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MFM Project

INITIAL RUSSIA FIELD VISIT

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RESEARCH TRIANGLE INSTITUTE

Municipal Finance and Management Project

Trip Report

Initial Russia Field Visit

Moscow

Nizhny Novgorod

Vladivostok

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Eric Chetwynd, RTI/DC

August 16 through 30, 1993

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TRIP REPORT -- INITIAL FIELD VISIT -- MUNICIPAL FINANCE AND MANAGEMENT PROJECT -- AUGUST 16 - 30, 1993

Summary. Ted Priftis (NIS/TF/DIHR Project Manager), Ron Johnson (Vice President for International Programs at RTI) and Eric Chetwynd (RTI Project Director) completed the MFM project's first visits to the initial project sites of Moscow and Nizhny Novgorod and made a site selection visit to Vladivostok. The visits confirmed our plans to start the project in Moscow and Nizhny Novgorod and resulted also in our recommending strongly that Vladivostok be included as the third project site in Russia. Norm Hickey (Moscow and team leader) and Bill Fuller (Nizhny and training advisor) have clearance to move to Russia on November 29th as we had planned. They have clearance to come to Russia on a preparatory visit September 20 - October 8 with Juliet Johnson. A final decision on Vladivostok will be made by AID's NIS Task force after the team submits its report, however, local authorities are poised and ready for an early start should that decision be affirmative. In all three cities, local support requirements will be met and in all three cities, the team and the project concept were met with unanticipated enthusiasm and an eagerness to begin.

The next step will be to develop a set of MOU's to be signed by USAID in Moscow and each of the participating cities. The team met with the USAID Mission Director, Jim Norris and Mission (PRE/H) Housing Officer, George Daikun. Finally, we renamed the project Municipal Finance and Management (MFM). The RFP project title of Democratic Pluralism Initiatives works as an umbrella but is not an accurate reflection of the project's specific activities.

The team was joined in Vladivostok by George Daikun and in Nizhny Novgorad by Jo Ann Goyne of the USAID Housing Office.

This report focuses on the accomplishments of this field visit and the next steps as determined through consultation with our Russian counterparts. Notes from all meetings are retained for future reference in RTI's MFMproject files.

APPROACH

General. The team spent two days in Moscow and two in Nizhny Novgorad confirming these two cities as the initial project sites in Russia; briefing officials on the scope and resources of the project; identifying collaborating institutions and counterparts; listening to assessments of local problems, plans, resources and priorities; getting commitments on local contributions to the project and working out next steps.

In each city, we presented an overview of the MFM project, an explanation of the RTI contract and the project resources under the contract and proposed next steps. We set out the specifics of what the project needed from each municipality in order for it to function and prepared the groundwork for an MOU.

In Vladivostok, where we spent seven days, we prepared a set of criteria for assessing the suitability of that city for participation in the MFM project. The criteria we sought (see Annex 1 for more detail) are:

- (a) Reform oriented local government with dynamic and progressive leaders.
- (b) A relatively high degree of local autonomy and authority.
- (c) Facilitative approach towards the private sector.
- (d) Financial management systems are a municipal priority.
- (e) Likelihood that the city can serve as a model in its region.
- (f) Complementarity of other donor programs in the area.
- (g) Ability and willingness to contribute local resources to the MFM project.

The city had prepared a week of briefings for us that allowed us to get at all of these issues. We used the team approach, but sometimes split off so that additional topics, not included in our programmed briefings, could be covered. We communicated with the aid of interpreters, whom we hired locally and who did an excellent job. George Daikun, who was with the team for four days in Vladivostok, speaks fluent Russian and served as a check in this respect.

As noted earlier, the team covered basically the same ground in each city. To avoid repeating this information in the discussion of each city visit, this section will outline the specific issues we covered in each city, though, of course, Vladivostok, as a pre selection city was handled a little differently. There, we explained the project up front, but discussed prospects for local contributions only after it became obvious that the team was going to recommend Vladivostok as an MFM site. The specific items covered are set out in the remainder of this section.

Presentation of Overview, Contract Resources and Next steps. Ted Priftis introduced the team and explained the nature of our visit, the genesis of the Democratic Pluralism Initiative Project (Municipal Finance and Management), the possible links with other NIS projects, the focus of the MFM project and the ground the team wished to cover during the visit. He explained the nature of the project specifically as working collaboratively with the municipality to strengthen budgeting and finance and associated management systems such as personnel, revenue and selected service sectors.

Ron Johnson set out the three components of the project that would be provided under the contract, namely: advisory services, installation of computer systems including both hardware

and software, and related training in Russia and the United States. He briefed the hosts on RTI as an institution and on the contractors and institutions that make up the consortium of resources that will be working with the Russians on the project.

It was explained that there would be a full time U.S. advisor for eighteen months to two years plus three Russian staff, all of whom would be contracted to work with the municipality as a team. In Moscow, it was noted that there would be two full time staff people, one of whom would also be the leader of the U.S. consortium team working in Russia and other NIS countries on this project.

Eric Chetwynd set out some of the specifics of this visit, namely, to: (a) meet some of the counterparts in each of the cities; (b) begin to identify with them the project's priorities; and (c) get clearance and make some preparations for the visit September 20 - October 8 of Juliet Johnson and the full time field team of Norm Hickey and Bill Fuller (hereinafter -- "September Team") to develop with counterparts an agreed Memorandum of Understanding, a rough draft work plan, discuss training ideas and work on office and personal logistics. The team also described the proposed US. ("Reinventing Government") tour and requested clearance on the planned dates of October 23 - November 7. Clearance was sought also for the field team to take up full time residence by November 29

Municipality Contributions to Project. Each city was queried on the local contributions to the project that would be needed to move forward with implementation. These were:

- o Appoint a full time counterpart to the RTI resident project advisor from the municipality staff.
- o Form an Advisory Committee from the municipality's finance and non-finance staff to which the project team can report periodically and from which it will receive guidance.
- o Provide office space sufficient for the American advisor(s) and Russian staff.
- o Include lines for international telephone and FAX.
- o Provide one full time office secretary/interpreter.
- o Provide local official transportation to the project team.

A formal memorandum of understanding will cover the U.S. and Russian commitments to the project and specify agreement on project objectives. The Mission in Moscow indicated that its blanket agreements with the Russian Government will cover sponsorship of work permits as necessary, exemption from Russian personal income tax for the U.S. advisors, and exemption from customs duties on household effects, personal vehicles and project equipment. The agreement also will help to facilitate multiple entry visas.

MOSCOW

USAID. In Moscow the team briefed USAID Mission Director Jim Norris on the project and made arrangements for keeping the Mission apprised of progress. The Mission will sign the Memorandums of Understanding with each of the Municipalities spelling out the objectives of the project in each city and the respective commitments of AID and the municipalities. George Daikun will be the Mission backstop officer for the MFM project.

Municipality. The team met with Kemer Norkin, Director General of the Mayor's Office, who came in from vacation to welcome us. He said that the city is very anxious to move ahead with the MFM project (he helped us come up with the new title) and he sees it having impact on areas of finance, revenue and management that are high on the city's priority list. Because of the time of year of this visit, we were unable to meet with representatives of the City's Finance Department, but indicated that the follow-up team in September would like to meet with that group and begin to determine priorities for the two year program in Moscow.

Mr. Norkin responded very positively to the project concept and resources. He indicated that timing is excellent given the difficulties the city is experiencing with budget and finance issues. He was pleased with the notion of providing an Advisory Committee and indicated that he had already organized a task force in the area of zoning and land assessments. He gave the team a disk of the latest version of the report produced by this task force.

Before the team left the Moscow area it had concurrence on the dates proposed for the US training tour, the September visit of the field team and the arrival of the advisors full time November 29th. Mr. Norkin also agreed to the notion of a Memorandum of Understanding to include all of the items the team requested. Arrangements were made for E-mail and FAX communication and as of this writing, he had already transmitted the six names of the Russians who will participate in the U.S. tour (see Annex 4).

Finance Issues and Discussions. Discussions with Kemer Norkin focused primarily on the logistics of getting the project started in Moscow. He did note that of the 1 trillion Rubles in total taxes collected in the Moscow Region, half goes to the Federal government and half remains with the City. Of the 1 trillion, 600 billion is in income taxes. By contrast, only 3 billion Rubles is collected in land use taxes. According to Norkin, although tax issues are important to Moscow, the more important issues involve land use and the physical construction of the city, by which we understood him to mean infrastructure facilities, housing and land use issues.

For Moscow, considerable work will need to be accomplished by the resident team during their first short-term visit in September/October, meeting with staff in the finance offices and with the staff designated by the City for the U.S. study tour to identify areas of project involvement.

Organization Structure and Contacts:

Kemer Borsovich Norkin is General Director in the Mayor's Department (Administration).

Konstantin Edwardovich Bouravlyov is Deputy Mayor for Finance and Economic Development.

Bouravlyov's Deputy in charge of the **Economic Development** (department/division) is Mikhail **Klimoff**. The Deputy to Klimoff is Dimitri **Mityav**. I believe, but am not certain, that the physical structure of the city issues Norkin focused on fall under Economic Development.

Also Deputy to Bouravlyov is **Vicktorovich Yuri Korostelyov** who is responsible for Finance.

For the September/October visit, advance meetings should be set with Bouravlyov, Klimoff and Korostelyov and further meetings with staff they suggest, such as Mityav, to follow up on key issues that may be project focal points.

Next Steps. A Memorandum of Understanding must be prepared and taken to the field by the September team for final negotiation and signing by the Mayor and the USAID Director. Mr. Norkin had indicated in recent correspondence that the Mayor, though unable to join the U.S. tour, would like to have a formal signing ceremony of the MOU in Moscow.

AID/Washington needs to issue a formal invitation to the six members of the municipality designated for the U.S. tour -- see Annex 4.

The September team should arrange to visit with the City's Minister (Ministry) of Finance for an analysis of that sector not possible during the August trip and to identify counterpart personnel and priorities in this sector.

Ron Johnson has done some preliminary notes (above) on the organization of this sector based on conversations with Mission Russian staff and the Urban Institute's Ray Struyk in Moscow. Ray is managing the World Bank's Housing Reform project in Moscow and gave the team good information on living and working conditions in Moscow. For example, finding an adequate apartment will not be a problem nor will hiring of appropriate staff. Ray allowed that while Moscow is complex, the work is exciting because of the potential to influence events significantly and positively and the tremendous receptivity to good technical advice. A small example of that receptivity in our case is Kemer Norkin's interest in translating into Russian the book, Reinventing Government, a copy of which we left in each city.

The team also should discuss a training menu with Moscow counterparts to get a sense of potential needs and possibilities. One contact for these purposes should be Eugene F. Guzenyev, Director General of the Union of Russian Cities. This organization has potential

as a spread agent for the project and is interested.

A rough outline of a work plan for the project in Moscow should be worked out with counterparts.

The principal counterpart for the project should be identified and members of the Advisory Committee should be named by the city.

NIZHNY NOVGOROD

General Points. The team was received most cordially by Mayor Dmitry Bednyakov and key members of his staff, including Ms. Nina Palkina, Director of Finance. The mayor said that a major priority of the city was complete computerization of the Finance Department and creation of an integrated and networked finance system. He is interested in developing the capacity to perform analyses and projections of the budget situation and evaluate various scenarios. While these are the priorities he sees for the MFM project he also invited its possible extension to linking the city's budget and finance system with a network of commercial banks in the region as well as the region's securities market, currently being established on recommendation of the "Group of 30."

The mayor described a task force headed by the Vice Mayor Markoff that is responsible for coming up with a plan to computerize and modernize the city's administrative and information systems. He reported that there is a great lack of computers, software and communications equipment needed to get the job done -- currently, there are only a few stand alone stations. Already, Nizhny municipality staff are visiting other cities to gain experience, but the Mayor indicated that he would rather have Nizhny Novgorod become the training model for others in the Volga Region.

Nizhny Novgorod could be an interesting training site for the MFM project. The Ministry of Finance just opened a computer training center downtown to which people come from all over the country. Last winter, the city realized a long standing goal and established a program for teaching all aspects of the market economy in the Foreign Language Training Center. The two month course on market orientation draws people countrywide and has enrolled four groups of students since September.

Many innovative approaches are being tried in Nizhny Novgorod in the practical arena as well. For example, the City has instituted an approach whereby groups of young people get cheap credit from the city and invest in housing. The approach seems to be working. One group built an apartment building, sold it, and with the profit is building more apartments. They now have about 20 units. Because so much of the residential housing was built in the Soviet era, there is a preponderance of very large housing blocks. The city is now encouraging more individual units to get housing back on a "more human scale."

Ron Johnson had an in-depth discussion with Ms. Palkina and her staff and produced the following account of the city's financial sector (see also his Annex 2).

Finance Issues and Discussions. Nizhny's priority for the project is the computerization of the finance office including the 8 *raions* in the city. Our principal liaison with the city for the U.S. study tour and for the project in general is the Head of Finance Ms. Palkina.

Ms. Palkina's Deputy, Mr. V.M. Sirkin, provided a detailed briefing on the structure of the city budget and finances, attached to this trip report as Annex A.. On the next visit, the recommended strategy for developing more detailed understanding of the city's financial structure and priorities for project involvement is to develop a budget calendar interactively with finance staff, identifying the various events that are part of the current budget cycle, the kind of information that presently is required for each of these events, the sources for that information, and the city staff's perception of information gaps and deficiencies. This will be a preliminary exercise that should serve two functions:

1. Acquaint the project staff with the city's existing budget structure and process;
2. Provide a forum for project staff to begin to ask questions and make suggestions on ways the MFM project can work with the city's financial management systems.

Municipality Contributions to the Project. The city indicated a willingness to meet all of the MFA project needs and to sign a Memorandum of Understanding. The apartment market is tight, but the City already has arranged to set aside one unit in a new block recently developed by a private builder. (Note: The city contributed the land to the builder in exchange for seven of the 50 apartment units. One of these units is the one now in reserve for the U.S. full time advisor, and another unit will be found for part time experts.)

The MFA team will be assigned a central office in the Department of Finance that would appear to be adequate for the project's needs. Local transportation and secretary/interpreter will be provided (though finding a suitable secretary may be problematic) and the city will assist with identification of suitable candidates for the other positions.

We are fortunate in that a Peace Corps Volunteer, David B. Musante and his wife, Janet McNeil, are assigned directly to the Mayor's office and will assist in communications and in the set up of the project. David is a highly qualified municipal manager in his own right, having served for twelve years as mayor of Northampton, Massachusetts and as Chair of the Massachusetts Association of Mayors.

Next Steps. First order of priority for the September team will be to reach agreement with the Mayor's office on the final version of the Memorandum of Understanding to be signed by the UAID Mission and the Mayor.

A rough draft work plan should be developed and a full time counterpart named. (Ms. Palkina indicated she already has hired a full time counterpart, but we didn't meet him/her. She may have meant that she has made arrangements for hiring such a person.) Also, the city should indicate membership of the project Advisory Committee.

The September team should focus also on local logistics, such as housing and recruitment potential and nailing down specifics that should be in place for Bill Fuller's arrival November 29th. This would include arrangements for a multiple entry visa.

Finally, and this applies to both Moscow and Nizhny Novgorad, a communication should be sent to both cities setting out specifically what we hope to accomplish in each visit. As of this writing, both cities already have issued invitations for the September team's forthcoming visit.

VLADIVOSTOK

General Points. The assignment in Vladivostok differed from that in the other two cities in that Vladivostok is not already a selected city under the MFM project. The team conducted an assessment of this city to determine whether a recommendation would be made to include it as one of the MFM Russia cities. The assessment followed points set out in Annex 1 to this report and in the end the team concluded unanimously that Vladivostok met and exceeded these criteria and recommended strongly that A.I.D. include Vladivostok as the third MFM city. Tentative plans were made for a follow-up visit to Vladivostok to design the project should A.I.D. accept the team's recommendations.

It must be said that the Vladivostok City Council of Deputies (Soviet), led by its Vice Chair, Yuri Abdeev, arranged a highly professional and informative series of briefings and discussions for the team which covered a whole week. A copy of that schedule is attached at Annex 4. This agenda and additional meetings asked for and granted to the team, and two meetings with the Mayor (Victor Cherepkov) and one with the Vice Governor of Primorsky Crei (Territory), Vladimir A. Stegnij, gave an excellent overview of the economics, politics, infrastructure, resources, institutions and prospects of the city and the Primorsky Territory (or Crei) -- the geo-political and economic region in which Vladivostok plays a central and dynamic role. While the team was thus able to assess both the city and its region, in keeping with the immediate assignment, this report focuses on the municipality and its potential as an MFM pilot city.

The material shared by the Russians was so rich in depth, breadth and variety that it will not be included, per se, in this report. Rather, it will be summarized through addressing the selection criteria noted above. That discussion, point by point, follows.

A. Reform Orientation. The team came to Vladivostok knowing that it had the reputation as a progressive and reform oriented city. This advance knowledge was well supported by what the team found. Mayor Victor Cherepkov is one of the first elected mayors in Russia, having just been inaugurated some four weeks prior to the Team's arrival. The City Soviet decided that it was time the city had an elected mayor and took the extraordinary measure of calling for this election. Some eighteen political parties participated and there was a runoff of the two leading contenders.

In briefings, the Mayor expressed his strong support for Democracy and reform in the region, proclaiming that Russia must come back from the "lost years." He indicated that the election shows that Vladivostok can fight for Democracy. To illustrate the degree of public participation in government now, it was pointed out that there is active participation of the news media in the governing process, public seminars are held on key issues, all decisions of the City Soviet are publicized and there are regular opportunities for the public to meet with officials.

Reform is moving rapidly also in the private sector. Planning is underway to convert military installations to commercial uses and military factories are converting to non-military production. Large state firms were reported to be privatizing now at the rate of 3.5 billion rubbles of capital value per year. Investment, which was characterized as "dangerous" as little as two years ago is now seen as much less so. Many American firms are probing prospects in Vladivostok -- 50 inquiries per week reported by the American Consulate. While the team was there an ocean liner with more than 300 Japanese business prospectors docked in the harbor. There are formidable problems, such as inadequate business infrastructure and a nascent banking sector that is struggling. However, there was significant evidence of progress on all fronts as reported in the section on private sector facilitation, below and already there are some 15,000 small and medium businesses established in the Primorsky Region.

Press freedom was much in evidence. The press followed the team in its travels and there were press conferences and interviews. At one point, the team was left with a group of journalists, scholars and political party heads and representatives for a full afternoon of unsupervised briefing on the local political situation. The dialogue was extraordinary and there was open debate and disagreement -- sometimes with each other, and sometimes with points made earlier in the day by representatives of the city. One is free to start newspapers and journals -- the main problem seeming to be capital.

B. Local Autonomy and Authority. Vladivostok was a "closed city" until two years ago because it is the home of Russia's Pacific Fleet and a host of military industries. It seem to have literally burst out of this status with a virtual flood of foreign visitors and potential investors and a profusion of commerce abroad. This new freedom seems to be reflected also in the attitude and vision of local government officials. The election for mayor is a case in point and the Mayor soon will meet with President Yeltsin to discuss plans for the region. The whole idea of a regional plan for an economic region that conforms to no particular geopolitical entity is further evidence of the independent and innovative spirit of the local leadership. The local vision is to be a part of European Russia but at the same time to orient commercially and in other ways to the countries of the pacific rim, including also the Northeastern United States. There are strong links between Vladivostok and Alaska, Oregon and Washington, and to a lesser but still significant degree, California. There is an inevitability also about the close economic ties that will develop between this region and Japan, China and the Koreas.

There are plans also to create in Vladivostok and the region one or more free economic zones for tariff free trade and enterprise. According to briefings we received, this region eagerly awaits President Yeltsin's promised comprehensive legislation that will create a viable legal framework for Federalism that will encompass Oblasts and Kries, but leave the local jurisdictions on their own. Within this context, however, the locality will seek from the center such benefits as infrastructure investment, a favorable tax policy, disaster relief, special legislation on mining and resources, and creation of a legislative framework favorable to business. In short, they seek basically what our own cities and states seek from the federal

government.

C. Facilitation of the Private Sector. In Vladivostok, government leaders, most politicians we encountered and academics who briefed us are clear on the extent to which the region's future is bound up in the success of the private sector. The point was made at the political briefing that transition to a market economy goes hand-in-hand with political development and awareness. In a meeting on small and medium enterprise, government representatives detailed a litany of measures (tax breaks, 3-5 year tax holidays, free zones, streamlined procedures, etc.) that were being pursued to aid and abet the private sector. Business representatives, on the other hand, pressed for even more direct and practical assistance such as "business incubators" sponsored by the government. We were told that the Primorski region is one of the most rapidly privatizing areas of the country. While there was no way to verify this fact, the extent of business activity growth was dramatic and that includes foreign investment. Representatives of government and business from Japan, China, the Koreas and the United States have been very busy exploring business prospects in the region.

For its part, the local government has adopted special decrees to stimulate production and processing of agricultural production and manufacture of basic commodities and services. It has been promoting private production of housing and investment in tourism and seeking ways to stimulate innovation in business. A special fund is to be set up for small and medium business and a regional program is being developed to stimulate small and medium business. The MFM team was asked at the small and medium business briefing to discuss its ideas for promoting small and medium business.

The major University in the area -- the Far Eastern State University -- has set up a business promotion center as well as technical assistance centers covering technology, metal work, waste free technologies, timber and woodworking, fish processing and business management. The U.S. Peace Corps is involved in supporting the business promotion center. In addition, the city has assisted with the establishment of a privately owned and run Business Academy. The Academy teaches business and work ethic, how to overcome barriers to business and commerce, business English and business methods. The Academy integrates its foreign language instruction with practical business instruction. The Academy is run by a very dynamic Russian woman, Ms. Olga Pisarevakaya, who says that the old system was a system of blame. In such an environment people were afraid to innovate. She is trying to change that attitude.

There still are constraints in Vladivostok to doing business. Most of these are a result of national laws, rules and regulations and the many conflicting elements of the current constitution. It was our distinct impression that the Mayor, the City Soviet and the Primorski government are working hard to remove national as well as local barriers to doing business. They see the region's future in foreign and Russian investment in commerce and business.

D. Priority for Working on Financial Management Systems and Policies. The mayor and his deputy as well as the City Soviet indicated a strong interest on the part of the city to improve, rationalize and modernize the city's finance and budgeting process. A meeting with the Finance Department indicated that there are huge problems of budget procedure, data systems, coordination and local budget deficits. Much of this has to do with the difficulty of making the transition from a command economy and centrally controlled system of governance to the democratic, decentralized and free market oriented system the government now seeks. For three years, the budget process has been in relative chaos though progress is being made slowly. Last year the Raions (ward level of government) approved their budgets before they were even submitted to the Finance Department, creating a crisis situation. This year, that problem did not recur, however, the budget for the year has not been completed yet and the year is nearly passed.

A major problem is the lack of local revenues. Each year the budgets are assembled with a very large deficit and passed up the line for approval. The result is that the city owes a debt to the Raions, the region owes a debt to the city and the Federal Government owes a debt to the region. Much of this latter debt is met through the central government printing of money. This feeds the inflation and makes the situation worse in the next year. This cycle must be overcome and there is strong awareness of this on the part of the city. It is easy to see how important the normalization of the budget process at the municipality level can be even to the national economy. See Appendix 2 for some notes on the budget system.

E. Vladivostok as a Model for other Cities. Vladivostok is clearly the key city in the Primorski Krai (special region akin to a Russian Oblast and a state in the U.S.). It is the seat of the Krai government and the center of industry, trade and commerce in Russia's Far East. City and Krai officials think and plan in terms of linkages with other smaller cities in the region and there may even be some future associations with them along the lines of a metropolitan transit or port authority in the United States. Vladivostok also is the center of communications and education for the region and spread of ideas and concepts developed in the city has high potential. Finally, Vladivostok's influence goes far beyond the region. It is a high visibility city in Russia as the country's gateway to the west and the Pacific rim, the terminal point on the Trans Siberian Railway, a major military center (formerly a closed city) and an important city in Russia in terms of its recent history, including its status as the only city in Russia now with an elected Mayor. The team concludes that Vladivostok is an excellent choice for an MFM activity in terms of the prospects for influencing positively other cities in Russia.

F. Overlap with Other NIS and Donor Funded Programs. There is opportunity in Vladivostok for very complementary relationships with other donor programs in the future and the U.S. Peace Corps already has been of great assistance to the MFM team. A high level A.I.D. team visited Vladivostok just before the arrival of the MFM team, looking at prospects for further U.S. involvement in the area. MFM would be one of the first so there is good opportunity to develop complementarity with other programs as they initiate their activities in Vladivostok. There is very little donor activity there currently. The USAID

housing officer accompanied the A.I.D. team and supports the notion of an MFM project in Vladivostok.

G. City's Ability to Contribute Local Resources to the Project. After the assessment team had determined that it would recommend Vladivostok to A.I.D. as a future MFM site, we explored also the prospects of the city meeting the needs of the project as set out in the introductory section of this report. The response was affirmative on all counts -- establishing an advisory committee, identifying a full time counterpart, coming up with office space and utilities and providing a secretary-translator and local official transportation. The City wants the MFM project very badly and we are sure that these project needs will be met if A.I.D. does approve the team's recommendation to move ahead with establishing the MFM team in Vladivostok. The project has the attention of top officials all the way up to the Governor's office and the leadership of the City Soviet, responsible for hosting the team's visit, proved very dynamic and visionary and could not have been more enthusiastic and accommodating.

Next Steps

Should A.I.D. approve Vladivostok as a site for the MFM project, here are the next steps that should be taken.

1. A letter from the A.I.D. project manager should go out to the Mayor and to the City Soviet, indicating that Vladivostok has been selected for participation in the MFM project. The letter also should ask permission for an assessment team to come to Vladivostok as soon as possible this year to work with designated Russian counterparts in the city to design the program.
2. R.T.I. should assemble the assessment team and make preparations with the A.I.D. project Officer to conduct the assessment.
3. A draft MOU should be cleared by A.I.D. /W so that the team can carry the approved version to the field for review in Vladivostok and eventual signing by the City and the USAID Mission Director.
4. A date should be set during the visit for the arrival of the full time RTI field representative.

Annex 1:

SOME SUGGESTED CITY SELECTION CRITERIA

Below are some criteria for selecting cities to participate in the Finance and Management Project. These elements are criteria we expect participating cities to be working towards; they in no way represent expected absolute achievements. What we want to see in participating cities is a directional trend.

A. REFORM ORIENTED LOCAL GOVERNMENT WITH DYNAMIC AND PROGRESSIVE LEADERS (INCREASINGLY DEMOCRATIC SOCIETY AND FREE MARKET ORIENTATION.)

PRIVATIZATION OF STATE OWNED ENTERPRISES UNDER LOCAL CONTROL

PRIVATIZATION OF GOVERNMENT SERVICES

LIFTING PRICE CONTROLS AND RESTRICTIONS

SETTING PRICES FOR SERVICES AT COST

LOCAL GOVERNMENT COLLABORATION WITH AND SUPPORT OF THE PRIVATE SECTOR

LOCAL PARTICIPATION SUCH AS ELECTIONS, LOCAL REFERENDUMS AND INCREASINGLY TRANSPARENT PROCEDURES FOR THINGS LIKE LOCAL PLANNING AND ACTIONS. ARE THERE ANY MECHANISMS FOR LOCAL INPUT, SUCH AS PUBLIC POSTINGS, LOCAL RADIO, ETC..?

RELATIVE INDEPENDENCE OF LOCAL NEWS MEDIA.

B. A RELATIVELY HIGH DEGREE OF LOCAL AUTONOMY AND AUTHORITY.

DO WE HAVE EVIDENCE OF DE FACTO LOCAL AUTHORITY OR AUTONOMY OR DOES THIS JURISDICTION STILL BEHOLDEN TO HIGHER LEVELS OF GOVERNMENT OR TO MILITARY AUTHORITIES.?

C. DOES THE CITY ADMINISTRATION' HAVE A FACILITATIVE OR SUPPORTIVE ATTITUDE TOWARDS THE PRIVATE SECTOR OR DOES IT TRY TO RESTRAIN IT.

ACTIONS BEING TAKEN TO PRIVATIZE MARKET -- LAND, HOUSING STOCK, BUSINESSES, SHOPS, ETC. WHAT IS THE CITY'S RECORD ON THESE THINGS.? IS THE PACE OF THESE ACTIONS ACCELERATING.?

ARE THERE STILL UNREASONABLE RESTRICTIONS ON LOCAL PRIVATE ENTERPRISE.? WHAT IS THE CITY DOING ABOUT THOSE THAT ARE UNDER THE CITY'S CONTROL?

D. FINANCIAL MANAGEMENT SYSTEMS AND POLICIES ARE A PRIORITY FOR THE CITY LEADERSHIP.

ACTIONS BEING TAKEN TO IMPROVE THE QUALITY OF THESE SYSTEMS (RATIONALIZING SYSTEM, COMPUTERIZATION, TRAINING OF STAFF, ETC.).

EVIDENCE THAT THE CITY IS MOTIVATED TO IMPROVE THESE SYSTEMS. AND HAS PRIORITIES FOR DOING DO SO OR IS INTERESTED IN DEVELOPING SAME.

E. LIKELIHOOD THAT THE CITY CAN SERVE AS A MODEL FOR OTHER CITIES SUCH THAT MFM INITIATIVES CAN BE REPLICATED IN OTHER MUNICIPALITIES, INCLUDING REPUTATIONAL ASPECT.

STATUS AND REPUTATION OF THE CITY IN THE REGION..

IS THE CITY ENOUGH LIKE OTHERS TO BE RELEVANT OR IS IT A SPECIAL CASE. WHICH WOULD BE A CONSTRAINT TO IT SERVING AS A DEMONSTRATION?

F. OVERLAP WITH OTHER DONOR FUNDED PROGRAMS.

THERE ARE PLUSES AND MINUSES HERE. THE PEACE CORPS SEEMS TO BE A CLEAR ADVANTAGE. HOWEVER IF TOO MANY DONORS ARE INVOLVED THEY CAN DILUTE THE ATTENTION THAT OUR PROGRAM RECEIVES. TRULY COMPLEMENTARY PROGRAMS ARE BETTER THAN OVERLAPPING. CAUTION IS NEEDED HERE. DON'T BE SWEEPED IN BY, EG., BY THE WORLD BANK. WE DON'T WANT TO OVERTAX THE LOCAL HUMAN RESOURCES AND ESPECIALLY THE LEADERSHIP ON WHICH OUR PROGRAM DEPENDS.

G. SENSE OF ABILITY TO CONTRIBUTE LOCAL RESOURCES TO THE PROJECT.

Annex 2: Budget Structure: Nizhny Novgorod and Vladivostok*

Revenues

With few exceptions, revenues are standard across the republic with most major sources shared and with central control over rates and amounts shared by local governments. The following structure should more or less hold for all cities.

I. Enterprise Revenues

- Corporate Income Tax
- Value Added Tax
- Excise Taxes
- Personal Income Taxes
- Property Tax
- State Duties
- Tax on Mineral Resources, Forests, etc.
- Water Tax (on industrial uses as an input for production)

Enterprise taxes/revenues are shared among Federal, oblast, city and raion. The federal or republic level decides on the share division between central and oblast. The oblast decides on share division between oblast and city; the city decides on share division between city and raion. Shares have been unpredictable last year and this year.

II. Collections and Other non-tax Revenues

These consists of various types of general purpose collections such as licenses to operate a business and special purpose collections. Apparently there are many special collections such as an "education purpose collection" which is 1% of the wage funds of enterprises and a "housing and buildings maintenance" collection which is 1.5% of gross sales revenues. Special collections produce segregated funds dedicated to the particular purpose identified in the collection. These all appear to be imposed by decision at the republic level, and not discretionary decisions within oblasts or cities, but this needs to be verified.

III. Privatization Proceeds

IV. Land or Property Tax

V. User Charges

The concept of "user charges" created some confusion in that they are not considered "revenue" items in the budget classification system. There are various city enterprises that in fact charge for services, such as the tram and trolley system, subways, pharmacies, etc., but these are considered in the city budget only on the expenditure side. Thus a formal question

about user charges likely will be answered that there are no user charges; however, there are numerous charges for services in the "economic sector" of the city.

Expenditures

There are three major expenditure categories. These are likely the same across cities.

I. Financing the Economy [there probably is a better translation]

The expenditure items in this category are operating subsidies to "city" enterprises. "City" is in quotes because these are independent legal entities with their own funds, bank accounts, etc., yet they are considered city responsibilities in that the difference between their revenues, which are charges directly to service users/beneficiaries, and their expenditures is a deficit presented to the city for financing. An enterprise producing tractors, for example, would not present its operating deficit to the city; however, the water service, tram and trolley, etc., do present their operating deficits to the city for financing.

Tram and Trolley Administration

Subway

Housing (about 60% of the housing in Nizhny is owned by various economic enterprises; the other 40% is city or privately owned)

Bath Houses

Laundries

Pharmacies

II. Social and Cultural Institutions

Nurseries, orphanages

Education (kindergartens, residential schools, primary and secondary schools); various enterprises, especially the larger ones, typically provide nurseries and kindergartens for children of workers, but apparently rarely provide any primary or secondary education)

Hospitals, clinics, sanatoriums, other health facilities; like education, various enterprises provide clinics and basic health services, but the larger facilities are city provided

Cultural institutions, theaters, training centers for the arts

Social security and welfare; both direct income support and goods and services are provided to the indigent -- not to be confused with pension or retirement.

III. City Administration and City Soviet (Council) Expenses

Some expenditures are "city-level" and some are district or raion. In Nizhny and Vladivostok, tram/trolley, major street maintenance, capital investments in housing and other facilities such

as hospitals, water, sewage and heating are in the city-level budget. Lesser street maintenance, parks, repairs for housing owned by local soviets, and maintenance of other small facilities are raion-level expenditure items.

Budget Observations

For Nizhny, about 50% of the budget expenditures are for city enterprises, 45% to 47% for social/cultural institutions and 3% to 5% city administration and council expenses.

The World Bank teams that initially developed the projects in Nizhny and Moscow made a large issue the fact that the city enterprise component of the budget reflected only the net operating losses of the enterprises, understating cities' financial picture. As far as looking at the "bottom line" for city expenditures, it is true that the total expenditures appears understated. However, from discussions in both Nizhny and Vladivostok, it seems clear that the city does examine the full operating budgets of the various enterprises and has the discretion to finance less of the operating deficit than the enterprise might request. Further, the finance department does make operating suggestions for efficiency improvements to reduce deficits. In Nizhny they started a project last year to incorporate the full enterprise budgets into a "Consolidated City Budget" but decided to postpone the project because it was too paperwork intensive. They expect to do that as a matter of course when the records are sufficiently automated. Thus, the concern that the city is not fully aware of its financial situation or has no control over the city enterprises does not seem quite as severe an issue as one might initially think.

The larger, related issue is the status of the "municipal enterprises." During discussions with the Water Enterprise in Vladivostok, questions about their formal status and their relationship to the municipal budget were raised. Under the Soviet system, the water, tram and trolley and other "local enterprises" seemed to be state enterprises in many of the same senses that factories manufacturing tractors were enterprises. They paid taxes such as the corporate income tax and were given responsibilities as well as operating budgets through the same central planning system as any other enterprise. Their rates or charges for services were determined through the same central planning system.

Under the new system, these enterprises are a part of municipal government in that their budgets are a part of the municipal budget (operating surplus or deficit), but their authority to set rates or charges and the responsibility of the municipality to use general city revenues to support the enterprise is open to interpretation. Water rates for households for Vladivostok's "Water Department" (and any other water system) for example, are set by the federation government in Moscow. The centrally determined price for household water is 1.5 Rubles per cubic meter. Hospitals and other social institutions pay 61 Rubles m³. Commercial and industrial users pay 228 Rubles per cubic meter.

It appears that other city enterprises, such as the tram and trolley systems, are authorized to set rates without central government intervention, but we need to verify this on an enterprise by enterprise basis.

* These observations are very preliminary, based on initial meetings in the two cities. As we progress with each city, the above information will be refined and corrected.

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Annex 4

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№ _____
на № _____

Mr. THEODORE PRIFTIS

**USAID Nis/TF/DIHHR WASHINGTON
FAX 202 647 4756**

August 24, 1993

Dear Mr. Priftis,

I gave careful consideration with Y.M. Luzhkov to a problem of our joint project work organization. He supported our plans. He'll not be able to come to the USA on October-November but he believes it necessary to sign the final Project Specification and the 1994 work's plan in ceremonial conditions with his participation in Moscow. The aim of Moscow Government delegation which will arrive to the USA on October 23 - November 6 is the final precise definition of the Project Specification and the 1994 work's plan. For this purpose the Mayor inscribed in the membership the very important persons of Moscow Government, namely:

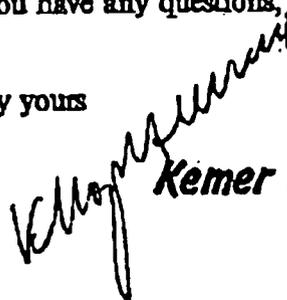
**K. Buravlev,
Y. Korostelev,
D. Chernik,
A. Nikitin,
V. Ascaturov,
K. Norkin,**

*First vice-Premier of Moscow Government;
Minister for Finance of Moscow Government;
Chief of Moscow State taxation inspection;
Chairman of Moscow property management Committee;
Chairman of Moscow land Committee;
Director General Office of the Mayor;*

It is necessary to send these persons the official invitations in order to receive visas.

Please do not hesitate to contact me if you have any questions, remain

sincerely yours


Kemer B. Norkin

Annex 5

August 11, 1993

SCHEDULE, AUGUST 22-29 1991

VISIT OF THE USAID DELEGATION TO VLADIVOSTOK.

USAID Delegation:

- Theodore Priftis, Project Manager, NIS Democratic Pluralism Initiative Project
- George Deikus, USAID Mission, Moscow
- Ronald Johnson, Vice-President, International Programs for Research-Triangle Institute
- Eric Cheyend, Project Manager, Research Triangle Institute

Vladivostok Host Delegation

- Yuri A. Avdeev, Vice Chairman Vladivostok Council of Peoples' Deputies, Director, Office of Primorski Project
- Vladimir Kirienko, Deputy, Vladivostok Council of Peoples' Deputies, City Attorney
- Robert B. Krueger, Senior International Counsel, Lewis, D'Amato, Brisbois/Bisgaard and U.S. Project Director of the Primorski Project

Leon A. Pelett Associate, Lewis, D'Amato, Brisbois & Bisgaard and U.S. Project Officer for the Primorski Project.

August 22

2:30 pm Arrival in Vladivostok
Register at Vladivostok Motor Inn
Rest

August 23

8:30 am Breakfast at Vladivostok Motor Inn
Briefing by Yuri A. Avdeev re August 23 meetings.

10:00 am Meeting with City Soviet and Administration

City Soviet

Chairman Sergei S. Soloviev

Vice-Chairman Yuri A. Avdeev

Deputy Vladimir Kirienko (City Attorney)

Deputy Alexander Lubchenko (Chairman of the Soviet Budget Committee)

City Administration

Mayor Victor Cherepkov

Vice Mayor Yuri Rozov (Budgeting, Economics, and Planning)

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26

Vice Mayor Alexander V. Sagnov (Director of Privatization Program)

Foreign Relations Assistant Oleg Y. Semyonov

12:00 pm Meeting with Consul General Randall LeCocq

1:00 pm Lunch

3:00 pm Meetings with Krai Soviet and Administration

Krai Soviet

Chairman Dmitri N. Grigorovich

Vice Chairman Vyacheslav A. Butakov

Krai Administration

Governor Evgeny V. Masdratsenko

First Deputy Governor Evgeny Leonov

4:00 pm Tour of the City

6:00 pm Return to hotel

Rest

7:30 pm Hosted Dinner

August 24

8:00 am Breakfast at Vladivostok Hotel Inn

Briefing by Yuri A. Avdeev re August 24 meetings

10:00 am Meeting with Primorski Economic Development Task Force, Conference Room, Business Academy

Introductions and briefing re Task Force status by Yuri A. Avdeev

Presentations by:

Professor Pyotr Y. Saklenov, Director, Pacific Institute of Geography--Land Use Policy

Dr. Victor V. Shvalbey, Director of the Pacific Center of Economic Development and Cooperation--Financial Resources Policy Development Committee

Dr. Alla D. Filatov and Dr. Veniamin S. Turatskiy, Energy System Planning Institute--Energy Supply Policy Development

Dr. Sergei E. Yachin, Far Eastern State Technical University--Social Support Policy Development

Dr. Sergei P. Nitrosanov, Dr. Leonid N. Alabkoiko, Far Eastern State University--Automation and Information Policy Development

12:30 pm Lunch at the Business Institute

2:00 pm Continue presentations

Dr. Victor I. Prolovsky, Primorski Civil
 Construction Organization--Island Territories
 Development

Dr. Jiroslav M. Semanikhin, President, Far Eastern
 Marine Research Design and Technology Institute--
 Transportation and Industrial Policy

Dr. Valentin V. Anishev and Dr. Evgeniy M.
 Molaihev, Primorski Citizens Planning
 Project-- City Development and Construction Policy

Dr. Boris V. Frochrashevski, Pacific Institute of
 Geography, Ecological Policy Development

5:00 pm Return to hotel
 Rest

6:30 pm Hosted Dinner

AUGUST 25

8:30 am Breakfast, Vladivostok Motor Inn
 Briefing by Yuri A. Avdeev re August 25 meetings

10:00 am Visit Zevod Vering. (Military plant in the
 conversion process)

11:30 am Visit DalPribor. (Manufacturer of navigation and
 other internal ship devices)

1:00 pm Lunch

2:30 pm Visit FEMCO. (Far Eastern Shipping Co.--World's
 largest shipping company)

4:00 pm Visit Dalenergo. (Russian Far East largest public
 utility--engaged in marketing Russian energy
 technology)

6:00 pm Return to hotel
 Rest

7:30 pm Dinner hosted by Dalenergo

AUGUST 26

8:30 am Breakfast, Vladivostok Motor Inn
 Briefing by Yuri A. Avdeev re August 26 meetings

10:00 am Round Table Discussion on the status of small and
 medium size business development
 Moderator--Yuri M. Umkov, Deputy Head,
 Primorski Krai Antimonopoly Policy Committee and
 President, Far Eastern International Center of
 Policy in the Sphere of Small and Medium
 Business
 Participants:

60

Jean Trumpeter and Peter Tarrant, Small Business
Development Center, United States Peace Corps

Other invited panelists

12:30 pm Lunch

2:00 pm Round Table Discussion, Democratic Initiatives in
Primorski Krai
Invited panelists

5:00 pm Return to hotel
Rest

6:30 pm Free Dinner

August 27

8:30 am Breakfast, Vladivostok Motor Inn
Briefing, Yuri A. Avdeev re August 27 meetings

10:00 am Round Table Discussion re Region's financial
institutions

Galina M. Markeleva, President, Bank for Foreign
Trade of the Russian Federation

Alexander Lubchenko, Vice Director, Commercial
Vlad Bank

Other invited panelists

12:00 pm Lunch

1:30 pm Conference, Consul General Randall LeCooq and
U.S. Commerce Department Representative Roy
Peterson

2:45 pm Visit Dal-Art
Primorski Art Museum

5:30 pm Return to hotel
Rest

7:00 pm Dinner hosted by Daleco

August 28

8:30 am Breakfast, Vladivostok Motor Inn

9:20 am Board boats for Popov Island
Welcome from Popov Island Governor
Gennady Fedkarytov

Picnic

5:00 pm Return to hotel

August 29

Free day, travel preparation, departure