


# Chapter 5

## Effects of People's IPO on the Russian Financial Market and Corporate Governance Praxis

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### ABSTRACT

*People's IPO is a project that aims at distribution shares of state-owned entities to members of the public. Three Russian state-owned enterprises, VTB, SBERBANK, and ROSNEFT, conducted People's IPO between 2006 and 2007. The aim of these IPOs was to offer the general public an opportunity to own shares in state-owned enterprises. Such an investment opportunity would give ordinary citizens a stake in Russia's biggest state enterprises. Authors investigated the success or otherwise of these IPOs in distributing shares of government enterprises to ordinary citizens and gave recommendations on possible ways of improving public participation in People's IPOs. The aim of this chapter is to propose People's IPO as one of the ways of ensuring proper wealth distribution and eradicating injustice in the financial system. Authors recommend adoption of offer prices that friendly to small investors, creation of credit lines that would avail funds for investing in the IPOs. Companies going public should also adherer to the world's best to ensure growth in shareholders wealth.*

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## **INTRODUCTION**

A state of fairness, justice and equity is most likely not obtainable in today's financial world as the main agents involved are egoistic and think only of their personal wellbeing. Proponents of fair markets may have to recheck their postulates to allow little intervention to reduce the rate at which hedge funds, payday lenders and offers of dubious financial products make astronomical and disproportionate profits from exploiting their clients. This chapter explores the effectiveness of these IPOs as a tool of wealth redistribution and recommends possible areas of improvement that would make such initiatives more beneficial to ordinary citizens. According to the Inclusive Development Index 2018 prepared by the World economic forum, Russia is ranked 19th among the emerging economies (World Economic Forum, 2018). Russians enjoy a decent standard of living compared to other emerging economies but the wealth inequality is high. Russia recorded a Gini index of 32, indicating that the wealth is concentrated in the hands of a few (World Bank, 2019). We are going to analyze the case of People's IPO in Russia to conclude proposed and real effects of this instrument on the Russian financial market as well as redistribution of wealth among the ordinary citizens. The authors will be taking a key interest on corporate governance since it creates investors' confidence thereby creating trust between shareholders and the management.

## **BACKGROUND**

Initial public offering (IPO) is the sale of stock to the public for the first time. Before IPO, companies are either privately owned or owned by the state. Initial public offering is also referred to as Primary public offering (PPO). It is a way of raising capital for the company because money raised go directly to the company. If the company in the future decides to increase the number of outstanding shares by issuing more shares, this is called Secondary public offering SPO. PPO therefore refers to newly issued shares whereas SPO refers to an old issue. Both new and old issue can be offered at an IPO. At IPO both, new and old, meaning PPO+SPO, stocks can be included. IPO can offer a company an opportunity to raise additional funds for research and development, investment and growth as well as clearing debts. It is a good way of accessing foreign and domestic capital without paying interest. An IPO also creates brand awareness as investors get involved in the company's business and its future prospects. The company issuing shares is known as the issuer, it engages the services

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