

**Regional Mutual Funds
Support**

January 1997- March 1998

99 JFB
PD-ABQ-908

**End of Task Order
Report**

for the

**U.S. Agency
for
International
Development**

November 1998

Contract #

EPE-0005-1-00-5040-00, Task Order # 1

Task Manager:

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REGIONAL MUTUAL FUNDS SUPPORT

END OF TASK ORDER REPORT

APRIL 30, 1998

A GENERAL INFORMATION

1 Project Identification

| | |
|----------------------|--------------------------------------|
| <u>Title</u> | Russia Regional Mutual Funds Support |
| <u>Contractor</u> | Pragma Corporation |
| <u>Contract No</u> | EPE-0005-1-00-5040-00 |
| <u>Task Order No</u> | 01 |

2 Project Performance Dates

| | |
|------------------------------------|--------------------------|
| <u>Period of Performance</u> | January 1997- March 1998 |
| <u>Start Date</u> | January 1, 1997 |
| <u>Report Date and Number</u> | April 30, 1997/No 22 |
| <u>Anticipated Completion Date</u> | April 30, 1998 |

3 Project Management

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|-------------------------|--|
| <u>Project Managers</u> | Jacques Defay, President, Pragma Mohammed Fatoorechie, Vice President, Pragma |
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| | |
|-------------------------------|---|
| <u>Key Technical Advisors</u> | David Lucterhand, Project Director Michael J Serio, Investment Funds Specialist Robert G Serafini, Public Finance Specialist Maria Churaeva, Core-Curriculum Specialist Dimitri Zaitsev, Core-Curriculum Specialist |
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4a Project Description (Initial)

To provide long-term technical assistance to enhance the capabilities of Russian brokerage companies and investment funds, with a special emphasis on developing and assisting ancillary support systems, to contribute to the development of a licensed mutual fund market capable of mobilizing capital from small investors and to broaden market participation, to assist the FCSM apply efficient and legal regulations for the growth of the investment funds industry and, in particular, the standards which apply to those industries supplying ancillary services (operational support) in three specific regions, to analyze the capacity (local capital market infrastructure) of these industries to provide such services which include financial institutions offering collective investment vehicles, regional depositories, registrar/transfer agents, payment agents

and shareholder service providers, to provide technical assistance and training to assist in this development, to contribute to this development consistent with key Strategic Objective 1.4 of USAID's program in Russia - a robust and market supported financial sector

4b Project Description (Final)

To provide long-term technical assistance in at least three regions, to enhance the capabilities of Russian brokerage companies and investment funds by building an efficient, innovative, and competitive capital market which reflects the needs of the industry, protects shareholder rights, enjoys the confidence of domestic and international investors, and facilitates expanded capital ownership and reallocation of financial resources among corporations and industries. To assist Collective Investment Centers (CICs) in collecting information for disclosure to investors by creating a financial information data base, developing analytic standards for CIC personnel, hiring analytic staff and overseeing work product as well as other support staff to the extent permitted by budget allocation. Further, to promote the capital formation activities of corporations and municipalities by holding regional financial conferences.

Key counterparts on this project include the Federal Commission for the Securities Market (FCSM), its Resource Secretariat, Collective Investment and Shareholder Protection Centers, regional offices of the FCSM, and Dev Tech.

B EXECUTIVE SUMMARY

After nearly seven years of reform, competition for domestic and foreign investment capital has continued unabated for nearly all sectors of the Russian economy. The Federal government, regional governments as well as corporations have been able to access the international capital markets through the issuance of Eurobonds recognizing the importance of information disclosure, GAAP and the value of receiving a rating-all requisites of the institutional investor. The equity markets have enjoyed robust price appreciation as foreign investors, mainly through funds, have found value in many Russian securities. New issues of Russian securities have been floated in the marketplace and direct investment in Russian companies has increased. Successfully attracting foreign investment has its price, however. More than ever, the federal and regional governments, while borrowing at relatively benign rates when compared to rouble interest costs, have created tremendous currency exposure recognized only when changes in the Dollar, Mark, Yen, Lire, Ecu /Rouble relationship occur. These bonds must be paid at maturity in the originally issued currency-conceivably at higher cost than if the initial borrowing had taken place in roubles. With significant foreign investment, Russia's securities markets have become internationalized. This was painfully evident this past Fall, when investment

capital withdrew in reaction to events in Asia that arguably had no tie to fundamentals in Russia. Nevertheless, investors rapidly sought haven in lower yielding but safe G-7 treasuries.

This increased reliance on foreign investment, however, has impacted the tempo of development of the domestic capital market. Economists recognize that growth in Russia is only possible through foreign investment. At the same time, the supply of available domestic capital for investment remains largely untapped. Unfortunately, access to Russian domestic capital has been limited. The investing public has yet to be convinced that a stable political situation or sound economic policies exist, including a credible tax regime that is fair and capable of collecting. Simultaneously, institutions such as the FCSM dedicated to developing a capital market that meets the needs of both international and domestic investors have continued to evolve. Reform and transition to a market economy continues as a top priority for the government. As this proceeds, there will continue to be inter-ministerial contests as institutions evolve. This is evidenced by the Central Bank letting banks start fund management companies without the same regulatory constraints that non-bank UIFs have with the FCSM.

Within this context, the FCSM has developed rules and regulations which mirror the securities commissions of both the United States and Great Britain. There is great emphasis on disclosure and shareholders' rights. Rules and regulations regarding how Unit Investment Funds can be invested, marked to market, and units redeemed are highly restrictive especially in light of past abuses which created a class of deceived investors likely to never see even a fraction of their lost savings again. Management companies which would like to expand their UIF activities find the cost of maintaining the infrastructure for regulatory compliance excessive. Consequently, the growth of UIF has been modest with just over \$ 50 million under management - purportedly less than fund activity in Latvia. The original task order which emphasized assisting ancillary support systems was revised to reflect reordered FCSM priorities. Due to the high cost of providing these services and low levels of trading volume in the regions, the FCSM determined that for the moment it was not cost effective for UIFs to be operating in the regions and, therefore, pre-mature to concentrate in this area. Instead, emphasis should be placed on shareholder protection services and public education which would serve the interests of both domestic and international investors alike by providing focused assistance to Collective Investment Centers (CICs) in three distinct regions. Assistance was to encompass securities market analysis, building a data base for use by CICs, developing and delivering training programs for financial information and industry specialists (analysts). Additionally, FCSM asked that a national conference on Eurobond issuance for corporations be organized. This was further expanded to include organizing a national conference on municipal bonds and their role in infrastructure development.

After meetings in January with FCSM, it was clear that Commission priorities had changed. A work plan was prepared for approval which was subsequently received in March. While preparing the work plan, close working relationships maintained with commission staff allowed Pragma staff to prepare the development and design phase of building the data base including the establishment of necessary criteria and collection of information prior to the work plan being formally approved. Additionally, design of training manuals for CIC staff began as well as the development of program materials for the Eurobond conference. After receiving formal approval of our work plan, a request was made to USAID for approval of a modified task order and no-cost extension through the end of March 31, 1998. This was subsequently received at the end of May.

During the second quarter, the FCSM determined that Rostov-on-Don and Kazan were the first two of three CICs to receive technical assistance. Equipment requirements were drawn up and tenders issued to eleven vendors. TOR objectives resulting in job descriptions were established for each center and staffing selection commenced. Using predetermined criteria developed earlier, information on equities, fixed income and market participants for each designated region was accumulated and formatted for inclusion into a data base and also the compilation of a model library for inclusion at each CIC was completed. Planning continued for the Eurobond conference with the FCSM making the determination that the program should concentrate on how corporations could use the Eurobond market to mobilize capital. The program *Eurobonds, Mobilizing Corporate Capital in Russia* was designed as a guide on how to issue Eurobonds from start to finish. Senior managing directors from top American, European, and Russian investment banks participated as speakers, many of whom were lead syndicate managers or co-managers of recent issues on behalf of the Russian Federation. Chairman of FCSM Dimitri Vasiliev officiated with 131 attendees from all over Russia. All speeches from the conference were recorded and all materials catalogued resulting in a published proceedings.

Part of the third quarter involved further defining the activities and objectives of CICs. FCSM was interested in CICs offering public education and establishing a level of co-existence with regional FCSM offices. Equipment for two CICs was delivered and installed and staffing completed. Equipment was comprised of computers, printers, copy machines, Internet connections etc. or all the tools necessary for information gathering. To measure how effective CICs could be in assisting regional commissions gather data, sample incomplete reports were prepared for completion by CICs and compared with data gathered by the regional commissions. Pragma determined that CICs' contribution to data already available was inadequate to be of much help and these findings were passed on to the Commission. In September, FCSM requested that an inter-regional seminar for all ten CICs be organized in October and planning commenced. Also a request for Pragma to review its budget in order to fund an additional CIC (the fourth) was approved by USAID. Additionally, significant planning was dedicated to preparing for the municipal bond conference *Municipal Finance Its Role in regional Infrastructure Development* held in Ekaterinburg. The program itself contained twenty speakers involved in every

aspect of public finance ranging in scope from advisor to the Municipal Debt Committee of Moscow city government to practitioners engaged in the development of a Russian debt rating agency. In all, 152 persons attended from regions and municipalities throughout Russia. The presence of the Chairman of FCSM, Dimitri Vasiliev and the Governor of Sverdlovsk who opened the conference lent gravity to the significance of the event. All speeches were recorded and handouts catalogued for use in publishing a proceedings completed in February, 1998. Staff members were briefed on what kinds of questions to ask participants during informal coffee breaks for feedback on program content as well as the collection of data for use in creating for the Commission a profile of participants and regional plans for bond issuance including the size, kind and maturity. The last week of the quarter was spent moving offices as a result of World Bank funds not being available to continue support for the Resource Secretariat.

During the fourth quarter of 1997, and the first quarter of 1998, the FCSM Deputy Chairman was in charge of all CIC activity and chaired all meetings between Pragma and the FCSM resulting in the production of several protocols. In October, an inter-regional seminar was delivered for all ten CICs designed to clarify the objectives of CICs. Consistent with TORs developed for each CIC, reporting requirements were developed and distributed to each CIC. To verify that equipment and staff were being used for stated purposes, site visits were conducted at the four CICs which received funding for equipment and staff. At each site, training was conducted on collecting data and the analytic process and the first reports generated by each CIC reviewed for procedural compliance, content, accuracy, and professionalism as well as visits with each CIC Director. A report summarizing the vision each CIC director had for their center was prepared for FCSM and presented as *Objectives in Establishing a Regional CIC* to other centers.

In January, Deputy Chairman Zavadnikov clarified FCSM objectives for the remainder of the project. Training was to emphasize public education. Additionally, seminars were to concentrate on aspects of shareholder protection by emphasizing procedures for prospectus registration and possible ways for CICs to stand alone financially after USAID funding ended. Lastly, the relationship of CICs to regional FCSMs needed final definition. Accordingly, three additional seminars were to be organized to train analysts and review CIC activity and objectives. Novosibirsk for delivery in February, St. Petersburg for delivery in March, and Golitsino for delivery in April. Further, if possible, Pragma was to provide financial support for staff in three additional centers: Ekaterinburg, Novosibirsk, and Vladivostok. A review of Pragma's budget was accomplished and arrangements were made to hire additional staff. This increased the level of support to seven CICs in total. As a result, FCSM submitted a formal request to USAID to allow Pragma an additional thirty days to complete FCSM's revised objectives. This was approved by USAID in March. The final seminar was delivered in April at Golitsino. Unique to this seminar was attendance of several regional Chairmen of FCSM offices and all ten regional CIC directors. Discussions involved outstanding issues of information disclosure, adequacy and inadequacy of CIC

reports, the transition to self financing. Lastly, an agreement, which was prepared and signed by four CICs, detailed the relationship of the regional FCSM to each of them.

Regional CICs are now in the process of converting to self financing. While formal financial support ended March 31, they are continuing to voluntarily send reports to Pragma for comment and assurance they are doing their reporting in an effective way although they are no longer required to do so by FCSM.

In summary, responding to changing Commission priorities, Pragma has been able to deliver equipment, design criteria standards for the collection of information, and provide guidance and the technical assistance essential for the establishment of analytic capability. As a result, through CICs, the FCSM can now provide additional financial information through the Internet and on site financial education to the public not only about investment in Unit Investment Funds but investments in general, assist in the preparation of corporate disclosure, and help insure the transparency of securities transactions especially in the regions. Further, by assisting CICs to become viable, a lasting regional institutional presence has been established which will enhance the ability of FCSM to provide education and shareholder protection for many years to come. And by sponsoring national conferences on Eurobonds for corporate issuance and the role of public finance in building Russia's infrastructure, the FCSM has firmly established itself as an enlightened regulator which understands the need for investment capital yet can and will act to protect shareholder rights.

While Pragma was asked to be flexible and responsive to Commission priorities, the specific task and work requirements for Pragma were:

In three regions designated by FCSM,

1. Examine the level of securities market development according to established criteria agreed upon by USAID and the Commission,
2. Develop a data base for CICs on UIF/NAV performance information for inclusion on the Internet and CIC walk-in traffic,
3. Analyze the distribution capability of UIFs and their agent networks,
4. Develop and deliver training programs (seminars) for CIC employees on understanding how UIFs work-regulatory and practical considerations, how to determine and analyze availability of regional securities, and information disclosure-understanding FCSM rules and regulations in the preparation of prospectuses.

- 5 Prepare training manuals which assist CIC staff in analyzing the securities market, calculating the RTS index, understanding the legal and infrastructure of PIFs as well as the legislative framework for assisting in the preparation of prospectuses
- 6 Organize and conduct a Eurobond conference for regional governors, municipalities and their staffs, and corporate executives to discuss the importance of the Eurobond market for raising capital, to understand the components necessary to successfully complete a transaction, and the time and fees required. Using the same format, organize and conduct a national conference on public finance for modernizing Russia's infrastructure

C SCOPE OF ACTIVITY AND TRAINING

Analysis of the Securities Markets

In accordance with a work plan approved by the Federal Commission, and USAID, Pragma developed criteria relating to the collection of information in the securities markets. These criteria were integrated into a format which CICs used for reporting purposes. The format was composed of two sections *Public Education* and *Securities Market Analysis in the Region*. Tables were developed to assist analysts in the collection of information. Reports to measure activity were requested from each CIC for completion on the first and sixteenth of each month, signed by each CIC director and forwarded to Pragma. These reports were subsequently reviewed for adherence to developed criteria, completeness, clarity, and quality. Findings from the review process were passed to the Commission. During meetings with the FCSM Deputy Chairman, reports were discussed and changes in reporting or criteria immediately passed on to CICs for implementation.

Development of Data Base

Data from each CIC was made available on each CIC's web site for public access through the Internet and at CIC sites for visits from the general public.

Besides data collected on the general securities market, a data base dedicated to UIFs was developed. Electronic tables were designed to illustrate the differences between investment policy, daily NAV and fund performance, scope of services offered, money under management, fee structure for management, placement, and redemption, and expense ratios, description of current holdings (blue chip, second tier, small cap, large cap, growth, value, income) and the creation of rankings such as aggressive, moderate,

conservative for client suitability This data base was made available for Internet use by FCSM

Information on intermediary firms working in the regions was gathered and used to evaluate local distribution capability by security type, client base, number of sales persons, professional qualifications, volume of sales and sales of UIF units, and determining barriers to entering the market Sales of UIFs were analyzed to determine whether distribution and/or redemptions occurred through employees of management companies, broker-dealers, or third party distribution such as through banks This information was then combined with the data base dedicated to UIFs and made available for Internet use by the FCSM

Development of Training Programs

The development of training programs involved several levels of organization site visits designed to assist CIC directors and staffs in the analytic process, seminars for CIC Directors and their Staffs, and national conferences

Site Visits

Each CIC which the Commission assigned to Pragma (Rostov-on-Don, Kazan, St Petersburg, and Ekaterinburg) was visited by the Chief of Party and two experts of the Commission as well as the Pragma CIC coordinator The visits were designed to evaluate the level and quality of data collection, utilization of equipment and provide guidance on the analytic process Further, experts of the Commission and consultants to Pragma, worked closely with analysts to explain how the criteria developed by Pragma was to be applied Lastly, reports previously submitted were reviewed for content and suggestions made for improvement

Seminars

Four seminars were held - each specifically designed to educate and train CIC directors and personnel

The first was held in **Golitsino**, October 8-11, 1997 for all ten CICs Participants (27) included, CIC directors, analysts, FCSM staff and the Deputy Chairman of the Commission, V Zavadnikov and Russian experts and a western expert on money management and mutual funds A manual was designed in collaboration with Commission staff that was designed to provide general knowledge of the securities market and specific information about UIFs Each CIC director was asked to provide his vision of what a CIC was expected to accomplish and how the CIC would operate to meet these objectives

The second was held in **Novosibirsk**, February 6-8, 1998 for CIC staff from the eastern part of Russia and all CIC directors. As a result of consultations with FCSM staff, a new training manual was designed to highlight the importance of information disclosure and the relevant rules and regulations applicable to the preparation of prospectuses as well as the rules and regulations of UIFs. Participants (36) included all CIC directors and staff from regional CICs, regional FCSM officials, FCSM staff and the Deputy Chairman of FCSM, V. Zavadnikov. Emphasis was placed on what level of public education to provide, the inter-operability of CIC with the regional offices of the FCSM, and plans for financial independence after the end of USAID funding.

The third was held in **St. Petersburg**, March 4-6, 1998 for CIC staff from the western half of Russia and all CIC directors. The same manual was used and emphasis again was placed on information disclosure and the preparation of prospectuses as well as understanding the rules and regulations of UIFs. Participants (34) included all CIC directors and staff from regional CICs, regional FCSM officials, FCSM staff and the Deputy Chairman, V. Zavadnikov. Discussion mirrored the discussion in Novosibirsk with the exception that CIC directors presented detailed plans to maintain financial independence after USAID funding ended. CIC directors were asked to have ideas prepared on how CICs were to interact with regional offices of FCSM for presentation at the final seminar in Golitsino.

The fourth and final seminar was held in **Golitsino**, April 2-3, 1998 for regional chairman of FCSM, all CIC directors and FCSM staff. Participants (34) included all ten CIC chairmen as well as most of the Chairman of the regional FCSM, FCSM staff, and the Deputy Chairman, V. Zavadnikov. Discussion centered on the financial viability of CICs - plans for commercial activity, the role and emphasis of public education, and the level and kind of cooperative effort between the regional FCSM, the Federal FCSM and the CIC. As a result of this seminar, four agreements were signed - each detailing what cooperative effort could be expected from the other.

Conferences

Eurobond Conference

Two national conferences were organized and sponsored by the Commission. The first, *Eurobonds: Their Role in Mobilizing Corporate Capital in Russia* was held at the Aerostar Hotel in Moscow on June 20, 1997. The conference was designed to explain how to access the international capital markets through the issuance of Eurobonds. The program consisted of eleven speakers all deeply involved in the advising, structuring, and placing of Euro debt on behalf of the Russian Federation. Since the emphasis was on corporate access, the importance of the rating process, the role of legal counsel, and optimum deal size vs. fees and market expectations were discussed. Participants (145) from all over the Russian Federation were chosen by the Commission on the basis of

corporate size, industry sector, regional importance, and likelihood for Eurobond issuance. In addition, fifteen Pragma staff members attended in support capacities. This was the first conference of its kind ever held in Russia sponsored by FCSM and was officiated by the Chairman of FCSM and his Deputy. In preparation for the conference, 160 Russian/English programs consisting of 103 pages were produced. After the conference, a completed proceedings in both Russian and English was made available.

Municipal Bond Conference

The second national conference *Municipal Bonds: Their Role in Regional Infrastructure Development* took place in Ekaterinburg, September 18-19, 1997. This conference was designed to emphasize the role of public finance in modernizing infrastructure and how to structure transactions to access both domestic and international capital markets. Issues such as use of proceeds, budget analysis, sources of revenue, selling the issue, as well as experiences from recent issuers were all discussed. Participants (139) from over 46 regions were chosen on the basis of input from each regional FCSM. In addition, twenty speakers involved in all aspects of the public finance business made presentations. Nine persons from Pragma provided support along with four technicians. The conference was opened by the Governor of the Sverdlovsk region, and officiated by the Chairman of FCSM and his Deputy. In preparation for the conference, an 80-page program was produced. Following the conference, a proceedings of the conference was made available in both Russian and English.

Evaluation of Seminars

Questionnaires were developed for each of the CIC seminars delivered. Due to panel discussion format which occurred during the final seminar in Golitsino chaired by the Deputy Chairman of FCSM and the involvement of many regional FCSM chairmen, the questionnaire was deemed inappropriate for distribution. Consequently, evaluations were received for the first three seminars only. The following is an extract of questions to measure the overall effectiveness of the seminar to accomplish its objectives:

Did the seminar help you to get the skills required for your activity? Yes/No

| | | |
|------------------------|-----------------------------|----------------------|
| Golitsino, October, 97 | Novosibirsk, February, 1998 | St. Petersburg, 1998 |
|------------------------|-----------------------------|----------------------|

| | | |
|-----------------|-----------------|----------|
| 83% Yes, 4% No, | 95% Yes, 5% No, | 100% yes |
|-----------------|-----------------|----------|

13% no response

Evaluation of Conferences

Eurobond Conference

Diagnostic questionnaires were developed to determine the interest level of participants and to measure the effectiveness of the conference. From participants' responses, analysis showed that 45% of the respondents indicated an interest in issuing Eurobonds while 36% were undecided, the optimum maturity to be three years and the issue volume to be between \$50-100 million U.S. Most of the users indicated they wanted the proceeds to be used for investment projects.

Municipal Bond Conference

Responses to the diagnostic questionnaire indicated that 68% of the participants indicated that they would use the knowledge gained at the conference to structure a new issue. 68% also indicated an interest in using the proceeds for infrastructure projects. 57% indicated they wanted more information on how to structure an issue, while 47% thought that structuring the issue would be their biggest problem. 52% indicated that \$10-15 million constituted optimum issuance size while 32% thought that \$20-100 million was optimum. 51% responded that the optimum maturity would be one year.

D RUSSIAN AND WESTERN EXPERTS

Experts Included

Russian

Zavadnikov, Deputy Chairman, FCSM of Russia
A Perelygin, Deputy Chairman, FCSM of Russia
V Volkova, FCSM of Russia
S Lvov, FCSM of Russia
V Simugin, Chairman, Omsk regional office of
the FCSM of Russia
B Sobolev, Chairman, Tatarstan regional office of
the FCSM of Russia
I Kharitonova, NAUFOR
M Churaeva, The Pragma Corporation
D Zaitsev, The Pragma Corporation
G Belova, Deputy Director, Moscow CIC
A Pertsev, Moscow CIC
A Kuzin, Moscow CIC

Western

Michael Serio
Robert Serafini

A Yakimchuk, Director, Vladivostok CIC
I Logvinov, Director, Novosibirsk CIC
M Bengus, Director, Rostov-on-Don CIC
A Muraviev, Director, St -Petersburg CIC

E KEY ACCOMPLISHMENTS

During 1997 and 1998 Pragma

- Completed in depth analysis on the level of securities market development including distribution capability in three regions Rostov-on-Don, Kazan, and St Petersburg
- Developed a data base for CICs which provided daily pricing and NAV comparisons for UIFs and performance benchmarks Developed criteria for the collection of information formatting appropriate for inclusion on the Internet
- Equipped, installed, and provided technical training to four CICS in preparation for analytic activities Equipment included computers, printers, modems, copiers, telephones and telephone stations, and scanners Interviewed and hired analytic staff and technical support persons for CICs in Rostov-on-Don, Novosibirsk, Vadivostok, St Petersburg, Kazan, Ekaterinburg, and Omsk
- Delivered specialized one-on-one training in analysis, collective investments, and information disclosure to ten CIC directors and thirty-nine staff during site visits
- Designed, organized and delivered two national conferences in Moscow and Ekaterinburg, and four training seminars for CIC directors and staff from Collective Investment centers in Golitsino, Novosibirsk, St Petersburg, and again in Golitsino
- Developed and produced 150 curriculum manuals of approximately 100 pages each and 150 study kits These were edited, assembled, packaged, transported, and distributed in three cities Because of changes in curriculum emphasis, at least three separate curricula were produced *UIFs and the Development of a Sales Network*, *Principles of the Securities Market& UIFs*, *UIFs and Information Disclosure* Each of the two national conferences required the production of 150 programs, each with approximately 100 pages, and the production of a proceedings for each conference
- Organized the participation of sixteen Russian and two Western financial experts in CIC training seminars In addition, invited 31 guest speakers who contributed greatly to the success of the two conference programs

F FINAL STATUS OF BENCHMARKS AND TANGIBLE RESULTS

All benchmarks were achieved. Analysis of securities market development has been completed in three regions. A data base and analysis on UIF activity and the criteria for information gathering in the regions has been developed for CICs. All training seminars (four) have been completed and curriculum manuals developed in accordance with FCSM requirements. Two national conferences on bonds have been delivered.

G LESSONS LEARNED

All decisions regarding the implementation of project objectives must be viewed within a political context. The contest between Federal and regional authorities can result in decisions which are often made for political reasons. It is therefore essential to maintain close relations with the FCSM and, where possible, dedicate a Russian staff person for liaison (preferably with good personal relations) with senior FCSM staff to assist in predicting what changes are likely to be made to objectives originally referenced in the TOR.

Further, it can not be assumed that Deputy chairmen of the FCSM speak with each other or their Chairman on matters related to program activities. Prior to convening the Eurobond conference, assurance was given by a Deputy Chairman responsible for program development that the Chairman of FCSM would be briefed and shown materials developed for the conference. This was not done and resulted in a misunderstanding. In addition, protocols and detailed notes of meetings with senior FCSM officials should be circulated for comment to clarify decisions reached and accountability for implementation.

H WEAKNESS/VULNERABILITY IN SYSTEMS DEVELOPED

The opening of regional CICs significantly expands the capability of the FCSM to educate the public. Currently, ten CICs are now operating in regions throughout Russia—each with different levels of analytic capability. Four of them have now signed agreements with regional FCSM offices to share information and other services with each other. Unfortunately, CICs will receive no state funding for their operations. Consequently, they are forced to stand alone financially making it difficult to provide quality public education without a commercial reason. It may be possible for CICs to develop products that can provide revenue to fund other activities. However, it will be difficult to reconcile commercial activity with public service.

I OPPORTUNITIES

In order for the Russian capital market to grow, domestic and international investors must have confidence that they are investing in companies which have properly disclosed their financial circumstances. Further, that these shares can be traded in regulated securities markets, and through which price discovery can be achieved openly and efficiently without manipulation by insiders or other unscrupulous operatives. For Russian companies wanting to issue shares, a transparent and liquid securities market is a pre-requisite. With these features in place, Russia becomes a level playing field for domestic and international capital looking for investment opportunities.

Collective Investments in the form of mutual funds constitute approximately one third of the market capitalization of all securities traded in the United States. The decision to concentrate on Collective Investments (UIFs) in Russia as a mechanism to harness domestic savings from the beginning makes it likely that UIFs in time will constitute a much larger percentage of the Russian securities market than in the United States. Given the nascent state of Collective Investments with only 22 management companies currently licensed, any programs designed to explore the benefits of setting up and using UIFs can have a major impact. The absence of a market culture for over seventy years has created the need for programs explaining how to market financial services and the important role ethics plays in the process. And investor education will remain a necessity for years to come.

Collective investments will also need other products besides equities in which to invest. Fixed income issuance is likely to become a major source of securities supply for investment as the general public seeks safety and yield. Just as the mutual funds in the United States first attracted pools of money with slightly higher yields than Treasuries through money market funds, so too will UIFs. Only after the public has had consistently good experiences with their investing in conservative investments such as bonds are they likely to invest in the more volatile equities market.

J RECOMMENDATIONS

- FSCM should provide funding to CICs for public education
- Sponsor financial advisory pilots in three regions designed to assist corporations, municipalities and regional governments in the issuance of debt—from structuring to distribution

- Offer investment seminars throughout Russia which explain the universe of investment assets and the importance of UIFs in conjunction with Investment Consulting (Public Education) possibly in conjunction with CICs
- Design a three level qualification course which sets standards for Investment Consultants that would be recognized throughout the financial industry such as the CFA designation
- Offer a three day marketing seminar to agents of management companies, banks, and broker dealers
- Design a series of high profile investor education seminars for the public which explain different kinds of investments and how they work Done in conjunction with a public relations investor education campaign using public spots on television and radio

K CONCLUSIONS

The design of any new programs must consider the lack of confidence much of the Russian public has in Government and its institutions

For many, Government is perceived as having failed to deliver even the most basic things such as pensions or pay for the military Notwithstanding reform, the economic dislocation and hardship people have had to endure during this period of change has not helped to ease their distrust Institutions are seen as under-funded, ineffective, or dysfunctional Non-payment of personal taxes is viewed by most as a defence against patchwork legislation, rule by decree and arbitrary enforcement Add to this the financial losses experienced by the population through pyramid schemes and it is no wonder citizens keep their money at home

Despite this scenario, the Securities Commission has been soldiering on to provide a body of rules and regulations for the capital and securities market which will endure for centuries This is not an easy task and will require continuing effort The opportunity exists, however, for this governmental institution to succeed in creating a viable capital market for the future growth of Russia Continuity in funding and how to build trust and confidence in the future will remain the challenge, education- the key