capital markets project, to take part in a separate U.S. program on privatization, capital markets and U.S. business.)

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Following the U.S. training, Mr. Rasulev informed me that he had reported his recommendations to President Karimov, and that the president will support creation of an Uzbekistani securities regulatory agency as envisioned in the draft law.

This good news is tempered by the government's decision in late March to create a national stock exchange, in which the privatization committee holds a 51 percent interest. Although this approach was reportedly contested both in- and outside the government, the view prevailed that capital markets development is "too important" to leave to the private sector. I hope that the government in time will reconsider its decision, especially if it adopts a constructive regulatory approach (as it appears it is likely to do). While awaiting a change in the government's capital markets policy, it would still be beneficial to provide limited legal advice and drafting assistance to Mr. Rasulev's group at the Finance Ministry, to assist efforts to create at least a sound regulatory framework. The main privatization project budget prudently provides for additional work by Mr. Mendelson.

2. Provided Continued Assistance With Civil (Commercial) Code Reform Project:

USAID continued to assist the Uzbekistan working group on civil (commercial) code reform, which is drafting a comprehensive, European-based code for commercial activity under the leadership of Professor Rakhmankulov, the director of the Institute of Philosophy and Law. This work, however, was temporarily hampered by the Uzbeki government's "Brezhnevian" response to an incident of student dissent this past spring. USAID had approved funds for Professor Rakhmankulov and two colleagues to take part in a St. Petersburg session in March on common civil code reform problems in the former USSR.² However, the Uzbeki government blocked their participation after a student at the Rakhmankulov's university criticized President Karimov in a seminar. (Although the government did not permit Rakhmankulov to travel to Russia, he continued as a member of the economic reform group under the Supreme Soviet. The government expelled several students from the university. Meanwhile, work on the civil code has continued.)

Despite this setback, the USAID project was able to provide the Uzbekistan civil code group with the most recent draft codes and other work product from Russia, Kazakhstan, Belarus and Ukraine and to provide further assistance to the civil code program.

3. Insurance Legislation: The government has correctly identified providing business insurance services as important both to attracting foreign investment to Uzbekistan and to developing a domestic private sector. Together with the U.S. Commercial Attaché's office and AIG, a major U.S.-based insurance provider, Price Waterhouse submitted to the Ministry of Finance and the Supreme Soviet a draft insurance law that would supersede existing limited legislation and would permit both foreign owned and domestic companies to offer insurance coverage in Uzbekistan.

Insurance law is likely to be an important legislative priority over the next year. The privatization committee and Ministry of Justice recently asked PW to analyze the government's proposal to create a fund which would somehow insure business investments against inflation investments against various unspecified, "unforeseen risks." Our

²These practical, focused sessions afforded significant opportunity for regional cooperation to develop commercial civil codes that are approximately consistent and which take account of shared historical factors and could facilitate increased cross-border investment within the former Soviet Union. The Inter parliamentary Union, which organized the session, circulated drafts and noted major questions and "problem issues" in advance.

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conclusions were very negative, especially about how such a system would function in Uzbekistan's hyper-inflationary economy. Moreover, if financed (as the government proposes) through charges or taxes on bank deposits, the scheme also would adversely affect banks, by driving away savings, when a viable banking sector is especially required to assist private business development. We hope that the government abandons this proposal.

4. Proposed Changes to Laws on Property and Collateral: Under a short-term task order, property law expert Caroline Harris in April worked on amendments to Uzbekistan's laws on property and collateral (including mortgage) laws. Ms. Harris was already familiar with legal issues relating to real property in Uzbekistan, having met with many key officials during a USAID-sponsored housing mission to Uzbekistan last fall.

Until the president issued his decree on privatization earlier this year, there was no general consensus that changes to the law on property needed to be revised or that development of an entrepreneurial real estate market was a desirable goal. In April, the government also ended a moratorium on the sale and resale of residential property. Ms. Harris worked with the Republic Real Estate Exchange, the privatization committee, and the Ministry of Justice to develop both policy changes and technical language to permit facilitate private ownership of land under "trade and service objects," (including hotels). She also drafted proposals to create a mortgage registry in connection with residential and commercial property. In addition, Ms. Harris consulted on certain real estate law questions related to the cash auction privatization program. Finally, she presented two workshops on practical real estate finance problems for the privatization committee and the economic laws working group at the Justice Ministry.

C. Training Uzbekistan Privatization Staff in the Development of Legal and Regulatory Mechanisms of Market Economies

Planned and Conducted Training Seminar in the United States for Officials from Uzbekistan and Kazakhstan: PW Tashkent planned and conducted a two-week training session from April 30 to May 15³ for senior Uzbeki and Kazakhi officials, including Uzbekistan's deputy prime minister Chjen and the deputy privatization minister and other officials from Kazakhstan's GKI. The start of the session coincided with the U.S. Department of Commerce's Central Asia Business Conference, in which approximately 400 American companies took part. Participation in the conference was especially important to acquaint these officials with the practical concerns of U.S. firms having a strong present or potential business interest in the region. Lyn Dunn, the senior private sector officer with USAID's regional mission in Almaty, took part in the U.S. session and negotiated with Uzbekistan's GKI a memorandum of cooperation which the parties signed in Washington.

The U.S. session consisted of four components: (1) a one-week session in Washington devoted to government's role in regulating business in a market economy, during which bilateral meetings also took place; (2) an overview of capital markets, including sessions at over-the-counter, computerized, commodities regional exchanges, presentations by regulators, and sessions devoted to raising investment capital (in Washington and New York); (3) training sessions on public/private partnerships and infrastructural privatization; and (4) sessions devoted business topics of relevance to Central Asia, including banking,

³Mr. Lazlo Szimonisz of Development Associates, a training subcontractor, provided valuable assistance with logistical arrangements before and during the trip.

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aircraft production, software and computers and public/private partnerships (in Washington, New York and Seattle).⁴

In addition to the planned program in Washington, the Uzbekistani and Kazakhstani participants held a number of separate, bilateral sessions with USAID, the Departments of State, Treasury and Commerce, and other federal and multilateral agencies with mandates in Central Asia. In New York the delegations also held separate meetings focused on trade and investment opportunities in their respective countries. The efforts of the Tashkent-Seattle Sister City Program and the University of Washington's Central Asia studies center greatly enhanced the Seattle program, which focused on business, privatization and the provision of municipal services. Seattle also provided a singular opportunity for the participants to spend time with Americans of various backgrounds who share a strong interest in Central Asia. (Many had visited the region several times.)

The U.S. trip's major disappointment was that Kyrgistan's privatization chairman did not take part in the trip as originally planned. Moreover, Uzbekistani and Kazakhstani groups did not develop the rapport which I had expected and did not effectively utilize the opportunity to engage each other on differing approaches to similar privatization problems. Much of this resulted from deputy prime minister Chjen, who seemed determined at all costs to pursue a separate program quite different from that of the Kazakhs and his own delegation. (Mr. Chjen did not travel to Seattle, where -- perhaps as a result -- the two delegations began to discuss together various economic reform issues.)

To their credit, all of the participants approached the U.S. program seriously, and used their time in Washington and New York especially to schedule a number of additional meetings with U.S. government officials, multilateral organizations, and businesses. Although this

⁴With the assistance of various private firms and U.S. governmental entities, including the Commercial Attaché at the Tashkent embassy, we arranged briefings in Washington on securities regulation (SEC and National Association of Securities Dealers); competition and consumer protection policy in emerging markets (Federal Trade Commission); public/private partnerships (Union Station Development Corp.); commercial issues in Central Asia (Ex-Im Bank, OPIC, U.S. Trade & Development Agency and the Commerce Department); current developments in privatization of tourism, communications systems and natural resources (Price Waterhouse); banking (Riggs Bank); raising of capital and self regulation of markets (NASDAQ). Separate bilateral meetings took place with USAID and the Departments of State and Treasury, and there were additional sessions with the Commerce Department, OPIC, Ex-Im Bank, the World Bank, the IMF, and the International Finance Corporation. Sessions were held in New York on capital markets and infrastructure finance (Morgan Stanley); attracting foreign investment to emerging markets (Merrill Lynch); and stock and commodity markets (New York Stock and Mercantile Exchanges). There were separate meetings with investment banks and the U.N. International Development Organization. Sessions in the Seattle area included presentations at Microsoft (on the software industry's expansion in emerging markets), Boeing, the Seattle City Council and Mayor's office, the Seattle waste management authority (privatization), and the Seattle Port Authority (on public-private partnerships and developing foreign trade opportunities). The University of Washington's Central Asian studies center arranged a program on economic reform in Uzbekistan and Kazakhstan.

The Seattle-Tashkent Sister City Committee was instrumental to the successful outcome of the visit to the Seattle region and took care to emphasize the importance of ties with both countries. In past years the Sister City Committee has provided humanitarian and educational assistance to Tashkent, but since independence Uzbekistan's government has allowed ties to atrophy. We hope that the delegation's visit will encourage closer cooperation between the Seattle region and governments and companies in Central Asia.

created some logistical complications at first, these difficulties eased as the program progressed.

II. Recommendations

Although Uzbekistan's government has made some tangible progress in recent months, the privatization committee apparently has no current plans to expand its privatization program beyond cash auctions. The development of mass privatization is on hold, at least until after introduction of the new currency this summer. It is also likely that the committee will eventually begin to privatize certain enterprises by individual tender, but nothing is planned at present. Although the cash auction program is rapidly privatizing small and medium-sized objects -- and, quite importantly, building a strong consensus behind privatization in the regions -- the initially high expectations for privatization following Mr. Chjen's elevation have been disappointed, at least for now.

I have noticed a perception elsewhere in the government -- especially in the Supreme Soviet and the Justice Ministry -- that the privatization committee is not a strong advocate for economic reform. For example, Mr. Salimov, the deputy chairman of the Supreme Soviet's economic reform committee was visibly angry that the privatization committee had refused his request to comment on bankruptcy legislation. In other instances, I made sure to provide copies of my work to Salimov and officials on other agencies, because the privatization committee rarely shared my recommendations and drafts with anyone else.

Meaningful legal reform, moreover, is hindered more than helped by Uzbekistan's over-reliance on presidential decrees. Although the decree power has occasionally been useful to setting broad new policies, unrealistic deadlines often have resulted in frenetic, all-night drafting sessions with poor results. Government workers with little or no legal training are frequently responsible for producing proposed regulations, yet they are given no time to consult with outside experts or even other ministries. The final product, which is usually unworkable, seldom leads to meaningful legislation. Once the president issues another decree, the process repeats itself.

To the extent that USAID contemplates providing full-time legal assistance in connection with economic reform programs, it should consider basing an advisor not in the privatization committee but in the Supreme Soviet, the Justice Ministry or the Finance Ministry. My own work, for example, depended significantly on developing relationships with individuals in these agencies (while avoiding the perception that I was ignoring my "sponsor," the privatization committee). USAID should especially identify and seek to assist officials who are committed to reform, such as Deputy Finance Minister Abdulkhaidirov, Gairat Isaev (the head of the economic reform group at the Justice Ministry), Mr. Rasulev and Mr. Butikov. Although I would not describe Mr. Salimov as an ideological reformer, he is practical and wants to enhance Uzbekistan's business environment.

There should be some mechanism, however, to provide as-needed assistance with specific reform efforts or in connection with ongoing privatization programs. Short-term legal assistance by Mr. Mendelson with the Finance Ministry's securities regulations (which is included in Richard Bernstrom's project budget) is an example of how engagement to meet specific needs can achieve good results. New privatization initiatives by the committee may require limited legal review, as determined by USAID and the long-term privatization advisor.

REPORT ON SHORT TERM CONSULTATION
REVISIONS TO PROPERTY LAWS OF THE REPUBLIC OF UZBEKISTAN

By Caroline G. Harris, Esq.

Legal Advisor

for

Price Waterhouse - International Privatization Group

U.S. Agency for International Development

Contract No. CNN-006-C-00-3107

Task Order No. 3

April 15 - April 30, 1994

I. Introduction to Task Order

The short term legal advisor was retained to assist officials in the Government of Uzbekistan in reforming the laws affecting the purchase and sale of real property, ownership interests in real property, and mortgages. The task order stated that an attempt would be made to resolve some of the following problems:

A. The existing laws related to real property and land use and tenure should be clarified and existing provisions made consistent with the President's recent decree on real estate.

B. The existing legal concepts of title and land use should be separated.

C. The mortgage provisions of the law on collateral should be revised to apply explicitly to purchases of real estate.

D. The existing permissible terms on long-term leasing should be revised to be consistent with standard terms in the West.

II. Fulfillment of Task Order Priorities

Substantial progress was made towards fulfillment of several of the task order priorities. A short time prior to my arrival in Tashkent, the Cabinet of Ministers issued a decree ordering the privatization of land associated with privatized trades and services. As a result, certain officials of the Privatization Committee, the Ministry of Justice and the Supreme Soviet were particularly eager to take advantage of the consultation opportunity. These meetings yielded excellent results. Mr. Utkir A. Abdulkhairov, Deputy Chairman, Managing Committee of State Property and Privatization ("GKI") invited me to teach a seminar on real estate principles to key officials in various ministries (agricultural, commercial, taxation, etc.). The seminar, attended by 30 people, was well received. I prepared an outline (Appendix I) and attached standard real estate forms (e.g., contracts of sale, deeds, etc.) translated into Russian. Mr. Abdulkhairov also sought my opinion on a proposed formula for valuing land which

would be sold. The proposal and my comments are attached (Appendix II).

Mr. Garat Issaev, Chief of Committee on Drafting Legislation for the Ministry of Justice, requested my attendance at a committee meeting concerning codification of land reforms and privatization of agricultural land. After the formal meeting, participants remained for several hours to discuss real estate transactions and real property law reforms.

Mr. Irkun Khaidarovic Salimov, Deputy Chairman of the Committee of the Economic Reform, Budget Policy and Local Self Government, The Supreme Council of Uzbekistan, invited me to meet with him to outline the key legal reforms I believed necessary to move towards a real estate market system. (Unfortunately, he could not devote more time to this issue while I was in Tashkent since the current legislative agenda was devoted to other issues. He intends to focus on the real estate issues after the May 6 conclusion of the legislative session.)

Without minimizing the potentially far reaching value of these meetings, the reception by other officials of the GKI and the Cabinet of Ministers was less encouraging. Other immediate priorities, dictated by their superiors or by the legislative agenda, inhibited them from making or keeping appointments with me, or altered their interest in discussing the real estate issues at the very moment I was in Tashkent. For example, Mr. Shukhrat R. Gafurov, Deputy Chair, GKI, at whose request (along with Mr. Abdulkhairov's) I was brought to Tashkent, did not arrange to see me until the next to last day of the consultation period; he slotted only 15 minutes for the meeting and then had to visit the Deputy Prime Minister. We never met. Others with whom meetings were scheduled cancelled their meetings due to demands by their jobs or their superiors (especially meetings with Deputy Prime Minister Chjem.) It appeared that relevant Uzbekistan officials were not prepared for my visit. In light of that, the meetings and accomplishments achieved -- which were possible only with the efforts and support of the Price Waterhouse team in Tashkent -- are even more noteworthy.

III. Log of Meetings Scheduled

Meeting notes are attached (Appendix III).

April 19 - Vladimir Zudine, Real Estate Exchange and Auction Center

April 20 - Silvina G. Vatnick, Economist, Country Operations Division, Central Asia, Kazakhstan and Azerbaijan, The World Bank; Michel Cramer, President-Director General, Investment Development Consultancy, contractor of The World Bank.

Utkir A. Abdulkhairov, Deputy Chairman, Committee for the Management of State Property and Privatization ("Goscomimushestvo" or "GKI") (cancelled)
Shukhrat R. Gafurov, Deputy Chairman GKI (cancelled)
Garat Issaev, Chief of Committee on Drafting Legislation for the Ministry of Justice
Vladimir Zudine (brief exchange of documents)

April 21 - Vladimir Zudine

Utkir A. Abdulkhairov, Deputy Chairman GKI
Irkun Khaidarovic Salimov, Deputy Chairman of the Committee of the Economic Reform, Budget Policy and Local Self Government, The Supreme Council of Uzbekistan

April 21 - 25 - No meetings: preparation of evaluation of land value proposal; preparation for Seminar

April 26 - Seminar on Real Estate

April 27 - Vladimir Zudine (cancelled)

April 28 - Price Waterhouse team re: auction of land associated with trades and services
Vladimir Zudine (cancelled)

April 29 - Garat Issaev, Chief of Committee on Drafting Legislation for the Ministry of Justice and "Roundtable on Agricultural Land"

IV. Key Issues Addressed at Meetings

Three key issues were raised by all of the Uzbek officials. Although these were not the issues anticipated by the Task Order, they provided a conduit to addressing the issues identified in the Task Order. Without exception, all officials asked how one establishes the price of land for sale, even though they knew that I am a lawyer and not an appraiser. Most people sought an absolute value or an objective formula for determining value, and therefore, price. The idea that the "market," i.e., free trading of the land for sum coupon (or dollars), would establish value is foreign to them, literally and figuratively. Generally, I explained, in simple terms, how price is arrived at in a market context and how a purchaser or lessee of land, a building or space in a building would assess how much to pay for the property.

I used the officials' question about the price of land as a segue to discuss the nature of the real property rights that would be bought by a purchaser. Implementation of the Presidential and Cabinet of Ministers' decrees will necessitate changes in both their understanding of real property ownership and their laws. Describing our (Western) understanding of the nature of property

rights sold when one purchases land, I highlighted the changes in Uzbek law that would have to be made to accomplish the goals of the decrees. (See Section V (A), below.)

The second issue preoccupying officials is a combined business and bureaucratic question. They wanted to understand the mechanics of selling land or buildings. "How does it work?" was a common question. By this question they meant, how do parties learn about property for sale, how do the parties agree to the sale, what papers must be prepared, who must sign them, where are the documents stored, does the government receive any portion of the purchase price, and how is land taxed? In response to this question, I explained how real estate deals are negotiated, contracts prepared, title searches and other due diligence (e.g., environmental audits) performed, mortgages arranged (first, I explained what is a mortgage), and transactions closed and recorded. All of the people making this inquiry were invited to the seminar.

Finally, there was tremendous interest in documentation. "What papers do you need to sell property?" was a question commonly asked. They assumed that there would be a fixed form contract of sale and a fixed form of deed, both prepared by the government and utilized in connection with all transactions.

Beneath all of these questions lurked an understandable lack of information about how market economies function in connection with real estate. There also seemed to be a reluctance to completely eliminate government from a substantive and procedural role in transactions. On the bureaucratic side, some people see government involvement in the process and mechanical procedures of selling and purchasing property as a sort of consumer protection mechanism. On the substantive side, officials who are working directly with the privatization and sale of land associated with trades and services cannot believe that the government really will relinquish ownership of land (in the sense we mean ownership) and transfer it to private citizens. Such a concept is truly revolutionary for Uzbekistan.

Two additional questions were raised only by the Ministry of Justice, one technical and one substantive. The technical one was whether the new land laws should be in adopted in a separate codex or should they be contained in the civil code. On this question, I had no opinion except that wherever they are located, the drafters should recognize that the country will be in a transition period with respect to real estate for quite a few years; they should be able to amend the laws to respond to dysfunctional situations or incongruities, as and if they should arise.

The substantive question related to the privatization of agricultural land. While activity -- adoption of resolutions, drafting regulations, preparations for sales -- is beginning to

occur with respect to privatization of land associated with trades and services (located predominantly in urban areas), Uzbekistan is only beginning to contemplate whether agricultural land should be privatized. This question is of profound importance to the country's economic system and, ultimately, to its political system. The discussion I participated in was of a preliminary nature. As I will mention again below (see Section VI), this issue should be a prime target for future consultation from American and other advisors.

V. Recommendations Made During Consultation

A. Legal Reforms

1. Clarify and expand definitions of interests and rights in land.

a. Currently there are five categories of possessory interests in land: life estates, use for a long term (e.g., 10 years), use for a short term (e.g., 2 years), use for an undefined term and temporary use. The differences among these categories are not articulated in the Land Codex or Leasing Law. Authority to grant any of these tenures rests with the state through the local hokimiats.

b. Four of the five categories of possessory interests in land should be condensed into one broad category of lease, with express authority vested in the landowner (governmental or private) to grant any length of term, from long term (i.e., 49 to 99 years) to tenancy at will, as appropriate in the situation.¹ The panoply of potential rights, including the right to mortgage, sublease, assign, occupy, use, build, alter, exclude others from the property, which may be granted with a lease should be articulated in the statute. Standards governmental agencies should follow when granting a lease and the rights associated with a leasing also should be stated in the statute.

c. A new category of possessory interest should be created which resembles our concept of ownership, replete with the

¹ It would not be surprising if Uzbekistan wanted to establish subcategories of leases in the text of the law. In that case, I would suggest that both the terms and the rights and obligations ascribed to each subcategory be set forth in the statute, too. There should be long term leases (49 - 99 years), midterm leases (15 - 49 years), short term leases (2 - 5 years, with renewable terms), and month to month tenancies. The statute should describe the rights and obligations of a party who rents from the state with respect to mortgagability, maintenance, renovation and alteration, new construction, paying taxes, etc.

"bundle of rights" we associate with ownership (the right to possess, the right to use (or not use) the land and to exploit its resources, the right to alienate, currently or in the future, all or part of the land forever or for a term, the right to exclude others. The government should not be allowed to withdraw any or all of these rights except by due process of law, with just compensation. Existing life estates should be integrated into this new category, with the expanded rights. Once ownership of land is transferred from the government to private ownership, the authority to grant a leasehold and the terms of that leasehold should rest with the entity (private) which owns the land.

d. Future interests in land should be allowed and defined, including but not limited to rights of contract vendees, heirs and mortgagees.

e. "Horizontal" interests in land should be identified, defined and allowed. Specifically, subsurface mineral, water, oil and gas rights and surface agricultural and water rights should be expressly defined. Easements for the use of the surface or subsurface of the land by parties who do not own or lease the land should be defined. (This topic has many political and economic implications and needs further development.)

2. Separate authority to allocate land ownership from authority to plan land use for a region or a city.

a. Under the current system, the right to use land is allocated by the local hokimiat which also fixes for exactly what purpose the land may be used. Using the land for a purpose other than the precise one specified may result in loss of the land, altogether. However, as the following examples illustrate, the use controls currently in leases micro-manage the economy. They must be made more flexible for a market economy.

(1) A person is granted the right, for example, to lease land from the government for a term of 5 years for the express purpose of growing cotton. If that person grows tomatoes, he will lose the right to lease the land. This system is reinforced by the mode of rental payments. Rental payments are not monetized; they are barter. The lessee must pay the rent in cotton.

(2) In an urban context, suppose a state owned factory manufactured dresses. Currently, if that factory is privatized, the new owner only has the right to use that factory to manufacture dresses, even if manufacturing men's shirts would be more profitable. In this way, the government continues to dictate what is produced in the country. Instead, the owner of the privatized factory should be able to use it to manufacture shirts, if that is more profitable, or another product.

b. Assuming there is a transition to private ownership of land, the system described in (a) should change. A person's ownership of land should not be tied to the precise use to which he puts the land. An owner should not be at risk of losing ownership of his land as a result of using it for a purpose not authorized; rather, he should be required to stop using it for the illegal purpose and have the opportunity to use it for a legal purpose or to sell it. He also should have a chance to appeal the allegation that the use is illegal. There should be a procedure through which a landowner can try to change the regulation defining use of the land (see (c) below).

c. Use of land should be controlled in general terms by zoning. Land use should not be "micro managed." Thus, the zoning regulations should state that a certain area of the city can be used for "commercial" purposes, but it should not specify precisely for which commercial purpose each lot is to be used, e.g., book store, barber shop, etc. There should be public participation in the zoning process and a transparent mechanism to change the use regulations.

d. The issues change in the rental situation. It is not unusual in the United States, where predominantly ownership is private, for the local government to lease land to private entities. This is an especially useful tool when the government has specific goals it wants to achieve or needs to fulfill which are not being fulfilled by the private market, such as economic development of an particular area or construction a certain kind of facility, e.g., low income housing or a convention center. In these cases, government leasing of land to a private entity with tight use regulations serves a specific public need. The private entity will conform with these restrictions because it has determined that the overall deal is financially beneficial. However, when applied to all real estate, rather than targeted projects, government regulation of land use through tight use restrictions in a lease tends to inhibit a free market in real estate, especially where government ownership of land is more prevalent than private ownership. It should be noted that many European countries, Hong Kong and Israel utilize the long term ground leasing model extensively, in some cases even to the exclusion of ownership. These countries have active real estate markets. (It would be useful for US AID to sponsor a comparative study of ownership and ground leasing in different countries and a study of the impact of ground leasing on the market.)

3. Title Registration System - a uniform system for recording title and other interests in land and buildings must be developed. The information in this system must be readily accessible to the public.

4. Mortgages

a. The new Law on Collateral should be reviewed to determine whether it is adequate to facilitate an effective and smooth running mortgage lending system. I reviewed and wrote extensive comments (Appendix IV) on a version of the Law on Collateral, only to learn towards the end of my consultation period that a new law had been adopted. It was not possible to prepare a translation of the new law before I left Uzbekistan.

b. The legal reforms suggested above must provide for mortgages, rights of mortgagees, etc.

B. Process of Privatization of Land

A smooth process for making the transition between state ownership of land and private ownership of land should be developed for all real property in Uzbekistan. That is a huge task and requires substantial additional work, including making the legal reforms outlined above, identifying which lands are to be privatized and in what sequence.

A portion of that huge task relates to the privatization of real property associated with privatized trades and services. Officials from Uzbekistan asked for my recommendations for privatizing the real property associated with privatized trades and services. Although I shared my ideas in a preliminary fashion with several people in Uzbekistan, the ideas were not presented in written form at the time and they were not as fully developed as stated in Appendix V. I would appreciate it if Price Waterhouse - IPG would share this proposal with Messrs. Abdulkhairov and Issaev and with any other appropriate officials.

VI. Recommendations for Future Task Orders

A. Work with interdisciplinary task force (macro and micro economists, agricultural experts, world market commodity traders, real estate lawyer) to address agricultural land reform issues.

B. Work on an on going basis with Ministry of Justice and Supreme Soviet drafting laws pertaining to

1. General real estate principles - interests in land and procedures for transferring land from government ownership to private ownership.

2. Agricultural land.

C. Work with GKI and Ministry of Justice and hokimiats creating blueprint for transition process.

D. Offer more seminars on real estate law and transactions to government officials involved with decisions pertaining to privatization of land and to the public

E. Offer seminars on real estate appraisal for government officials so they can understand the concept of "value" better. At a later time, offer such a course at the university or institute.

F. Work with Ministry of Justice, Supreme Soviet and GKI and hokimiats to create title registration system.

G. Work with Ministry of Justice, GKI to prepare model contract forms to be distributed by Real Estate Exchange.

H. Work with Real Estate Exchange Center to promote private activity in the real estate market enterprise -- brokers, advertizing, title search people, and distribution of forms. Offer training in real estate brokerage thorough the Real Estate Exchange.

I. Consider future role, if any, of title insurance (or will the government insure title?); lay groundwork institutionally and in laws.

J. Work with GKI and Real Estate Center to address role of GhEK in ongoing maintenance of buildings, possibilities of private entrepreneurial activity in building maintenance, access to supplies.

K. Work with GKI in formulating privatization of construction industry so newly privatized vacant parcels can be developed by private entrepreneurs.

L. Work with Supreme Soviet and Ministry of Justice and hokimiats to develop zoning boards, procedures and regulations.

APPENDIX I

SEMINAR ON REAL ESTATE LAW AND TRANSACTIONS

26 APRIL 1994

Price Waterhouse - International Privatization Group

Caroline G. Harris
Attorney at Law

- 1- Introduction
- 2- Development of Real Estate Law
- 3- Major Issues
 - a. Interests in Land
 - b. Benefits of Owning vs. Leasing
 - c. Legal Title
 - d. Government Restriction
 - e. Environmental Protection
 - f. Maintenance
 - g. Cadastre and Title Registration
 - h. Availability of Information and Consumer Protection
 - i. Court System
 - j. Other Legal Restriction
- 4- Real Estate Transactions - Sales
- 5- Real Estate Transactions - Leasing
- 6- Documentation

С Е М И Н А Р

ПО ОСНОВНЫМ ВОПРОСАМ ЗАКОНОДАТЕЛЬСТВА ПО НЕДВИЖИМОСТИ И СДЕЛКАМ

26 апреля 1994 г.

Прайс Уотерхаус - Международная Группа по Приватизации

КАРОЛИНА Г. ХАРРИС

адвокат

I. ВВЕДЕНИЕ.

II. РАЗВИТИЕ ЗАКОНОДАТЕЛЬСТВА ПО НЕДВИЖИМОСТИ

III. ОСНОВНЫЕ ВОПРОСЫ

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- Б. Право собственности против аренды
- В. Право пользования против правового титула
- Г. Ограничения со стороны правительства
- Д. Защита окружающей среды
- Е. Обслуживание
- Ж. Кадастр и система регистрации права собственности
- З. Доступность информации и защита потребителей
- И. Судебная система
- К. Законный порядок при регулировании

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- Б. Составление соглашения
- В. Контракт на продажу
- Г. Исследование законного титула
- Д. Финансирование ипотечного залога
- Е. Инспектирование собственности
- Ж. Рассмотрение налога
- З. "Закрытие" правового титула - документ о передаче правового титула
- И. Проблемы, возникающие после заключения сделки

V. СДЕЛКИ С НЕДВИЖИМОСТЬЮ - АРЕНДА

- А. Виды имущества
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VI. ОСНОВНЫЕ ДОКУМЕНТЫ

А. Предложение

Б. Контракт

В. Отчетность -

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2. Законный титул

3. Проектная документация

4. Относящаяся к окружающей среде

Г. Финансовое применение

Д. Заключение сделки

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2. Закладная

3. Налоги

4. Легализация законного титула/ Страхование

Е. Аренда

APPENDIX II

INTERIM PROCEDURE

on lots starting price determination for trade and services
objects subject to sale by contests and auctions

1. The present procedure is developed according to the Decree of the President of the Republic of Uzbekistan 'On Measures to Further the Economic Reform, Protect Private Property and Promote Private Enterprise' and determines the lot price only for trade and services objects both built-up and subject to building.

2. Sale (realization) to private ownership of trade and services objects as well as lots at which they located to natural and juridical persons including foreign, without declaration of funds sources used by them to acquire objects under privatization, is carried out in strict conformity with established procedure on destatization and privatization of state objects of the Republic of Uzbekistan.

3. Region, district and city agencies on organization of the use of land for certain territory determine ~~in-kind~~ the boundaries (contours) of a lot, built-up and non-built-up area and ~~grant~~ ^{use} the seller (GKI or its regional branch) documents certified the dimensions of these areas. *good start for title description.*

4. To determine differential prices for lots depending on their location, engineering communications provision, architecture and other peculiarities, the territories of the regions are divided into zones: *proximity to*

in the city of Tashkent - 14 zones;
in regional centres and cities with population more than 100 thousand - 4 zones;
in towns with population less than 100 thousand - 2 zones.

The boundaries for these zones are approved by khokimiyates decision of relevant cities and districts.

5. In cities of Bukhara, Samarkand and Khiva having architecture monuments the prices on lots located close to them are increased three times. *how close*

The boundaries of zones in which the increased prices are determined are approved by khokims decisions of the relevant cities.

6. Depending on plots location regarding to administrative and industrial centres the following increase ratio to all prices for lots are applied:

around city of Tashkent within 20 km radius - 1.6;

*outside Tashkent / inside?
what is area like?
what will land
be used for? 31*

*use
lot*

*infra-
structure*

*These are
only recommend-
ations.
no-*

arbitrary

relative to ?

- around region centres within 15 km radius - 1.5;
- around district centres within 10 km radius - 1.3;
- around other cities within 5 km - 1.2.

The distance to lots is determined from administrative boundaries of the cities. In cases when a lot is located close to two cities, the highest ratio is applied. *should depend on access*

7. When selling (realization) by contests and auctions to private ownership trade and services the unified price is established including price of the object and a lot. *apportion, for later tax purposes* ✓

8. The starting (initial) price for unit of area is determined at the amount of 50 times land tax rate in conformity with Interim regulations on land tax calculation and payment procedure approved by the Ministry of Finance and State Taxation Committee of the Republic of Uzbekistan dated January 30, 1994 No. 16/89 (Uniform state register of agency acts of the Republic of Uzbekistan No.19). The starting prices tables are attached. *is this a lot?*

9. The Council of Ministers of the Republic of Karakalpakstan in conformity with the present procedure determines and approves in established order the lots starting price for trade and services objects subject to sale by contests and auctions for city of Noukus, cities and towns of the Republic of Karakalpakstan.

If prices are low minimum prices

Starting (initial) price of a lot in cities and towns

City, Region.	Price of 1 sq.m. som-coupons, thous.			
	1 zone	2 zone	3 zone	4 zone
Aktash	8.23	6.76	5.82	-
Almalyk	11.45	10.44	8.97	8.18
Angren	11.45	10.44	8.97	8.18
Andijan	13.50	12.67	11.54	10.90
Asaka	8.00	6.53	5.58	-
Akhangaran	8.21	6.74	5.80	-
Bekabad	9.31	7.84	6.67	-
Bukhara	11.10	10.08	8.61	7.82
Gijduvan	7.86	6.39	5.45	-
Gulistan	8.65	7.18	6.01	-
Denau	9.55	7.93	6.90	-
Djizak	10.98	9.97	8.50	7.71
Drujba	7.86	6.39	5.45	-
Zerafshan	8.23	6.76	5.82	-
Kagan	7.86	6.39	5.45	-
Karasu	8.00	6.53	5.58	-
Karshi	10.76	9.74	8.27	7.48
Kasansay	7.93	6.46	5.52	-
Kattakurgan	9.32	7.85	6.68	-
Kokand	11.08	10.06	8.59	7.80
Kuva	7.84	6.37	5.43	-
Kuvasay	7.84	6.37	5.43	-
Margilan	8.93	7.46	6.29	-
Navoi	10.95	9.94	8.47	7.67
Namangan	13.43	12.60	11.77	10.83
Samarkand	13.73	12.90	12.07	11.13
Sirdarya	7.56	6.09	5.15	-
Termez	9.77	8.31	7.14	-
Urgench	11.10	10.09	8.62	7.83
Urgut	8.23	6.76	5.82	-
Uchkuduk	7.71	6.24	5.30	-
Uchkurgan	7.93	6.46	5.52	-
Fergana	11.08	10.06	8.59	7.80
Khakkulabad	7.93	6.46	5.52	-
Khanabad	8.00	6.53	5.58	-
Khiva	7.86	6.39	5.45	-
Chartak	7.93	6.46	5.52	-
Chirchik	11.45	10.44	8.97	8.18
Choust	7.93	6.46	5.52	-
Shakhrisabz	9.47	7.86	6.57	-
Shakhristan	8.00	6.53	5.58	-
Shirin	7.56	6.09	5.15	-
Yangiabad	8.21	6.74	5.80	-
Yangier	7.56	6.09	5.15	-
Yangiyul	8.21	6.74	5.80	-

City, Region	Price of 1 sq.m. som-coupons, thous.			
	1 zone	2 zone	3 zone	4 zone

Other small towns by regions

Andijan	8.00	6.53	5.58	-
Bukhara	7.86	6.39	5.45	-
Djizak	7.52	6.05	5.11	-
Kashkadariya	8.61	7.14	5.97	-
Navoi	7.71	6.24	5.30	-
Namangan	7.93	6.46	5.52	-
Samarkand	8.23	6.76	5.82	-
Surkhandariya	8.68	7.21	6.27	-
Sirdariya	7.56	6.09	5.15	-
Tashkent	8.21	6.74	5.80	-
Fergana	7.84	6.37	5.43	-
Khorezm	7.86	6.39	5.45	-

Towns by regions

Andijan	6.53	5.58	-	-
Bukhara	6.39	5.45	-	-
Djizak	6.05	5.11	-	-
Kashkadariya	6.03	5.11	-	-
Navoi	6.24	5.30	-	-
Namangan	6.46	5.52	-	-
Samarkand	6.76	5.82	-	-
Surkhandariya	7.21	6.27	-	-
Sirdariya	6.09	5.15	-	-
Tashkent	6.74	5.80	-	-
Fergana	6.37	5.43	-	-
Khorezm	6.39	5.45	-	-

Starting (initial) price of a lot in city of Tashkent

ZONES	Price of 1 sq.m. som-coupons, thous.
1	13.69
2	14.10
3	23.54
4	35.31
5	41.96
6	58.70
7	70.44
8	82.42
9	93.96
10	105.23
11	116.81
12	128.46
13	140.05
14	149.44

MEMORANDUM

TO: MR. ABDULKHAIROV

FROM: CAROLINE G. HARRIS, ESQ.
CONSULTANT
PRICE WATERHOUSE - INTERNATIONAL PRIVATIZATION GROUP

RE: COMMENTS ON INTERIM PROCEDURE ON LOTS STARTING PRICE
DETERMINATION FOR TRADE AND SERVICES OBJECTS SUBJECT TO
SALE BY CONTESTS AND AUCTIONS

DATE: APRIL 20, 1994

I hesitate to comment on the Interim Procedure because it involves a discipline different from my own. You need an "appraiser" who is familiar with Tashkent to fully assess the viability of the prices suggested. My comments, therefore, are of a general nature, based on my experience in the real estate industry generally.

Paragraph 1. No comment

Paragraph 2. No comment

Paragraph 3. The document certifying the dimensions of the areas should include a clear description of the boundaries of the lot, a statement whether there is a structure on it, and the size (e.g., number of stories) of the structure, if any.

Although not necessary for this Interim Procedure, I recommend that the description of the boundaries of the lot, etc., should be reproduced on a "Deed" for the land (and building, if any). The deed should be filed in a central registry and the owner should keep the original, marked with the filing information. This will begin your title registration system, a crucial part of a real estate market.

Paragraph 4. Although the introductory sentence states several factors to be taken into consideration in setting a "starting price" for the auction, in reality, the only factors considered are general location and proximity to historic monuments ("architecture monuments"). If the beginning prices are low, based only on general location, the market will take into account the other factors listed (infra structure, architecture of the area and other peculiarities), as well as other factors.

Dividing Tashkent into 14 zones may be reasonable, depending on the rationale for the boundaries drawn. However, it seems like a lot of different zones. Moscow's City Council divided Moscow into only 13 zones for initial valuation purposes.

Similarly, dividing the regional centers and smaller cities into 4 zones and the towns into 2 zones may be reasonable,

depending on the rationale for the boundaries drawn.

In all cases, the rationale should be consistent and objective.

Paragraph 5. It makes sense that the lots (with or without existing trades and services) closer to the architectural monuments would have a higher value than those further away from the monuments (all other considerations being equal) only if they will benefit by being near by the monuments. Accordingly, targeting those lots for higher starting prices makes sense only if you are familiar with their exact location. I do not know the rationale the increase (3x) over the beginning price for other lots in the zone. It may be reasonable, but I have no basis for making that judgment.

Alternately, you can let the market establish the price at the auction. The highest offer should reflect that the location is believed to have more economic potential.

Giving the khokimiyates the authority to set the boundaries makes sense, they are most familiar with the area.

Paragraph 6. The rationale for this section is not evident. Are you suggesting that if a lot is located within 20 km. of Tashkent its beginning price should be 1.6 times a lot in Tashkent? Which lot in which zone in Tashkent? The beginning price should be determined according to the same criteria as are used for determining starting price in all areas. What kind of area is the lot in (rural, environmentally polluted? What trade or service is going to purchase it? What else is in the area? the same comment is applicable to the other listings in this section.

The highest ratio should be applied only if the lot outside the administrative boundaries of the city relates primarily to that city.

Paragraph 7. Using a unified price is a good idea. You may want to consider, nevertheless, apportioning value for the land and for the building for taxation purposes, later.

Paragraph 8. I have no way of determining whether this 50x tax rate is high since I am not familiar with the tax rates.

Paragraph 9. No comment

APPENDIX III

SUMMARY OF MEETING WITH VLADIMIR ZUDINE

April 17, 1994

Vladimir Zudine described the responsibilities of the new Real Estate Exchange which was decreed January 21 and created April 8. Its founders are the GKI, an investment bank and four commercial entities, including a construction company and an insurance company (UMID, a Uzbek company with a Pakistani partner).

Generally, the RE-EX needs regulations for the sale of all types of real estate.

Privatized apartments: Since the moratorium on the sale of residential units has been lifted, there is an urgent need to organize a market for the sale of privatized apartments. They need to understand the techniques and mechanisms for such transactions and they need to create documentation. The RE-EX will have a computer data base of information.

Incomplete construction: need to develop a concept for the sale of incomplete construction. There will be a sale of these within 1 - 2 months. Need to prepare regulations for approval by the Cabinet of Ministers. Russia's experience may be helpful.

Sale of small enterprises < 150 employees: How will the land under the enterprises be treated? What technique will be used to sell the land. How will the land be valued? Committee drafted regulations.

Vacant Land: In the future, they will sell vacant land for business use. Eg., Niji Novgorod.

Sale of trades and services: draft of regulations for land associated with sale of trades and services went to the Cabinet of Ministers for approval. REEX wants to diminish GKI's involvement. Must apply to Ministry of Justice for documents to be approved.

What kind of insurance can be provided? Insurance co. in REEX will provide insurance. (I don't think they understand how insurance works.)

What about mortgages?

Interested in encouraging foreign investment. In Spain, there is one office which encourages foreign investment. They want to know how should they establish such an office and how would it work?

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MEETING NOTES APRIL 20, 1994

1:00 P.M. Lunch with Silvina G. Vatnick, Economist, Country Operations Division, Central Asia, Kazakhstan and Azerbaijan, The World Bank; Michel Cramer, President-Director General, Investment Development Consultancy, contractor of The World Bank.

Reviewed the World Bank's short and mid term priorities for land reform in Uzbekistan. Identified development of fee ownership or, at least, long term leasing (49+ years), alienability of interests, separation of use and tenure, and flexibility of use so that the property can be used for the highest and best (most profitable) use, as the key items to be addressed in the short term. Constitutional change required to support "ownership" of land beneath trades and services. I don't necessarily agree with them regarding the importance of eliminating collective ownership.

3:00 P.M. Mr. Abdulkhairov, Deputy Chair GKI, cancelled.

4:00 P.M. Mr. Gafurov, Deputy Chair, State Property Fund, cancelled.

6:20 P.M. Vladimir Zudine. He dropped off the new decree eliminating the moratorium on sales of privatized apartments.

MEETING NOTES FROM APRIL 21

1. 9:15 - 9:40 VLADIMIR ZUDINE

Talk with Abdulkhairov about seminar, outline topics, translate & distribute, then specify invitation list. Standard forms important.

How to sell industrial objects with land

2. 9:40 - 10:10 UTKIR A. ABDULKHAIROV, Deputy Chairman, Managing Committee of State Property and Privatization

Requested that I review and comment on the mechanism they have developed for valuation of land associated with trades and services.

Prepare a paper with my honest views on their mechanism in light of the experiences in other countries and the United States. State my evaluation of the consequences of the proposal and the reasons I believe the consequences will occur.

There is also a second proposal they will want me to review and comment upon, the "Tashkent" version and compare it with the first.

If I have questions, he will gather people to answer them, especially Mr. Kasimor, Agriculture.

Interested in learning about Sale of land and long term leasing. How is it specified in the U.S. and other Central Asian countries.

Top experts will attend seminar.

3. 3:00 - 4:00 IRKUN KHAIDAROVIC SALIMOV, Deputy Chairman of the Committee of the Economic Reform, Budget Policy and Local Self Government, The Supreme Council of the Republic of Uzbekistan

Requested that I review the current laws on property and suggest any revisions, specifically:

On Property, On Leasing, On Privatization, On Collateral, Decree re: Auction, etc., Bankruptcy, Concession.

Also requested that I consider Post Privatization issues.

Recognizes limit of privatization-- enterprises only, not collectives.

Discussed problem of getting input and feedback from GKI.

NB Resolution of Cabinet Ministers of April 13 approved insurance companies--Law on Foreign Protection

Would like to work directly with me. Will invite specialists from Cabinet of Ministers to seminar.

MEETING NOTES - SEMINAR APRIL 26, 1994

25 - 30 people attended.

Questions asked included: comment on disarray of legal structure - Presidential decrees and Cabinet of Minister resolutions undermine legislation of Supreme Soviet. No court will consider the question of the legality of the Presidential Decrees.

What should the value of the land beneath trades and services be?

Can land owned by government and leased to private parties be taxed? Long term ground leases the tenant is charged taxes, but sometimes PILOT.

What suggestions do I have for land beneath trades and services?

What right has the government to confiscate property (real property)? If it is retaining mineral rights, does that mean that it can dig up your land? Yes, with compensation to damage to land. The risk will be reflected in the price.

Outline attached. Made it through part 1 & 2, never walked them through the transaction. Documents related to transaction were translated and distributed. We did not have a chance to discuss them.

List of invitess held by Price Waterhouse IPG in Tashkent.

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APPENDIX IV

**OBSERVATIONS AND COMMENTS ON LAW ON COLLATERAL
AS IT RELATES TO REAL ESTATE**

U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT
PRICE WATERHOUSE - INTERNATIONAL PRIVATIZATION GROUP

BY CAROLINE G. HARRIS, ATTORNEY AT LAW
April 26, 1994

The Law on Collateral (1992) contains the basic framework for a functional mortgage lending system for real estate. However, there are a variety of ways the Law on Collateral could be modified to insure that its purposes are served. As a real estate market develops and evolves, numerous situations will arise that are not addressed by the Law on Collateral or by the suggestions contained in this review. Undoubtedly, the law will be amended to reflect changing circumstances.

My comments and questions are listed in accordance with the organization of the law. The most important suggestions are typed in bold lettering.

ART. 3.1 How can collateral arise as a result of a legislative act? I believe the legislative act authorizes private parties to enter agreements regarding collateral. The law should also authorize mortgage agreements to be entered into by private parties.

ART. 6.1 The secured party (lender) must be able to determine the identity of all of the owners or be protected from claims by unknown owners. There are several ways the secured party could learn who are all the owners. There should be an office where all co-owners must register their respective interests in the property. In the case of land and buildings ("real property"), the office should be the same place the deed is filed. The files of the office would have to be open to the public for inspection of the records. If a co-owner does not register, he would not be able to complain (in court) that the property that he co-owns has been made subject to a mortgage. His co owners also should be responsible for identifying to the lender the names of all co-owners in an affidavit. Then the lender can be certain that all co owners have agreed that the property can be used as collateral. If one co-owner does not identify another co-owner and the first co-owner offers the property as collateral, that co-owner should be liable to the second co-owner for the damages, in the event of a foreclosure or for any other reason. The lender should not have liability for claims made by a co-owner who is not and could not be known to him.

ART. 8.2 Assuming the R.U's law relating to the creation of entities (who are not owners) with "full economic control" over

property is comparable to Russia's Law on Property, ART. 5, the true owner of the land and the building should have to give his consent to the mortgage before the mortgage applies to the property for an amount equal to all or a substantial portion of the assets of the enterprise or other business or entity that owns real estate and buildings. The reason the actual owner should give his consent is that if the mortgagee foreclosed on the mortgage, the actual owner would lose his asset completely.

ART. 8.3 Second paragraph. This is a good beginning for mortgageable ground leases.

ART. 9.2 This article should apply to land and buildings, expressly.

Is political risk insurance available yet?

ART. 10 The filing must include the amount of money secured by the collateral.

ART. 11. Article 11.1 & 11.2 are confusing. All collateral agreements (if relating to real estate, we call them mortgages), especially regarding land and buildings, should be signed by the party granting the mortgage (generally, the borrower) or by his lawful agent who is authorized in writing to execute the same. The person granting the mortgage must have the capacity and authority to convey the interest in the real property to be mortgaged. The mortgage should be executed in the same way as a deed; it should be notarized and registered. The mortgage should be delivered to the mortgagee. It should be registered in the same agency, office and file that ownership of the real estate is recorded.

The mortgage should contain an accurate description of the property intended to be subject to it. If it is the same property purchased with the loan, then the exact description set forth in the certificate of ownership should be written in the mortgage. This is important to inform future lenders and to protect the borrower and other parties in the event of a foreclosure.

An interested party should be able to obtain a certified copy of the mortgage from that office for a small fee.

ART. 11.3 If filing of mortgages is done as describe in the comment to Art. 6.1, the mortgage itself or the memoranda would state that the property may not be sold or assigned without the consent of the mortgagee. The person who is considering buying the property would review the records and learn this restriction. He would not buy the property until the consent of the mortgagee were obtained or there were no longer a mortgage covering the property. There may be some times when the mortgage agreement provides that the mortgagor (the owner of the property) may sell the property.

If this procedure were followed, the notary office would not have to impose a prohibition.

ART. 11.5 Invalidity of the collateral agreement is too harsh a penalty for failure to observe the procedure for its notarization and registration. The impact should be that the mortgage agreement is valid as against the mortgagor, but if a third party buys the property and searches the files described in Art. 11, but no agreement is recorded, the new owner obtains the building free and clear, unencumbered by the mortgage. (The mortgagor/debtor would still owe the debt to the mortgagee.) If the mortgagee records the mortgage later, it gains priority as a lien against the property as of the recording date.

ART. 12. The agreements should be valid against the signatories when they are signed. They should be valid against third parties when they are registered.

ART. 13. A person having only "operative control" of real estate should not have the power to mortgage it.

In the case of a transfer of real property which is subject to a mortgage, there are several options that can be negotiated by the borrower and the lender. They should decide. Depending on their decision, each of the options may require the mortgagee's consent at the time of the transfer or one or more of the options may be agreed to in advance, in the mortgage. The options are: (1) The mortgagor may sell the property, but when he does the full mortgage will become due ("due on sale clause"); (2) The mortgagor transfers the ownership of the real estate, but the mortgage remains in effect against the property and the original borrower remains liable for the original debt. In effect, the new property owner becomes a guarantor of the borrower's debt, and the guaranty is secured by the property. (3) The mortgagor transfers ownership of the property, the mortgage remains in effect against the property and the new owner assumes the obligation of paying the debt of the borrower. (The mortgage would be considered "assigned" to the new owner who has "assumed" the obligations of the note and mortgage.) The original debtor should be able to obtain a personal release from the note, and the note and the mortgage should be assumed formally, in writing, signed and notarized, by the new owner of the property.

ART. 14. The first phrase of Art. 14.1 is not consistent with ART. 13. Art. 14.3 is dealt with in my comments to Art. 11.

ART. 16. The debtor should be able to pay the debt and obtain a document releasing the mortgage and evidencing satisfaction of the note. This procedure puts a large burden on the bank and no mechanism for the release to be filed where the mortgage is filed. The sum should be placed in escrow and there should be a proceeding, in court, perhaps, where the mortgagor applies for the

release and satisfaction. The mortgagee must be given notice of the proceeding. If the mortgagee does not attend, or if the mortgagee attends but has no basis for refusing payment of the note, the court should issue an order providing for the release of the mortgage and cancellation of the note. The money held in escrow should be delivered to the mortgagee, minus the debtors costs in applying for the release from the court. (Perhaps the notary can perform this function instead of the court. In any case, there must be notice and a hearing.)

ART. 18.2. Partial releases should be allowed. What does it mean "unless stipulated by ... law"? The mortgage should allow for prioritizing the collateral.

ART. 19. ART. 19.1 What does "unless otherwise established by law" mean? This seems to have the potential of undermining the entire structure being established in the law on Collateral.

In the second paragraph of Art. 19.1, what is meant by "without recourse"? Without recourse to whom? The debtor must have an opportunity to defend against the seizure. The notary wields a lot of power here.

The third paragraph of Art. 19.1 is very confusing; there are too many options of who may be able to issue an order, who may be able to execute the order, and others that can be added "by law." The procedures for foreclosure should be very clear.

Art. 19.2 The claim of the holder of the collateral (mortgagee) should be satisfied preferentially before the claims of the other creditors provided he is the first party to register his security interest in the collateral (mortgage). (See comment to ART. 11, above.)

Art. 19.3 The mortgagor and the mortgage should decide (and the mortgage should state) whether the mortgagee may proceed after other property of the mortgagor. (If only the property may be used to satisfy the debt, the mortgage is called a "non recourse mortgage." If other property may be attached to satisfy the debt, the mortgage is called a "recourse" mortgage.) If the mortgage is a recourse mortgage, the mortgagee will not have priority over the claims of other creditors with respect to the other property. The mortgagee will have to "get in line" behind other creditors who may have prior claims to the other property of the mortgagee.

Art. 19 - ADDITIONAL COMMENT: The mortgagee may want the right to sell the property at a negotiated sale, instead of at auction. You should consider adding this as a remedy of the mortgagee.

ART. 20.2 Who determines whether the price is too low? What if the mortgagee overvalued the collateral or what if the market dropped?

ART. 22. In the case of destruction of the collateral property, the mortgagee should be entitled to receive the proceeds of any insurance covering the property, up to the amount due on the note and mortgage.

What is the statute of limitations?

ART. 23. In the case of a reorganization, this seems harsh. In any case, the mortgagee should be required to accelerate payment on the note, leaving the possibility that the mortgagor will pay and not lose the property.

AT. 31 The mortgagee should have a right to inspect the property.

ART. 32(b) See comments to ART. 13, above.

ART. 37. There needs to be a form of "Note," too.

Art. 37.2. Notary need not do this is the mortgage states the prohibition.

Art. 37.3. This section needs to be developed further. I will explain the problem with an example: Lender #1 loans Borrower \$100,000. The Note (which is the document which evidences the debt) and the mortgage (which secures payment of the debt out of the value of the property) are for the full amount of the debt of \$100,000. The mortgage does not prohibit the Borrower from giving a second mortgage which will have a lower priority than Lender #1's mortgage. Lender #1's mortgage is filed on January 1. On February 1, Lender #2 lends Borrower \$25,000. Borrower executes a Note and both parties execute and register Mortgage #2. Mortgage #2 is filed on February 1. Now, Lender #1 loans Borrower another \$10,000. Borrower executes another Note (for \$10,000) and Lender #1 and Borrower execute and have notarized another mortgage (Mortgage #3) for \$10,000 covering the property. When Mortgage #3 is filed, it should have a lower priority than Mortgage #2. Even if Lender #1 and Borrower handle the transaction as an amendment of Loan #1, the mortgage securing payment of the additional loan of \$10,000 should not gain a priority over Lender #2's mortgage. By the same reasoning, however, Lender #1 should not lose its priority position for payment on Loan #1 for \$100,000 just because Lender #1 decided to loan Borrower an additional \$10,000. This is one reason why the date of filing the mortgage (so that the public is put on notice of the claim on the property) is so important. It protects subsequent lenders by giving them information about how many claims may be made against the property.

Other, non monetary amendments to the mortgage should be allowed without them being considered new mortgages. For example, if the mortgagor is given an extension of the term to pay back the debt, that amendment of the mortgage should not cause the mortgagee to loose its priority. (This issue of amendments is rather complicated and should be addressed more fully.)

Art. 37.4 When the debt is satisfied, the mortgagee should give the mortgagor a document stating that the debt has been satisfied and a document stating that the lien of the mortgage is released from the property. They should be signed and notarized. The Release should be recorded in the same office as the original mortgage, cancelling the mortgage. (This can be in one document instead of two; however, the combined Release and Satisfaction document must be filed to give notice to the public that there is no longer a mortgage on the property.) If the mortgagee refuses to execute these documents, the mortgagor should be able to go to the notary and then the court to have such documents issued or to force the mortgagee to complete them. The mortgagee should pay the costs and damages, if any, of the mortgagee.

ART. 38(c) The lease would be subordinate to the interest of the mortgagee, which means that if the mortgagee takes over the property in foreclosing on the mortgage, the mortgagee may terminate the lease. Very often, a borrower will ask the lender not to disturb the lessee's tenancy, if the lender takes the property, and, often, the lender will agree. The borrower may request this when negotiating the mortgage (a good idea) or when he has a tenant who wants to move into the space and is worried about the rights of a mortgagee. Such an agreement by the mortgagee is called a "Non disturbance agreement." Generally, the tenant must agree to consider the lender as if he were the landlord, in the event that the lender/mortgagee takes over the property. this agreement by the tenant is called an "Attornment" agreement. These are features an American company which is leasing a lot of office space would like to have in the lease.

ART. 39 (c) Who determines whether it is appropriate for the mortgagor to fulfill the obligation in full?

ART. 40. Art. 40(1) Seizure should be in accordance with the procedures for foreclosure described earlier in this law.

Art. 40(2) The mortgagor should be required to insure the property at his own expense. If the mortgagor fails to insure, the mortgagee may insure and charge the mortgagor. In both cases, the mortgagee should be listed, along with the mortgagee, as a beneficiary of the insurance.

ART. 41 See comments to ART. 32 (b) and 13. Consent must be in writing, witnessed.

ART. 42. This section should address the rights of other parties who are using or leasing the property. (See Comments on Art. 38(c)).

This should not be automatic. The consent of the owner of the land should be obtained before the lessee of the building or structure mortgages the building. The consent should be in writing, signed and notarized. Otherwise, the law undermines the rights of the owner of the land. This is critical.

ART. 46. Art. 46 (1) & (3) should refer back to Art. 35 - 42. No additional or contradictory provisions regarding mortgages on land or leases should be stated here that are not already in Arts. 35 - 42.

ART. 49. Art. 49 (1) & (2) This section seems to pertain to security interests in future proceeds, not to mortgages on real estate. This should be clarified.

A mortgage may include after-acquired property of the mortgagor only if it is explicitly stated in the mortgage that after-acquired property is included in the mortgage; the specific property to be acquired should be listed as well as the amount of the lien covering it.

The mortgage itself should state whether it is a recourse or a non-recourse mortgage. Even if it is a recourse mortgage, it is not automatic that every receipt of the mortgagor immediately becomes the mortgagee's. It is only when there is a default and foreclosure that the mortgagee can proceed after the real property and other property of the mortgagor. See comments to Art. 19(3).

ART. 51 This article is confusing. Why have another section about this topic. Does it relate only to collateral of enterprises or does it have broader application? In either case, the registration procedures should be the same regardless of what entity or person is lending or borrowing the money and granting a mortgage. All mortgages, regardless of the nature of the entities involved, should be filed/registered in the same office as the certificates of ownership. All mortgages should be valid against the parties when they are signed and notarized; they should be effective against third parties when they are filed/registered.

ART. 52. The ledger is a nice idea, but it is much more effective to have a public record of mortgages and security interests.

In any case, the 10 day delay can cause many problems for potential creditors who will rely on the entries. Who will have a right to inspect the borrower's ledgers?

ART. 53. What is this state registration? Is it in addition to any other registration? Again, I believe that all mortgages should

be recorded in the office where the borrower's certificate of ownership is filed. If a lease is being mortgaged, a memorandum of the lease should be filed and the mortgage should be filed.

Registration should be performed the day it is brought into the office, effective when it is stamped and entered into the file. In a fast moving business environment, lenders need to be able to be current in their information about the assets of entities to which or to whom they may issue loans.

ART. 54. The collateral registration record should be located in the same place(s) as the certificates of ownership of real property. The records should be accessible to the public for search requests.

The mortgage itself should be registered. Sometimes, because all of the provisions of the mortgage agreement can be very lengthy, parties execute a short form of mortgage which refers to another agreement (a "building loan agreement" or a "security agreement", depending on the circumstances) which addresses many details. The essential facts and agreements are stated in the recorded mortgage and are not contradicted in the other agreement.

ART. 55. Who do you consider the applicant? Is it anybody or only the lender on the mortgage filed?

ART. 56. With regard to mortgages on real property, the registration should be valid until the borrower has paid back the loan. The registration should be able to be cancelled when the lien of the mortgage is released from the property. (See Comments to ART. 37(4)).

Art. 56 (4) This is a very harsh result.

ART. 57. Who is an interested party? Does illegal mean "not in conformity with the technical provisions of this law" as well as "unauthorized and fraudulent"?

ART. 58. It is good the information will be made public. I suspect that the fulfillment of such requests for information by mail will take a very long time. All efforts should be made for an expeditious search. If all of the records are computerized as well as manually filed, then the searches will be quicker.

What will the costs be for searches of the record? For filing and registration fees?

ART. 60 . See comment to ART. 58. Will there be only state fees and registration or also local registration and fees?

ART. 61. To avoid this problem, the mortgagee should register the mortgage, passing the cost on to the mortgagor.

What agreement establishes the fine?

ART. 62. It is fascinating that the state agency does not have immunity from such suits.

ART. 64. Art. 64(1) contradicts ART. 63.

Art. 64(2) The government should compensate the mortgagee who should then sort out the problem with the mortgagor. There are provisions in ART. 39 addressing this issue that could apply.

Art. 64(3) See comment to ART 64(2).

ART. 65. I do not understand this provision.

ART. 66. Art. 66(4) is an exception to Art. 66(1).

MISCELLANEOUS COMMENTS:

There are several situations in which mortgages may be granted which were not contemplated by this law but to which it might apply. It may be granted by the buyer of property (mortgagor) to the seller of the same property (mortgagee) to secure an unpaid balance of the purchase price. This is called a "purchase money mortgage." It is used (a) when the buyer does not want to obtain a loan from an institutional lender (e.g., a bank) or (b) when the buyer obtains a portion of the purchase price from the institutional lender and the seller "loans" the buyer the balance of the purchase price. In the second situation, the institutional lender usually takes a first mortgage (its claim would be paid first in a foreclosure) and the seller takes a second mortgage (its claim would be paid second in a foreclosure).

A mortgage may be used to secure payment of a loan for the purchase price of the land or building to which the mortgage applies. A mortgage also be used to secure payment of a loan for the cost of constructing a building; in that case the mortgage would apply to the land upon which the building is being constructed and the building, as it is being constructed. Generally, the term of a building loan is very short (18 - 24 months), just enough time to build the building. Then, a "permanent" loan replaces the building loan at a lower interest rate and for a longer term (e.g., 25 - 30 years). There are many issues that are raised in the context of a building loan which can be discussed at another time.

If property covered by a mortgage is located in several jurisdictions, then certified or duplicate original copies of the mortgage should be filed in each jurisdiction where there is property covered by the mortgage.

It is not uncommon for there to be a tax on the recording of a mortgage. The tax is paid only once on the full amount of the mortgage; There may be exceptions to the imposition of the tax.

The mortgagee also may assign its interest in the note and mortgage to a third party. This is done where the lender would like to receive the full amount of the mortgage (plus a small percent) from a party who would like to receive the interest income from the repayment of the loan and, later, the principal. When this is done on a large scale, it creates a "secondary mortgage market" which is an important part of our real estate financing system. In the mortgage, the mortgagee should provide that it may assign its interest in the mortgage to a third party. However, it must notify the mortgagor or the transfer when it occurs so that the mortgagee will pay back the loan to the correct party. If the mortgagee does not notify the borrower of the transfer and the borrower pays the original mortgagee, the new mortgagee should not be able to bring an action for non payment against the mortgagor or foreclose on the mortgage.

The mortgage should contain provisions requiring the mortgagee to notify the mortgagor when it is in default of a provision of the mortgage, giving the mortgagor time to cure the default before the mortgagee attempts to foreclose on the property.

The mortgage should address whether trade fixtures and other immovable objects which are affixed to the building (but were are not always part of a building) are included in the property covered by the mortgage.

Additional provisions should be drafted to address the procedures for foreclosing on a mortgage before the notary and in court.

One last comment regarding the term of loans. Generally, loans to purchase real estate have long terms, anywhere from 15 to 30 years. (We call this "permanent financing" even though it is not permanent.) This allows the owner to amortize the cost of purchasing the land or building over a long period of time. After he repays the note and mortgage, the owner still can benefit financially from owning the land or building. The same theory applies to obtaining a ground lease where the lessee intends to construct a building. The ground lessee will need a very long term lease in order to amortize and benefit from the capital investment of constructing a new building. Generally ground leases are a minimum of 49 years; often they are renewable for additional 25 or 50 years. Along with other features, the long term of a ground lease makes it possible to obtain a mortgage. From a tax perspective, long term ground leases are considered tantamount to ownership. Building construction loans have short terms: 18 - 24 months. But, they are replaced by "permanent financing" which has a longer term and lower interest rate.

APPENDIX V

PROPOSAL FOR PRIVATIZATION OF LAND
ASSOCIATED WITH TRADES AND SERVICES

By Caroline G. Harris, Esq.
Advisor

Price Waterhouse - International Privatization Group
for
U.S. Agency for International Development
Contract No. CNN-006-C-00-3107
June 5, 1994

Privatization is underway in Uzbekistan. To date, approximately 49,000 objects, including local industries, trades, transportation facilities, consumer cooperatives, agricultural product processing plants, public services and housing have been privatized.¹

The initial stage of privatization focussed on enterprises.² It did not address the status of the land, buildings or spaces within a building occupied by a privatized enterprise. Instead, the government officials informed prospective purchasers of enterprises that the new owner could continue to occupy the space, building or land, provided the new owner continued to operate the trade or service.

Now that the trades and services have been privatized, recent decrees of the President and the Cabinet of Ministers have begun to address the real estate issues.³ The Decree of the President, "On Measures to Further the Economic Reform, Protect Private Property and Promote Private Enterprise," dated January 21, 1994, provides that the land on which trades and service enterprises⁴ are located

¹ Decree of the Cabinet of Ministers of March 29, 1994, #171, Appendix I, State Program of Deepening the Processes of Denationalization and Privatization in the Republic of Uzbekistan, at p. 1.

² State, municipally and enterprise owned housing also was privatized. The essence of privatization of housing was transfer of ownership of the apartments within buildings owned by the state, municipality or enterprise, to private hands. However, the decrees relating to privatization of housing did not address the issue of ownership of the building or the land.

³ The Constitution of Uzbekistan mandates that all land is owned by the State. Transfer of use, possession or ownership of the land to private parties can occur only pursuant to a legislative act.

⁴ The Decree does not define "trade and service enterprises." Generally, they seem to employ few people per establishment (under 150). They include retail stores, dry

is to be privatized. The Decree authorizes competitive sales to persons and legal entities, including foreigners, without declaration of funds sources used by them to acquire such objects.

The decree of the Cabinet of Ministers, dated March 29, 1994 #171, "On fulfillment of the Decree of the President of the Republic of Uzbekistan of March 15, 1994 'On priorities in further development of privatization process in the Republic of Uzbekistan' reiterates the President's goal of privatizing the land on which trades and service enterprises are located. It announces that the creation of a real estate market is a priority. The Decree provides, further, that the owners of privatized trades and services have the right to acquire the land where those enterprises are located.

The dual objectives of creating a competitive market and of giving owners of privatized trades and services the right to acquire the land in which they are located present two, potentially conflicting, goals. Implementation of these decrees, therefore, must attempt to balance achievement of both goals.

Balancing the goal of creation of a competitive market with the goal of giving the owners of privatized enterprises the right to own land is complicated by the diversity of the kinds of real estate involved. Some privatized trades or services occupy entire buildings where the privatized trade or service is the only enterprise in the building. Some share a building with other trades, services and non residential uses. Some occupy ground floor space in mixed use (retail and residential) buildings. Different approaches to privatizing the land beneath the trades and services are necessary, therefore, depending on the characteristics of the space occupied.

With that background, this paper presents a preliminary proposal for implementation of privatization of land associated with trades and services in cases where the real estate has not already been transferred to private ownership.⁵ Two principles guide all of the approaches, one a policy matter and the other a legal matter. As a policy matter, privatization of land should be encouraged. It should move forward quickly with as few obstacles as possible. As a legal matter, to the extent feasible, the owner of the land and the owner of the trade or service should be the

cleaners, restaurants and hotels.

⁵ The Decree of the Cabinet of Ministers, dated March 29, 1994, #171, states that the value of the land should be included in the purchase price of the enterprise. Since enterprises have been purchased, it is not clear whether any of the enterprises already own the land and whether there is any documentation to support such land ownership.

same entity. Therefore, there should be both positive and negative incentives adopted to foster ownership of land by tenants.

1. VACANT LOTS.

Vacant lots should be sold at auction. The highest bidder should obtain the right to own the land and to develop it.⁶

2. LOTS WITH A SINGLE BUILDING CONTAINING ONLY ONE TRADE OR SERVICE ENTERPRISE.

The government should enter into leases with the owners of the trades and services for the spaces they occupy. The term should be short (e.g., two years) and the rent should be nominal.

Then, in accordance with the decree of the Cabinet of Ministers', each owner of a trade and service should be allowed to exercise the right to acquire the land and building where the enterprise is located. To encourage the owners to buy the land and building, the price of the land should be nominal or, at most, low. The sale of the land should include the sale of the building.

If the owner of a trade or service does not purchase the land and the building, the land and building should be auctioned to the highest bidder. The new owner's interest in the land should be subject to the government's current short term (e.g., 2 year) lease with the trade or service. After the termination of that lease, the new owner of the land and building would be able (a) to enter into a new lease with the trade or service on market terms, or (b) to evict the trade or service and lease the space to a new trade or service. If no private entity has purchased the building, the government will continue to own the property, but may enter a new lease with the owner of the trade or service, increasing the rent to market rates.

The new owner of the land and building will be responsible for maintaining the building and land and for paying taxes, unless he and the tenant agree (in their lease) that the tenant shall maintain the building and land, and pay the real estate taxes, etc. Once the building is privately owned, it may be used for any commercial purpose. Restrictions on the use of the building would be established in general terms only, pursuant to zoning (which must be implemented). At any time in the future, the new owner of the land and building may sell, lease or mortgage all or part of his interest in the land and building, subject to any lease agreements he has entered, in accordance with their terms.

⁶ New categories of possessory interests in land must be adopted, including ownership.

3. LOTS WITH A SINGLE BUILDING CONTAINING SEVERAL TRADES, SERVICES OR OTHER ENTERPRISES OR ENTITIES.

The government should enter into leases with the owners of the trades and services for the spaces they occupy. The term should be short (e.g., two years) and the rent should be nominal.

Then, in accordance with the decree of the Cabinet of Ministers', each owner of a trade and service should be allowed to exercise the right to acquire the land and building where the enterprise is located. To encourage the owners to buy the land and building, the price of the land should be nominal or, at most, low. The sale of the land should include the sale of the building.

However, in this case, where there are several trades or services in one building, the owners should be allowed to become co-owners of the land and building. Initially, each owner would have the right to acquire an interest in the building equal to the proportional size (in square meters) of his trade or service in comparison with the size of the whole building. If one of the owners ("Owner #1") does not want to purchase his share in the building and land, he should be allowed to sell his right to another person or entity, either another owner of a trade or service in the same building or a stranger to the building (in either case, a "Substitute Owner"). (The Substitute Owner also should be allowed to take over Owner #1's lease.)

Once the owner of the trade or service has purchased his proportional share of the building and no longer is a "lessee" of the government in the building, he may use his space for any commercial purpose. Restrictions on the use of the building would be established in general terms only, pursuant to zoning (which must be implemented) or by agreement of all of the other owners of the building. (They may, for example, chose to allow trades and services in the building, to allow offices, and to exclude light manufacturing.)

If none of the owners of the trades and services want to purchase the land and the building, the land and building should be auctioned to the highest bidder. The new owner's interest in the land and building would be subject to the government's current short term leases with the trades or service. After that short term, the new owner of the land and building would be able to enter into new leases with the trade or service on market terms, or to evict the trade or service and lease the space to a new trade or service.

After the new owner owns the land and building, he will be responsible for maintaining the building and land, for paying taxes, etc. unless he and a tenant agree otherwise that the tenant shall maintain the building and land, etc. At any time in the future, the new owner of the land and building may sell, lease or

mortgage all or part of his interest in the land and building, subject to any lease agreements he has entered, in accordance with their terms.

4. LOTS WITH MIXED USE BUILDINGS (CONTAINING TRADES, SERVICES AND APARTMENTS).

Mixed use buildings pose a complicated situation. In all likelihood, the apartments in those buildings have been privatized, but the space containing the trades and services and the land beneath the building is still owned by the municipality or the state. All of the occupants of the building may have a claim on owning the land and the building.

There are several options.

A. Don't sell the land and building. The land and the building would remain owned by municipality. Maintenance of the building would be performed by GHEK.

B. Transfer ownership of the building to the current tenants as follows: residential unit owners would own their share in the land and building automatically since they already have purchased that right when they privatized their apartments. Commercial unit tenants first would receive two year leases for their space. Then, they would have the option to buy their share of the land and building, just as in #3, above. After the sale of the building and land to the residential owners and the Commercial tenants, each owner would hold an undivided interest in the land and building. They could apportion maintenance costs and taxes in accordance with actual use estimates and square footage of each tenant owner.

C. Divide the building into two ownership groups (1) Residential and (2) trades and services ("Commercial"). In essence these two groups would own the land and building in proportion to their respective share of the space and would be responsible for maintenance of the building and taxes in proportion to their share in terms of use and square footage. Within each group, the tenants would own a share of the group. In the case of the residential tenants, this allocation already has occurred, through the privatization process. With respect to the privatization of the land and building associated with the Commercial space, a process such as the one outlined in #3, above, could be adopted.

D. Allow the Residential owners to own the entire building. The leases for the trades and services, held by the government, would be transferred to the Residential owners corporation or collective, which would become the landlord of the space occupied by the trades and services. The owners of the trades and services would pay rent to the Residential owners for the balance of the lease term. Then, the leases would have to be renegotiated at

market rate. The owners of the trades and services would never be able to own their space unless the Residential owners decided either to sell off the commercial space as a block to an entity that wants to own and manage commercial space or to sell off each commercial space to its current tenant or to another entity.

Price Waterhouse Mass Privatization

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Mr. Andrew Tataryn, USAID Kiev
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Ms. Heidi Kroll, USAID Washington, DC

From: Michael McLindon and Gayle Greenlee.

Date: July 6, 1994

Subject: MOLDOVA: Mass Privatization, Project Update

Introduction and Summary.

On June 29, the first National Patrimony Bond auction for shares in an enterprise opened for subscription by the public. This pilot auction of a beer company in the city of Orhei, located about 40 miles from the capital of Chisinau, initiated the government's mass privatization program for medium and large scale enterprises. At the same time, PW worked with the Ministry to prepare for the nation-wide auctions on July 27 of 11 enterprises.

The Orhei Pilot Auction. PW worked with the Ministry of Privatization to identify a pool of candidate enterprises for the first pilot auction. This followed a period of lobbying the Ministry of Privatization to use a pilot before moving to a national system.

After a review of a number of candidate enterprises, it was decided the Orhei beer factory would be a viable candidate for the pilot auction. The Orhei beer factory was one of the first to have completed the required steps for privatization. Further, with just over 100 workers, it was primarily of regional interest, an important consideration for a pilot auction. Another reason that it was selected was the strong support of the management and workers for the enterprise to be privatized. Local and regional leaders indicated their support for privatization. It was

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anticipated that the shares would be oversubscribed, thus providing a test of the current reprice and reaction system and offer support for a better share allocation system. PW wrote the information note for the Orhei auction and placed it in the regional newspaper.

Development of National Auction System. This pilot auction was the first step in setting up the national auction system. This involved the following actions by PW:

Open Tender for Bid Collection and Data Entry

- Persuaded the MOP to open up the process of setting up bid collection and data entry sites to private sector participation through an open tender.
- Established a tender commission with the Ministry of Privatization
- Drafted the tender notice, which included information on the requirements, evaluation and selection process, and the application process.
- Advertised the tender in the two largest Moldovan newspapers in Russian and Romanian.
- Organized, with the MOP, a bidders conference on May 25, and a separate meeting for banks on May 27, to explain the goals and process of the tender.
- Collected and began evaluation with the Ministry of Privatization of the 23 proposals submitted, which were due on May 31. The majority of the groups proposed to work on both bid collection and data entry.
- Proposed on June 2, a first short list based upon an evaluation of the proposals submitted. Ten groups made the first cut for bid collection sites, and 17 for data entry sites.
- For those potential bid collection and data entry groups making the first cut in the evaluation process, detailed budgets were submitted on June 14 and evaluated.

Identification of Bid Collection and Data Entry Sites.

- Organized evaluation visits to 150 of the groups' potential bid collection sites in 39 regional centers and made detailed reviews which resulted in the ranking of bid collection sites by rayon. The data was collated in tabular form.
- Negotiated the terms of participation for the three firms providing bid collection sites and two firms providing data entry sites for the Orhei pilot auction.
- Continued negotiating with the firms for 45 bid collection sites for the July 27th auction.

- Located a large bid collection site for Chisinau, and made arrangements to prepare it for the national auction. A data entry point will be established at the same point.
- Currently negotiating with firms for 3-4 data entry points for the July 27th auction..

-
- Wrote the bid collection and data entry manuals which provided the basis for operations for the contractors selected.
 - Developed the subscription forms and various control and reconciliation forms for the auction.
 - Wrote the operational manuals for the Territorial Agencies
 - Hired 10 full time local staff and provided training for them in Moscow and in Moldova on bid collection sites
 - Hired 4 full time local staff for the Orhei auction and 5 additional for the July 27 auction and are training them to perform audits for the NPB share auctions. These persons could eventually takeover the audit function upon the departure of expatriate personnel.
 - Hired 2 full time local staff and provided training for them at PW and at data entry sites.
 - Organized a 3 day training session for 60 people in Orhei on bid collection procedures, including the personnel from the 3 banks selected to be bid collection sites, personnel from the Territorial Agencies and PW local hires who will replace the expatriate trainers in future auctions.
 - Organized and is currently providing training to 300 people in bid collection for the July 27th auction.
 - Provided training to the two data entry firms selected for the Orhei auction.
 - Trained mobile teams of Moldovans to conduct spot audits and to verify and reconcile auction results. Comprehensive field visits were performed by the audit teams of both the bid collection sites and data entry sites for the Orhei auction.

Enterprise Preparation

The Enterprise Preparation Team undertook the following activities:

- Cooperated with the Ministry of Privatization in order to select large- and medium scale companies for privatization. Through this cooperation, one company was selected for an experimental auction in June, 11 companies were selected for the July 27th auction, and 30 companies have been selected for an auction in August.
- Visited and provided technical assistance to all companies selected for auction in June and July, including Orhei Beer Company, Transeservise, Moldavghidromash, Hidropompa, Succes, Ulex, Utlapcar, Consum, Alfa-Nistra, Combinatul Materiale de Constructie, Cheese Factory (Vulkareshti), Dairy (Kupchino), Monolistroi, Canning Factory (Kupchino).
- Presented and negotiated significant changes, in part based on the Orhei auction, to simplify and streamline Moldova's enterprise privatization process, including establishing strict time deadlines, restricting the number of the participants in the process, reducing the number of documents required and implementing stock splits.
- Developed a simplified privatization package ("SPP") consisting of three documents, i.e. the privatization plan, the model incorporation document and the corporate charter, which PW has recommended that the MOP accept instead of the current voluminous package.
- Cooperated with the MOP in assisting at numerous information sessions with enterprises scheduled for privatization.
- Drafted the Bidders Guide, which is the basic informational source for prospective bidders in Moldova's Republican Auctions.
- Drafted numerous newspaper articles explaining the Republican Auction System, including articles on June 15, 1994 in the leading Republican newspaper "Moldova Suverana", two articles on July 2, 1994 in "Privat Review," "Privat Express," and "Viata Satului," and an article on July 16, 1994 in "Privat Review" and "Privat Express."
- Provided technical assistance in drafting the tender for bid collection sites, data entry centers and the Orhei Information Note.

Computers and Software

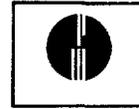
PW's Information Technology team undertook the following activities:

- Established a software development and testing site with 5 Moldovan programmers.
- Developed and tested software for the data entry points, for auction calculation and share registry.
- Installed data entry software at two sites and trained 14 operators and 4 supervisor/managers using two Moldovan trainers.

- Successfully used the auction software for calculating the results of the pilot auction.
- Proposed establishing the Data Center for Republican Auction, establishing an infrastructure for data entry, as well as creating an information systems network, and presented it to the Ministry of Privatization.

Other

- Assisted the Ministry of Privatization in persuading Parliament to eliminate the private tax for the NPB auctions, which would have been procedurally difficult, and to eliminate the notarial requirements for Investment Funds and Trust Companies, which was an expensive and time consuming operation.
- Currently working closely in cooperation with PW Capital Markets, the Ministry of Privatization and representatives of the investment funds and trust companies to develop investment funds and trust company procedures.



To Walter Coles, USAID/Washington,

From/Location Rosemary McFadden & Ray Brooks,
The Republic of Moldova - Capital Markets Development Project

Date August 1, 1994

Re Monthly Progress Report

This report summarizes the on-going activities under Price Waterhouse's task order no. 15758-048-5. This includes descriptions of the following components:

- 1 **Initial establishment of the Moldova Stock Exchange:** develop a 5-year financial plan for the MSE; assist in the drafting of rules to govern the MSE operations; advise on trading system design; advise and assist in the development, implementation, selection of the MSE organization plan, board of directors, MSE officials, and their duties and job descriptions.
- 2 **Clearing and settlement system:** advise decision-makers on choices to be made regarding certificates versus dematerialized environment, Group of 30 standards, rules for clearing transactions, and collateralization rules; and develop, implement, and provide training for a system to clear and settle transactions reported from the trading system.
- 3 **System of share registry and share ownership transfer:** assist in drafting regulations to establish the issuer's obligations with respect to share registration and transfer; draft regulations regarding the role of the company secretary function in publically listed companies; and advise on the possible development of transfer agent/registrars businesses offering these services to the market.
- 4 **Market regulation:** assist in the establishment of a regulatory regime and enforcement plan, to provide a "level playing field"; advise on the establishment of clear standards for shareholders rights; assist in development of a system of "material information reporting"; and advise on development of basic accounting standards.
- 5 **Support, with appropriate safeguards, the development of investment funds:** review and advise the Ministry of Finance (MOF) on the development of investment fund (trust company) regulations designed to protect investors from misleading or unethical investment funds (trust companies); assist the MOF in developing a capability to monitor the operations of investment funds (trust companies); develop and maintain a database on investment fund activity; assist the GOM in organizing, staffing and training an investment fund enforcement unit; and provide investment fund (trust company) managers with technical training in portfolio management, cash flow management, corporate recovery, shareholder rights and relations.

COMPONENT PROJECT:

Initial Establishment of the Moldova Stock Exchange

TEAM LEADERS:

Rosemary McFadden, Senior Manager
Ray Brooks, Manager

KEY EVENTS & KEY OUTPUTS:

- A series of meetings with the Moldova Stock Exchange were held to discuss PW's recommendations to the MSE membership, which included:
 - o Recommendations on the Process of Selecting a Chief Executive Officer of the MSE;
 - o Recommendations on the Implementation of a Securities Trading System for the MSE; and
 - o Recommendations on the Implementation of a Clearing and Settlement System for the MSE.

These meetings focused on the development of the MSE; the status of the MSE's registration; involving local computer specialists for designing and implementing the MSE; and appointment of a CEO.

- Proposed site of the MSE, located near the American Embassy, was discussed and inspected together with PW.

UPCOMING EVENTS:

- The selection of a Chief Executive Officer will be held in August 1994.
- The EU TACIS Project is sponsoring a trip of various Moldovan officials to study markets in Slovenia and Italy. As part of donor coordination, PW and EU TACIS agreed that these officials would review trading systems, clearing and settlement, etc., and discuss their findings with PW upon their return.
- Final registration of the MSE is expected in August 1994.
- The new Chairman of the SCSM has held conversations with the Chairman of the MSE on behalf of the GOM, stressing the importance of getting the MSE in operation now that the privatization program is about to begin.
- The Chairman of the MSE indicated he would convene a meeting of the members in August 1994.

COMPONENT PROJECT:

Clearing and Settlement System

TEAM LEADERS:

Rosemary McFadden, Senior Manager
John Ruckrich, Manager

KEY EVENTS & KEY OUTPUTS:

- Price Waterhouse prepared comprehensive recommendations on:
 - o The Implementation of a Securities Trading System for the MSE, using an Automated Order Match Model; and
 - o The Implementation of a Clearing and Settlement System for the MSE, based upon the recommendations of the Group of Thirty (G 30), with the appropriate modifications for the Capital Markets of Moldova.

These recommendations were submitted to the GOM on June 28, 1994. During the month of July the proposed regulations were discussed at meetings held with the Ministry of Economics, the Ministry of Finance, the Ministry of Privatization and Ownership, and Parliamentary Commissions.

UPCOMING EVENTS:

- Once a Chief Executive Officer of the MSE is appointed, the Chairman of the MSE will schedule a meeting of the Executive Council and Price Waterhouse to review and discuss these recommendations.
- These issues will also be discussed with State Commission on Securities Market since the Commission is the decision making body on Certificates Versus Extracts.

COMPONENT PROJECT:**System of Share Registry and Share Ownership Transfer****TEAM LEADERS:**Rosemary McFadden, Senior Manager
Richard Smith, Manager**KEY EVENTS & KEY OUTPUTS:**

- On the 25th of July, PW signed an agreement with a software vendor HERMES-INVEST to provide two Share Registry System (SRS) packages that have been developed and implemented. One package, "REESTR", is designed to maintain a Share Registry within a single enterprise (issuer). The second package, "REGISTRATURA", a multi-issuer version, is to be used specifically for third-party registrars, and will enable an independent registrar to maintain many registries. These SRS packages will be modified for the GOM's laws and regulations.
- The PW team has developed in-house SRS-like software "List of Shareholders" intended for temporary use by companies being privatized through Bond Auction until the GOM makes policy decisions on Share Registry issues and the Software is distributed..
- A series of meetings with companies and enterprises to be privatized in the First Bond Auction were held to discuss: how these companies & enterprises perform Share Registry functions now; Share registry system functions and characteristics, recommended by PW; and options, available for companies for Share Registry.

UPCOMING EVENTS:

- Obtaining two SRS packages as a result of the contract with "Hermes-Invest";
- PW is compiling a data base of all enterprises that are being auctioned in July/August.
- PW is providing guidance to the enterprises on requirements for share registration.
- Attending training courses in Moscow to review and modify SRS packages source code for Moldovan requirements. Representatives will be designated by the GOM to facilitate the development and distribution of SRS packages to private enterprises and third-party registrars within the Republic of Moldova;
- Conducting structured systems testing and acceptance testing of SRS packages in Moscow, in cooperation with HERMES-INVEST;
- Formulating a strategy of distribution of SRS packages to the newly-privatized enterprises as a result of the first Bond Auction.

COMPONENT PROJECT:**Market Regulation****TEAM LEADERS:**Rosemary McFadden, Senior Manager
Cliff Kennedy, Manager**KEY EVENTS & KEY OUTPUTS:**

- **On July 20, 1994, the GOM adopted a decision # 529 "On the State Commission on Securities Market", that was based upon the recommendations of PW's Capital Markets Team. This is an interim regulation until Parliament reviews and enacts a new securities law. The Regulation defines the functions of the SCSM including regulation, monitoring, licensing and inspection activities. The GOM decided to create the Executive Direction of the SCSM and determine the number of its staff as 15. The Executive Direction of the SCSM is financed on the account of the state budget resources. Ministry of Finance shall allocate 100 thousand lei for 1994 from the reserve fund of the Government for the organization of the activity of the SCSM, including 15 thousand lei -as the fund for the payroll of the employees of its Executive Direction.**

The Commission has the following functions:

- o drafting laws including regulations, instructions and other normative acts;
- o participation in drafting and expertise of inter-state agreements concerning the regulation of transactions in securities market;
- o coordination of activities;
- o working out the rules of licensing of professional activities with securities, IFs, TCs;
- o determination of rules of publication of information about the initial issuance of securities of open type JSCs;
- o determination of types of reports of issuers concerning the results of open subscription;
- o determination of forms and rules of publication in press of the annual reports of the open type JSCs;
- o determination of the manner of making available the securities of the foreign issuers to the securities market in the ROM;
- o carrying out expertise of forms of securities;
- o registration of the information to be published in press;
- o suspension of the process of issuance of securities;
- o issuance of authorizations to resume the issuance of securities after the violations have been eliminated by the issuers;
- o issuance of licenses authorizing the activities with securities to professional participants of securities market, licenses for the activities of IFs, TCs, managers of IFs and TCs;
- o carrying out certification of specialists, professional participants in the securities market, stock exchanges, IFs and TCs;
- o cancellation of licenses and suspension of activities of the stock exchange in cases its activities are inconsistent with the legislation in effect;
- o supervision over the compliance with the established manner of formation an usage of the special investment insurance fund of the privatization IFs and TCs;
- o enforcement of the compliance with the legislation of IFs and TCs, their managers and persons affiliated with them;
- o informing the state entities, investors and the public about securities market conditions and development prospects;
- o informing all participants of securities market and state entities about cancellation and qualification certificates;
- o development of training programs for the specialists of securities market, organization of training and upgrading courses for these specialists; etc.

The Commission is eligible:

- * to determine the timing of inspections and carry them out in organizations involved in the professional activity of securities market;
- * to prohibit or suspend the issue of securities by JSCs and other issuers in the violation of the law and decisions of the Commission;
- * to appoint and recall state inspectors of stock exchanges;
- * to issue instructions, rules, regulations and other documents and also give orders compulsory for the implementation by all state management bodies, enterprises and organizations;
- * to pass materials to the court, arbitration and investigation bodies on intentional fraud of the investors, on abuse during the operations with securities;
- * to determine the amount of licensing fees;
- * to participate in international negotiations, to establish contacts and sign corresponding agreements with the foreign and international organizations on the issues of its competence;
- * to submit proposals to the corresponding bodies;
- * to review proposals and sanction decisions concerning the reorganization and liquidation of the IFs and TCs;
- * to apply administrative punishment for violation of the existing legislation in the sphere of securities market within the limits allowed by the legislation; etc.

Decision also includes:

- Organization of the work of the Commission;
 - Central executive body and other subdivisions of the Commission; and
 - Financing of the Commission's activities.
- Plan of activities of the SCSM for the period July 1994 - July 1995, developed by PW, was reviewed at the first meeting of the SCSM on July 25, 1994. This plan outlines different types of activities, such as:
 1. Urgent measures for the provision of the SCSM activity;
 2. The primary normative acts to be adopted;
 3. Inspections and investigations;
 4. Share Registry;
 5. Monitoring of the participants in the securities market;
 6. Training of the SCSM staff;
 7. Systems recommendations for the activity of SCSM, including software;
 8. Licensing of the professional participants in the securities market, and the professional certification of specialists;
 9. Investment Funds and Trust Companies monitoring; and
 10. Stock Exchange, Clearing and Settlement, Central Depository.

On July 25, 1994 the GOM approved Regulations "On Associations of citizens, participating in Privatization" (Voucher Clubs). These associations are created on the basis of agreements among citizens with the purpose to purchase with the Patrimonial Bonds state property in auctions and tenders.

UPCOMING EVENTS:

- A meeting with the Chairman and Commissioners of the SCSM is scheduled for August 1, 1994 to discuss PW's recommendations.
- A proposed comprehensive Securities Law and Joint Stock Company Law were submitted to Parliament of the ROM at the end of June. Their consideration in Parliament will start in September 1994, after the Summer recess.

COMPONENT PROJECT: Support, with Appropriate Safeguards, the Development of Investment Funds

TEAM LEADERS: Rosemary McFadden, Senior Manager
John Moon, Manager

KEY EVENTS & KEY OUTPUTS:

- On June 29, 1994 the Parliament enacted several amendments to existing laws based upon the Recommendations of Price Waterhouse's Capital Market Team. The amendments are:
 1. The requirement of the Joint Stock Company Act that founders of an open end joint stock company retain 25% of the statutory capital for a period of two years was abolished.
 2. The Securities Circulation Act and Law on Entrepreneurs were amended to rationalize the tax structure on purchases of securities.
 3. The Privatization Law was amended to repeal the "private tax" that is levied when an individual invested his/her bonds.
 4. Patrimony Bond Law amended to allow citizens to invest their PB's in a trust company or investment fund without the certification of a notary.
- PW elaborated and submitted to the SCSM new forms for gathering information and constant monitoring of IFs and TCs. These forms include such information as registration and license, reports on financial activity, dividends, statutory capital, founders, depository of the fund, auditor of the fund, bank of the fund, etc.
- A series of meetings with various Audit firms were held to discuss the status of their development in Moldova and their role in the annual audits of IFs and TCs. The main issues discussed were: PW's recommendations concerning a new securities law; the structure of a self-regulatory organization for auditing and accounting firms in Moldova; the establishment of new accounting principles and audit standards; and the format for annual reports for IFs, TCs and newly privatized companies. A newly established Association of Accountants and Auditors is interested in working with the reorganized SCSM in developing international accounting principles and standards in Moldova.
- Discussions with various insurance companies, the MOF and National Bank of Moldova were held on the draft instructions on the special investment fund. The main issues related to the overall risks and provision insurance coverage in the new investment fund industry.

UPCOMING EVENTS:

- A comprehensive training program for professional market participants is being developed.
- During the month of August in collaboration with Presidential Office PW will prepare a number of amendments to Presidential decrees on Investment Funds/Trust Companies, connected with liberalization of legislation, taking into account tendencies of IFs/TCs, which appeared during the first half year of their existence.
- In cooperation with USAID, sponsored activities of the PBN Company, a training program will be developed for IFs & TCs on business development.



To Walter Coles, USAID/Washington,

From/Location Rosemary McFadden & John Moon,
The Republic of Moldova - Capital Markets Development Project

Date October 4, 1994

Re Monthly Progress Report

This report summarizes the on-going activities during the month of September under Price Waterhouse's task order no. 15758-048-5, Phase II. This includes descriptions of the following components:

1. **Development of Market Infrastructure.** This project consists of two components: (1) implementation of an institutional-building pilot project for registrar services and (2) development of an appropriate securities trading system within the Moldovan context. The objectives of the pilot implementation project are the follows: to create a network of national, regional and local independent registrars; to conduct pilot support activities with at least 3 privatized enterprises that have in-house registrars and 3 privatized enterprises that will utilize third party share registrars; and to develop a model framework for "roll out," with a trained group of local specialists capable of assisting other organizations desiring to provide share ownership registration services. The main objectives of the second component is to design a securities trading system that reflects Moldova's current and anticipated market needs and requirements.
2. **Development of Capital Markets Monitoring Unit.** The primary objectives of this project are: to create a monitoring unit that tracks, monitors and reports the activities of market participants in the investment fund and share registration/transfer industries; and to conduct compliance examination of at least 5-10 large investment funds and trust companies.
3. **Promotion of Corporate Governance and Shareholder Rights.** The objectives of this project are as follows: to educate shareholders on their rights and responsibilities; to educate enterprise and investment fund management on the principles of good corporate governance; and to educate the general public on the securities industry, in particular market intermediaries.
4. **Policy and Legal/Regulatory Framework.** Within each task described above, it is anticipated that some policy work will be required, on a pilot basis, to achieve objectives.

COMPONENT PROJECT:**Development of Market Infrastructure****TEAM LEADERS:**

Rosemary McFadden, Senior Manager
Richard Smith, Senior Manager
David Milli, Manager
John Ruckrich, Manager

KEY EVENTS & KEY OUTPUTS:1. Implementation of an institutional-building pilot project for registrar services

- On September 29, 1994, the Government of Moldova approved a Share Registry Decree, a step which Price Waterhouse had been recommending since Spring of 1994. The Decree requires that enterprises establish share registry systems within a specified period of time, permits the registry to be maintained by the companies themselves or by third-party registrars, gives authority to the SCSM designate third-party registrars for companies which violate regulations or corporate documents, and provides for issuance of shares in nominee name. However, the Decree, among other things, does not give the SCSM authority to require that enterprises with more than a certain number of shareholders designate a third-party registrar, nor does it specify that ownership changes at the time of entry of change in the registry. PW will recommend that some of the omissions in the Decree be covered by regulation. However, additional legislation will apparently be required in order to mandate that certain companies designate third-party registrars.
- In anticipation of this Decree, PW has prepared recommendations to assist the SCSM in the selection of third-party registrars, and is drafting recommendations for share registry regulations. PW is prepared to conduct pilot support activities with in-house registrars. Once third-party registrars have been designated, PW is prepared to conduct pilot activities and to assist in the creation of a network of independent registrars.
- PW has completed and tested one-issuer SRS package REESTR 4.60.
- PW has started pilot project on Share Registry software distribution.
- The one-issuer SRS package REESTR 4.60 is installed and at present time is successfully running at three joint-stock companies, listed below:
 - o "Comsam", SRS package is installed on September 3, 1994;
 - o "Moldavhidromash", SRS package is installed on September 5, 1994; and
 - o "Elcom", SRS package is installed on September 13, 1994.All three companies are provided with hot-line software support, assistance and consulting service for Share Registry issues, including Share Registry methodology and legal issues.
- PW has given a several demonstrations of both SRS packages at meetings with:
 - Mr. Thomas Dine, USAID Washington DC on August 31, 1994;
 - Mr. Walter Coles, USAID Washington DC on September 7, 1994;
 - USA Senators on September 9, 1994;
 - Mr. Kiku, Chairman of the SCSM on September 12, 1994;
 - Mr. Bill Mako, PW Kiev on September 18;
 - Mr. Kuku, Deputy Minister of Privatization on September 19, 1994;
 - Mr. Kulikovskiy and Mr. Dorian, Moldovan Academy of Science on September 20, 1994;
 - and
 - Mr. Shevchenko, Director of Auction Computer Center on September 21, 1994.
- Multiple-issuer SRS package with course code, documentation and all changes made received from "Hermes-Invest", Moscow. Further testing of this big system is under way.

2. Development of an appropriate securities trading system within the Moldovan context.

- An Initial Trading, Clearing and Settlement Systems Business Requirements Document is being designed and communicated to the IT department for development.
- A review of the Securities Numbering System employed in Moldova has been communicated to the GOM along with suggestions for corrections required to achieve adherence to international standards.

UPCOMING EVENTS:

- With assistance from PW, the SCSM will issue Regulations on Share Registry and Bond Registry for JSCs.
- With assistance from PW, the SCSM will issue Regulations on the qualification requirements and licensing of the activity of share registrars.

COMPONENT PROJECT: Development of Capital Markets Monitoring Unit

TEAM LEADERS: Rosemary McFadden, Senior Manager
Cliff Kennedy, Senior Manager

KEY EVENTS & OUTPUTS:

- The September 8, 1994, Memorandum of Intent of Walter Coles, USAID, to Minister of Privatization has proposed several recommendations to GOM for consideration. Mr. Coles stated that several outstanding issues must be resolved if the privatization and market reforms process is to be successful in Moldova. In this Memorandum of Intent, Mr. Coles recommended establishing a monitoring unit, that would be created in order to protect against "MMM" type scandals in Moldova, while recognizing that these may occur. The monitoring unit be established in Moldova immediately and with individuals trained and under contract to Price Waterhouse. Mr. Coles stated that the monitoring unit would be later folded into the SCSM as that structure is developed on an independent basis.
 - PW has prepared and submitted to the GOM recommendations on:
 - o Creation of a Capital Markets Monitoring Unit; and
 - o Creation of Independent State Commission for Securities Markets.
 - Creation of a Capital Markets Monitoring Unit. In this paper PW discussed the establishment of a capital markets monitoring unit. The following issues were described:
 - * Need for monitoring in Moldova;
 - * Goal of Monitoring; and
 - * Capital Market Monitoring Unit ("CMMU") responsibilities. It is proposed that the initial responsibilities of the CMMU would include areas of monitoring and analysis of trust company, investment fund, share registry, depository and trading markets development and have five major components as follows:
 - a. Develop and maintain computer database for tracking and reporting activity of the trust company, investment fund, share registry, depository and trading markets industries;
 - b. Analyze securities industry development;
 - c. Prepare regular reports on the activities and regulatory issues in the securities industry;
 - d. Provide technical assistance and resources for securities industry development, including drafting NAV, and accounting guidelines and quarterly and annual report preparation instructions; and
 - e. Provide materials, training, assistance, and where possible equipment and technical assistance to the SCSM and GOM to develop their capabilities to oversee regulatory activities.
- CMMU would carry out the following tasks:
1. Establish and organize the unit;
 2. Provide suitable premises and equipment, including computers and software;
 3. Recruit, train and supervise staff for the unit, including its Moldovan manager and support;
 4. Develop systems and procedures for monitoring market activity;
 5. Collect data and information for analysis;
 6. Prepare regulatory and market surveillance information for the SCSM and GOM analysis;
 7. Analyze quarterly and annual reports field with the SCSM and provided to the unit by the SCSM;
 8. Produce reports to the SCSM and GOM;
 9. Develop system for monitoring unlicensed activity and forward detected violations to the SCSM for enforcement;

10. Produce ad hoc reports upon the requests of SCSM or GOM; and
11. Meet with SCSM and GOM officials and advise them on regulatory and enforcement issues.

- Creation of Independent State Commission for Securities Markets. During May, 1994, as part of the Market Regulation assignment of Price Waterhouse's Task Order (No15758-010-5), PW submitted a comprehensive work plan to the GOM that sets forth recommendations concerning creation of an independent SCSM. Pursuant to GOM Decision No529, on July 20, 1994, the GOM formed a new SCSM replacing the former Commission, initially created on October 26, 1993. The Decision had to be enacted within the scope and limitations of existing Moldovan legislation. The new SCSM is independent insofar as it is not within any Ministry and has Cabinet status. A total of seven part-time SCSM commissioners were appointed, including a Chairman and Deputy Chairman. An operating budget of 100 thousand lei was allocated for a total SCSM staff and premises totalling 90 sq.m.

PW's recommendation for the development of an independent SCSM advised that SCSM and its officials be as insulated as possible from political considerations and pressures, including appointment and removal from office as well as decision making.

PW recommended having an independent SCSM to increase the stature of the organization, reduce bureaucratic problems, focus responsibility and accountability for auctions and increase the possibility of finding persons with top qualifications willing to serve.

- PW, together with representatives of the President's Office, the Ministries of Finance, Economy, Privatization, and the SCSM drafted amendments on provisions concerning the following:
 - * Creation of a blind trust to hold the shares of state employees that have authority over a specific sector of the economy;
 - * Repealing the Private Tax on shares acquired for PB;
 - * Repealing the Notary Requirement for IFs and TCs;
 - * Requiring IFs to issue their shares to contributing bond holders;
 - * Placing jurisdiction over the Special Fund of Insurance in the SCSM;
 - * Limiting the participation of IFs and TCs in the purchase of small scale enterprises to 25% of the PB's that have been collected;
 - * Requiring IFs and TCs to make monthly reports to the MOP on the number and value of PB collected; and
 - * Setting up divestiture procedures for IFs and TCs that obtain more than 25% of the outstanding shares of an enterprise in the subscription process.

UPCOMING EVENTS:

- PW is preparing a trip to Moscow with a Chairman of the SCSM and other SCSM Commissioners to visit CMMU and Dmitry Vasilev, Deputy Chairman of Russian SEC in Moscow.
- PW is continuing to interview newly licensed investment funds and trust companies.
- PW is interviewing conditions in anticipation of developing the CMMU; finalizing systems; reports; manuals; etc.

PROJECT COMPONENT: Promotion of Corporate Governance and Shareholder Rights

TEAM LEADERS: Rosemary McFadden, Senior Manager,
John Chapman, Senior Manager

KEY EVENTS & OUTPUTS:

- PW has prepared a comprehensive report on the shareholder rights project, including a report on company visits, a proposed selection of companies for the pilot training program and an outline of subjects to be covered at the pilot training. This report discussed corporate governance and shareholder rights components of the task order and presented recommendations on how to implement those components in accordance with Moldovan law.

Field visits. PW has visited the following companies and completed in depth interviews with management to determine their needs for corporate governance training: Transservice, Konsam, Hydropompa, Utlapcar, Moldavhydromash, Elcom, Orhei Beer Company, Kupchina Dairy, Kupchina Canning Factory, and Balti Dairy. The following issues were discussed: legal prerequisites and ownership; structure of the company and supervision; audit commission and its functioning; share registry issues; and corporate finance.

Candidates for pilot training. In selecting companies, USAID has requested that PW "select 5-6 enterprises representing geographic, economic sector and shareholder profile diversity as 'pilots.'" Using these criteria, PW in coordination with PBN Company recommended using two companies located in Chisinau, Konsam and Moldavhidromash, one in Balti, the Balti Dairy Company, one in Orhei, the Orhei Beer Company, and one in Kupchina, the Kupchina Canning factory. These companies would satisfy the goals of geographic, industry and shareholder "dispersity" because they represent six industries -- construction, beverages, industrial, canning, and dairy and a broad spectrum of shareholders.

Suggested outline for pilot training. PW with PBN is developing the following outline for the pilot training:

1. The Firm and the Market;
2. Basic principles of corporate governance in a free market;
3. The roles and legal responsibilities of the surveillance council, board of directors, audit commission and company officials;
4. The rights of shareholders under the JSCA;
5. Corporate democracy and voting;
6. Shareholder communications;
7. Corporate finance;
8. Share registry; and
9. Restructuring.

PROJECT COMPONENT: Policy and Legal/Regulatory Framework

TEAM LEADERS: Rosemary McFadden, Senior Manager
Richard Smith, Senior Manager
John Moon, Manager

KEY EVENTS & OUTPUTS:

- PW submitted to USAID the following laws:
 - * Joint Stock Company Law; and
 - * Securities Exchange Law.

UPCOMING EVENTS:

- PW will present these laws to the GOM within the next week.

**cc: Mr. Louis Licht, US Embassy, Chisinau
Ms. Susan Sutton, US Embassy, Chisinau
Mr. Terrence McMahon, USAID Kiev
Ms. Amy Osborn, USAID Kiev
Mr. Steve Hadley, USAID Kiev
Mr. Yuri Dubovyk, USAID Kiev
Mr. James Waddell, Price Waterhouse, Washington D.C.
Mr. Richard Breen, Price Waterhouse, Washington D.C.
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Price Waterhouse Kyrgyzstan



TO: USAID

FROM: J Johnson 

DATE: 1 September 1994

RE: Kyrgyzstan Mass Privatization Project
Kyrgyzstan Capital Markets Project
July/August Status Reports

The following report summarizes the key activities and forthcoming events under the Kyrgyzstan mass privatization roll-out and capital markets task orders signed in July 1994. While the auction program continued on schedule in July and August, new expatriate and local professional staff for the two task orders were recruited and mobilized in July with training and deployment in August. 11 expatriate advisors arrived in July/August for assignments in auction management (4), capital markets (6) and financial controls/logistics (1).

An eight-day auction management seminar was held in Bishkek. New State Property Fund (SPF) management were debriefed, a joint strategy/planning session held and new strategic initiatives formulated. The director and the deputy director of the mass privatization department attended a month-long NET/CAR training seminar on economic restructuring and private sector development in Washington. Monthly donor meetings were held and joint planning sessions conducted with the public education team. Ambassador Hurwitz, Craig Buck and J Johnson met with President Akayev who expressed his strong support for the mass privatization program and requested continued USAID assistance.

1

KYRGYZSTAN MASS PRIVATIZATION ROLL-OUT

1. Auction program: Two national coupon auctions and seven regional coupon auctions in Bishkek, Jalal-Abad, Kara-Kol and Osh were conducted in which 76 million coupon points were bid for 42 enterprises. Five cash auctions were held for 37 enterprises. Coupon distribution reached 65% (of total points available for distribution). New procedures were developed to streamline coupon collection by students, citizens who have moved to another city, and citizens whose enterprises have ceased operations. The auction management training seminar was held in Bishkek. Work plans were developed for the opening of the new auction centers in Naryn and Talas. Bid collection center regional work plans are being developed. Coupon distribution may be extended beyond the current 1 October 1994 deadline.
2. Auction audit function: Control guidelines for the new coupon distribution procedures were developed jointly with the SPF. On-going, on-site audits were conducted of each coupon and cash auction and of coupon distribution by Sberbank. Bid collection center audit procedures are being drafted. An audit management trainee was hired in Bishkek and regional, auction center-based auditors are being recruited. The Kyrgyzstan auction audit manual will be completed by 10 September.
3. Information technology: Database developed for coupon and cash auction results. Electronic mail system connecting all auction centers being set-up and staff trained on use. Stock exchange and investment fund database monitoring programs are to be developed. SPF counterpart training will be conducted beginning in September.
4. Competitive bidding: Radical changes have been proposed by the PW/USAID team to the new SPF management who have agreed to revisions in the program to include reducing the number of enterprises in the program to about 50 highest priority, strategic companies, to eliminate business plans and to only consider the price offered by each bidder, to eliminate the evaluation committee, and to place enterprises receiving no bids into the next national cash auction. Elimination or at least significant modification of the minimum pricing requirement is under discussion.
5. Logistics/financial controls: 11 new expatriates arrived, were debriefed and housing arranged for each. Equipment has been ordered for the new auction centers, the coupon and stock exchange, and the capital markets team. A logistics plan is being developed for tendering for and opening of bid collection centers throughout the country. New imprest account management and expense reporting and control procedures have been created and introduced.

KYRGYZSTAN CAPITAL MARKETS PROJECT

1. Coupon/Stock Exchange: The founders of the Kyrgyzstan Stock Exchange (KSE) signed a protocol to establish the exchange in July, making their initial capital contributions, and applied to the Ministry of Justice for registration. Registration was recently secured and the KSE is shortly expected to be licensed by the State Securities Agency (SSA). The coupon exchange will begin operations in temporary quarters during the week of 12 September. Trading and settlement rules have been agreed upon for coupon trading. Bids are being solicited from general contractors for improvements to the exchange site per plans agreed upon between the KSE founders and the PW/USAID team.
2. Investment funds: Delay in enactment of the investment fund regulations was the result of bureaucratic inertia. However, the recent creation of an inter-ministerial working committee to propose regulations for the Prime Minister's signature, headed by the SSA with the participation of the PW/USAID team, will expedite the process. The PW/USAID team is now working with the SSA to complete a final draft. Portfolio and other information is being gathered from the 24 licensed investment funds for analysis and monitoring purposes, information which will be incorporated into an investment fund database.
3. Broker/dealer industry: Training began for an initial class of 20 future exchange brokers and dealers. Potential trainers are also being trained. They would provide on-going, fee-based courses for broker/dealer licensing following the departure of the advisors. A licensing exam training manual is being drafted. The advisors are working with the SSA to develop licensing and registration and related examination procedures for individuals involved in securities industry supervision, securities sales and trading, fund management and other related activities.
4. State Securities Agency: The status of the SSA has been enhanced by being given commission status, reporting directly to the Prime Minister, and by being allowed to increase staff size and to offer the highest government pay scale.
5. Training: In addition to local training of exchange officials, investment fund managers and future brokers and dealers, five SSA regulators and investment fund managers are being sent to a PW/USAID investment fund management seminar in Moscow the week of 5 September. A training tour for selected regulators and exchange officials to institutions in Warsaw and Prague is being planned for late September.

COMPONENT PROJECT:

KYRGYZSTAN MASS PRIVATIZATION

TEAM LEADERS:J. Michael London, Karen White,
Mallory Greenc, Rachel Lindell,
Beth Shair, Phillipe Regnault**Key Events & Key Outputs**

Since the beginning of the coupon auctions in April, four regional auctions have been held in each of the regional auction centers and 3 republican auctions have been held. 107 companies have been sold on the coupon auctions, for which over 4700 applications have been received accompanied by more than 150 million coupon points.

Procedures and accounting forms were developed for the coupon auction roll-out which will be used uniformly throughout Kyrgyzstan in implementing the roll-out program.

A week-and-a-half-long seminar was held in Bishkek for the new Auction Managers which prepared them to go out to the regions and implement the coupon auction roll-out program. Included in the program were the new coupon and cash auction procedures for the Republic of Kyrgyzstan.

Accompanied by the Bishkek Auction Manager, the new Karakol Auction Manager was introduced to the local property fund and the local government organs. The new Osh Auction Manager was also introduced to her respective counterparts in Osh. Both of them have developed workplans to implement the roll-out program her respective oblast.

In view of the low coupon distribution rate in Bishkek, seminars were held by the Bishkek Auction Center staff regarding the privatization program and coupon auctions in Kyrgyzstan in over 40 local companies to encourage participation.

A company liaison has been hired and trained for the Bishkek Auction Centers to develop and maintain good relations between the Property Fund and the companies which have gone through or will go through the mass privatization program. The feedback from the companies is very positive. Directors personally come to the auction center or call to offer their gratitude. A company liaison has been working in Jalal-Abad since the inception of the pilot auctions. Company liaisons will soon be hired for Osh and Karakol.

All the Auction Managers have met with the new Property Fund Management. Discussions have already started to resolve the question of the starting price of shares on the cash auction.

Upcoming Events:

By the end of September, the tender for the Bid Reception Centers will be placed in the papers and distributed locally. The tender will be staggered over three months to allow the local auction managers to make a physical inspection of the potential Bid Reception Centers. The first 18 centers are scheduled to be operating by the end of October.

Price Waterhouse
Progress Report - July

Component Project: Mass Privatization/Audit

Team Leader: Natalie Barndt (w/ oversight by Neil Flynn PW Moscow)

Key Events and Outputs:

- 3 audit reports have been finalized and distributed to the SPF, USAID and the appropriate RPFs and Auction Managers.
- Control procedures have been drafted for distribution of coupons to individuals who have moved within the republic since receiving their SMP receipts, and for those whose employers on their SMP receipts have liquidated. Makarov is reviewing these procedures and will include them in the related draft legislation.
- Audits were performed at the Jalal-Abad, Kara Kol, Bishkek/National auctions.
- We attended cash auctions in Bishkek, Osh and Jalal-Abad.
- We visited several Sberbank fillials in Jalal-Abad in order to audit/train the staff on proper distribution reporting procedures.

Upcoming Events:

- In August, we will audit coupon auctions in Kara Kol, Osh, Jalal-Abad and Bishkek/National. We will also attend cash auctions in Osh, Kara Kol and Jalal-Abad. Information will be prepared for the new auction manager training. Revisions of the all Kyrgyz audit manual will continue.

Price Waterhouse Kyrgyzstan
Progress Report - August

COMPONENT PROJECT: Mass Privatization /
Information Technology

TEAM LEADER: Dmitry Nonkin

KEY OUTPUTS AND KEY EVENTS:

- Developed database for summarize coupon & cash auction results.
- Begun collecting data from all auction centers to coupon & cash auction results database.
- Developed Coupon Auction software version 3.0 (Main change is introducing new bid collection centers in post offices).
- Making changes in Cash Auction program for compatibility with coupon & cash auction results database.
- Electronic mail installed and tested on each computer of new auction managers and Bishkek auction center computer.
- Participated in Privatization and Auction Management Seminar.
- 3 Bubble Jet printers fixed.
- Training of two new IT Team members is finish.

UPCOMING EVENTS:

- Install electronic mail on each region auction center's computer (Osh, Jalal-Abad, Karakol) and train local staff.
- Develop program for Coupon Exchange.
- Install new version of Coupon Auction program in auction centers.
- Install new version of Cash Auction program in auction centers.

Date: August 31, 1994

Component Project: Mass Privatization / Competitive Bidding
Kyrgyzstan

Team Leader: Annemarie O'Brien

Key Events & Key Outputs:

- As the newly appointed replacement for the position of Competitive Bidding Advisor, I have reviewed most of the documentation and correspondence of my predecessors. I have also been de-briefed by the Project Manager, John Johnson, on his expectations of the program, as well as those of Gary Vanderhoof of USAID. I am now up to speed with the program, process and what is expected of me.
- Having reviewed this information, as well as the results of the first tender-which was not successful-I have developed a strategy to improve the process and have proposed changes which should make the process speedier and more transparent.
- Prepared introductory letter to Mr. Chumakov, one of the Deputy Chairmen of the State Property Fund (part of the new SPF management) to explain who I was, what my role is relative to his responsibilities, the importance of the Competitive Bidding Program, and the need for SPF support in this process.
- Upon receipt of the Project Manager's approval for proposed changes, I prepared a report and addressed these changes with Mr. Chumakov. In our discussion, he has agreed and will support the following proposed changes: (1) To drop the current valuation method and minimum pricing; (2) To accept the highest bid/price; (3) To eliminate the step of collecting business proposals; (4) To eliminate, as a result, the formation of an evaluation committee; (5) To use a neutral party, such as Price Waterhouse, to accept the bids under Competitive Bidding Program; (6) To place any company that receives no bids directly into the next National Cash Auction; (7) To support legislation to allow investment fund participation in the Competitive Bidding process; (8) To reduce the number of companies in the program to a more realistic, viable, and selective group; and (9) To establish a process that is simple, transparent, accessible to the public, and speedy.
- Attended and participated in the Round Table Discussion with Stephen Solarz, Chairman of the \$150 million dollar Central Asian-American Enterprise Fund, who was on a fact-finding mission.
- Met with Emory Brewer of Dreihaus Capital Market, upon his initiative, to discuss foreign investment opportunities under the Competitive Bidding Program. We will meet again at the end of September to discuss particular projects.
- Participated in Auction Center Training for the new Auction Managers.

Upcoming Events:

My work will focus on establishing good, working relationships with the new SPF management, turning the program around and getting it up and running, obtaining approval on proposed changes to the current process, and implementing these changes.

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Price Waterhouse Kyrgyzstan



To: John Johnson

Fax:

From: Samantha Ankara Fuller

Date: September 2, 1994

Total Pages:

Re: Progress Report - July and August

COMPONENT PROJECT: Mass Privatization and Capital Markets
LOGISTICS TEAM

TEAM LEADER: Samantha Ankara Fuller

KEY EVENTS & KEY OUTPUTS:

Logistical Events:

- Successfully briefed all arriving Price Waterhouse staff regarding life in Kyrgyzstan and suggested supplies to pack
- Arranged airport pickups and housing for all incoming ex-patriot staff. Helped all new team members in adjusting to life in Kyrgyzstan.
- Maintained flow of office supplies to all offices including regional auction centers.
- Organized three seminars, All Privatization Team Meeting, Auction Training Seminar, and Team Managers Meeting
- Organized a 180 person international weekend retreat at lake Issyk-kul for three days.
- Developed Medical plan and collected emergency information for all team members.
- Briefed new auction managers on logistical and financial issues

Financial Events:

- Opened bank accounts for Kara-Kol, Jala-Abad, and Osh Auction Centers. Lena and Samantha convinced Jala-Abad and Osh bankers to lower bank fees from 30% to 2% withdrawal fees and insured a supply of Som currency for local auction managers.
- Located, convinced and finalized payment for Sbarebank for the final tranche of the first contract in the amount of USD 30,000.
- Discussed and implemented new financial procedures for management of Imprest account. Handed over to Phil full responsibilities for the Imprest book keeping and reporting to Washington

UPCOMING EVENTS

- Mobilizing new auction managers to their sites.
- Managing contracts for Sbarebank
- Managing payments for building of Stock Exchange
- Producing Bid Collection Center strategy

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KYRGYZSTAN AUCTION ROLL-OUT

--USAID Omnibus Contract - Task Order #14--

Progress Report - July-August, 1994

COMPONENT PROJECT: FINANCIAL CONTROLS

TEAM LEADER: Philippe Regnault, Financial Controller

KEY EVENTS AND OUTPUTS:

- Arrival of new project Financial Controller in late July.
- Centralization of all financial management and reporting responsibilities. These include management of the Imprest Account, monitoring of both Mass Privatization and Capital Markets contracts' budgets, and monitoring expatriate Levels of Effort.
- Design of new computer programs and methods to improve financial controls.
- Level of Effort: Task Order #14 2656 expat hours.

UPCOMING EVENTS:

- Continued refinement of financial controls and reporting.

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TO: John Johnson

FROM: Capital Markets Team/Bishkek

August 31, 1994

August Monthly Report

Team Composition:

Team members Tim Knowlton and Bob Kelly arrived in Bishkek on 28 July, Stan Judd arrived August 6, and Wesley Moore arrived August 19. Dick Breen arrived August 24. Alexis Berry, clearance and settlement specialist, is due to arrive on September 3, and Lew Mendelson on September 23.

Investment Funds:

During August Knowlton, Judd, Breen and Kelly have met with founders of the stock exchange, various officials of the State Securities Agency, including the Chairman and Deputy, Mr. Djarparkalov and Mr. Omurov. Several meetings with heads and staff members of the Investment Funds have also been held to conduct basic fact finding about the operations of the funds.

The results of the survey of investment funds sent out in May are being received. We have received only nine (of 18) responses and some of the information is not complete. More work will have to be done with the funds individually to establish a reporting format, and a consistent treatment of data. This work has started in August, and baseline data is expected to be in place by the end of September.

Funds Regulation:

The recent changes at the State Property Fund (SPF) has provided a temporary setback for the passage of new regulations for the investment fund industry. The previous work of Mendelson and Judd was sent to the Ministry of Justice along with separate recommendations by the Ministry of Finance, and State Security Agency (SSA). The Ministry of Justice remanded all recommendations to the SSA as the head of a working committee consisting of the SPF, the SSA and the Ministry of Justice with the requirement to come back with a single recommendation. The requirement for the passage of the regulations remains the same. The new process however, gives the PW team members, especially Judd and Mendelson, direct access to the inter-ministerial working committee, and thus may help expedite understanding and ultimate passage. Upon ratification by the four bodies, the final version of the regulations will be submitted to the Prime Minister for final approval. We estimate this process will take place during the first half of October.

State Securities Agency:

The end of August brought a significant improvement in the status and powers of the State Securities Agency (SSA). A new government decree established that:

- a. The SSA will be a Commission, independent of any Minister, reporting to the Prime Minister.
- b. The ceiling for the professional staff of the SSA has been raised to 19, plus clerical and administrative staff. This is a clear improvement from the current level of nine.
- c. The salary category of the personnel of the SSA has been raised from category 2, to category 1. This measure will give the SSA an edge in being able to hire competent people.
- d. All securities market regulatory authority is now centralized in the SSA, with the requirement for coordination with the Central Bank, the Committee on the Economy, and the State Property Fund.

Coupon Exchange and Stock Exchange:

Knowlton and Kelly have been meeting with the Founders of the Stock Exchange during the month of August to establish the new Coupon Exchange. This exchange will be temporary and will provide a floor for the open and transparent trading of Privatization coupons. This will be the first public market for such instruments in the history of Kyrgystan, and will be an important forerunner of a stock exchange.

Stock Exchange:

The Stock Exchange has finally received its formal registration, and remains only to be licensed by the SSA. During the month of August many obstacles, including a reluctant deputy minister who does not favor the reform process, were overcome to achieve this registration. The logjam was finally broken by the Chief of Party's close contacts in the President's office. As a result of the registration the founders have made their first deposit of founder's capital, and will be making the final tranche of their investment by close of business September 5.

This registration was an important milestone in the Capital Market's project:

- a. The SSA is now prepared to license the KSE and give temporary licenses through the end of the year to the traders of the exchange.
- b. The registration signaled the rest of the financial community that the KSE is here to stay, and we can see the results already in new potential members coming forward to apply for membership.

c. Finally, this registration opens the way for the Coupon Exchange to begin operations. This exchange is now schedule to open on September 13.

KSE Trading Rules and Procedures:

In daily meetings with the Founders of the Kyrgyz Stock Exchange (KSE), Kelly, Knowlton and Moore prepared for the opening of the Coupon exchange by devising trading rules and procedures for the settlement of trades. Also the physical layout of the trading floor were settled, and public relations campaigns, and training courses launched to support the opening.

Site Preparation:

The Founder and Kelly have met with several potential bidders for the improvements needed to the building which will house the exchange. This process will take 2 to 3 months due to the weather and scarcity of supplies. As soon as the Founders make their capital contributions, the way will be cleared to let the contract through competitive bidding procedures, and allow work to begin. The best estimate of this date would be September 15.

Capital Markets Training:

Moore commenced classes on August 23 for approximately 20 students, selected by the founders who will be the future brokers and dealers on the exchange. In addition Mr. Moore has made contact with local training institutions concerning their interest in offering this kind of training to the industry in the future. This commercial training will be important to support the future licensing and certification program for capital markets professionals.

The team is planning a training/observation tour for key regulators and stock exchange personnel to the market institutions of Poland and Czech Republic. We believe that exposure to these recently developed markets, in which there is no language bar to communication, will provide invaluable experience to these officials they lead their institutions during the process of start-up.

On September 5, a group of five regulators, and investment fund officials are planned to attend the Investment Funds course being offered in Moscow. The course was developed by PW for USAID, and provide necessary exposure in this field to both fund operators and regulators.

More efforts are planned in the coming months to develop training opportunities for Kyrgyz participants. WE are investigating the feasibility of bring in the training courses prepared in Russian for delivery in Moscow. The need for training in Kyrgyzstan is difficult to overstate. end

Price Waterhouse Kyrgyzstan



TO: USAID - ALMATY
- WASHINGTON

1 October 1994

FROM: J Johnson

RE: KYRGYZSTAN MASS PRIVATIZATION & CAPITAL MARKETS PROJECTS
SEPTEMBER 1994 PROGRESS REPORT

The following five pages review in summary format the progress made and obstacles faced by each function of the Price Waterhouse team (mass privatization, capital markets and administrative/support areas) in September and the objectives for October 1994:

MASS PRIVATIZATION COUPON DISTRIBUTION AND AUCTION PROJECT:

- 1) **AUCTION PROGRAM:**
On 28 September, the fifth national coupon auction and sixth regional coupon auctions (fifth auction in the case of Issyk-Kul region) were concluded, bringing to 28 the number of coupon auctions conducted to date. The state's 25% shareholding in 160 enterprises have thus been auctioned for coupons, generating 6765 auction applications (with approximately 50% of applications submitted by coupon investment funds) totaling 214,329,600 points bid (representing participation by nearly 180,000 individual investors through direct investment in the coupon auctions or indirect investment via the 25 licensed investment funds). While the sixth national auction generated fewer points bid than the previous auction, the regional auctions generated much higher levels of participation versus the previous regional auctions.

Two new regional auction centers (in addition to the existing

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Bishkek, Jalal-Abad, Kara-Kol and Osh centers) will open in Naryn on 7 October and in Talas on 10 October. Staff have been recruited locally, sites selected and prepared and training initiated for the new centers with the support of the local State Property Fund's (SPF's) and akimates (regional and city governments). (Some of the equipment for the new centers has had to be rented by the PW team on an emergency basis as a result of USAID Washington's delay in approving PW's purchase order waiver request.)

Enterprise liaisons have been deployed by each auction center to educate and prepare enterprises pre-auction and to visit enterprises post-auction in order to confirm the registration of new shareholders and to insure that employees have been advised that their individual shareholdings are transferable.

Training seminars were conducted for staff of the new auction centers and the new regional auditors.

Coupon and cash auction training manuals - translated into Russian - have been completed and distributed to the SPF and auction center staff.

The SPF has agreed to utilize the coupon auction rate as the basis for the starting prices for the enterprises offered in the cash auctions.

Tendering for private sector vendors via a nationwide advertising and regional solicitation program (via regional auction center and SPF staff) began this week for the coupon auction bid collection centers to be opened in each raion of the country, giving citizens in the most remote regions the opportunity to more easily participate in the auctions. Initial indications are that, while bids from private bidders (e.g. banks) may be submitted in Bishkek and Osh, other cities and regions will generate few if any bids. All 45 (+/-) centers will open by year-end.

Coupon distribution (i.e. the percentage of total coupon points available for collection by citizens of Kyrgyzstan) has stabilized at 67% for the past month. While distribution in the regions outside Bishkek is higher than the initial target of 75%, distribution in Bishkek and surrounding Chu region are 45%/54% respectively. New procedures which make it easier for pensioners, university students, citizens who have moved to other regions in the country and citizens whose enterprises have ceased operations to collect their coupons were introduced in September and may generate increased interest if the public is adequately informed. While officials of the SPF are recommending that distribution end on 1 November 1994 and that remaining coupons be distributed via local commissions, the PW/USAID team are pushing for distribution through year-end. We are also strongly opposed to any distribution of remaining coupons via a committee process which is highly

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susceptible to abuse/corruption.

2) **MASS PRIVATIZATION AUDIT PROGRAM:**

Five regional auditors were recruited, trained and deployed to audit the auction centers and bid collection centers in Jalal-Abad, Kara-Kol, Naryn, Osh and Talas. Audits were conducted for September national and regional auctions. Audit procedures were developed with the SPF for new coupon distribution procedures and bid collection centers. The Kyrgyz audit manual is to be completed in October.

3) **COMPETITIVE BIDDING PROJECT:**

SPF Board approved radical revisions to the program as proposed by the PW/USAID advisor for the pilot auction of 10 enterprises. For these large-scale, "strategic" enterprises, 70% (of the total 100%) state's shareholding will be sold to one highest bidder with 5% going to the employees and 25% sold via the national coupon auction program. The starting price, while not eliminated, has been reduced via a formula which is close to the "market" price. Business plans from bidders will not be a component of the program. A list of enterprises to be included in the project has been prepared by the SPF and will be reviewed to reduce the number to a core group of strategic enterprises. If no bids are received, enterprises will be immediately sold via the coupon and cash auction process.

CAPITAL MARKETS PROJECT:

1) **KYRGYZSTAN COUPON EXCHANGE/STOCK EXCHANGE:**

The ten initial/original founders contributed \$50,000 (in Som equivalent) in initial capitalization for the exchange. The State Securities Agency (SSA) then issued a license to the founders. The Coupon Exchange - a precursor to the Stock Exchange (and the first such market institution in the CIS outside of Russia) - was opened for business on 20 September by the Chairman of the SPF, Minister Muraliev, the Director of the SSA, Mr Djaparkulov, and the Chairman of the exchange, Mr Taranchiev. The opening was well-attended by representatives of the business community and the government and received widespread press coverage. During the first nine days of trading through month-end, 4,500,000 coupon points were traded on the exchange. Following training of exchange officials by the PW team and with on-going training and assistance as needed, the exchange has been operated on a day-to-day basis

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entirely by the private sector officials and staff of the exchange. In the meantime, preparation of the Stock Exchange site has begun with completion set for December (the coupon exchange is located immediately adjacent to the Stock Exchange site).

- 2) **INVESTMENT FUNDS:**
The draft regulations and regulatory forms to be utilized by the SSA were submitted to the SSA. Existing securities laws and regulations were reviewed to identify inconsistencies. Following review by the SSA, the drafts will be reviewed with other ministries involved in the review process prior to forwarding to the Prime Minister for his signature. Information on the portfolios of each investment fund continued to be collected for inclusion in the investment fund database.

- 3) **BROKER/DEALER INDUSTRY:**
The initial 20 participants completed the first six week training and licensing course with the second course for an equal number of participants currently underway. A broker/dealer training and licensing manual has been drafted and examination and licensing procedures proposed to the SSA.

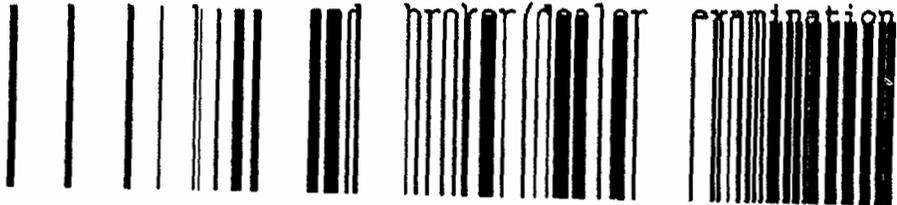
- 4) **CAPITAL MARKETS TRAINING:**
Broker/dealer training program completed for 20 participants with second course in progress and participants enrolling for the third course. Representatives of the SSA and the investment fund industry attended a five day PW/USAID "training for trainers" investment fund management seminar in Moscow. A capital markets introductory educational seminar is to be held on 5 October for representatives of relevant government ministries and the exchange, fund management, and broker industry. A two week "Lessons from Eastern Europe's Emerging Markets" training program is to be held beginning 10 October in Warsaw, Prague and Bratislava for the director of the SSA; the deputy chairman of the SPF; and the chairman, the president, a director and the COO of the coupon/stock exchange accompanied by one US and one Kyrgyz PW consultant.

- 5) **OCTOBER:**
Submit draft investment fund regs, following review by working group, to the government. Develop and propose settlement and depository proposals including book entry system. Introduce and adopt stock exchange public offering, listing and trading rules. Complete second and begin third broker/dealer training

seminars. Implement follow-up tasks to Eastern European training program.

INFORMATION TECHNOLOGY:

Revised coupon and cash auction calculation and reporting procedures introduced to all auction centers, E-mail system installed connecting all auction centers, computer and E-mail training conducted for PW and SPF staff, and equipment requirements for new auction centers and capital markets projects prepared and forwarded to PW Washington. Full-time SPF staff member to be assigned to and trained by PW IT team in October for future management of auction database programs.



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Price Waterhouse Progress Report, September
Component Project: Mass Privatization
Team Leaders: J. Michael London, Karen White,
 Mallory Greene, Beth Shair, Rachel Lindell

Key Events & Outputs:

- The sixth round of auctions ended on September 28. The twenty-eight companies (3 national) received 1283 bid applications accompanied with 31,843,100 coupon points. For the national companies, investment funds submitted 16 bid applications with 6480000 coupon points. They also made a strong showing in the regional companies throughout the country.
- The new Narin and Talas auction managers have been working steadily to prepare for the opening of the auction centers. Sites and staff have already been selected and are currently being prepared for the first auction in those regions on October 10.
- Company liaisons have now been hired and are working in all the oblasts. They hold seminars at all the companies to be put on the auction to explain the process. After the auction, they ensure that the new shareholders resulting from the auctions are properly entered into the company register.
- Auction Center staff continue to hold seminars throughout the country at companies, government offices, social service organizations to inform the population about the mass privatization program and how to participate.
- Two separate training programs on conducting coupon and cash auctions were held in the National Auction Center in Bishkek. The first was for the 5 new local auditors, the second was for the staff of the soon-to-be-opened auction centers in Narin and Talas.
- The procedures for collecting bid applications at bid reception centers and transferring them to the Regional Auction Centers were finalized. The auction manual outlining these procedures has been completed and translated into Russian and is ready for distribution.
- After long discussions with the State Property Fund officials, they have agreed to resume holding the cash auctions according to the procedures proposed by Price Waterhouse. The procedures include the starting price based on the coupon and the auction rate. They also require that the State Property Fund to keep track of the government holdings by the number of shares and not by percentages to avoid shares being lost in rounding when calculations are done. The manual outlining these procedures has also been completed and translated into Russian. The national cash auction is schedule for the middle to end of November with regional cash auctions to follow soon after.
- Work continues with the State Securities Agency to coordinate the registration of companies which are put through the mass privatization program. In addition, after discussions with Price Waterhouse, the SSA will no longer require companies to print up physical shares when they register. Price Waterhouse, the SPF, and the SSA are also working to develop new procedures for a unified shareholder registry system in Kyrgyzstan.
- The auction managers provided assistance to complete the tender for the bid reception centers. The tender is now ready to be sent to press.

Upcoming Events:

- With two bid reception centers already functioning in Issyk-kul, nine more BRCs throughout the country are scheduled to open by the end of November.
- Continuing work which has already been started, the Price Waterhouse will work with the SPF and the SSA to bring the applicable laws into line with the mass privatization program as it is currently being implemented. Laws regarding nominal value of shares, share splits, regulations on investment funds, joint-stock companies, and other applicable laws will be reviewed and proposed revisions will be made.

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SUMMARY OF COUPON AUCTIONS IN KYRGYZSTAN

#	Auction	Number of companies	Number of applications	Number of points
1	1st National Auction	3	976	24772500
2	2nd National Auction	4	441	18621900
3	3rd National Auction	3	123	17105100
4	4th National Auction	3	340	21795600
5	5th National Auction	3	739	14588300
6	1st Bishkek Regional Auction	8	277	17317400
7	2nd Bishkek Regional Auction	7	269	12267000
8	3rd Bishkek Regional Auction	5	97	2823900
9	4th Bishkek Regional Auction	6	245	6994700
10	5th Bishkek Regional Auction	5	154	3146500
11	6th Bishkek Regional Auction	13	224	8030900
12	1st Osh Regional Auction	9	147	5895800
13	2nd Osh Regional Auction	10	123	4382100
14	3rd Osh Regional Auction	4	46	1866000
15	4th Osh Regional Auction	3	217	26362300
16	5th Osh Regional Auction	3	25	1275300
17	6th Osh Regional Auction	3	33	5771400
18	1st Jalal-Abad Regional Auction	10	262	198300
19	2nd Jalal-Abad Regional Auction	6	100	485800
20	3rd Jalal-Abad Regional Auction	5	121	1873300
21	4th Jalal-Abad Regional Auction	6	437	2862000
22	5th Jalal-Abad Regional Auction	5	95	1471700
23	6th Jalal-Abad Regional Auction	6	134	1882400
24	1st Issyk-Kul Regional Auction	7	565	4283400
25	2nd Issyk-Kul Regional Auction	6	215	4162000
26	3rd Issyk-Kul Regional Auction	5	41	1742300
27	4th Issyk-Kul Regional Auction	6	121	656600
28	5th Issyk-Kul Regional Auction	6	198	1695100
	TOTAL	160	6765	214329600

**Kyrgyzstan Mass Privatization
Coupon Tracking system - Distribution
As of 10/1/94**

Oblast/Region	100 Point Coupons Collected by Citizens	500 Point Coupons Collected by Citizens	Grand Total Points Collected by Citizens	Grand Total Points to be Distributed to Citizens	Percentage Collected by Citizens As of 10/1/94	Percentage Collected by Citizens As of 9/15/94	Percentage Collected by Citizens As of 9/1/94
Total Bishkek	320,117	745,320	404,671,700	900,632,700	45%	45%	45%
Total Chu	503,259	896,074	498,362,900	921,029,500	54%	53%	53%
Total Osh	803,151	1,558,603	858,616,600	1,133,781,400	76%	75%	75%
Total Jalal-Abad	652,509	1,056,006	593,253,900	724,211,000	82%	81%	81%
Total Issyk-Kul	403,173	543,205	311,919,800	372,200,500	84%	82%	82%
Total Naryn	217,692	365,436	204,487,200	250,971,200	81%	81%	81%
Total Talas	150,629	259,789	144,957,400	188,553,700	77%	77%	77%
GRAND TOTAL	3,050,530	5,424,433	3,017,269,500	4,491,380,000	67%	67%	66%

Price Waterhouse
Progress Report - September

Component Project: Mass Privatization/Audit

Team Leader: Natalie Barndt

Key Events and Outputs:

- Hired 5 new local audit staff. Trained these staff during a 1 week seminar.
- Participated in meetings regarding the tendering process for bid reception sites.
- Finalized legislation and advertising prescribing control procedures for distribution of coupons to individuals who have moved within the republic since receiving their SMP receipts, and for those whose employers on their SMP receipts have liquidated.
- Audits were performed at the Osh, Jalal-Abad, Kara Kol, Bishkek/National auctions on the September 5 auction close and at the September 28 audit close (note that the new auditors performed the work at the September 28 close).
- Revisions of the All Kyrgyz audit manual continued.
- Jeff Couper, PW Moscow, visited and gained an understanding of our work here. He further reviewed and provided comments on several sets of workpapers and draft reports.

Upcoming Events:

- New audit staff to return to Bishkek on October 6 to review their work to date and to continue training. They will return to their auction centers on September 12.
- October 24 auction close will be audited by new auditors.
- New auditors will attend the upcoming cash auctions at all operating auction centers.
- New auditors at Naryn and Talas to participate in training of auction center staff and in set up of auction center.
- Assistance will be provided to auction managers in the BRC tendering and evaluation process.
- All Kyrgyz audit manual to be completed.
- Reports on 4 auction audits to be released.

Date: September 30, 1994

Component Project: Mass Privatization Kyrgyzstan/ Competitive Bidding

Team Leader: Annemarie O'Brien

Key Events & Key Outputs:

- Mr. Chumakov, my SPF counterpart and Deputy Chairman, has accepted to implement all of my proposed changes for the pilot program. We are working together to write an order for implementing the change which will be signed by the Prime Minister. If the pilot runs smoothly, we will be able to change the current governmental resolution with more ease.
- Attended Director's Meeting, chaired by Mr. Chumakov, regarding changes to the CB process and the pilot. Ten (10) companies were selected for the pilot. Given the status of collecting financial information on other companies, we may include five (5) more companies. **OBTAINED FULL LIST OF COMPANIES IN THE PROGRAM!**
- Visited two (2) companies on the pilot: Tokmok Felt Factory and Karakol Clothing Factory. I spoke with the Director, Chief Accountant and Chief Engineer in both cases to discuss their concerns about the program, pricing/evaluation methods, etc. I also collected additional financial information for the purpose of making my own valuations based on Wall Street Models.
- Met with (1) a Journalist for an Emerging Markets Journal who is interested in publishing CB business opportunities, (2) the Director of Goldstar who is involved in TV, microwave, refrigerator, stereo, vacuum cleaner etc. assembly and in some cases production. We discussed their future participation in the CB program, (3) one of the Board of Directors of the Stock Exchange about his possible participation in the CB program/Bishkek auto repair Plant due to his interest in setting up a filling station/repair service in Bishkek. (4) the Director of an Indian Engineering Consulting Service who informed me of a \$5 million credit to the Kyrgyz government from India and possible participation in my program. (5) one of the founders of Oshinvest about CB companies in the Osh Oblast and his participation in my program. (6) met with Industry people to coordinate implementation, to discuss issues and concerns about the process and to get their input---super results and cooperation from their side, relations look promising for the future. (7) with Mr. Bakiev, another SPF Deputy, about privatization in the Non-Productive Sphere. (8) with Aigul Sadykova from the Methodology dept.---relations have improved despite their opposition to my proposed changes. (9) with Stan Judd to discuss details about investment fund regulation in favor of allowing their participation in my program. (10) with IBTCI to discuss distribution of CB brochures to the auction centers and my office. (11) with M. London to discuss coordination issues and synergies between our two functions. (12) with PW lawyers to understand the laws regarding my program and how to go about changing them.
- Began prelim. contacts with Auction Managers to develop and promote PI efforts in the regions and to inform the mass public about the CB process.

Upcoming Events:

My major focus is to get my proposed changes passed/approved by the Prime Minister and then to start implementing those changes for the pilot. I also plan to follow-up more with coordination and promotion of the CB process with auction managers, maintain good-working relations with Mr. Chumakov, and to visit more companies.

*(Approved by SPF Board
4 October 1994)*

TO: USAID/ Almaty
FROM: Capital Markets Team
RE: September 1994

KEY EVENTS & OUTPUTS:

1. **Kyrgyzstan Stock Exchange (KSE) and Coupon Trading Center (CTC).** The KSE with at least ten founders each contributing cash or property of 500,000 som (about \$5,000) was licensed by the SSA. The CTC opened for trading on September 20 with the trading of 2 million points. Through September 30, nine days of trading, approximately 4.5 million points had traded with a total value approaching 123,000 som (\$12,300). The trades took place on the floor of the CTC, but settlement was affected off the floor in the cashiers room (the precursor to a depository). These, the first non-cash securities transactions in a licensed exchange in the Central Asian Republics, may be of historic significance. The CTC is staffed and managed entirely by Kyrgyz, with little if any participation by USAID's technical advisors who trained them. The exchange produces daily tallies of volume, high and low price, and opening and closing prices for publication in the local press and E-mail to the Regional Auction Centers. The tender process for remodeling the KSE was completed. In principle the contract has been awarded to Family Capital Construction Company and it has begun reconstruction. Completion is expected by year - end.

2. **Capital Markets Training.** Arrangements were made to send four officers and directors of the KSE, the Director of the SSA and the Deputy Chairman of the State Property Fund to a two week training program "Lessons from Eastern Europe's Emerging Capital Markets : Warsaw, Prague and Bratislava", October 10 through 21, under the guidance of two PW staff. They will visit Exchange Officers, Regulators, Brokers, Bankers, Investment Funds and Issuers in order to gain first-hand understanding of the development of those markets, the relationship between exchanges and regulation , market mechanisms, and the role of various market participants in the development of the capital markets. Twenty students selected by exchange founders, the SSA and Managers Training Center participated in a six week Broker Training Course (Aug.15- Sept. 24) . Topics included Common and Preferred Stocks, Bonds, Exchange Trading, Clearing and Settlement, CTC operations, New Issues, Economics, Financial Analysis, Broker Marketing, Investment Funds and Laws on Joint Stock Companies and Securities and Stock Exchanges. A Broker Training Manual for the course is ready to be made available with other course materials to broker-dealers and educational institutions.

3. **Investment Funds.** Revised draft fund regulations and model forms were delivered to the State Securities Agency (SSA) and principal aspects discussed. Section by section analysis and a general explanation of the regulations have also been prepared. Related securities laws were reviewed to identify and resolve possible inconsistencies with the proposed regulations. Because it appears that the Parliament will not meet again this year , we examined whether , how and to what extent changes in existing laws may be made by Presidential Decree. An analysis of the effects of the tax system on development of the capital markets was also begun. Efforts to

collect investment fund data continued in the face of fears that the information could come to the attention of competitors or tax authorities. A five day Moscow "train the trainers" seminar for investment fund managers was attended by representatives of two funds and the SSA and two PW trainers. A one day "Introduction to Capital Markets" seminar was prepared for fund managers, brokers, regulators and the media. It will be held on October 5 and will focus on types of investments and investors, issuers and borrowers, and the functions of capital market participants. The possible expansion of the Kyrgyz treasury bill market and principles of investment fund regulation will also be discussed.

4. **Enforcement Powers of State Securities Agency.** Revisions of draft Presidential Decree which would grant limited enforcement powers to the SSA under the Kyrgyz Administrative Code, including the power to impose fines for misleading statements harmful to investors and for the failure of issuers to register securities were recommended.

Team Composition:

With the arrival of Alexis Berry, Exchange Depository Operations Specialist, and Lew Mendelson, Director, the Team now has six expat members in Bishkek. Two others, Harry Smith, information systems specialist, and Ed Waingorton, auditor, are expected in October. Gulmira Orozaliyeva, Esq. a local attorney who was a USIA Edmund Muskie fellow, also joined the team.

UPCOMING EVENTS:

- * Submit Russian versions of Section by Section Analysis and Explanation of the proposed regulation of investment funds to SSA. Discuss proposed investment fund regulation with working group: SSA, SPF, MOF, MOJ. Submit proposed regulation to government
- * Prepare analysis of extent of Presidential Decree and recommend supplementary enforcement powers, as needed.
- * Comment upon proposed Presidential Decree which would permit share and price splitting as a result of coupon auction.
- * Develop and staff committee(s) for design and procedures for development of clearing and depository facilities. Complete initial design requirements for delivery versus payment function. Develop and secure approval for account structure design for depository members/investors.
- * Deliver presentation to Eastern European tour participants. Analyze trip feedback.
- * Continue efforts with FMI to develop share registry requirements.
- * Broker training course, Oct. 10 - Nov. 4. Students will include trainers, journalists, brokers and law students. Students will begin public education presentations about stocks and the stock market. In addition, they will serve eight hours public service with Kyrgyz securities institutions.

* Review and presentation of recommended uniform public offering disclosure form and listing requirements to KSE Executive Council.

* Adoption of Listing and Trading rules and the formulation of Business Plans of 2,4,6 and 12 month durations for the KSE.

* Exchange site preparation will commence on October 1, and will take approximately 2 to 3 months to complete due to weather and scarcity of supplies.

Price Waterhouse Kyrgyzstan
Progress Report - September 1994

COMPONENT PROJECT: Capital Markets / Investment Fund Regulations

TEAM LEADER: Stanley B. Judd

KEY EVENTS & KEY OUTPUTS:

Investment Fund Regulations:

- * Revised draft delivered to the State Securities Agency (SSA).
- * Revised model investment fund charter, prospectus, depositary agreement, and management agreement, delivered to the SSA.
- * Section by section analysis and separate explanation of the proposed regulation prepared.
- * Principal aspects discussed with the Director and Deputy Director of the SSA.
- * Existing securities laws reviewed to identify aspects where change is necessary, such as the present prohibition on preventing an investment fund from investing in more than 10% of the voting securities of an issuer or more than 5% of its asset in an issuer.

SSA Enforcement Powers:

- * Revised draft Presidential Decree granting SSA limited enforcement powers including to impose penalties.

Kyrgyz Legislative Procedure:

- * Because it appears that the parliament will not meet again this year, we explored whether, how and the extent to which changes in the existing laws including corporate and securities laws may be made by Presidential Decree.

Effect of Tax System on Development of Capital Market:

- * Began study of the existing tax system with particular reference to its effects on the securities markets and on investment companies and their shareholders, and discussed those aspects of taxation with Wayne Thirsk, Chief of Party, Fiscal Reform Project For Kyrgyzstan, KPMG Peat Marwick.

UPCOMING EVENTS:

Investment Fund Regulations:

- * Submit Russian versions of Section by Section Analysis and Explanation of the proposed regulation of investment funds to SSA.
- * Discuss proposed investment fund regulation with working group: SSA, SPF, MOF, MOJ.

- * Revise proposed regulation of investment funds in accord with SSA's comments.
- * Submit proposed regulation to government
- * Prepare analysis of extent of decree and recommend supplementary enforcement powers, as needed.
- * Comment upon proposed Presidential Decree which would permit share and price splitting as a result of coupon auction.

Price Waterhouse
Progress Report- September 1994

COMPONENT PROJECT: Fund Operations

TEAM LEADER: Timothy Knowlton
Rowshan Sagynbekova, Assistant Director

KEY EVENTS & OUTPUTS:

- Moscow Seminar- Investment Fund Training- managed by PW's Tessie San Martin and Marc Flynn- September 5-11; Knowlton and Sagynbekova of PW; Rakhimov, President, Berekeinvest; Musaev, General Director, Nur-Invest; Abdukadyrov, State Securities Agency.
- Sent questionnaire to funds requesting information on portfolios and stating incentives for correct reporting. Developing data base for comparison with auction results and training for portfolio evaluation.
- Gave reception for fund managers on opening date of Coupon Exchange; encouraged use of coupon exchange and better intra-industry communication.
- Met with Central Bank to determine availability of three month bills as cash management tool and method of developing positive rate of return; arranged to work with Central Bank to market bills beyond current purchasers.
- **UPCOMING EVENTS:**
- October 5 Seminar: Basics of Capital Markets; Knowlton and Sagynbekova; Treasury Bill Presentation; Central Bank; Principles and Purposes of Regulation, PW Capital Markets Legal Staff (local).
- October 7-25: Knowlton leads trip to exchanges in Warsaw/Prague/Bratislava for SPF Deputy Minister Orozbaev, SSA Chairman Dzhaparkulov, and KSE executives Taranchiev, Elebaev, Hegai, and Ryskelliev to study operations, trading, regulation, and organization.
- Balance October: Sagynbekova meets with individual funds to train and develop better reporting and accounting methods.
- November: PW training team arrives for extended sessions for capital markets participants; Knowlton gives lecture at FMI conference on cash management and money markets.

COMPONENT PROJECT: Capital Markets / Clearing & Central Depository

TEAM LEADER: Alexis Berry

KEY EVENTS & OUTPUTS:

- * Arrived and reviewed the Capital Markets project progress to date with team members Bob Kelly and Tim Knowlton.
- * Met the KSE executive council and reviewed Coupon Exchange rules with members.
- * Contributed to the development of the Capital Markets workplan which was presented to US AID.
- * Began discussions with FMI regarding share registry issues which affect the central depository.
- * Researched T-Bill auctions process at National Bank of Kyrgyzstan and viewed auction on September 29th.
- * Reviewed current and draft legislation for securities, stock exchanges and clearing. Briefed PW legal staff on clearing and depository legal issues and requirements.
- * Toured the Bishkek Auction Center and accompanied company liaison on follow up visit to enterprise to assist them in their share registry maintenance function.
- * Discussed database structure and processing/file requirements for trading, clearing and depository with the IT group.
- * Developed preparatory presentation for Eastern European Tour to Warsaw, Prague & Moldova for tour participants.

UPCOMING EVENTS:

- * Develop and staff committee(s) for design and procedure development for clearing and depository facilities.
 - Identify and document open design issues for clearing and depository functions.
 - Secure the structure of the exchange, clearing and depository facilities.
- * Deliver presentation to Eastern European tour participants. Analyze trip feedback.

- * Develop and secure approval for account structure design for depository members/investors.
- * Continue efforts with FMI to develop share registry requirements.
- * Complete initial design requirements for delivery versus payment function.

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COMPONENT PROJECT: Capital Markets Training

TEAM LEADER: Wesley Moore

KEY EVENTS & OUTPUTS:

- * Completed a broker training course for twenty students selected by Exchange founders, SSA, and the Managers Training Center (MTC). Topics included: Common and Preferred Stock, Bonds, Exchange Trading, Clearing and Settlement, New Issues, Economics, Financial Analysis, Broker Marketing, Coupon Center Operations, Investment Funds, Joint Stock Co. Law, Law On Securities and Exchanges.
- * Prepared manual for the brokers training course for use in future programs.
- * Recruited trainers from the MTC to participate in the brokers training course and train the trainer.
- * Hired local trainers to assist with writing the national licensing examinations for the SSA.
- * SSA Oversight - Delivered and discussed written recommendations to the SSA regarding broker licensing regulations and examinations
- * Wrote recommendations for listing requirements for KSE.
- * Wrote and delivered recommendations for broker dealer business development. Discussed with the Exchange Founders. Includes draft of program for developing listings and new issues.
- * Edited draft of uniform public offering disclosure form. Vadim Zukov translated it.
- * Planned upcoming courses.

UPCOMING EVENTS:

- * Broker training course, Oct. 10 - Nov. 4. Students will include trainers, journalists, brokers and law students.
- * Students will begin public education presentations about stocks and the stock market. In addition, they will serve eight hours public service with Kyrgyz securities institutions.
- * Participate in PW prepared USAID funded "Train the Trainers" course in St. Petersburg.

- * Kyrgyz trainers will assist with the presentation of broker training course.
- * First meeting of broker "Marketing Club", a forum for ongoing training and discussion.
- * Presentation of listing requirements to KSE Executive Council.
- * Review and presentation of recommended uniform public offering disclosure form.

Component Project: Capital Markets/Coupon & Stock Exchange

Team Leader: Bob Kelly

Key Events and Outputs:

The Stock Exchange was licensed by the State Securities Agency.

The collection of the 10 founders contribution capital of 500,000 som, and the addition of two new founders to the exchange, Germes-Jashtk and Orient Bank.

The Coupon Trading Center (CTC) of the Kyrgyzstan Stock Exchange opened for formal trading on Tuesday, September 20. Trading from September 20 through 30 totaled 4,500,000 points were traded for over 123,000 som. Average prices ranged from 1.82 som per 100 pts. to 2.04. The trades were transacted on the floor of the CTC, but settlement was affected off the floor in the cashiers room (the precursor to a depository). **The historic significance of the first non-cash securities transaction in a licensed exchange in the Central Asian Republics cannot be overstated.** Trade information is being advertised and E-mailed to the auction centers and public interest in a central market place has begun to take hold.

City wide advertising campaign with banners, newspaper ads and radio commercials was planned and will kick off on the October 15.

Logistical details completed and Participants selected for the Lessons from the Eastern Europe's Emerging Capital Markets: Warsaw, Prague, Bratislava.

The tender process for site preparation of the Stock Exchange has been completed. Four bids were received with the contract in principle being awarded to the Family Capital Company.

Upcoming Events:

Formulation of Business Plans of 2,4,6 and 12 month durations for the KSE.

Adoption of Listing and Trading rules for the KSE.

The site preparation will commence on October 1, and will take approximately 2 to 3 months to complete due to weather and scarcity of supplies.

COMPONENT PROJECT: Mass Privatization /
Capital Market
Information Technology

TEAM LEADER: Dmitry Nonkin

KEY OUTPUTS AND KEY EVENTS:

- New version of Coupon Auction and Cash Auction installed in all auction centers and operators trained.
- Electronic mail installed in Osh and Karakol auction centers and local staff trained.
- Repaired 3 computers: Karakol's AC computer, IT Team computer, Logistics computer.
- Computer and laser printer installed in Coupon Exchange center
- Software for Coupon Exchange center (CoupEx) developed and installed on Coupon Exchange computer, user's manual printed and operators trained.
- Computer virus on 4 computers detected and erased.
- Started training courses of basic computer skills for translators and logistics team.
- We have met with Alexis Berry and Bob Kelly to discuss questions about stock exchange, depository software and equipment.
- Equipment requirements list for Kyrgyzstan Stock Exchange prepared and sent to Washington.

UPCOMING EVENTS:

- Installation electronic mail in Talas and Naryn auction centers.
- Installation of Coupon and Cash Auction software in new auction centers, training operators.
- Developing accounting and financial software for PW (Phil Regnault).
- Developing broker/dealer examination database for SSA (Wesley Moore).

Price Waterhouse Kyrgyzstan



To: John Johnson

Fax:

From: Samantha Ankara Fuller

Date: September 30, 1994

Re: Progress Report - September

Total Pages:

COMPONENT PROJECT: Mass Privatization and Capital Markets
LOGISTICS TEAM

TEAM LEADER: Samantha Ankara Fuller

KEY EVENTS & KEY OUTPUTS:

Logistical Events:

- Traveled to Naryn and assisted in the preliminary organization of the Naryn Auction Center.
- Located and purchased office furniture for Naryn and Talas Auction Centers.
- Purchased and organized office supplies, computers, and printers for new auction centers.
- Assisted in the opening ceremony of the Kyrgyz Coupon Exchange.
- Continued to settle incoming ex-pats into new flats, arranging airport pickups, maids and food supplies.
- Organized two seminars.
- Maintained four offices, supplies and drivers for staff of over 100; and continued to respond to the particular needs of ex-pat staff.
- Outfitted the Coupon Exchange with supplies, computer and printer
- Started procurement discussion for computers, Xerox machines, and other equipment needed for the auction centers and the Kyrgyz Stock Exchange
- Briefed new audit team

Bid Collection Center Project:

- Designed workplan for the tender process and the schedule for opening each BCC.
- Created terms of tender and application form and distributed to all Auction Managers.
- Prepared national and regional advertising announcing the tender process.

Financial Events:

- Paid Sbarebank \$30,000 for continuation of coupon delivery according to contract.
- Added Philippe Regnault to accounts at Meksat Bank.
- Transferred all financial controls to new Financial controller and promoted Aman Tentiev as an assistant to insure proper tracking, accounting, and reporting of all project finances.
- Assisted new auction managers to open new bank accounts in Naryn and Talas

UPCOMING EVENTS

- Evaluation of tenders and conclusion of open tender process
- Opening of Naryn and Talas Auction Centers - final logistics details
- Opening of first Bid Collection Centers

Price Waterhouse - Bishkek, Kyrgyzstan

COMPONENT PROJECT:

FINANCIAL CONTROLS

TEAM LEADER:

Philippe Regnault, Financial Controller

KEY EVENTS AND OUTPUTS:

- Hired and trained new assistant financial controller responsible for all petty cash disbursement, documenting, and reconciliation
- Completed financial reports for July (revised) and August to Home Office for Imprest Account replenishment.
- Completed procurement procedures for computers and printers for new Auction Centers in Naryn and Talas. Status: equipment arrival anticipated in mid-October.
- Re-submitted requests with USAID/Almaty and Washington for waivers to purchase copiers for Naryn and Talas Auction Centers and the Kyrgyz Stock Exchange. Status: awaiting waiver for purchase of equipment in Tashkent, Uzbekistan.
- Instructed Information Technology Team to improve system for monitoring project's financial activity.
- Received 600 pound office supplies shipment for Price Waterhouse Kyrgyzstan's project activities.
- Total Level of Effort (September): 2072 expat hours.

UPCOMING EVENTS:

- New equipment arrival; purchase of copiers; improved financial database development; continued financial reporting to Home Office.

**STATUS REPORT:
JUNE 1994**

I. General Information

Project Name:

Public Education on Privatization and Market Reform in Ukraine: Phase III

Project Start:

June 1, 1994

Anticipated End Date:

September 30, 1994

Project Manager:

Bill Mako (Price Waterhouse) is acting as interim Program Director pending a permanent replacement for Martin Nunn, who resigned on June 21, 1994.

Other Project Management Staff:

Charline Eastin (PW) - Deputy Program Director
David Payne (Young & Rubicam) - Design & Marketing Department Director
Billy Kimball - Television Executive Producer
Tatyana Spiridonova - Radio Department Director
Dimitry Derkach - Press Club Department Director
Tatyana Karpova - Regional Department Director
Natasha Tereshchenko - Planning Department Director

Project Description:

This program uses television, radio, newspapers, and other means to educate the Ukrainian public on two aspects of privatization and market reform. First, program public education includes national and regional educational activities tailored to inform the public about various components of the Government of Ukraine's overall privatization program and its linkage with economic reforms. Second, program public relations include public education and marketing which is specific to the privatization of individual enterprises.

II. Update for Last Month (June 1994)

A. Television Department

The following four "Crossroads" programs were aired:

- "Ownership: In Search of an Owner" focused on the implications for individual Ukrainians of a revival of private property ownership. Guests included Vladimir Sumin, the Vice President of the Ukrainian Association of Industrialists and Entrepreneurs.
- "The Necessity of State Enterprises Privatization" (2 parts) explained the practical benefits of privatization, the current legislative basis, and privatization results from neighboring countries. Guests included Yuri Yekhanurov (Deputy Minister of Economy), Lidia Verkhovodova ("Lanavoi Center"), former Chairman Vladimir Pryadko (State Property Fund), and Victor Pynzenyk (Reform Support Fund).
- "Objects and Subjects of Privatization" covered the 1994 privatization program and alternative privatization methods. Guests included Vadim Vasiliev, Deputy Chairman of the State Property Fund.

Work continued on the television news program "Weekly," which will highlight examples of privatization and development of markets throughout Ukraine. "Weekly" will debut in July.

A series of documentaries on mass privatization in neighboring countries was planned and filming in Russia and Czechoslovakia began. These documentaries are scheduled to begin airing in July.

Also notable was a meeting held on June 5th between former State Property Fund Chairman Vladimir Pryadko and Bill Mako to discuss the progress and problems of privatization and the upcoming public debate. Chairman Pryadko requested for a "Crossroads" program to be filmed on July 2, 1994 on the subject. Afterwards Chairman Pryadko failed to follow up, was unavailable by phone, and generally provided no assistance to facilitate the taping of the show, consequently, the show was cancelled. This is indicative of the institutional weaknesses of the State Property Fund and the difficulties in supporting them.

B. Radio Department

The following five "Market From A to Z" programs were broadcast:

- "Joint Stock Companies" discussed the foundation and functioning of joint stock companies as well as shareholder rights. Guests included representatives from Inko Bank (Oleg Sinyagovsky) and Ukrainian Financial Stock Exchange (Leonid Kondratyuk).
- "Financial Intermediaries" explained the services provided by investment funds and trust companies. Participants included Anatoliy Federenko and Sergei Oksanich from Kinto. An outside perspective was provided by economic attaches from the Russian and Czech embassies.
- "Answers to Listeners Questions" responded to audience queries from previous programs. Respondents included Alexander Kaptsov (State Property Fund) and Alexander Paskhaver ("Lavavoi Center").
- "Leasing" discussed the benefits of privatization versus leasing. Guests included Natasha Tereshchenko (Price Waterhouse) and a State Property Fund representative.
- In "Problems of Leasing," Minister of Economy Roman Shpek discussed the problems of leasing.

Work progressed on the musical program for young people. Interviews with popular performers, both local and Western, were taped. These interviews will be used to illustrate the importance of the performers marketing themselves to the public. Additionally, an agreement to co-produce the radio program with ICTV, a private company, was reached.

C. Press Department

Four Kiev Press Club of Economic Reform meetings were held on the following topics:

- "Culture and Market" emphasized the importance of preserving the Ukrainian culture and further enhancing its development despite the current economic crisis. Mikola Zhulinsky, Vice-Prime Minister, expressed his views concerning the interdependence of economics and culture and its importance for the transition to a civilized market economy. He also gave his support for the National Education Program.

- "Dionysus" Company, a 140 year old winery located in Simpheropol that was recently privatized, was represented by their Chief Manager Yuri Semenov at the Press Club. Mr. Semenov gave the history of the winery including the transition from communist times to present. He also described their success in the NIS and in international wine tasting exhibitions such as "Ukraine-Germany 93", "Wine 93", and "Consumer Goods 93", and at the 46th international folklore wine festival in France.
- "Financial Intermediaries in Privatization" covered the roles of financial intermediaries during the privatization process. Andrci Liasota, President of "Mercury Trust" discussed that by having acquired a license issued by the State Property Fund, "Mercury Trust" is able to accept privatization deposit accounts of private citizens to obtain a majority share in an enterprise. Liasota explained that the interests of the owners of small share holdings are represented through "Mercury Trust"'s trust administration agreement. Igor Kologrivov, President of "Omota Trust, Inc." described his company's primary activities as sponsoring the issuance of securities, trading Ukrainian companies' securities on the primary and secondary markets, and investing in foreign companies for its clients.
- "Ukraine Today: the Way to the Market" discussed such issues as the importance of the private sector owning a majority of Ukraine's assets including land, the need for changes in the tax system, and a system for price formation. Nickolai Kravets, President of open joint stock company "Kievguma", expressed his opinions on the need for a common currency for the CIS, similar to the European Union's ECU, in order to help facilitate trade.

The five established regional press clubs on economic reform remained active holding monthly meetings in their respective cities. The discussions were as follows:

- Donetsk Press Club discussed the financing through credits.
- Odessa Press Club discussed the progress of privatization in Odessa.
- Lviv Press Club discussed creating joint stock companies.

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- Kharkiv Press Club discussed entrepreneurship in the market economy.
- Dnepropetrovsk Press Club also discussed the progress of privatization in that region.

In addition Charline Eastin opened a new regional press club on economic reform in Cherkassy, and Bill Mako opened a new regional press club on economic reform in Kherson. Ms. Eastin and Mr. Mako both explained the National Education Program's objectives and emphasized the important role the media and regions play in shaping the development of Ukraine.

Also, two issues of the "Press Club" newspaper and two issues of "What's Next" newspaper were published and distributed throughout Ukraine with the help of the Regional Department.

D. Regional Department

Two informational leaflets were printed for the Students Project and distributed to the info-centers located in universities throughout Ukraine in June. The info-centers' libraries were also provided with copies of 8 different books by such authors as George Soros. The Students Project members also met on several occasions with the Planning Department to discuss University directors' ideas and methods for better informing the students on market reforms through textbooks, lectures, and mass media.

The Land Reform Project held several meetings with PADCO (Gerald Kayden, Matthew Glaser and Roger Vaughan) to discuss land reform issues and forms of possible cooperation. Tatiana Karpova (Regional Department Director) Alexander Kotelnikov (Manager for the PADCO Project), and Charline Eastin (Deputy Program Director) travelled to Kharkiv to speak with Kharkiv PADCO representatives in regards to helping with the advertising support (TV, radio, and press) for the land auction. A stock film of the Kharkiv land auction was made to be used in the support of PADCO, at their discretion. Following the discussions, press advertisements were designed to be placed in Kharkiv newspapers. Press releases on the second successful auction in Ukraine were prepared and distributed at a Kiev Press Club on Economic Reform weekly meeting and at Kharkiv and Odessa Press Clubs on Economic Reform monthly meetings.

E. Advertising and Marketing Department

The Advertising and Marketing Department assisted in the compilation and creation of the first four issues of the "Press Club" newspaper as well as two issues of the "What's Next" newspaper.

The department continued their work with the television department. New designs, advertising, and an opening sequence for the "Weekly" news program were created. New advertising for "Crossroads" was also produced.

The department prepared graphic designs for the "First Wave of Privatization 150" pamphlets and compiled 27,000 copies of the pamphlets for the State Property Fund's list of companies open to privatization.

F. Planning Department

The Planning Department spent the month collecting data, developing concepts, and preparing materials and scripts for 8 radio programs of "Market from A to Z" and 4 television programs of "Crossroads".

The department also researched voucher privatization in Russia. The research results will be used in leaflets, radio programs, and television programs.

G. Mass Privatization Support Department

The Mass Privatization Support Department held a seminar jointly with the State Property Fund which highlighted the results of the "First Wave of Privatization 150" campaign. The seminar's spokesman was Price Waterhouse's consultant Alexander Dunayevsky who stated that overall the campaign was a success with many companies having four or five times the subscription demand than the actual issuance.

III. Forecast for Next Month (July 1994)

A. Television Department

- The following four "Crossroads" programs are scheduled to air: "Shareholder: Rights and Duties" (3 parts) which will cover corporatization as a method of privatization and "Financial Intermediaries in Privatization" (1st part of 2 parts) which will explain the roles of financial institutions in the implementation of privatization.
- A documentary "Voucher Revolution in Russia" is planned to be filmed and broadcast on ICTV.
- Television news show "Weekly" will debut.

B. Radio Department

- Planning for the radio news show "Privatization Blitz Inform" will begin. A contract for the production and airing of the show will be concluded with UTRC.
- The following four "Market from A to Z" shows are scheduled to air: "Small-Scale Privatization" which will give success stories of small-scale privatization in other former Soviet-bloc countries and convince listeners of the benefits of privatization in general, small-scale and eventually large-scale, "Collective Ownership" which will define collective ownership and explain its qualities, and "Privatization in Ukraine: Moratorium or Progress" (2 parts) will recap the recent political events and explain their impact on the privatization process and transition to a market economy.

C. Press Department

- The Kiev Press Club of Economic Reform will meet to discuss "Privatization of Housing" with the guest speaker Andrei Dron, Chairman of the State Housing Committee of Ukraine, "Ukrainian Financial Group's Role in the Market" with guest speaker Nickolai Kravets, and "The Necessity of Privatization" (2 parts) with guest speakers from the People's Deputies, Kinto, Communists of Ukraine, and the Chairman of the Reform Support Fund.

- Planning for the opening of regional press clubs in Rivne and Lutsk will begin.

D. Regional Department

- Regional Department will purchase textbooks for the info-centers based on the universities' recommendations.
- Assistance to PADCO will continue including the planning of a trip to America by 3 representatives to film the "Ukrainian Parliamentarian Observation Study Tour on Private Land and Real Estate".
- Two more informational leaflets will be produced.

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To: Maxim Boycko, Ralf Dieter Montag Girmes, Alexander Pavluchenko; RPC

From: Zoanne Nelson; Price Waterhouse

Date: 22 July 1994

Re: Status Report of the LPC Project

The subject of this report is to review the status of the LPC project from the period of May 27 to the present and to outline the proposed tasks for the month of August. In addition, a copy of the workplan submitted to Larissa Shiryaeva on July 13 is attached.

Accomplishments to date:

- o The first business advisor, Tony Alcock, spent four weeks of June in Russia meeting with RPC personnel and working on location in St. Petersburg. His working and living arrangements were resolved, his interpreter/assistant recruited and hired, and he returned July 4th to begin work full time.
- o Altogether, thirteen candidates for the position of business advisor were presented to the RPC. PW is communicating with the RPC on a frequent basis to move the recruitment process forward for the Central Russian LPC.
- o In June, Tony Alcock worked with the St. Petersburg LPC management to draft objectives and a workplan. The objectives were presented to the RPC and then to the Coordinating Council at a meeting held on July 8. The workplan will be finalized and presented to the RPC in July.
- o Tony Alcock has been meeting with various representatives from the local administration and other organizations, both local and international, which are potential contacts for the LPC. He has initiated site visits to local enterprises.
- o Equipment and software has been approved by the RPC, procured for all LPCs and delivered to the PW warehouse in Moscow (see attached equipment status report).
- o Existing LPCs have been informed about equipment availability, cost to their budget, and estimated delivery dates; they have appointed a staff member to be the contact and "IT" person.
- o In June, existing LPCs received the requested number of fax machines and desk top copiers; the large copier has been delivered to Vladimir.
- o The first contingent of equipment for the temporary office in St. Petersburg has been delivered and installed on-site with the assistance of Price Waterhouse IT staff. The visit also consisted of introductory training for the staff, analysis of their user level, and recommendations for continuing education courses.



22 July 1994

Maxim Boycko, Ralf Dieter Montag Girmes, Alexander Pavluchenko;
RPC

Page 2

- o The equipment for the Central Russian LPC will be installed the week of July 25 in four offices and three regions.
- o Computer-related supplies, office furniture, etc. which can be procured in Moscow are being ordered, purchased and delivered in agreement with the existing LPCs.
- o PW has been coordinating closely with the RPC/LPC financial systems team to identify issues which affect the viability of various disbursement mechanisms.
- o PW has initiated the coordination of effort among contractors, USAID, and the RPC in order to ensure that a preferred solution for disbursement of funds is found based on the requirements of all parties.
- o A disbursement and reporting procedures manual has been drafted and will be finalized dependent upon the disbursement mechanism.
- o On June 22, I presented a brief lecture about basic financial management principles to a group of local administrators and company representatives as part of a three-day seminar held in Vladimir and organized by the LPC.
- o PW has been coordinating efforts between the LPCs, Moscow and training specialists to establish local training needs, initiate a survey of local training programs, and discuss tentative training dates and topics. A corporate governance seminar has been proposed in St. Petersburg for the end of September, and training materials for LPC staff will be prepared for the local business advisor.

Proposed Activities for August:

- o Finalize the modification to the LPC task order budget with RPC/USAID.
- o Finalize budget projections with the LPCs/advisors, and with the RPC.
- o Train appropriate personnel to disburse funds to the LPCs.
- o Initiate payments of operating expenses in St. Petersburg and Vladimir.
- o Negotiate and sign employment contracts with the staff of the LPCs.
- o Coordinate the corporate governance seminar in St. Petersburg.
- o Place a local business advisor in Vladimir.
- o Oversee implementation of established LPC workplans.

**LOCAL PRIVATIZATION CENTER PROJECT
EQUIPMENT STATUS REPORT as of 7/21/94**

ITEM	#	COMMENTS
486 Computers	3	St. Petersburg 7/18
486 Computers	8	Vladimir 7/25, Ivanovo 7/27, Yaroslavl 7/29
486 Computers	5	St. Petersburg permanent office *
486 Computers	8	LPC to be named
TOTAL 486 COMPUTERS	24	
LAN Server	1	St. Petersburg 7/18
LAN Server	1	Vladimir 7/25
LAN Server	1	LPC to be named
TOTAL LAN SERVERS	3	
Notebooks	5	St. Petersburg 7/18
Notebooks	5	Vladimir 7/25, Ivanovo 7/27, Yaroslavl 7/29
Notebooks	6	LPC to be named
TOTAL NOTEBOOKS	16	
HP4 Printers	2	St. Petersburg 7/18
HP4 Printers	5	Vladimir 7/25, Ivanovo 7/27, Yaroslavl 7/29
HP4 Printers	3	St. Petersburg permanent office
HP4 Printers	6	LPC to be named
TOTAL HP4 PRINTERS	16	
Xerox Photocopier	1	St. Petersburg permanent office
Xerox Photocopier	1	Vladimir 7/6
Xerox Photocopier	1	LPC to be named
TOTAL XEROX COPIERS	3	
Xerox Desk-top copiers	1	St. Petersburg 6/15
Xerox Desk-top copiers	2	St. Petersburg permanent office
Xerox Desk-top copiers	3	Vladimir 6/20
Xerox Desk-top copiers	3	LPC to be named
TOTAL XEROX DESK-TOP COPIERS	9	
Fax Machines	1	St. Petersburg 6/9
Fax Machines	1	St. Petersburg permanent office
Fax Machines	4	Vladimir, Ivanovo, Yaroslavl 6/20
Fax Machines	3	LPC to be named
TOTAL FAX MACHINES	9	

* St. Petersburg LPC will be located in a permanent office in September.

**LOCAL PRIVATIZATION CENTER PROJECT
EQUIPMENT STATUS REPORT as of 7/21/94
(continued)**

Software Packages Purchased:

MS DOS 6.2 for desk-tops, 6.0 for notebooks

MS Windows 3.1 European version

MS WinWord 6.0

Excel 5.0

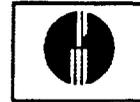
Propis 3.2

AIDSTest, ADINF, ADINF Cure Module Subscription

Novell 3.12 for 10 users

Other:

LAN Support: Price Waterhouse is working with the LPCs to identify a qualified, local Novell installer to install the LAN and to provide training and on-going support.



To M. Boycko, R.D. Montag-Girmes, A. Pavluchenko, B. Gardner; RPC
cc: Walter Coles, Bill Richter; USAID

From/Location Zoanne Nelson, Jeff Schwartz; Price Waterhouse

Date September 13, 1994

Re Status Report: Price Waterhouse LPC Operations Support Project

This report reviews the status of the Price Waterhouse LPC support project for the month of August/early September and outlines proposed tasks for September.

Accomplishments to Date:

- o Coordinated weekly meetings with Bruce Gardner to continue resolving outstanding financial issues including legal and tax implications related to supporting the LPCs.
- o Negotiated and completed the signing of a lease and maintenance agreement with the St. Petersburg International Business Center and authorized initial payment.
- o Coordinated the completion of agreements to perform renovations on the leased space in St. Petersburg and to arrange installation and service of telephone lines and equipment in the office.
- o Organized the transfer of St. Petersburg LPC staff members to the payroll of Price Waterhouse. Ensured completion of necessary documents and establishment of individual bank accounts through which compensation can be paid.
- o Met with St. Petersburg director and RPC to discuss proposed reimbursement mechanism, implications for the LPC, and necessary documentation.
- o Delivered complete set of computer equipment, printers, software, etc. to Vladimir, Ivanono, and Yaroslavl, coordinated the installation of equipment, trained local staff, and researched potential vendors for the LAN installation and maintenance.
- o Met with Central Russian deputy director, chief accountant and RPC in mid-August to discuss proposed reimbursement mechanism, implications for the LPC and necessary documentation. Agreed to meet in Vladimir at a later date.
- o Travelled to Vladimir on August 19 to meet with the deputy director and staff to coordinate meeting with BIS representatives and installation of Sprint and to discuss issues involving transfer of the staff, relocation to new office space, status of lease agreements, and others.

- o Travelled to Vladimir on September 2 to meet with the director and staff to reimburse August expenses, expedite payroll to the staff for the month of August, and organize the transfer of LPC staff members to the staff of Price Waterhouse. Discussed several outstanding issues regarding the reimbursement process, including an agreement to allow the LPC to justify their source of funding to local administrators. Agreed to discuss relevant issues with the RPC.
- o Initiated establishment of a Price Waterhouse bank account in St. Petersburg in accordance with the agreed mechanism for funds reimbursement.
- o Initiated discussions with the RPC about placing a business advisor in the Central Russian LPC.
- o Cooperated with Arthur Anderson on BIS issues and distribution of Sprint packages to the regions.

Proposed Activities for September:

- o Travel to St. Petersburg to discuss project status, upcoming training conference and future training needs, distribute employment contracts and bank cards, reimburse August expenditures, and resolve outstanding issues.
- o Travel to Vladimir to distribute employment contracts, reimburse September expenses, oversee relocation of computer equipment and LAN installation in new offices, and resolve other outstanding issues.
- o Meet with Bruce Gardner and other RPC representatives to discuss financial management issues related to the LPCs including lease agreements, agreements of understanding between RPC, PW, and/or LPCs,
- o Deliver final shipment of equipment to the new offices in St. Petersburg.
- o Organize the enrollment of staff members in medical insurance programs and facilitate payments.
- o Finalize corporate governance training program to be held in October for St. Petersburg enterprises.

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September 13, 1994
PW/LPC Status Report
Page 3

Outstanding Issues Requiring RPC Action:

- o Agree final candidates and select business advisor for Vladimir.
- o Schedule the meeting between Bruce Gardner and PW to discuss the RPC's proposals for resolving specific financial management issues.

To: Walter Coles
From/Location: Richard Bernstrom / PW Uzbekistan
Date: June 30, 1994
Re: Monthly Progress Report

This report summarizes the on-going activities under Price Waterhouse's task order no. 15758-037-5. This includes descriptions of the following components.

COMPONENT PROJECT:

- 1) **The Resolution of Key Policy, Legal, and Regulatory Issues.** This consists of the delineation of ownership rights over small scale enterprises, unfinished construction, and other objects still under state control and representing potential auction objects; and the refinement of auction policies and procedures as necessary to prevent fraud and ensure the rapid transfer of ownership.
- 2) **The Establishment and Implementation of a Self-Financing National Cash Auction System.** This can be achieved through the refinement of pilot procedures to establish national standards for operating cash auctions; by identifying a pool of potential objects and working with the regional authorities to establish a pipeline management system; by establishing implementation teams at each site; and staffing a mobile team to assist the regions from Tashkent on specific issues.
- 3) **The Creation and Implementation of Public Information Campaign to Support the National Auction Program with an Emphasis on the Auction Site.** The goals of this are the broad participation and support in privatization and the cash auctions; the dissemination of information to the public of the benefits and mechanics of such programs; and the training and assistance of public education experts on a regional level.

TEAM LEADERS:

Richard Bernstrom, Team Leader
Patrick Dickey, Senior Auction Manager

KEY EVENTS & OUTPUTS:

- 1) The work plan for the cash auction "roll out" program was finalized with USAID. The Central GKI in Tashkent agreed in principle to the terms of the contract.

2) We continued the expansion of our activities throughout the Republic of Uzbekistan. By the end of the month, we had fully operational offices and/or representatives in all of the twelve regions outside of Tashkent except for Termez. We also managed seven auctions in the month of June and provided limited assistance in a few others. We are generally very pleased with our progress in the regions and our relationships with the local officials.

3) Four Summer Volunteers from Columbia University's School of International and Public Affairs and the American Graduate School of International Management (Thunderbird) arrived in Uzbekistan. They quickly went out to the regions and provided immediate assistance with the development of the "roll out".

4) Three additional auction managers and a two-three public education experts have been selected for the cash auction program. They are scheduled to arrive in early July.

5) Technical equipment and other office supplies have been ordered and will be sent with the new hires. These supplies will enhance our effectiveness in the regions where even basic materials are hard to find.

ISSUES OF IMPLEMENTATION AND PROBLEMS:

1) The impending currency conversion, from the Sum-Coupon to the Sum, has resulted in widespread speculation and a greater reluctance to participate in the cash auctions. We believe that the situation will improve over the next few months and that bidders will return in greater numbers to the auctions.

2) We are encountering serious difficulties in obtaining attractive objects in adequate quantities. It is becoming increasingly evident that the regional and district khokims play a very important role in object selection process. We are, therefore, attempting to develop stronger working relationships with these authorities and are endeavoring to educate them on the benefits of privatization.

3) The currency conversion, coupled with the supply of unattractive objects, has resulted in several mediocre auctions. The momentum gained from the first auctions in Namangan, Tashkent, and Samarkand is unfortunately waning and the public's confidence in privatization is far from solid. We have repeatedly told the privatization officials that this is a crucial time, but most of them seem rather apathetic about the progress of the auctions.

4) One of our project goals is to use the cash auction roll-out as a platform for the implementation of a voucher/coupon mass privatization program and the development of the Republic's capital markets. Unfortunately, the Committee's distaste of a voucher based system is intensifying and no practical alternative for the mass privatization of large scale enterprises has been proposed. We are continuing our discussions on this matter and are providing whatever guidance is possible.

UPCOMING EVENTS:

- 1) We will soon have offices and representatives in all of the fourteen regions (except for Tashkent City and Tashkent Region) and will participate in their forthcoming auctions.
- 2) The arrival of our public education team will allow us to implement a refined information program. They will assist us with our usual auction advertisements and will help us stage additional PR events.
- 3) We are planning several seminars in the regions to help educate regional officials and businessmen on the benefits of privatization. These seminars will hopefully help us obtain better objects and will pump some enthusiasm into the auction process.

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To: Walter Coles
From/Location: Richard Bernstrom / PW Uzbekistan
Date: July 31, 1994
Re: Monthly Progress Report

This report summarizes the on-going activities under Price Waterhouse's task order no. 155758-037-5. This includes descriptions of the following components:

COMPONENT PROJECT:

1) The Resolution of Key Policy, Legal, and Regulatory Issues: This consists of the delineation of ownership rights over small scale enterprises, unfinished construction, and other objects still under the state control and representing potential auction objects; and the refinement of auction policies and procedures as necessary to prevent fraud and ensure the rapid transfer of ownership.

2) The Establishment and Implementation of a Self-Financing National Cash Auction System: This can be achieved through the refinement of pilot procedures to establish national standards for operating cash auctions; by identifying a pool of potential objects and working with the regional authorities to establish a pipeline management system; by establishing implementation teams at each sight; and staffing a mobile team to assist the regions from Tashkent on specific issues.

3) The Creation and Implementation of Public Information Campaign to Support the National Auction Program with an Emphasis on the Auction Sight: The goals of this area are the broad participation and support in privatization and the cash auctions; the dissemination of information to the public of the benefits and mechanics of such programs; and the training and assistance of public education experts on the regional level.

TEAM LEADERS:

James Wadell, Project Manager
Richard Bernstrom, Team Leader
Patrick Dickey, Senior Auction Manager

KEY EVENTS AND OUTPUTS:

1) At the request of the Committee, we have explored possible adjustments to the workplan for the cash auction "roll out" to enhance the effectiveness of the auction program. This is a dynamic process in which we solicit views from the Committee on how we can continue to effectively use our resources in the privatization process as it develops in Uzbekistan. Areas we have explored

to date are: Changing of the Nature of the Objects. The Committee has asked us to consider the possibility of including small to medium sized enterprises in our cash auction program. This is certainly feasible if the enterprises selected are currently operating and prove to be attractive investments with profit potential. To assess the quality of the objects we proposed to form a Credit Review Board (CRB), composed of two or three financial analysts (locals and expatriates) who would work closely with regional GKIs and Khokimeats on the selection of the objects. The CRB would also be available to assist the regional GKIs with evaluating objects to determine initial auction prices. Auctioning Shares of Joint-Stock Companies. We would be prepared to stage cash auctions for shares of a few joint -stock companies, selected by the CRB. This would require careful planning and coordination with other agencies such as the Tashkent Stock Exchange and the Ministry of Finance with whom we and USAID are presently working to prepare the legislation and regulatory framework for securities issuance and trading in Uzbekistan. The first such auction would require considerable lead time and close coordination with the Committee and the Republican Real Estate Exchange. The Establishment of a National Auction Network. One of the goals of the present program has been the creation of a national auction network by linking our regional offices. This network would not only facilitate the introduction of a mass privatization project but could also support the direct auction of securities.

2) Three additional auction managers have joined the project and are assigned to Tashkent, Samarkand and Karshi. The public education experts have also arrived and are meeting with all of the regional auction managers.

3) We are searching for additional office space to accommodate the public education experts and their local staff .

4) Much needed technical equipment and supplies were brought to project site by the new hires. New lap-top computers and bubble-jet printers have been assigned to Karshi, Samarkand and Tashkent. Although we are still wanting for computer equipment, these will greatly enhance the effectiveness of our field operations.

5) We have met with officials in Termez to discuss the opening of the new auction center there. Within two - three weeks we will have fully operational offices in all twelve regions outside of Tashkent.

6) We are in the process of planning and designing informational seminars touching on subjects ranging from the theory and practical application of the auction process to how to write a clear and comprehensive business plan.

7) We have managed five auctions in the month of July and provided limited assistance with several others. On the whole, our relations with local officials continue to be positive.

ISSUES OF IMPLEMENTATION AND PROBLEMS:

1) The currency change from Sum-Coupon to the Sum has been blamed by regional and local privatization officials for a less than enthusiastic participation in some of the cash auctions. The

central government's poor communication of official monetary policy has left much of the population guessing over the possible effects of currency conversion.

2) Despite the impending currency conversion, privatization officials have been setting high starting prices for objects. We find it necessary to continually remind officials that lower starting prices do not necessarily mean low sale prices and that unrealistic starting prices also contribute to the lack of auction participation.

3) On several occasions, local privatization officials have pulled objects from the list of those up for auction. Auction participants have complained about this practice and have indicated some skepticism over the transparency and legitimacy of the auction process. We are urging officials to be certain that when an object is chosen for auction it not be pulled so as to maintain the integrity of the process.

4) We have been experiencing difficulties communicating with the Committee in Tashkent. We have been told that certain members are dissatisfied with the project because they claim we are not informing them of our operations and that many of the objects are of poor quality. We have indicated that we are in complete agreement that more effort needs to be put into choosing quality objects and that the regional and district khokims should be urged to do so. We also explained that we routinely communicate to the Committee via memoranda in order to keep them fully informed of our operations and that they are responsible for reviewing them.

UPCOMING EVENTS:

1) The public education team has begun working on a major media project that will "showcase" an auction in order to increase public awareness and to increase enthusiasm over the auction process. The site being considered is Khiva.

2) Booklets containing information on the principles of privatization as well as how to write a business plan and running a private enterprise will be developed for distribution at auctions and informational seminars.

3) The Termez office will be opened within the next few weeks, thereby making all offices in the twelve regions aside from Tashkent fully operational.

4) To foster better regional communications, we will explore the feasibility of linking all offices via E-mail.

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To: Walter Coles
From/Location: Richard Bernstrom / PW Uzbekistan
Date: August 31, 1994
Re: Monthly Progress Report

This report summarizes the on-going activities under Price Waterhouse's task order no. 155758-037-5. This includes descriptions of the following components:

COMPONENT PROJECT:

1) The Resolution of Key Policy, Legal, and Regulatory Issues: This consists of the delineation of ownership rights over small scale enterprises, unfinished construction, and other objects still under the state control and representing potential auction objects; and the refinement of auction policies and procedures as necessary to prevent fraud and ensure the rapid transfer of ownership.

2) The Establishment and Implementation of a Self-Financing National Cash Auction System: This can be achieved through the refinement of pilot procedures to establish national standards for operating cash auctions; by identifying a pool of potential objects and working with the regional authorities to establish a pipeline management system; by establishing implementation teams at each sight; and staffing a mobile team to assist the regions from Tashkent on specific issues.

3) The Creation and Implementation of Public Information Campaign to Support the National Auction Program with an Emphasis on the Auction Sight: The goals of this area are the broad participation and support in privatization and the cash auctions; the dissemination of information to the public of the benefits and mechanics of such programs; and the training and assistance of public education experts on the regional level.

TEAM LEADERS:

James Wadell, Project Manager
Richard Bernstrom, Team Leader
Patrick Dickey, Senior Auction Manager

KEY EVENTS AND OUTPUTS:

1) Relations with the Committee during the month of August have been quite placid. We have not yet received any comments from the Committee regarding the possible adjustments to our workplan which was submitted during the month of July.

2) We have opened our Termez office and are working with the local Peace Corps volunteer in identifying local staff. We are planning to conduct our first auction there by mid-September.

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- 3) A second office has been secured for the public education team. They are also finished staffing up their office. There have also been discussions about sending a third public education expert from the US to assist with their operations in Tashkent.
- 4) The public education experts have been travelling throughout the regions and meeting with representatives from local GKI, Republican Real Estate Exchange, and the Khokemeats. They have also been developing strategies for effective advertising of the auctions.
- 5) Seminars were developed and held in both Gulistan, and Fergana in an effort to foster open dialogue on the privatization process.
- 6) We have managed eight auctions in the month of August and provided limited assistance with several others. Our relations with the regions are generally positive although we are experiencing some problems in Gulistan.
- 7) The celebration of Uzbekistan independence day, September 1, essentially halted all Committee activity for about three days prior to the event.

ISSUES OF IMPLEMENTATION AND PROBLEMS

- 1) The new currency continues to be blamed for low participation in the auctions. This is offered as an excuse in light of the fact that starting prices generally remain unreasonably high.
- 2) Our office sent a memo to Deputy Prime Minister Chjen on August 18 to outline the major problems we have been consistently experiencing with the auctions. The three that we identified were quantity of objects; quality of objects; and high starting prices. The memo explained that these three issues must be addressed in order to prevent the continued decline in public participation in the auctions. We indicated that Mr. Rakhiemjanov, Deputy Chairman of the Committee, had been very helpful in the past, particularly when he personally lent assistance. His actions had in fact saved two auctions. We have not yet received a response to this memo.
- 3) High starting prices continue to have a negative effect on the auctions. We had hoped to "showcase" the Urgench auction, scheduled on Monday, August 29, by holding it within the old city walls of Khiva and inviting western press. However, by Friday, August 26, there was only one interested bidder. We notified the Committee of the situation in Urgench via memo but never received a response. Later that day, the Khokim in Urgench cancelled both the auction and the seminar. A team went out to Urgench to meet with local authorities to impress upon them that high starting prices are and have been one of the primary reasons for low participation in the auctions. PW staff met with the owners of some of the objects to ascertain how they determined their starting prices. In addition, the GKI head sent some of his assistants to the field to urge the owners objects to lower their prices. The auction and seminar were rescheduled for September 16.

UPCOMING EVENTS

- 1) We are planning a public outreach event in Gulistan. Steve Masto, Gulistan auction manager, proposes to have a combination, auction information session/pizza party.
- 2) We are planning a seminar in Moscow for four members of the Republican Real Estate Exchange. The primary purpose of this trip is to put representatives of the GKI and Republican Real Estate Exchange of Uzbekistan in contact with their counterparts in Moscow as well as expose them to organizations and methodologies that are currently being developed in Russia, i.e. The Stock Exchange, land acquisition, establishing a data base to track real estate transaction, etc.
- 3) The Khiva auction was rescheduled for September 16. Although the Western press will not be invited this time, we are still planning to conduct the auction in the old city.

To: Walter Coles
From/Location: Richard Bernstrom / PW Uzbekistan
Date: September 30, 1994
Re: Monthly Progress Report

This report summarizes the on-going activities under Price Waterhouse's task order no. 155758-037-5. This includes descriptions of the following components:

COMPONENT PROJECT:

1) The Resolution of Key Policy, Legal, and Regulatory Issues: This consists of the delineation of ownership rights over small scale enterprises, unfinished construction, and other objects still under the state control and representing potential auction objects; and the refinement of auction policies and procedures as necessary to prevent fraud and ensure the rapid transfer of ownership.

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TEAM LEADERS:

James Wadell, Project Manager
Richard Bernstrom, Team Leader
Patrick Dickey, Senior Auction Manager

KEY EVENTS AND OUTPUTS:

1) We believe Deputy Prime Minister Chjen has expressed his dissatisfaction with the privatization process by sacking several Committee members including the head of the Auction Department. We find this encouraging because we believe that Mr. Chjen has recognized the fact that the pace of the privatization process is and has been dependent on the cooperation of the Committee as well as the Regional and Local Khokemicts.

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2) We have managed five auctions in the month of August and provided limited assistance with several others. The first auction held in Termez was very successful as was the last auction held in Namangan.

3) We conducted a study trip in Moscow for four members of the Real Estate Exchange of Uzbekistan. The primary purpose of this trip was to put representatives of the Real Estate Exchange in contact with their counterparts in Moscow as well as expose them to organizations and methodologies that are currently being developed in Russia, ie land acquisition, establishing a data base to track real estate transaction, etc. The group met with the Moscow Central Real Estate Exchange, The Russian Agency for Investment and Real Estate and Price Waterhouse - IPG. The members of the Uzbek Real Estate Exchange were provided with a solid overview of the current state of the Moscow real estate market and the legal framework that supports it.

4) The Khiva auction, rescheduled for September 16 after it had been postponed, was held in the old city. The starting prices, although lowered since the first scheduled auction, were still high and achieved less than impressive results.

5) Under the Public Education program we began conducting a public survey to ascertain to what extent the population is familiar with the privatization process and what they think about it. A survey instrument has been developed and the data collection process is well under way. We expect to present the findings of the survey to the Committee by the end of October.

6) USAID conducted a review of our program this month. All documents were presented in an efficient and orderly manner. The AID representative commented that he was impressed with the project and the manner in which the office conducts its operations.

7) As a result of presidential decree, regional GKI heads throughout the country have had their status elevated to that of Zam Khokim (roughly equivalent to deputy mayor). This gives the GKI greater authority in the regions

ISSUES OF IMPLEMENTATION AND PROBLEMS

1) We have decided to close our office in Gulistan due to the lack of cooperation from the local authorities. On two separate occasions we had prepared for an auction in Gulistan which included public outreach and advertising. However, due to unreasonably high starting prices and objects of awful quality both auctions were complete failures. We are convinced that the local authorities are not interested in the cash auction process. As a result, we have decided to establish an office in Kokand where our assistance has been met with a great deal of enthusiasm. We have reviewed these events in great detail with the Committee leadership in Tashkent.

2) Regional banks can not transfer large amounts of money due to low deposit reserves and the physical scarcity of money. As a result, auction participants must come up with large amounts of cash on their own. Within a narrow time frame, this could prove to be impossible, thereby precluding some individuals from participating in the auction.

3) Auction participants are now required to disclose the source of the money with which they use to purchase objects. This had a negative affect on the level of participation in the last auction in Karshi.

UPCOMING EVENTS

- 1) The public education team will begin to take a more broad-based approach to disseminating information about the privatization process in Uzbekistan.
- 2) We will begin transferring auction center responsibilities next month to the regional GKI after having met our committed number of PW sponsored auctions. Among these will be Namangan and Fergana.
- 3) We are exploring the possibility of conducting a national public education seminar that will focus on the privatization efforts in Uzbekistan. However, this is still in the preliminary planning stages.