USAID United States Agency for International Development

PROGRAM TO REVITALIZE AGRICULTURE THROUGH REGIONAL INVESTMENTS *(PRARI)*

PROGRESS REVIEW

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PRARI - Progress Review
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SUMMARY:

A review of PRARI progress was conducted from April 15 to 30, 1998. The objectives of the review were: a) to assess progress by target regions in implementing policy reforms and investment incentives; b) to assess the interest of U.S. agribusinesses to invest in PRARI regions; and c) to identify the contribution of PRARI in achieving results in each of these areas. The results of the review will help determine the need and scope for PRARI assistance beyond July 1998.

PRARI implementation began in July 1997 with the Chicago Agribusiness Roundtable. Since then, PRARI has supported Russian and American consultants to work in 10 regions. PRARI assistance has consisted of drafting investment laws, providing objective feedback on regional legislation initiatives, providing information on other regions' investment promotion initiatives and their results, developing regional investors' guides, assisting with regional investment presentations and the drafting of promotional materials, and preparing profiles of Russian firms for dissemination to the U.S. agribusiness community. In January 1998, PRARI organized a workshop in Samara at which all PRARI regions discussed the policy and institutional constraints to increased agribusiness investments in their regions, and possible solutions.

The Review Team concluded that, although progress in implementing reforms in target regions was mixed, in general there have been significant changes in most of the regions, and that some investments have been made as a result of PRARI assistance.

Actions by targeted regions to improve the investment climate include: new investment laws to protect investors from non-commercial risk; new land laws; inauguration of financial guarantee programs; support for small businesses; programs to facilitate investments; tax holidays; and conduct of investor conferences and/or preparation of promotional materials. A few oblasts are more pro-active than others, and are continuing to improve existing legislation.

In some regions, the laws are recent and remain essentially untested. Also, in some regions, the laws are vague and can have multiple interpretations. A few regions are contemplating a number of changes which may or may not have a negative impact on investment opportunities.

Several investments, independent of PRARI assistance, have already been made by U.S. companies in at least 7 PRARI regions. These investments include expanding sales and distribution of agricultural chemicals and farm equipment, and in a few cases, the construction of processing facilities. There are at least 10 U.S. agribusiness companies investing in PRARI regions.

Two investment agreements between U.S. firms and Russian companies and/or regional governments have been initiated and concluded as a result of PRARI assistance. They include: a farm equipment distribution and assembly facility in Saratov; and expanded market development of a soil conservation technology package in Saratov. A third, the purchase of a

grain elevator and expanded input sales in Krasnodar was an indirect result of PRARI. A few companies are still working on leads initiated at the Chicago Roundtable.

Through the Workshops in Chicago and Samara, PRARI has provided opportunities for private business and regional official interaction. New investment contacts have been made, regional staff have gained a better understanding of private investor concerns and problems, and private companies were allowed a forum to air their differences with administrations.

Regional administrations identified three types of PRARI assistance most appreciated. First, has been the objective, professional advice provided by Russian consultants in the drafting of new legislation, decrees or implementing regulations. Second, is the exchange of information on other regions' investment promotion activities. For some regions, this information has created a competitive spirit and a cross fertilization of investment promotion approaches among regions. Third, are the business-to-business contacts that PRARI has and continues to arrange. The regions also appreciate that the assistance is provided directly to the regions and not via the Federal government. Most regions consider PRARI as an integral part of their overall investment promotion strategy.

In general, agribusiness firms were of the opinion that while PRARI may not have directly affected their investment decisions, they nevertheless support the objectives of PRARI, i.e., policy reforms at the regional level. In some regions PRARI Russian consultants have helped to explain administration policy and proposals to firms, and have acted as their advocates in commenting on draft legislation. Agribusinesses appreciate PRARI Russian consultants' role as intermediaries with the regional administration, and help in facilitating contacts, building relationships, and keeping the administration moving on reforms.

While no Federal level policy reform can yet be tied specifically to PRARI activities, there is evidence of regional influence on Federal policy in the area of land reform - where PRARI has been very active.

The Review Team recommends continued, but limited, involvement of PRARI after July 1998 in those regions which:

- have implemented significant reforms to improve the investment climate;
- are continuing to refine existing reforms or develop additional reforms;
- have already attracted investments by U.S. agribusiness companies; and
- have positive opportunities for new or expanded U.S. agribusiness investments.

In these regions, PRARI assistance would consist of:

A. Technical assistance by Russian consultants to: provide objective opinion and comments on draft laws and amendments; participate in regional and inter-regional working groups on land reform and other priority policy areas; exchange information from other regions on successful approaches to investment promotion; help to organize training and workshops on interacting with foreign investors; serve as intermediaries between regional administrations and the private sector; and develop and help distribute information to

businesses on policy changes in regions and investment opportunities.

B. Develop business contacts through existing channels such as the American Chamber of Commerce, the U.S.-Russia Business Council, and the Department of Commerce's BISNIS and Search for Partners publications. These organizations could help disseminate information prepared by PRARI consultants to U.S. agribusinesses on new laws and investment incentives, business opportunities, etc.. USAID and AID/W staff would continue to exchange information and encourage direct contact so that investors can assess for themselves whether or not to invest.

C. Work with the Ministry of Agriculture on national-level policy reform through continued involvement of PRARI in the Gore-Kerienko Commission.

The Review Team recommends that regions not meeting the criteria for continued assistance be either selected for limited assistance subject to certain actions being taken by their administrations to improve the investment climate, or selected for phase-out between now and July 1998. These regions could be provided with information on other regional investment promotion activities and their results as a means to inform and motivate them in a competitive manner.

In implementing PRARI beyond July 1998, the Review Team recommends a structure which maximizes the use of Russian consultants, as well as the use of existing organizations to promote business contacts and exchange of information between regions and U.S. companies.

I. INTRODUCTION:

A. PRARI Description

The Program to Revitalize Agriculture Through Regional Investment (PRARI) is an initiative of the Agribusiness Committee of the Gore-Chernomyrdin Commission for economic and Technical Cooperation (GCC). It responds to concerns of the U.S. agribusiness community in February 1997 about the slow pace of agricultural reform at the Federal level, and its impact on U.S. investment opportunities.

PRARI seeks to improve the agribusiness investment climate in selected regions via targeted support for the development of policies and institutions needed for investment and trade. Simultaneously, PRARI helps to identify viable investment opportunities at the regional level, and to facilitate partnerships between U.S. and Russian private agribusinesses. Following a joint USAID/USDA feasibility study in April 1997, five regions were targeted for PRARI attention - Saratov, Samara, Omsk, Vologda and Krasnodar.

These five regions were assisted in preparing investment profiles to highlight their investment potential to U.S. agribusiness investors. Three of the regions (Saratov, Samara and Vologda) were assisted in preparing Investment Promotion Plans. A U.S. Agribusiness Investors Roundtable was held in Chicago in July 1997 to present information on the agricultural investment opportunities in the five PRARI regions, and to identify major obstacles faced by U.S. investors in Russia. Over 150 U.S. business representatives attended.

Following the Chicago Roundtable, and at the request of the Ministry of Agriculture, five new regions were added - Rostov, Lipietsk, Tomsk, Voronezh, and the Republic of Chuvashia. Eight Russian agricultural experts were deployed on a short-term basis under contracts with Louis Berger International and Abt Associates to the ten regions to provide assistance with policy development and institution building. This assistance has continued until now.

In January 1998, a workshop attended by policy-makers and businessmen from all PRARI regions was held in Samara. Ministry of Agriculture staff, representatives from the American Chamber of Commerce and the U.S.-Russia Business Council, U.S. businessmen, and USAID and USDA staff and consultants also attended - a total of nearly 100 officials from the public and private sectors. Key accomplishments of the Samara workshop included: 1) agreement among regions to address several key obstacles to investment (including tax policies, land laws, trade restrictions, arbitration procedures, investment guarantees and enterprise restructuring); 2) a plea to national policy makers to take action on specific investment issues; 3) the initiation of a dialogue among regional policy makers and Russian businessmen; 4) the opportunity for U.S. companies to express grievances to regional officials; 5) the formation of a PRARI working group to draft new land legislation; and 6) the development of a spirit of competition among the regions in attracting investment. Representatives of the Federal Ministry of Agriculture actively encouraged regions to adopt reforms. The results of the Samara meeting were presented to a group of 30 Moscow-based U.S. agribusinesses at a meeting hosted jointly by the American Chamber of Commerce and the U.S.-Russia Business Council.

Total expenditures on the PRARI activity to date are as follows:

Assessment Mission (April, 1997)	$ 28,000
Oblast Analysis, and Preparation/Conduct of Chicago Roundtable (May-July, 1997)	$110,000
Technical Assistance and Preparation/Conduct of Samara Workshop (August, 1997 - January, 1998)	$135,000
Technical Assistance and Preparation for GCC 10 (February - April, 1998)	$ 291,000
Technical Assistance - May to July (projected)	$ 194,000
Total (of which $338,000 from USAID/Russia, $375,000 from G/EGAD/AFS, and $45,000 from ENI/ED/AG)	$ 758,000

B. Objectives of the Review

The objectives of the review were four-fold:

- To assess progress by regions in implementing the reforms and investment incentives discussed at the Samara Workshop;
- To assess U.S. agribusiness investor interest in PRARI regions;
- To recommend the specific activities and level of PRARI support to regions for the period May through mid July 1998, when the Berger and Abt contracts end; and
- To provide recommendations on the need and scope for USAID support for PRARI beyond July 1998.

C. Review Methodology

The progress review was carried out in Russia from April 15 to April 30, 1998 by staff from USAID/Russia, ENI/ED/AG, the U.S.-Russia Business Council, and the American Chamber of Commerce. Field visits were made to four regions - Rostov, Chuvashia, Samara and Saratov. Meetings were also held in Moscow with representatives of U.S. businesses, as well as other U.S. organizations involved in providing assistance to the agribusiness sector. Phone interviews were conducted by G/EGAD/AFS with 14 U.S. companies in the United States that had attended the Chicago Roundtable.

Prior to the start of the review, the PRARI Russian consultants from Abt Associates and Louis Berger International made available relevant information regarding each region. This information included:

- Relevant policy and institutional reforms implemented from 1997 to date;

- Reforms and institutional changes currently in progress, particularly those as a result of the Samara PRARI Workshop;
- New agribusiness investments from 1997 to date, including PRARI assistance, if any, in realizing these investments; and
- Any negative or restrictive policy changes which may discourage investment.

II. FINDINGS:

A. Policy and Institutional Changes at the Regional Level:

1. Chuvashia:

Investment promotion in the Chuvash Republic is led by the Department of Economy. Other members of the PRARI Working Group include the Ministries of Foreign Relations and Agriculture. The administration has a high level of knowledge and understanding of PRARI, including an awareness of PRARI's objectives and the scope of assistance available. PRARI is an integral component of the Republic's overall investment promotion strategy.

PRARI assistance to the Republic to date has consisted mostly of an exchange of information on reforms and investment promotion activities of other regions, and providing objective review of draft legislation. The administration is receptive to adapting ideas and experiences from other regions. The Republic wants to use PRARI assistance in the near-term to review and comment on its Investment Law which was approved in the first reading in April 1998. One part of the Law contains tax exemptions for agricultural input companies as well as for leasing companies. The Law is designed to protect investors from non-commercial risk.

The Republic also relies on PRARI to help promote the region's investment opportunities in the U.S.. The President of the Chuvash Republic is traveling to the U.S. in May, and has requested PRARI assistance in making contacts with business and government leaders. The Republic has also requested PRARI assistance in contacting U.S. companies to set up agriculture equipment leasing programs. In June 1998, Chuvashia will host an international conference on investment promotion in the Republic. The American Chamber of Commerce was requested to organize a trade Mission to attend the conference, meet Republic officials and business leaders, and to explore investment opportunities.

A Presidential Decree on Warehouse Receipts was issued in March 1998 to establish a legal framework for utilizing stored commodities as collateral. The Decree has the support of the Ministries of Economy and Agriculture. The Republic requested PRARI assistance to develop implementation forms and procedures.

The Republic allows 100 percent foreign ownership, although there are no examples of such fully foreign-owned investments to date. The Minister of Economy stated that preparations for the Samara Workshop enabled the Republic to study draft laws and regulations of other regions. As a result of the Samara Workshop, Chuvashia is now analyzing land legislation

from other regions in order to develop its own land law. The Republic considers land legislation a high priority as a means to more efficiently use its land area because it has one of the highest population densities per unit of land in Russia.

PRARI implementation in Chuvashia has benefited from the Republic's young and reform-minded leadership in the Ministry of Economy, and the support they have generated with the Ministry of Foreign Relations and Ministry of Agriculture. The President of Chuvashia is personally involved with PRARI implementation, and has met with the PRARI consultant. The administration is actively engaged in all facets of PRARI activities; i.e., development and refinement of investment policies and legislation, and investment promotion.

The Agriculture Ministry lacks a strategy for growth in the sector. The new Minister's attention is focused on technical rather than policy issues. The lack of a private sector investment strategy by the Ministry of Agriculture is compensated for by the Ministry of Economy which takes an active role in all sectors of the economy. The Minister of Economy is preparing a proposal for agriculture sector reforms which consists of a reform package to be pilot tested, and which could eventually become a model for other regions. The Minister has requested PRARI to help develop and review the concept. The Ministry of Agriculture participates in the World Bank ARIS Project which establishes an agriculture market information network linked to other regions.

The attitude of the Republic to foreign investment is positive. The $10 million Joint Venture between Dupont and Khimprom is the only U.S. agribusiness investment in Chuvashia to date, and the only foreign investment in all of Russia for the production of agricultural chemicals. The administration assisted the investment by approving a resolution to allow Khimprom to sub-lease state land to Dupont. All documents were registered at the Ministry of Justice in Moscow to guarantee compliance and to offer added protection to Dupont. European firms, principally from Holland, Italy, and Germany are already investing in the Republic by supplying equipment for greenhouse vegetable production, confectionary, and beverages.

2. Krasnodar:

Krasnodar has made the least amount of headway, compared to other PRARI regions, in policy reform. It plans to develop an investment promotion law in the later half of 1998. Indications to date are that the administration will maintain a predominant role in investment control and approvals. The administration passed a land law that does not allow the purchase and sale of agricultural land. In 1997, the Krai prevented the export of grain from the region in order to force producers to sell to the State Food Corporation at fixed prices. The Corporation needed to recover credits granted to farms during the planting season which were given in the form of subsidized agricultural inputs. A Russian grain trading company applied to a local court against the administration's action. The local court upheld the Krai's decision, but a Federal court ruled that the administration's decision to ban grain exports was illegal. The grain restriction, which remains in force for some commodities, had a negative impact on investors' profitability.

Krasnodar representatives did not attend the Samara Workshop due to bad weather which forced a cancellation of their connecting flight from Moscow. But the Krai did not request information on the proceedings, nor a briefing on the results of the Workshop. The Krai has not requested any specific assistance from the PRARI consultant to develop its policies or procedures to attract investment in the agriculture sector.

Because of its unique climate, fertile soils, good roads and ports, and inherited agriculture investments from the former government, Krasnodar has the best potential in Russia for agriculture growth. Russian economists believe that Krasnodar only realizes 10 percent of its potential wealth due to its restrictive policies. Nevertheless, Krasnodar is attracting investors. American companies investing in Krasnodar agree that the administration is not reform-minded, and that some companies are not doing well there. One American input supplier interviewed said that his company will not sell agricultural chemicals to the region this year due to non-payment by state-controlled joint stock companies. But for most foreign agribusiness firms, Krasnodar is too important to ignore as a potential market for the supply of grain and sales of inputs.

3. Lipietsk:

Lipietsk oblast has taken a number of important steps over the past few months to improve the investor climate. In June 1997, regulations were adopted on "Providing oblast Administration Guarantees for Implementation of Investment Projects". This was followed in November 1997, by the creation of the oblast fund for "Supporting Business and Investments" which provides, in the case of non-payment, a mechanism for funding guarantees for investors from the oblast budget. In February, 1998, the law on "Promoting Investments" was adopted giving investors (including foreign investors) certain incentives such as tax holidays of various types. Also in February, an international investment conference was organized which included representatives from 52 foreign banks and companies. At the conference, 104 investment proposals were presented by oblast officials including 24 in agribusiness and food processing. On February 25, 1998 the Lipietsk administration made a presentation at the AmCham in Moscow.

The Administration is preparing legislation on assistance to "approved" investment projects which may include additional guarantees and tax holidays for up to five years. Legislation is also being drafted on the leasing of agricultural equipment for the purpose of creating farm machinery stations. A proposal to create an Advisory Council on external economic activity is currently being reviewed by the oblast administration. The main objective of the council will be to coordinate the further development of international economic relations and to assist in creating favorable conditions for promoting investment in the oblast. The PRARI Working Group, including a PRARI-funded consultant, would be part of the council.

The PRARI-funded consultant has been very active in Lipietsk. Assistance has been provided in: a) establishing a PRARI Working Group and developing an operational work plan; b) preparing a concept paper for an Oblast Investment Center; c) structuring the form and content of the Lipietsk oblast presentation at the AmCham in Moscow; d) developing a

presentation on PRARI at the Lipietsk international investment conference; e) identifying policy issues requiring additional attention to support oblast investment activities; and f) securing coordination on investment issues among various oblast departments.

Further PRARI assistance has been requested in: a) implementing the Oblast External Economic Activity Program; b) establishing contacts with American companies and banks; c) preparing informational and promotional materials on the investment environment in Lipietsk; d) developing an investment data base and helping create linkages among existing oblast information networks; e) drafting and commenting on additional oblast legislation impacting on investment and securing specialized technical assistance in areas where legislation is being considered; f) elaborating the use of oblast guarantees; g) reviewing and advising on business plans being developed with a special emphasis on marketing analysis; and h) organizing training programs for oblast administration officials on "how to work with potential investors" and for oblast enterprises on accounting, business plan development and arbitration procedures. PRARI-funded consultants have also been requested to assist in preparing model investments profiles suitable for submission to investors.

Lipietsk has attracted a number of foreign investors in the agriculture sector, including the 100 percent foreign-owned poultry facility "Golden Rooster". Golden Rooster, financed by a U.S. firm, will put $12 million into the facility. Other investments include the $10 million RJR tobacco plant, Italian "Progress" fruit juice, and a French sugar plant.

In spite of excellent progress and enthusiastic oblast support for PRARI initiatives, a slow-down or even a possible termination of PRARI activities in the oblast may result from the April 12, 1998 election. A new oblast Governor was elected and the Vice-Governors with whom the PRARI Consultant worked closely are being changed. The attitude of the new Governor and his staff toward foreign investment generally, and PRARI activities specifically, remains to be determined.

4. Omsk:

Omsk has undertaken a positive set of policy and institutional reform actions in the past several months. In December 1997, a law on "State Support to Investment Projects" was passed. Under the law, investment projects which are registered and approved by the oblast administration are eligible for tax exemptions, tax investment credits, guarantees and access to credit from the oblast budget. Five projects have already been registered and approved. Three key agencies in the oblast administration - Department of Agriculture, Economic Committee and the Committee for External Economic Affairs - established special divisions to develop and support investment in the region. Late in 1997, the West-Siberia Investment Center was established with USAID assistance to inform and work with potential investors. Regional bonds have been issued three times with the first issue successfully redeemed.

To enable implementation of investment projects and to protect investor rights, the oblast issued over 20 implementing decrees and acts in 1997/98. These included approvals for specific projects such as for "Case Combine", procedures for selecting and financing investment projects from oblast budgets, procedures for providing technical expertise for

investment projects, a Governor's decree on "Performance and Improvement of the Investment Environment and Increasing the Efficiency of State Investment", and regulations on administrative responsibility of juridical persons for a breech of an investor's rights.

The oblast administration also supports local companies in several ways. They market proposals prepared by local companies to foreign investors and help foreign companies in identifying appropriate oblast partners. They assist in the negotiating and contracting with Russian and foreign investors. Further, the administration provides assistance to local companies in completing and submitting investment proposals to UNIDO. The Committee for External Economic Affairs established three data bases in 1997 on: 1) foreign and domestic investment projects; 2) trade fairs and shows; and 3) companies in the oblast. Recently, Omsk participated in the food fair "Green Week" in Berlin. Its participation demonstrates a genuine concern to expose the oblast in international forums, take independent steps to search for foreign partners, show the best in the oblast's food processing industry, and to compete in the international arena. The oblast's participation was funded through its own resources.

Specifically related to PRARI and the Samara Workshop, the oblast established, via a Governor's Decree, a PRARI Working Group with representatives from the three key organizations identified above plus the West-Siberia Investment Center and the Committee on State Property. The co-chairmen will be from the Department of Agriculture and the Economic Committee. The oblast administration is also developing a strategy to support agricultural and agribusiness investment and is proceeding to finalize a new land law (second hearing scheduled for May 1998) which builds on the Saratov land law. An oblast law on warehouse receipts is being drafted with approval expected in late 1998. Implementing regulations have already been submitted to the Department of Agriculture for approval.

Further assistance from PRARI has been requested to: 1) finalize the land law; 2) complete the warehouse receipts legislation and implementation regulations; 3) continue the development of the regional investment center (West-Siberia Investment Center) including training and equipment; 4) help prepare investment proposals; 5) train oblast and local company staff in negotiating and contracting with foreign agribusiness companies; and 6) promote agricultural and agribusiness investment in the oblast, including the preparation of seminars for international investors.

5. Rostov:

The key policy change to attract investors in Rostov has been the Investment Guarantee Law, passed by the oblast Duma in January 1998. This law establishes the framework for the protection of investors' rights, and tax deferrals for investments of more than $10 million. The administration studied similar laws in other oblasts as a basis to develop its own law. The oblast requested the American Bar Association to review the Law. The PRARI consultants were also asked to provide comments. Both the ABA and PRARI recommended modifications to the law, which the oblast is now considering. Although essentially untested, the ABA representative in Rostov said the law is a good start, and shows the oblast's commitment to create a more business friendly climate. The administration asked PRARI to

develop implementation regulations for the investment law. In addition to the Investment Guarantee Law, the oblast passed a Small Business Promotion Law which establishes a framework for protection of small businesses. These laws are intended to guarantee investors that agreements will not be changed in the future. Investors interviewed during field work said that this was an important consideration in their decision to invest in the oblast - that the rules of the game do not change and that they are protected from non-commercial risk.

Investment promotion in Rostov is the domain of the Economics Department. The Department initiated a request to the Eurasia Foundation for a grant to develop an investment promotion program. A grant of $6,000 was approved to develop an investor data base. The PRARI Review team met with all members of the PRARI Working Group, which consists of the Deputy Governor responsible for Agriculture, the Head of the Foreign Relations Department, and Head of the Economics Department. Coordination between the Department of Agriculture and the Economics and Foreign Relations Departments had not been good prior to the creation of the PRARI Working Group. The Head of the Foreign Relations Department stated that PRARI has served a useful role to bring all of the Departments together.

Rostov is preparing a strategy for agribusiness investment promotion. AKKOR (National Association of Private Farmers) has been promoting laws to benefit private farms, which includes a law on credit cooperatives and a law on land mortgage. The oblast has made some progress in restructuring agricultural enterprises. All agricultural enterprises have been classified as either profitable, break-even, or bankrupt. From 1998, the oblast will provide soft loans only to those enterprises in the first category. Those in the second will have to restructure. PRARI consultants have been trying to get the oblast to develop an overall strategy for the sector which deals with the food processing as well as food production.

PRARI consultants have provided direct assistance to the oblast by helping to develop policies for land ownership. The oblast has discussed land issues, but is not ready to consider a land privatization law until Federal guidelines have been established. Rostov was one of four oblasts that participated in the PRARI sponsored land seminar in Samara in March 1998. Rostov is considering participating in the World Bank's LARIS project, and has just begun the process of land registration and land mapping, leading to an eventual system of land sales.

The oblast requested continued PRARI assistance to develop an operational plan for agribusiness policy activities; draft an Agribusiness Investment Promotion Center concept; provide comments on the Investment Promotion Law and draft Law on Agricultural Credit Coops; and to prepare a discussion paper on Opportunities for Land Mortgage, and Agribusiness Investment Guarantees. The oblast requests further assistance in establishing and strengthening business contacts between the administration and private U.S. agribusiness companies and food processing equipment manufacturers, and in organizing training on preparing business plans. During the Review Team's visit to Rostov, the Department of Foreign Relations requested PRARI assistance to organize its presentation to the AmCham in July. The oblast is hoping to establish an Investment Promotion Center, and has asked the PRARI consultants for information on how such centers have been set up in other regions.

Rostov is one of two oblasts where PRARI consultants have teamed up to provide the oblast

with multiple expertise. All members of the oblast administration interviewed indicated that this was very beneficial, and requested expertise in finance to help design financial guarantees for prospective investors. The oblast views PRARI as a catalyst to promote investments in all sectors - not just agriculture. The representative of the Department of Foreign Relations told the PRARI Review team that his Department was the first to recognize that PRARI is important for the oblast. Had PRARI not brought the different Departments together, the Ministry of Agriculture would appoint itself as doorkeeper for investments in the food sector. A potential investment by Cargill was initially rejected by the Department of Agriculture because of fears of potential competition with a proposed state controlled input and grain purchasing system. Cargill is now back to discuss a possible oilseed processing facility.

Overall, Rostov is on the right track to implementing a business-friendly environment. The development, and eventual passage, of the Investment Guarantee Law was based on a decision not to negotiate specific benefits for individual investors. The oblast does not require that investors negotiate with the administration, nor that the administration own a share of the investment. One hundred percent foreign ownership is allowed.

6. Samara:

Samara oblast has embarked on an aggressive program aimed at increasing investment in the region. In recent months the previously-established Center for Project Financing has accelerated its review of investment proposals, preparation of business plans, and assistance in locating sources of funding investors. In February 1998, a Services/Products Quality Certification Center for Samara oblast was set-up as a commercial entity. Also in February, the procedures for the sale/transfer of state-owned land were modified and simplified and a new information book about Samara oblast was published. In March 1998, an Innovation/Technology Center was established in the Department of Industry to assist in preparing projects for "euroloans". Also, in March, the oblast set-up the Registration Office that will be necessary to implement the new land law (see below) and that will enable the simplification of land transfer and registration procedures.

A comprehensive, new land law covering urban and rural land ownership, registration and transfer procedures has been drafted and approved by the Governor and oblast administration. Final passage by the oblast Duma is expected within two months. The land law does not contain limitations on land plot sizes and treats foreigners and Russians equally. It was publicized via a mass media campaign, the subject of meetings with oblast and raion administrative staff, farmers and managers of enterprises, and has already been sent to the Federal government. Three raions did not wish to allow the sale of farm land and the law will evidently permit this deviation. PRARI consultants provided direct assistance in the finalization of the new land law. A Land Law Workshop sponsored by PRARI with participants from four oblasts was held in Samara on March 31, 1998. Oblast officials indicated that they expected the Samara land law to influence the actions of other regions on land issues and to accelerate the passage of the Federal Land Code.

A law on investment activities that includes government support mechanisms such as credit

from the oblast budget, guarantees, direct oblast investments, and investor privileges such as holidays from property and value-added taxes for various periods of time has passed the first Duma and budget committee hearings with final passage expected by June. A law allowing the issuance of oblast bonds is also being considered by the Duma while a law on Special Economic Zones will be submitted in about one month.

According to several oblast officials from the Departments of Economy and External Economic Relations, PRARI, starting with the January conference, has been important in identifying actions needed to encourage investment and in elaborating goals for oblast activities. PRARI consultants have prepared a draft "Guide for Investors" that oblast officials said was the first comprehensive survey of the oblast and provided an investor's view of what was needed. It is now being reviewed. They have also supplied conceptual materials to oblast officials for an investor information services center as well as investment profiles of several agricultural companies. State Land Committee staff highlighted PRARI assistance provided in the process of developing the new land law. A draft strategy for attracting agricultural investment into the oblast has been prepared and discussed with oblast officials in the Departments of Economy, External Affairs and Agriculture. Other officials (Department of Industry, Middle Volga Chamber of Commerce and to a lessor extent the Department of Agriculture) were hard-pressed to identify any PRARI results.

Oblast officials in all departments/organizations visited by the Review Team believed continued PRARI consultant assistance and collaboration would be useful and productive. The Departments of Agriculture and Industry and the Lower Volga Chamber of Commerce said PRARI-sponsored efforts to obtain concrete investments by U.S. Companies were of the greatest interest - a U.S. investment of even a modest size in the agricultural sector would be welcomed (the Department of Agriculture staff acknowledged however, as U.S. Secretary of Agriculture Glickman had said, that such investments would be difficult to secure and that aggressive oblast action was needed). The Departments of Economy and Foreign Relations similarly identified investment as the ultimate objective, but they also noted the importance of the "investors guide" and the "investor services center" in oblast efforts to attract all, not only agribusiness, investors. Both Departments emphasized the need for a unified, regional data base that facilitated the compilation, exchange and utilization of available information and an oblast organization that combined oblast and donor efforts in providing investors with the information and services they needed. Equipment and software to support data base and investment center development were requested. Assistance in forming linkages with the soon-to-be-established American Business Center was also mentioned. The Department of Land Management identified further assistance needs in the areas of mortgage law (to address the issue of land as loan collateral), land valuation, land use regulations, land cadastre and zoning. The U.S., Samara-based coordinator of the Regional Investment Initiatives Program also expressed an interest in continued and expanded collaboration with the PRARI initiative.

7. Saratov:

Saratov passed a general law on private investment in February 1997, the objective of which was to stimulate private sector (Russian and foreign) investment activity. The law was essentially a shell which lacked specific details and implementation procedures. Since then,

however, the oblast developed a package of procedural acts, including: a) procedures for competition for state financial guarantees; b) regulations for awarding state-funded contracts; and c) protection to investors against changes in negotiated investment agreements for a period of up to 3 years. These procedural acts became effective in January 1998.

In December 1997, Saratov passed Russia's first regional land law, enabling private ownership and sale of agricultural land. The original law was hampered by multiple interpretations, and poor implementation due to the need for compliance with federal forms and procedures which had not yet been developed. However, in February 1998, the oblast developed its own forms, procedures for auctions and land transactions, and a system of land mapping based on a German model. The Oblast Land Committee has received requests from 39 other regions for information on the Saratov law, and at least 6 successful land auctions have been conducted. Although foreigners cannot buy land, long-term (49 year) leasing is encouraged. The Ministry of Agriculture approved a land lease for Monsanto to promote its low-tillage technology package, which was a factor in Monsanto's decision to invest in Saratov.

With these laws and procedures in place, oblast officials in the Ministry of Economy (which is responsible for investment policy) are wondering why investors are slow to come to Saratov. They believe the oblast has taken the initiative to create a business-friendly environment, but that political and economic uncertainty at the federal level is constraining investments in the regions. This same attitude prevailed in all ministries interviewed - that the oblast has done enough on policy and legislative reforms. Their priority is now on promotion, although there is no overall strategy to accomplish this. The oblast requested PRARI assistance to develop western-style promotion materials, and to intensify the business-to-business contacts currently in process. The Ministry of Economy is considering holding an investors' Conference in Saratov, and has requested PRARI assistance to plan and organize the conference based on lessons-learned from similar conferences held in other regions.

PRARI Russian consultants prepared a comprehensive Agribusiness Investors' Guide which has been used by the Governor in his investment promotion trips abroad. PRARI provided information from other oblasts and the federal government on land legislation and mortgage, and has brought in advisors from the Rural Development Institute to comment on draft procedures for implementing Saratov's land law. At the request of the Chamber of Commerce, PRARI developed a concept for an investors services center, and conducted training for 60 managers of agribusinesses on how to attract investments. In response to a request from the USDA, PRARI identified candidates for the Cochran Training Program in the United States, many of whom represent potential partners for U.S. agribusinesses.

PRARI continues to prepare company profiles (14 to date) of promising Russian agribusiness companies for dissemination through the U.S. Department of Commerce BISNIS Bulletin and "Search for Partner" program, and the American Chamber of Commerce. Two potential U.S. agribusiness companies, Amber Ridge - a food processing equipment manufacturer, and Valmont - a producer of irrigation equipment, have contacted PRARI consultants to search for potential partners and provide logistical support for visits to the oblast.

The Ministry of Economy drafted an Oblast Investment Program which sets priorities for

investment as well as for budgetary expenses. The Ministry requested PRARI comments on the draft. It also requested PRARI assistance in conducting a seminar for Deputy Heads of Raion Departments of Economy on the development of investment activities. PRARI provided assistance in selecting instructors and developing an agenda.

A PRARI Working Group is not active in Saratov. PRARI consultants believe this is because of competition between various Ministries, and their attitude that the major policy work is complete and that the focus should now be on investor promotion. PRARI consultants work closely with the Ministry of Economy, Chamber of Commerce, Land Committee, and Ministry of Agriculture to facilitate information sharing among the four groups.

Saratov has three large foreign investors - British American Tobacco, BOSCH (German spark plugs), and Henkel (German detergents). The PRARI Review team met with the Financial Director of BAT who said the investment climate has improved considerably and that government support is going in the right direction. In March 1998, the Saratov Chamber of Commerce established a sub-committee of joint venture operators (about 40) to give foreign investors a voice in oblast investment matters. BAT thinks this is a serious organization and a good initiative on the part of the administration. PRARI consultants have been requested by the Chamber of Commerce to assist in designing a policy monitoring mechanism for the group. The Chamber of Commerce also requested PRARI assistance in designing a "Passport" program to establish local standards for business practices. Companies which meet the standards are awarded a Passport (sort of a seal of approval) as an indication of their credibility. One private sector (Russian) grain trading organization complained that the oblast administration had placed restrictions on the export of grain. In general, however, private investors think the Saratov government is becoming more investor friendly.

8. Tomsk:

The pace of institutional and policy reform in Tomsk Oblast has been modest. A general oblast law on investment, largely replicating the Federal law, has been submitted to the oblast Duma with passage expected by June, 1998. Divisions have been established by the Department of Agriculture and the Committee for External Economic Affairs to support and develop the investment activities in the oblast of domestic and foreign companies. The Tomsk administration is also providing technical assistance to local companies in locating, negotiating and contracting with domestic and foreign investors with special support available for companies investing in key areas such as flax, baby food and alcohol. The oblast has never imposed any barriers to the free flow of agricultural products.

Post Samara Workshop actions of the oblast have included initial planning for a PRARI Working Group, development of plans to establish an investor service center at Tomsk State University and preparation of a draft regional land law using the Saratov land law as a basis. The oblast administration has also sent a letter to the Ministry of Agriculture expressing their support for PRARI. Future plans include development of a strategic plan to support agricultural and agribusiness investment in the oblast, preparation of a working plan of action to promote oblast investment, and the submission to Federal authorities for their approval of proposals that would assist agricultural development and investment (such as lower duties on

equipment, reduced railway tariffs and lower electricity rates).

The PRARI consultant provided technical advice on a range of issues prior to the Samara Workshop, has held discussions on a variety of investment-related topics with administration staff, and has supplied various materials related to investment and investment promotion. The oblast has requested further PRARI assistance in preparing a new land law, developing legislation on warehouse receipts, developing an investment services center, training oblast and enterprise staff on negotiating and contracting, preparing investment proposals and promoting investment in the oblast via seminars for international companies.

9. Vologda:

Vologda is one of the five original PRARI oblasts highlighted at the Chicago PRARI meeting. Since the Chicago meeting, Vologda has implemented a few investment promotion activities, including an investors Conference in Cherepovets raion, and continued work on its investment promotion strategy. The principal measure to attract investors to the oblast, however, is the approval of the Oblast Investment Law in October 1997. The law contains an Oblast Development Fund which will provide financial guarantees to investors and/or to enable the oblast to purchase shares of joint ventures. The Fund, to date, is only a line item in the oblast budget, which is planned to contain 50 million Rubles. The Fund is not likely to be implementable and contains several faults such as the lack of checks and balances and no mechanism to decide on uses. In addition to the Fund, the oblast Law contains a methodology for evaluating investment projects.

Vologda has made slow progress on follow-up to its planned reforms discussed at the Samara Workshop. An electronic catalogue of investment projects has been developed, and Vologda participated in the PRARI land meeting in Samara, although no real progress has been made by the oblast to develop its land law. The oblast's draft investment promotion strategy, developed after the Chicago meeting, is no longer a priority for the oblast. Most oblast personnel involved in the early stages of strategy development have lost interest. There is interest among some oblast officials to revive the State Food Corporation, which is a negative sign for investors.

The oblast cites its participation in PRARI as an example of collaboration with the international community. In general, Vologda has a long way to go to become a business-friendly investment destination for U.S. agribusiness companies. The Investment Law is vague and allows the government to exert control and influence over private investors. Currently, there are no U.S. investors in Vologda.

10. Voronezh:

Over the past year Voronezh has taken a variety of steps to create a more favorable environment for investment. In May 1997, the Oblast Fund for Development and Investment was created. The 1998 oblast budget contains $150 million for the Fund to be used for a

variety of investment activities. A Law on "Investment Activity" was adopted by the oblast Duma in December, 1997. The law protects investors' rights, gives equal rights to domestic and foreign investors, and provides tax holidays and guarantees for investments of social and economic importance. A law on "Supporting Small Business", passed in October 1997, outlines oblast policy for small businesses and provides budgetary resources for small business credit. In March 1998, a PRARI Working group was created by a special decision of the oblast administration with two Vice Governors (Investment and Agrarian Sector) as co-chairs. Training seminars in investment-relevant areas such as accounting, business plan preparation and investment proposal preparation for enterprise staff in the oblast began in March 1998.

Legislation to improve Oblast laws on "Tax Privileges" and "Investor Guarantees" is underway. Legislation on "Mechanisms for Oblast Enterprises" which will include investment incentive measures (tax holidays) for enterprises with majority or minority oblast interests is also being prepared, but it is not yet clear if it will serve to increase or decrease state control. The creation of an Oblast Collateral Fund to ensure guarantees is being discussed, as is the creation of investment promotion centers. Both would appear to be positive steps.

Consultants under PRARI have provided assistance to the oblast in several areas. As mentioned above, a PRARI Working Group was formed and an operational work plan was developed. An agreement to cooperate in the development of a land law has been finalized with copies of the Saratov and Samara Land Laws provided as models. Advice has been provided on necessary steps to improve the investor climate as well as on the creation of an investment promotion center.

Additional assistance from PRARI consultants has been requested in: a) establishing contacts with U.S. companies and banks; b) organizing an oblast conference on investment; c) preparing the Voronezh oblast presentation to the AmCham in Moscow scheduled for September, 1998; d) setting-up an investment promotion center in Voronezh; e) developing and refining oblast legislation on various investment topics; f) developing an oblast guidebook for investors and other promotional material; and g) the organization of additional training in accounting systems, business plan development, arbitration procedures, and audit. The PRARI consultant is also expected to work with blast officials in identifying agribusinesses that might be attractive to investors.

11. Kirov:

Kirov oblast is a special case. It is not one of the 10 PRARI regions, but on its own initiative (and with its own funds) sent two representatives to the Samara Workshop. Since the Samara Workshop, the oblast has requested PRARI assistance to review and comment on its "Law of Government Support to Private Investors", which was approved by the oblast Duma in September 1997. The Law contains five elements: 1) a vision for investment policy; 2) an implementation plan; 3) regulations on a proposed Development Fund; 4) regulations on bidding procedures for private contractors to obtain government funded contracts; and 5) tax incentives. All five elements are in draft form with a July 1998 target to get the whole

package approved by the oblast Duma (this date is probably unrealistic).

Kirov has requested PRARI assistance to help develop the Investment Law further, to develop and edit an information brochure, and to develop the responsibilities and procedures for an investment promotion center. PRARI provided the oblast with a copy of the Novgorod investment brochure as a model.

There are no U.S. agribusiness investors in Kirov. Although the oblast policy is to encourage private investment, it is possible that oblast officials may use discretionary powers to block private investment due to vagueness of the Investment Law.

B. Agribusiness Investments in PRARI Regions:

During the course of this review, several agribusiness firms with representative offices in both Moscow and the regions were interviewed. One of the objectives of these interviews was to ascertain the impact of PRARI on their investment decisions in the subject oblasts. In general, all respondents were of the opinion that while PRARI may not have directly affected their investment decisions, they nevertheless thought that the objectives of PRARI - policy reforms that would improve the investment climate - were worthwhile.

Several investments, independent of PRARI assistance, have already been made by U.S. companies in the regions. With a few notable exceptions, the activities of the U.S. agribusinesses in PRARI regions have been confined to selling equipment and product. While this has not been "bricks and mortar" investment, the credit sales of the input providers such as American Cyanamid and Monsanto have pumped much needed working capital into the farming sector, thus effecting yields and overall production. Unfortunately, these credits are often not repaid at harvest, creating a situation of past due receivables that is testing the determination of these firms to remain in the Russian market.

Agricultural equipment manufacturers, notably Case and John Deere, have been selling heavy equipment such as combines and tractors in several of the PRARI oblasts. Case recently sold sixty units of equipment, including forty-eight combines, to the Omsk regional administration. This sale, worth approximately $10 million, was financed through the U.S. Export-Import Bank. Considerable investment has been made by all firms in training both extension and sales staff. There have also been investments in PRARI regions by DuPont (agriculture chemical production in Chuvashia), Nabisco (food processing in Lipietsk), and Golden Rooster (poultry production in Lipietsk). There are at least 10 U.S. agribusiness companies investing in PRARI regions (see Annex 1).

An important planned "bricks and mortar" agribusiness investment in a PRARI oblast is the anticipated building by Cargill of a sunflower seed crushing plant in Rostov. Negotiations are underway, and according to Cargill's Russia Country Director, "one way or another, we will be there.").

PRARI has had three important successes in terms of initiating and concluding investment agreements in target regions.

- Case Corporation supply and assembly of harvesters and tractors in Saratov.
- Monsanto expansion of low-tillage technology package in Saratov.
- Cargill purchase of a grain elevator and expanded forward credit in Krasnodar.

The largest is the U.S. agricultural equipment maker Case, in concluding the sale of five hundred units of combines and tractors to Saratov. The Case representative in Moscow did not want to disclose the amount of the investment, but he did confirm that the agreement was made. Officials from Case and Saratov met at the PRARI meeting in Chicago last year. According to oblast officials, Case has contracted to assemble fifty units in Saratov in 1998, increasing that number to one hundred and fifty in 1999. Also in Saratov, PRARI helped broker a $2 million investment by Monsanto to expand distribution of its inputs for its low-tillage technology. This investment agreement was made as a result of the Samara Workshop. PRARI consultants will help identify and organize farms to participate in demonstrations of the technology package. As an indirect result of PRARI, Cargill is investing in a grain elevator in Krasnodar, and will expand its sales and distribution by $5 million in 1998. The PRARI consultant working in Krasnodar helped Cargill implement a grain collateralization program which established direct business relations with large privatized farms and grain warehouses.

In reviewing the effectiveness of an initiative such as PRARI, it should be noted that "brick and mortar" investments, as opposed to those involving product sales, require considerable lead time. For example, in 1991 DuPont approached Khimprom in Chuvashia about the possibility of a joint venture to manufacture plant protection chemicals. Intensive negotiations began in 1993. DuPont has invested $6 million; Khimprom has invested $4 million. That venture is building a greenfield facility, which is only just now getting under way. From the time of serious negotiations to signing an agreement - 4 years! Most investments, however, require 2 years on average.

There is a disparity among oblasts as to the level of foreign investment in their agribusiness sector. This is not surprising, inasmuch as the overall level of agricultural activity is greater in some oblasts than in others. Also, a logistical comparative advantage exists for some oblasts that is not enjoyed by others. For example, Rostov and Krasnodar are prime grain and sunflower seed growing regions, and have the additional advantage of salt water ports through which these commodities can be exported, thus giving ease of access to markets that the more interior, land locked oblasts don't enjoy. Similarly, an oblast like Samara has the advantage of being located in an area that can easily supply the huge Moscow market with processed foods, and yet can service markets elsewhere in Russia and the Central Asian republics, as well. The broad presence of European firms in Russia's agribusiness sector illustrates the attractiveness of this sector to investors, and underscores the need for U.S. businesses to be assisted in operating in Russia and to be as competitive as possible.

Telephone surveys of 14 U.S. companies that attended the July 1997 PRARI meeting in Chicago were also conducted to determine their views on the usefulness of PRARI. The responses were very similar. Eighty percent of the companies interviewed stated that

PRARI's regional thrust is right on target, and that PRARI should continue to influence policy making and foster enabling conditions. A food technology company in Utah said the PRARI office in Samara and Saratov directly helped examine the possibilities for investing in a broiler and egg production facility. A company in California made new contacts in Omsk as a result of the Chicago meeting. John Deere, Monsanto, and Rhone Poulenc all said that any help PRARI could give in the area of developing short and medium term credit facilities would be of major importance to Russian agriculture and their future businesses.

Suggested areas of PRARI assistance to American agribusiness companies are: cost-sharing feasibility studies; providing on-the-ground assistance to facilitate contacts and meetings; employee training; and publicizing information on regions to keep U.S. agribusinesses up to date. One company stated that a very important part of raising sales to Russia is assisting in the development of contacts and building relationships. The representative from Iowa Packing company suggested PRARI should assist in the development of a meat processors association. In general, 10 months after the Chicago meeting, many U.S. companies think PRARI is serving a useful purpose, and a few companies are still working on leads initiated at the Chicago Roundtable.

Since GCC-10, USAID/Russia and G/EGAD/AFS have received at least 10 unsolicited requests from U.S. agribusinesses for information and materials on PRARI oblasts. One caller, an investment analyst from KPMG collecting information for a client on investment possibilities in the Russian poultry industry, learned of PRARI through the AmCham web page. Another firm with financing from a U.S. bank, requested Mission assistance to locate Russian partners for aerial crop spraying. Several months ago, Case requested copies of the Chicago materials prepared on Omsk and Saratov. As indicated above, Case eventually signed investment agreements in both of these oblasts.

Comments from agribusiness executives interviewed in Russia reflected the frustrations that PRARI is intended to address. In Rostov the British manager of a major U.S. crop protection chemical company echoed the wish that anything the PRARI consultants could do to help rationalize oblast policies would be more than welcome. The oblast's effective "seizure" of grain at harvest time resulted in his accounts receivable more than doubling each of the past two years. In Samara, the Finance Director at Pepsico said PRARI should help to rationalize the tax system. Cargill's Country Director said he would have welcomed the team's help in both Krasnodar and Rostov in trying to negotiate investment incentives in the oblasts, but was frankly not aware of the effort to reform policy. He thought the program to reform policy should be continued. Some agribusinesses remarked that PRARI perhaps placed an over-emphasis on the "land reform" issue.

Agribusinesses in the regions offered other concrete examples of how PRARI can help improve the investment climate. In Rostov PRARI consultants were particularly helpful as intermediaries between the oblast administration and the U.S. agribusiness firms in discussing a proposed oblast farm service center. The companies think the oblast proposal is a bad idea, and that the oblast should not be involved in commercial businesses. But they are reluctant to say this to the administration for fear of being left out, and losing a market share. The firms have asked PRARI consultants to advise them on how to mitigate this action by the

administration. On the other hand, the administration has asked PRARI consultants to advise them on the feasibility of the scheme. PRARI consultants are viewed by both sides as being an objective sounding board. From the business view, PRARI consultants are advocates of reform.

C. Changes at the National Level:

An underlying premise of the PRARI initiative was that regions could and several were prepared to proceed with reforms in many areas constraining investment, even in the absence of changes at the Federal level. In turn, it was postulated that policy changes at the regional level could influence policy formulation at the Federal level.

While no Federal level policy reform can yet be tied specifically and directly to PRARI activities, there is tangible evidence of regional influence on Federal policy in the area of land reform - where PRARI has been very active. Saratov, Samara and other regions have enacted or are drafting land laws far more progressive in terms of private ownership and transfer arrangements than laws previously acceptable to the Federal Duma. These regional initiatives have put pressure on the Federal level to take action to avoid becoming irrelevant i.e. to break the Executive/Legislative Branches deadlock over a Federal Land Code. Support from PRARI is cited by regional officials as having been useful and important in their land law development process which in turn suggests a modest contribution to Federal level reform.

It is too early to determine if some or any of the various other PRARI-encouraged investment initiatives being undertaken by the regions (tax holidays, investor information centers, guarantees, etc.) will also lead to Federal legislation that promotes or standardizes such investment incentives. Nevertheless, there is no doubt that regional tax policies, for example, will have some effect on Federal level policies.

Also, the regional level involvement of PRARI at the Governor level in several regions means the Federation Council (made up of Governors) is aware of PRARI activities. This facilitates the extension of PRARI-introduced and/or supported ideas and changes. The current and future impact of PRARI in this process is likely to be limited, but could still be significant if the land law experience were to be repeated.

Turning to the interest and support of the Federal Ministry of Agriculture in the PRARI initiative, it has been extensive and quite impressive. There have been several letters from the Minister and Deputy Minister of Agriculture endorsing the initiative and its continuation. Ministry staff took leadership on promoting PRARI at the Samara conference, and in encouraging regions to implement reforms. The Ministry has made several requests to expand the number of regions where PRARI activities are undertaken (the increase from the original five regions to the current 10 was at the request of the Ministry). The Ministry has also made the PRARI initiative a focal point for Gore-Chernomyrdin Commission agricultural activities. The recent proposal by Ministry staff that PRARI should be made a long-term project with regional level offices also indicates a high degree of support. Finally, the Ministry has used PRARI-financed, Russian consultants and materials as sources of information on regional initiatives and activities.

Clearly part of the enthusiasm for PRARI stems from the overlap of Ministry and regional interest in seeing more investment (both foreign and Russian) in the agricultural sector. However, the enthusiasm of reformers in the Ministry for the policy-reform aspects of PRARI has also been evident. In short, the level of Ministry support has been consistent and substantial.

Coordination with other donors on PRARI activities has been quite extensive at the meeting and discussion level. IFC and World Bank representatives have been involved in PRARI conceptualization, and participated at the Chicago Workshop. The EBRD Lower Volga Venture Fund participated in the Samara Workshop. Both the World Bank and the IFC have expressed support for the PRARI concept. There is growing interest by the World Bank in regional-based initiatives, although funding for such endeavors has not been provided.

III. CONCLUSIONS:

A. Regional Level:

1. Completed Policy Initiatives to Attract Agribusiness Investment

Most targeted regions have taken some actions over the past year to improve the investment climate. These have included new investment laws to protect investors from non-commercial risk, new land laws, inauguration of financial guarantee programs, support for small businesses, programs to facilitate investments, tax holidays, and conduct of investor conferences and/or preparation of promotional materials. There are no examples of unique agribusiness investment initiatives (company profiles, business plans and descriptive materials have been completed in several sectors and not just for agribusinesses or the agriculture sector), but the implementation of nearly all of the initiatives undertaken, and in particular the new land laws, are creating a more positive environment for the agricultural sectors in the selected regions. In Rostov and Chuvashia, the administration is hoping investments in the agriculture sector will stimulate investments in other sectors of the economy.

However, there are substantial differences among regions on implementing the new laws and incentives. In regions such as Lipietsk and Voronezh, the laws are recent and remain essentially untested. In Kirov and Vologda, the laws are vague and can have multiple interpretations. Many regions, such as Saratov, feel they have formulated and implemented an adequate set of incentives and can reasonably expect an inflow of investment - although Saratov is moving forward on its land law. A few oblasts are more pro-active, such as Chuvashia, and are continuing to improve existing legislation.

2. Major Changes/Initiatives In Process

The changes/initiatives that are underway are very region-specific. In several regions, new legislation on investment and land, credit and guarantee funds, investor guides and centers, and a number of other areas are in various stages of implementation. Some regions (Krasnodar, Vologda, Tomsk) have little underway. Samara is just getting started on investment policy. In still other regions modifications in existing legislation and the development of implementation procedures are being undertaken (Omsk).

3. PRARI Assistance Provided to Regions

Technical assistance has been provided to the regions mainly through Russian consultants. In all cases, the reforms and changes have been the result of regions' own initiatives. PRARI consultants have supplied outside, expert opinions and information in a number of areas such as the importance of investment and land laws. They have been instrumental in providing objective feedback on draft legislation and helping to refine existing laws. The consultants have brought an investor's view to issues being considered, and acted as a liaison among firms and between the public and private sectors, such as the case of the input supply center proposed by Rostov. They have fostered the creation of PRARI Working Groups which increased communication among regional departments of economy, external economic affairs, and agriculture. Finally the consultants have prepared company profiles, investment guides, draft agricultural sector strategies and other materials of direct use by the regions. Many of these activities have facilitated an acceleration of work on regional laws and helped to put agriculture in the oblast investment picture.

Through the Workshops in Chicago and Samara, PRARI has provided opportunities for private business and regional official interaction. The Workshops have enabled a few new investment contacts to be made and some agreements to be finalized, while also providing regional staff with a better understanding of private investor concerns and problems. The Land Workshop in Samara allowed an exchange of information among oblasts attending. Only one regional administration, Krasnodar, has not made full use of PRARI assistance.

4. PRARI Assistance Most Appreciated by Regions

Regional staff, except for Krasnodar, have consistently identified three types of PRARI assistance that have been most appreciated.

- First, has been the advice/assistance provided by Russian consultants in the drafting of new legislation, decrees or implementing regulations.
- Second, is the inter-regional exchange of information in the form of face-to-face meetings arranged under PRARI auspices or via the physical transmittal of documents and information from one oblast to another.
- Third, are the business-to-business contacts that PRARI has and continues to arrange.

The many requests for a range of training suggest that such assistance would also be highly

appreciated.

The regions also appreciate that the assistance is provided directly to the regions and not via the Federal government, and that activities undertaken have taken a broad view in attempting to improve the investment climate. PRARI has therefore stimulated action on overall, and not just agricultural, investment issues.

Clearly, the most appreciated aspect of PRARI has been the ability of regions to get objective advice and feedback from Russian experts - all young and reform-minded with international experience and with access to information on successful investment promotion efforts in other regions. Frequent visits to the regions by these consultants are the principal force in keeping regional governments moving on reforms.

5. Negative Changes in Policy and Investment Climate

On an individual region level, a number of real or possibly negative changes are being implemented or considered. In Rostov, an Oblast Input Distribution Company has been established that could compete with and have an unfair advantage over private input suppliers. Many actions in Krasnodar suggest the Krai is not interested in reform. Grain trade embargoes had been imposed for limited periods of time in Krasnodar and Saratov with negative effects on agricultural producers and traders. Except for Krasnodar, these have now been lifted. A Regional Food Corporation is being considered in Vologda that could, if funded, impact on the free marketing of agricultural products. Finally, the election in Lipietsk changed the progressive Governor and his Deputies with whom PRARI worked. The new Governor reportedly campaigned to eliminate full foreign ownership of businesses in favor of joint ventures. Implementation of such a requirement could impact on the U.S. Golden Rooster investment and discourage other foreign investors who seek 100 percent ownership.

6. Regional Requests For Further PRARI Assistance

While there were substantial variations among regions, the over-riding emphasis was on bringing investors to the region and arranging local business/international investor contacts. Most regions also identified continued visits by Russian consultants on a regular basis to assist in the drafting of additional legislation, to advise on implementation acts and regulations, and to help develop implementation procedures for land transfers, credit provision and guarantees and other aspects of investment incentive legislation. Training in how to attract investment, management, accounting, dispute resolution and negotiation/contracting was also a high priority for private agribusiness staff as well as regional officials. Samara oblast also requested equipment to help set up an investor information center. For the most part, assistance requested by regions is limited to technical assistance, advice and information.

7. Overall Progress By Regions In Achieving PRARI Objectives

With the expected variation among oblasts, two general conclusions about the overall progress in establishing an investment-inducing environment and attracting agribusiness investments are possible. First, serious attempts are being made in most regions, and the attraction of agribusiness investment is recognized as being important. Second, the current package of investment laws and related legislation will benefit from additional refinement. However, the exact refinements often depend on the testing and attempts to implement the various aspects of the laws which are still to happen.

B. Agribusiness Level:

1. Views/Comments From Agribusinesses About Changes in Regions

The Companies recognize that there are significant differences among the regions and indicate that every small policy change helps a little. They are encouraged that some farms are becoming business-minded and reliable clients and that many regions are moving slowly in the right direction.

Most companies have very specific issues at the regional level and wish oblast administrations were more pro-active than reactive. They note problems with bureaucratic, inefficient banks, shortages of raw materials, multiple interpretations of laws (tax, operating requirements, etc.), high prices of utilities and a number of other issues. However, despite the problems there is an almost universal intent to expand and many companies are doing so now.

2. PRARI Assistance to Agribusinesses

PRARI is recognized for having helped bring the public and private sectors together. It provided a new forum (Samara Workshop and GCC) for the private sector to articulate their problems to senior regional and federal officials. PRARI has also assisted in information exchange (Chicago Workshop) and PRARI consultants have served as intermediaries. In Rostov the PRARI consultants were recognized as having been instrumental in changing government attitudes toward a proposed (now being implemented) investment. Limited assistance in the policy area is also acknowledged although the impact of reform on individual firms is not considered significant at this point.

PRARI direct and indirect assistance resulted in three completed agribusiness investment agreements. They are the Case equipment sales and assembly in Saratov, the Monsanto low-tillage expansion in Saratov, and Cargill's grain elevator purchase and expanded forward credit program in Krasnodar. The latter was the result of a PRARI consultant's work on a related USAID-funded agribusiness support activity. All three were initiated and agreements signed within the PRARI time frame. Some contacts made in Chicago are still in discussion.

3. Agribusiness Comments on PRARI Usefulness and How It Could Help

Agribusinesses identified several areas where PRARI has been and could be useful in the future. Via the collection and transmission of information on the regions, they see PRARI as assisting in drawing new investors to the regions which will "add voices" on issues of concern. PRARI has helped convey the message that investments are not limited to inputs which is important for bricks and mortar investors. Assisting in development of contacts and in building relationships is also important.

Agribusinesses would like PRARI help and advocacy on tax, customs, regional authority compliance with existing laws and regulations and other issues at the local level. Companies also said that training programs for their Russian staff would be valuable as well as information on changes in regional conditions. Finally, agribusiness representatives noted that the sharing of information with other regions is useful because of the competition it stimulates and the learning that occurs.

IV. RECOMMENDATIONS:

The Review Team found differences among the PRARI regions in terms of the speed and willingness of administrations to develop new or improved investment policies. There were also differences in investors' views of agribusiness opportunities in the regions, and regional administrations' understanding of investors' needs. Nevertheless, reforms have been made, or are in process, and new investments in the agriculture sector are starting as a result of PRARI. The Review Team recommends continued, but limited, involvement of PRARI in the next 12 months. Due to budgetary concerns, PRARI would have to be implemented in the most cost effective manner possible. PRARI assistance should be provided only to those regions which:

- have implemented significant reforms to improve the investment climate;
- are continuing to refine existing reforms or develop additional reforms;
- have already attracted investments by U.S. agribusiness companies; and
- opportunities exist for new or expanded U.S. agribusiness investments.

With this in mind, the Review Team ranks the regions in the following manner:

Category 1 - Regions for continued PRARI assistance:
Chuvashia, Omsk, Rostov, Samara, and Saratov

Category 2 - Regions for limited assistance, subject to certain actions being taken by the administrations to improve the investment climate:
Lipietsk and Voronezh

Category 3 - Regions where PRARI assistance should be phased out:
Kirov, Krasnodar, Tomsk, and Vologda

Assistance To Category 1 Regions:

Assistance to Category 1 regions would consist of three types of activities.[1]

A. Technical Assistance by Russian Consultants:

Experience to date shows that regions benefit most from information and technical advice provided by the PRARI Russian consultants. They appreciate the ability to access Russian specialists from Moscow who can provide information on what's going on in other regions, and who can give an objective view of their legislative proposals. Assistance by Russian consultants would consist of:

- Provide objective opinion and comments on draft laws and amendments to existing legislation. This would include policy advice and recommendations on steps to implement investment laws.
- Participation in regional and inter-regional working groups on land reform, warehouse receipts, bankruptcy, and other priority areas of regions.
- Exchange information from other oblasts on successful approaches to investment legislation, investment promotion, and creation of investors' service centers.
- Participate in, and help to organize training and workshops on investment promotion, auditing and accounting for managers of enterprises, arbitration, and interacting with foreign investors.
- Serve as intermediaries between regional administrations and the private sector to help explain oblast policy, and to help advocate on the behalf of investors.
- Develop and help distribute information to businesses on policy changes in regions and investment opportunities.
- Help prepare Investors' Guides (using the Saratov guide as a model) and other promotional materials.
- Help prepare regions to participate in investment promotion activities such as regionally-organized investment promotion conferences, trade missions, and regional presentations such as those organized by the American Chamber of Commerce.

The number of Russian consultants would be reduced from the current 8 to 6, and would work on PRARI for 10-12 days per month. The consultants would be free to mix and combine their assignments to any of the four regions as needed in order to respond to specific technical assistance needs. Arrangements should be made to access specialized Russian expertise on a short-term basis. For example, specialized legal skills to help draft laws.

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[1] **Special note on Samara:** Although Samara has not done as much as other regions in terms of implementing reforms, an investment law is in process, and Samara will soon issue the next land law which received substantial PRARI assistance in its development. PRARI assistance to Samara beyond July 1998 should depend on finding an appropriate mechanism to integrate it with the RII. One option is to attach a PRARI-funded Russian consultant to an existing oblast investment promotion organization, or the planned ABC.

Contracting Russian consultants through Washington-based consulting firms would not be cost effective in the future. As other regions develop and implement investment promotion laws and institutions - whose adaption in PRARI regions can be accelerated by PRARI Russian consultants - the need for expatriate assistance is reduced. Short-term technical assistance from U.S. specialists in investment policy and promotion could be obtained, as needed, through IQC's or Mission buy-ins to Global activities.

B. Business Contacts Through Existing Channels:

Information prepared by the PRARI Russian consultants on policy changes and investment opportunities in regions can be disseminated through existing organizations such as the American Chamber of Commerce, the U.S.-Russia Business Council, and the Department of Commerce's BISNIS and Search for Partners publications. Both AmCham and the US-Russia Business Council have publications which reach out to the American agribusiness communities in Russia and in the United States respectively. AmCham has been organizing trade missions to different regions, as well as holding regional presentations in Moscow. In both of these forums, the businesses and regions pay their own way. PRARI could help regional officials to organize their presentations, as was done successfully in the case of Lipietsk. A small grant to AmCham and the U.S.-Russia Business Council could be provided to defray the costs of publication and holding regional presentations.

USAID/Russia and AID/W (ENI/ED/AG and G/EGAD/AFS) should continue to respond to investor inquiries, but should be careful not to endorse any particular U.S. or Russian firm. AID's role would simply be to exchange information and encourage direct contact so that the potential investors can assess for themselves whether or not to invest.

C. Engage The Ministry of Agriculture On National-level Policy Reform:

USAID should keep the Russian Federal Ministry of Agriculture engaged on policy reform through continued involvement of PRARI in the Gore-Kerienko Commission. PRARI regions can encourage the Russian Federal Ministry of Agriculture to work on national-level agriculture policy reform by making the results of their efforts known to Moscow. PRARI consultants could help the regions highlight their successes, and to inform the Ministry of areas in which national leadership and policy guidance would be most appropriate. USAID can assist by providing regular updates on PRARI progress to the Ministry of Agriculture. The new Minister of Agriculture could use PRARI as a vehicle to show his commitment to reforms in the agriculture sector.

Assistance To Category 2 Regions:

Assistance to Lipietsk and Voronezh would be limited to providing information on reforms and initiatives implemented by Category 1 regions. Between now and July 1998, occasional visits would also be made by PRARI consultants to monitor changes. Subject to progress on certain issues, PRARI may provide some or all of the assistance provided to Category 1 regions. In Lipietsk, continued PRARI assistance would depend on actions by the new

Governor to facilitate foreign investment. In Voronezh, PRARI assistance would depend on the amount of State control by the administration on its planned legislation on "Mechanisms for Oblast enterprises", and more interest shown by U.S. companies to invest there.

Assistance To Category 3 Regions:

PRARI assistance would be phased out of Category 3 regions between now and July when current funding under the Abt and Louis Berger contracts end. Information on other regional investment promotion activities, legislation passed by regions to promote investments, and their results will be provided to Category 3 administrations as a means to inform and motivate them in a competitive manner. However, any form of direct assistance to the administrations will be phased out starting in May 1998.

Except for the above comments on Lipietsk, Voronezh, and the four category 3 regions, the Review Team recommends that assistance by the PRARI contractors Louis Berger and Abt Associates continue as is through July 1998.

The option of doing nothing after July 1998 should be carefully considered against the potential costs of losing momentum on progress already underway. Some regions have expended considerable political capital in supporting PRARI's objectives. A new Minister has been named to take over the Federal Ministry of Agriculture. The new Minister is a young, reform-minded technician who has been brought on to accelerate serious restructuring of the agriculture sector. PRARI is a timely and effective mechanism to support the Minister's objectives and enable the Ministry to work directly with regions.

A proposed 12-month funding scenario for PRARI assistance beyond July 1998, would be:

I.	Limited Technical Assistance by Russian Consultants:	
	6 consultants @ 10 days/month for 12 months	$ 125,000
	Travel to regions	$ 75,000
	Specialized Short-term Legal (or other) Expertise	$ 25,000
II.	Short-term Technical Assistance by U.S. Specialists:	
	3 months @ $45,000/month	$ 135,000
III.	Small Grants to AmCham and the U.S.-Russia Business Council:	
	Publication and dissemination of regional information	$ 50,000
	Organizing and conducting training programs in regions	$ 35,000
	Organization of trade missions and regional presentations in the U.S. and Russia	$ 100,000
III.	Administration:	
	Contracting and Managing Russian Consultants	$ 100,000
	Monitoring and Evaluation	$ 35,000
	Total	$ 680,000

ANNEX 1

ACTIVE U.S. AGRIBUSINESS INVESTMENT IN PRARI REGIONS*

COMPANY	BUSINESS	REGIONS
American Cyanamid	Pesticide/herbicide distribution	Rostov, Krasnodar, Saratov, Samara
Cargill	Grain/oilseeds merchandizing	Krasnodar, Rostov
Case	Ag equipment sales; assembly	Krasnodar, Rostov, Saratov, Omsk
John Deere	Ag equipment sales	Krasnodar, Rostov, Saratov
DuPont	Pesticide/herbicide manufacturing	Chuvashia
Golden Rooster	Poultry production	Lipietsk
Monsanto	Pesticide/herbicide distribution	Krasnodar, Rostov, Saratov, Samara
Nabisco	Crackers	Lipietsk
Phillip Morris	Tobacco	Krasnodar
York International	Mobile refers	Rostov
Ibberson	Feedmill equipment	Omsk

*Although this list is intended to be comprehensive, it is probable that there are omissions. Those listed are certainly the most significant.

REPRESENTATIVE FOREIGN (NON-U.S.) AGRIBUSINESS INVESTMENTS IN PRARI REGIONS

REGION	COMPANY	BUSINESS
Chuvashia	Rhyno	Industrial tractors
Lipietsk	Progresso	Apple juice
Omsk	Rosar Ltd.	Brewery
	Alfa-Laval	Dairy products
	Schaller	Sausage
Rostov	Agrofin	Grain merchant
	Baltika	Brewery
Samara	Eurotecknica	Potato processing
	Nestle	Confections
	Danone	Yogurt
Tomsk	German company	Brewery
	Alfa Laval	Dairy products
Vologda	Swiss - Alfa Laval	Dairy packaging
	UK - Ganley Int'l	Forest products
	Denmark - Pindstrup	Fertilizer (peat) prod.
	Finland - Primalko	Beverage production
Voronesh	Louis Dreyfus Co.	Grain merchant
Several oblasts	Rhone-Poulenc	Farm chemicals sales

AGRIBUSINESS INVESTMENT PROJECTS REPORTEDLY UNDER SERIOUS BILATERAL CONSIDERATION*

Krasnodar	Cargill	Grain elevator
Rostov	Cargill	Oilseed processing
	U.S. company	Hi-bred seed production
	U.S. company	Assemble seed drills
Samara	Nestle	Expand plant capacity
	Dutch company	Produce agricultural equi.
Saratov	U.S. company	Irrigation equip. mfr.

*Some names withheld due to sensitive nature of negotiations.

ANNEX 2

List of Persons Contacted:

1. Afanasiev A.M., First Deputy Chairman, Committee on Economy and Finance, Samara
2. Aksakov A.G., Minister of Economy, Chuvashia
3. Babintseva O., Head of the Section for Coordination of Foreign Economic Activities and Investments, Chuvashia
4. Belikova Eu., Manager of the agri-company "Ol'deevskoye", Chuvashia
5. Biserov V.N., Cyanamid Sales Representative, Southern Russia, Rostov-on-Don
6. Bondareva N.N., Consultant, International Economic Department, Rostov
7. Bullock William, Country Director, Land O'Lakes, Moscow office
8. Burch Carl, International Fund "Russian Farms", Moscow oblast, Dmitrov
9. Davydov V.V., President, Saratov Chamber of Commerce and Industry
10. Davydov A.S., Senior Specialist, Section of Foreign Relations and Investments, Ministry of Economic and Inter-Regional Relations, Samara
11. Djupedal Eivind, Vice President, Cargill Enterprises, Inc., Moscow office
12. Egorov A.V., Head of the Department of Economy and Finance , Ministry of Agriculture and Food, Chuvashia
13. Filippova S., Deputy Director, AO Khimprom/Du Pont, Chuvashia
14. Gaiduk A.M., Head of the Market Development and Credit Policy Department, Ministry of Economy, Saratov
15. Galyapin M.I., First Deputy Chairman, Land Committee, Rostov
16. Ipatov Yu., Head of the ARIS project, Chuvashia
17. Ivanov V., General Director, the confectionary plant "AKKOND", Chuvashia
18. Korolyov P.P., Head of the Department of Foreign and External Economic Relations, Samara
19. Korshunov A., Deputy Minister of Agriculture and Food, Chuvashia
20. Kushkov A., Minister of Agriculture and Food, Chuvashia
21. Malov N., Head of the Section of International Cooperation, Ministry of Foreign Relations, Chuvashia
22. Malyakov O., Deputy Minister of Economy, Chuvashia

23. McFarlane Euan, Monsanto Representative, Rostov
24. Mikaia Timour, Business Developer, Case, Moscow office
25. Mikheev V.A., First Deputy Minister of Agriculture, Saratov
26. Nadezhdin V.I., Head of the Food Processing Department, Samara
27. Panfilova N., Public Relations Manager, British American Tobacco, Saratov
28. Parshukov Yu. B., Deputy Minister of Agriculture and Food, Rostov
29. Pashina A.L., First Deputy Chairperson, the Russian Middle-Volga Chamber of Commerce, Samara
30. Petrova T., Deputy Minister of Economy, Chuvashia
31. Pis'menskaya I., Head of the Cheboksary branch of the SBS-AGRO Bank, Chuvashia
32. Pobedyonnaya L.A., Deputy Chairperson, Committee on Economy, Rostov
33. Pokrovenkov N.V., Deputy Chairman, Land Resources and Land Management Committee, Samara
34. Polkovnikov I.V., Advisor, Department of Foreign Economic Relations, Rostov
35. Procope Robert, AGRAFIN SNAB, Rostov
36. Saleem Asmat, Finance Director, British American Tobacco, Saratov
37. Scott David, Country Director, Citizens Network, Moscow office
38. Shemarina L., Head of the Department, Ministry of Foreign Relations of Chuvashia
39. Smith Fred, Country Director, ACDI/VOCA, Moscow office
40. Stepanov Serge, Factory Director, Danone, Samara
41. Thomson John, Finance Director, Pepsi, Samara branch
42. Trofimov V., AO Khimprom Deputy Director, Chuvashia
43. Udalov Dm.V., President, Agricultural Financial Corporation "Russian Field", Saratov
44. Velichko Yu.V., Senior Specialist, Department of Trade and Industry, Section of Foreign Economic and Interregional Relations, Samara
45. Vlasov A.G., First Deputy Chairman, Land Resources and Land Management Committee, Samara
46. Wilson Hamish, Rhone - Poulenc, Moscow office
47. Zalessky N.N., Head of the Sectionof Analysis and Forecasting of Industries' Development, Rostov

ANNEX 3

PRARI - April Interim Progress Review
Scope of Work

I. Objectives:

- To assess progress by oblasts in implementing the reforms and investment incentives discussed at the Samara PRARI Workshop;
- To assess US agribusiness investor interest in PRARI oblasts;
- To recommend the specific activities and level of PRARI support to oblasts for the period May through mid July 1998, when the Berger and Abt contracts end; and
- To provide recommendations on the need and scope for USAID support for PRARI beyond July 1998.

Although not a specific objective, the progress review team will look at overall progress by PRARI oblasts in implementing a business-friendly environment, and in attracting investors in the agriculture sector.

II. Methodology:

The progress review will be carried out in Russia by a four to five person team consisting of at least one representative each from ENI/ED/AG, G/EGAD/AFS and USAID/Russia. Representation from the USDA, Russian Ministry of Agriculture and the U.S. agribusiness community on the team will also be sought. The review period will be 10 working days, starting on/or about April 15, 1998.

The PRARI contractors (Abt Associates and Louis Berger International) will collect and make available all relevant information on progress in each oblast, to include:

- All policy and institutional reforms implemented to date, starting from 1997, to attract investments.
- All reforms and institutional changes currently in process.
- Specific policy and institutional changes currently in process as a result of the Samara PRARI Workshop.
- New agribusiness investments to date, starting from 1997.
- Agribusiness investments with direct PRARI involvement.
- Any negative or restrictive institutional or policy changes which may discourage investment.

This information will be provided to the progress review team members in the form of field trip reports and updated *Oblast Scoresheets* no later than April 13, 1998. These materials will be supplemented via interviews with PRARI Russian consultants and site visits to a representative sample of 3-4 oblasts, to be selected prior to the team's arrival.

Interviews (by telephone or direct) with at least 5 U.S. agribusiness companies with current or planned investments in PRARI oblasts will also be conducted. These interviews will be

based ENI/ED/AG or G/EGAD/AFS staff involved in PRARI will make these contacts. The purpose of the investor interviews is to provide a "reality check" on whether or not oblasts have implemented the reforms and changes they claim to have done, whether investors are aware of the changes being made, and if the reforms (actual and planned) are important from the perspective of the investor.

III. Progress Review Criteria:

The progress review team will report on the following[1]:

A. Policy and Institutional Changes Approved and Implemented in Regions Since 1997:

- Existing reforms or legislation which have been modified to be more investor friendly.
- Reforms drafted and implemented that are acceptable to an investor.
- Policy and institutional changes approved, while not ideal or fully implementable, which show a willingness on the part of the oblast to institute positive changes and to understand the needs of the investor.
- Identifiable negative changes in the policy and investment climate.

B. Investments in Regions (delineated by type of investment, country of investor, and amount - if known):

- New agribusiness investments in 1997.
- Existing investments (prior to 1997) expanded or improved in 1997.
- Potential agribusiness investments for 1998.
- Contacts (telephone calls, fax messages, visits by representatives, etc.) made by interested U.S. agribusiness investors with oblast officials or private Russian enterprises to discuss investment possibilities.
- Specific investor contacts and/or commitments attributable to PRARI.

C. Samara Workshop Follow-on Activities (description and stage of development):

- Progress of oblast Working Groups formed to facilitate policy discussions and debate necessary policy and institutional needs.
- Policy/institutional reforms in process by oblasts (land law, taxation, arbitration, guarantees, etc.).
- Investment promotion activities in process by governments (investment guides, investor support center, investment conferences, training in specialized areas, etc.).
- Investment promotion activities in process by enterprises (business profiles, investor visits, etc.).

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[1] Some duplication and overlap exists among the following Assessment Criteria. Given the specific areas identified for review, this duplication and overlap is judged necessary and acceptable.

D. Client (regional administrations, Federal Ag Ministry, private agribusinesses) assessments of PRARI:

- Oblast participants' general assessment of assistance provided by PRARI.
- US investor views on PRARI assistance.
- Recommendations from oblasts and businesses on how PRARI can be more relevant to their needs.

E.. Contribution of PRARI to oblast and national level reforms:

- Contribution and results of PRARI toward implementation of Oblast initiated policy and institutional changes to attract investors.
- Involvement and support of PRARI objectives by the Federal Ministry of Agriculture.
- Complementarity and results of PRARI in advancing the Federal Ministry of Agriculture's reform program.
- Collaboration (current and potential) of PRARI with other donor programs working at the national level.

IV. Reports:

The progress review team will prepare a written report which address all points in Part III (Progress Review Criteria). The report will contain four sections which address:

- Progress by oblasts in implementing the reforms and investment incentives discussed at the Samara PRARI Workshop;
- Private agribusiness investor interest to invest in PRARI oblasts, with a focus on the U.S. firm;
- Recommended activities and level of PRARI support to oblasts for the period May through mid July 1998; and
- Recommendations on the need and scope for USAID support for PRARI beyond July 1998.

The progress review team will give an oral briefing to the USAID/Russia Mission Director at the end of its field work. A draft of the team's final report will also be completed while the team is in Russia.

V. Schedule:

Day 1	Review and discuss PRARI consultants' field reports and updated score sheets. Conduct interviews with PRARI Russian consultants.
Days 2 - 8	Visits to oblasts.
Days 9 - 10	Meetings in Moscow, analysis and development of conclusions/recommendations, and report writing.