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**Deloitte Touche
Tohmatsu**



Omnibus Contract

*Quarterly Reports for:
July 9, 1993 to September 30, 1993
and September 30, 1993 to
December 31, 1993*

Project No. 110-0005
Contract No. CCN-0005-C-00-3123-00
Privatization of Civilian and Defense
Industries



February 15, 1994

Deloitte Touche Tohmatsu



**Deloitte Touche Tohmatsu
ILA Group Ltd.**
1001 Pennsylvania Avenue, N.W.
Suite 350N
Washington, DC 20004-2594, USA

Telephone: (202) 879-5600
Facsimile: (202) 879-5607

February 15, 1994

Mr. Walter Coles
Agency for International Development
ENI/NIS/PSI
320 21st Street N.W., Room 3720
Washington, DC 20523

Dear Mr. Coles:

I am pleased to present our report of activities during the first two quarters of our contract No. CCN-0005-C-00-3123-00, Privatization of Civilian and Defense Industries in the NIS (Omnibus). We have included a summary of accomplishments as well as our projected activities for the next quarter.

We would be happy to discuss the contents of this report at your convenience.

Sincerely,

Robert J.F. McPhail
Managing Director

Attachment

USAID CONTRACT NO. CCN-0005-C-00-3123-00
PRIVATIZATION OF CIVILIAN AND DEFENSE INDUSTRIES IN THE NIS

QUARTERLY REPORTS 1 AND 2
PERIOD: JULY 1993 - DECEMBER 1993

Under USAID Contract No. CCN-0005-C-00-3123-00, Deloitte & Touche is required to present a quarterly report of not more than five pages to USAID and to the host country government indicating the results from the previous quarter and priorities for the upcoming quarter. This report is a combined report of activities under the Omnibus contract for the first two quarters, July 1993 through December 1993.

During the period July - December 1993, five task orders were issued for a total of three projects. The three projects are:

- Transfer Agents
- Public Education
- Voucher Clearing

The remainder of this report describes each project, its task orders, its objectives, the activities for the period, and project activities for the next quarter.

PROJECT 1: TRANSFER AGENTS Development of Share Registration, Transfer, Custody and Depository Institutions in the Russian Federation.

Task Orders:

Number: 1-0006-DTT	Start: 19 Jul 93	End: 2 Feb 94	LOE: 119 days
Number: 3-0010-DTT	Start: 17 Aug 93	End: 28 Feb 94	LOE: 1,564 days

Objective: To facilitate the development of an appropriate security market infrastructure that would promote trading of shares on the secondary markets.

Activities completed in this period:

The activities undertaken fall under two primary tasks: development of registrar institutions (Registrars), and development of depository institutions or clearing settlement organizations (CSOs).

Under the Registrar task, the following activities were completed:

- Implemented two pilot registrars (one in Moscow and one in Yekaterinburg)
- Established a Registrar Support Center in Moscow. Staff was hired and administration procedures were developed. Telephones lines were installed and computer equipment was ordered

- Held a seminar in November for potential registrars
- Prepared an information package titled "Role of Third Party Registrars and the Registrar Support Center"
- Developed a Registrar Procedures Manual and submitted it to GKI for approval
- Designed a sample contract for use by Registrars and Issuers and forwarded to GKI for approval
- Prepared a draft report on the potential market for a large issuer registrar service was prepared and discussed with GKI. An economic model for a large issuer registrar was also prepared and presented

For the CSO task, the following activities were completed:

- Established two pilot CSOs in Moscow and Yekaterinburg. Draft business plans were completed and work on operational procedures began
- Established a central support center

Activities Planned for Next Period:

- Development of third pilot registrar
- Complete implementation of pilot CSOs

PROJECT 2: PUBLIC EDUCATION Public education and support campaign for the Russian mass privatization program

Task orders:

Number: 2-0007-DTT	Start: 22 Jul 93	End: 10 Aug 93	LOE: 1463 days
Number: 4-0015-DTT	Start: 17 Aug 93	End: 7 Jan 94	LOE: 1327 days

Objectives: Continue the public information program that was begun in October 1992 which seeks to increase public understanding of privatization, vouchers, and the auction process and to improve public perceptions about the rate of privatization

Activities completed in this period:

Five groups undertook the activities during the period: Television, Field, Corporate Governance, PR, and Advertising. The achievements of each are highlighted below.

Television Group

- Organized nationally televised debates
- Produced and aired the television programs Red Square, Man of the Week and Politburo.

Field Group

- Conducted Privatization Days in Irkutsk, Novosibirsk, Omsk, St. Petersburg, Tyumen, Yekaterinburg, Perm, Krasnoyarsk/Kemerovo, and Barnaul.
- Implemented the Success Stories special project. Hired regional representatives to identify success stories in their area.

Corporate Governance Group

- Established a pilot group in Moscow and held the founding meeting of the Moscow Public Shareholder Rights Committee on December 27. Nizhny Norgorod, Khabarovsk, Perm, and Saratov were identified as suitable regions for new pilot groups.
- Published a number of articles on shareholders' rights
- Established a shareholders hotline in Moscow. On average 60-70 calls are received and handled every day
- Designed a draft Shareholder Rights Pamphlet
- Collected information on dates of shareholders meetings for the Enterprise Monitoring project. Information tables were prepared and sent to national and regional newspapers

Public Relations Group

- Organized success story visits for members of the media to privatized enterprises. After each visit the media aired reports or published articles
- Prepared news releases about various privatization activities

Advertising Group

- Developed and aired success story commercials for television and radio, as well as for the press
- Developed commercials to announce the exchange of vouchers for shares in large natural resource industries as part of the support to the National Auction System

Activities Planned for Next Period:

- Complete printing of Shareholder Rights Pamphlet
- Complete clippings database and transfer it to GKI Information Department
- Ensure close out of all other programmatic activities
- Prepare Final Report
- Close out project

PROJECT 3: VOUCHER CLEARING Implementation of Additional Regional Depository Centers

Task order:

Number: 5-0014-DTT Start: 27 Sep 1993 End: 28 Feb 1994 LOE: 1722 days

Objectives: Under Contract No. CCN-0005-C-00-3053-00 Deloitte & Touche was contracted to establish a network of Regional Depository Centers (RDCs) in 20 selected regions in Russia. The original objective of this task order was to expand the Regional Depository Centers to at least 15 more sites. (The target of 15 sites was later changed by GKI and AID to 10 sites, and the scope of activities was modified, as well.) The tasks identified in the work plan were:

- site recruitment
- equipment procurement
- site implementation
- central site support
- promotion of capital market functions

Activities completed in this period: The activities for this period can be divided into five major groups: site recruitment, equipment procurement, site implementation, central site support, and promotion of capital market functions. The accomplishments are given below.

Site Recruitment

- Identified and recommended to GKI eleven new RDCs: Arkangelsk, Chelyabinsk, Chita, Norgorod, Petropavlovsk, Samara, Barnaul, Stavropol, Krasnoyarsk, Murmansk, and Smolensk
- Signed agreements between the GKI, local property funds, Cash Union and the selected institutions for most of these sites
- Identified two other sites, Volgograd and Usna Sakalinsk through visits and acceptable financial institutions were identified. However, GKI indicated that it did not wish to sign agreements for these sites

Equipment Procurement

- Developed specifications for computer equipment and completed appropriate procurement procedures to select a vendor
- Ordered equipment for 15 sites

Site Implementation

- Installed and tested computer equipment and software
- Trained RDC personnel in systems and procedures
- Held discussions with RDC management to resolve organizational issues
- Implemented six sites: Arkangelsk, Chelyabinsk, Chita, Norgorod, Petropavlovsk, and Samara

Central Site Support

- Established a central coordination point in Moscow, in a specially designated project office.
- Provided on-going support to the consulting teams implementing the new sites, as well as to the RDCs launched previously.

Promotion of Capital Market Functions (to facilitate the transfer of the RDCs into secondary market institutions)

- Met with the Deloitte & Touche/KPMG team working on the Transfer Agents Project on the suitability of potential RDC's as secondary market institutions. It was agreed that relevant information on Voucher RDCs would be passed on to the Transfer Agents project as it moves to the regions where Voucher RDCs are up and running. The

possibility of transferring the equipment (especially excessive one due to the reduction of number of RDCs from 15 to 10) from the Voucher RDCs to Clearing Settlement Organizations also discussed

Activities Planned for Next Period:

- Implementation of the remaining four sites: Barnaul, Stavropol, Krasnoyarsk, and Murmansk (one of these sites may be changed to Smolensk)
- In response to a GKI request to limit the number of new RDCs to ten, the project is being revised. The released resources will probably be channeled to accommodate the GKI's desire to have more financial institutions (willing to provide their own equipment and communication links) as RDCs. Under the revised project the Deloitte & Touche team will assist the GKI in certifying potential RDCs
- Training in Moscow for staff of existing and potential RDCs