

MUNICIPAL FINANCE AND MANAGEMENT PROJECT (MFM)

QUARTERLY REPORT NUMBER TEN

NOVEMBER, DECEMBER, JANUARY 1995-96

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About this report. This quarterly report follows the new AID guidelines for quarterly reporting. The Municipal Finance and Management project (MFM) is a very large and complex project. The report reduces the program to its simplest and most meaningful dimensions to give the reader an insight into overall progress and problems. The contract calls for monthly reports from the cities and these are submitted on a regular basis to AID/W and the COTRs in missions. Monthly reports contain detail on implementation, dates, individuals and institutions involved and other specifics. The reader is referred to these reports for further information.

The project is of the type designed to make significant institutional changes - in this case, in the way cities are managed in Russia and the NIS, assisting in the transition to a democratic approach to governance and free market economy. The transition is a dynamic process which regularly presents new opportunities and eliminates old ones. MFM has attempted to "stay the course" in this process, but has had to make adjustments to practical situations. For this reason, activity goals sometimes are dropped or refined and new ones added. These changes will be reflected in the report.

A combination of narrative and matrix presentation is used in the report. The matrix summarizes and integrates information. For example, the matrices show the overall project objectives served, core activities for each city, and results for each core activity during the reporting quarter. Project objectives are indicated in the first column by each core activity so the reader can see which of the overall MFM objectives a specific city core activity addresses. An assessment section is included in the results column for each activity for which it is relevant. This explains how the activity is proceeding in line with expectations and plans.

We include in the results matrix for each city an element on performance monitoring. This provides information on the status and plans for each city's performance monitoring activity.

I. Background

The goal of the MFM program is "*to improve the effectiveness, efficiency, accountability and transparency of municipal government*" in the newly independent states. This is the goal set out in the initial MFM Action Plan. However, we have found that as we strive for this goal we are having a threefold impact in most of the eight pilot cities. Basic tenets of democratic governance appear to be taking hold; innovations in practice, procedures and systems are increasing efficiency and effectiveness and improving management of municipal finances; these cities are improving the enabling environment for national and international investment. For example, in most MFM cities municipal governments are taking to sharing budget and other critical information with the public, inviting citizen input and commentary and using the media effectively to share information with and interact with the people. Reorganization of city structure, implementation of information systems and improved financial systems are common to MFM cities.

At the same time, local economic development is being pursued as a theme and a variety of approaches is being applied to attract capital and raise revenue. This is a new area of activity since the project began and was introduced because it became clear that Mayors have to be able to show that in addition to reforms and democratization, they are doing things that improve people's lives. Movement on the economic front gives the mayor and city administration the credibility to move ahead with reforms in other areas, such as finance and management.

In the tenth quarter, the MFM continued to step up its work on a stream of activities in Ukraine, Russia and Central Asia that bridges the program from a pilot and demonstration phase in selected cities, to one seeking impact on national policy and legislation. Our success in working at the local level gives us the knowledge and insight to be effective at the national level and gives us a legitimate place at the national policy table. This work is focused on rollout training in all three regions plus working with the Association of Mayors and on national legislation in Ukraine and working with the Union of Russian Cities and regional municipal associations in Russia.

MFM is pursuing its goal (above italics) through use of long term advisors in each of the eight pilot cities, through training, technical assistance and application of information systems. The project just completed the tenth quarter of twelve specified in the contract. The fully funded contract totals \$24.2 million. The project was started in July of 1993 and is scheduled to end in July of 1996.

II. Expected Results

We expect the results of the MFM project to be similar in each of the four countries in which it now operates. That is, as a pilot program, its objectives, as described below, should be demonstrably achieved in each of the eight pilot cities. The foundations should be in place for reaching out and disseminating the program's benefits to other cities, and that work already is in motion. As noted, MFM already is transforming from a pilot program to one that influences policy and action in other cities and at the national and regional levels. This outreach and

upreach will be intensified in the last two quarters of the project. This bridging will be accomplished by: (1) sharing information and doing training with selected cities interested in reform; (2) finding ways to influence national level legislation and regional behavior in ways that promote MFM's objectives for Russian and NIS cities; and (3) working with local training institutes to infuse in them as much of the dissemination training regimen as possible.

The objectives essentially are the same four set out in the first MFM annual workplan and captured also in the individual city workplans and budgets submitted to AID on December 22, 1994 as the second MFM annual workplan. However, they have been restated to conform more specifically to what USAID has asked us to emphasize during implementation. These refinements are a product of what we have learned through more than two years of operation in Russia and well over a year in Ukraine, Kazakhstan and Kyrgyzstan. The objectives are stated in bold italics, followed by a baseline statement and statement of MFM response. The four objectives are:

1. ***Strengthen municipal finance and management effectiveness, including creating an enabling environment for investment, economic development and the market economy.***

Baseline: At the start of the MFM project, cities in Russia and the NIS were struggling with increased responsibilities under a more decentralized and supposedly democratic form of governance. They lacked the experience, skills, techniques and tools to manage effectively. Cities were up against a demand for change unprecedented in recent history, yet, many of the old laws, rules and modus operandi of the former centralized system of command and control administration were in place. For example, in all four countries municipal finance is vertically subordinated to the Ministry of Finance. Cities control only small revenue sources and have limited control over expenditures. Major revenue sources are controlled at the oblast level, which also allocates revenue shares to cities and sets standards for city expenditures in many key areas. It has been difficult under these circumstances for cities to manage their operations and finances and to create conditions that would inspire confidence of domestic and international investors. Virtually no controls were in place to insure accountability, e.g. through audit trails. Cities were left ill-prepared to undertake strong local management of financial, human and capital resources.

MFM Response: The MFM project focuses on introducing concepts of management and finance compatible with democratic governance and a free-enterprise economic system. Cities are exposed to these concepts through study tours to high-performance U.S. cities and institutions, U.S. expert consultancies, sharing of technical information and through specialized training in the U.S. and locally. The quality and timeliness of financial and other information are being improved by introducing management information systems, financial control systems, and modern budget and accounting practices. Efforts are being made also to influence national laws governing municipal management and finance through strengthening municipal lobbying groups and influencing national laws and regulations that govern municipalities.

2. ***Instill essential tenets for democratic governance through increased transparency, accountability, openness and citizen participation.***

Baseline: Democracy is coming slowly to Russia and the NIS cities. When the project started, only a few cities in Russia and none in the other three countries experienced democratic elections. There was no recent history of open decision-making, open meeting laws or precedents of public disclosure of financial information. There were no elected boards, no parent participation in local school systems, no public participation in city council meetings without explicit permission. Decision-making was concentrated in the hands of a few key officials, and there was little citizen knowledge of how they might influence decisions affecting their lives. There was widespread alienation from government at all levels and distrust of government officials.

MFM Response: MFM's Long Term Advisors establish relationships with key officials which permit consultation and frank discussion. Advisors point out the advantages of open and transparent governance through study tours, training and translation of technical materials. Through these actions, the advisors facilitate movement by the local administration to greater openness and accountability and wider public participation in decision-making. Explanation and publication of financial and other government data and decisions are explained through press conferences and other forms of participation between officials and the public. Introduction of computer networks facilitate horizontal communication and discourage vertical control of information. Generation and publication of financial data in forms that can be easily understood within the city administration and by the public is encouraged. Publication of government information in the media and open meetings also are encouraged.

3. *Improve a city's ability to take actions that give its citizens hope for their future well being.*

Baseline: As the MFM project commenced, the transition to a market economy and the breakdown of the already impoverished command economy were registering a devastating impact in Russia and the NIS cities. People were deprived of basic necessities like heat, hot water and sometimes even a regular supply of cold water. Transport systems are in a state of decline and waiting periods and crowding of bus stops and stations are on the rise. State-owned enterprises were shrinking, closing or struggling with privatization, and the jobs and services they offered such as health and educational facilities were declining rapidly. People were losing hope in their economic future even as they were enjoying new freedoms.

MFM Response: Hope is essential because time is needed to achieve the transformation to democracy and a free-market economy. To help provide a basis for this hope, MFM is helping city governments to improve basic services and attract and promote economic activity. Elected city governments must be able to demonstrate their viability by providing a basis for people to hope for a better economic future. MFM is promoting economic development, privatization or services, raising of revenues for capital improvements and direct improvements in services that immediately touch people's lives, such as transportation and health.

4. *Create the foundation for sustaining and spreading the above.*

Baseline: The changes MFM is attempting to make, as described in the objectives above, were not in place in any of the pilot cities or elsewhere at the start of the MFM project. When and as these changes are introduced, they rest on fragile supports and sometimes face resistance and outright detractors. Further, there are scant local or national level institutions or laws to advance or support them or to help in their dissemination.

MFM Response: The baseline situation just described is one of the most serious challenges facing the project. So that MFM changes grow locally and spread nationally, a number of measures are being taken. First, various approaches are underway to harden changes locally, such as extensive training, integration into policy level decision-making, public buy-in through participation, working with or even developing local training institutions, extensive exposure to new approaches by local government, coordination and inclusion (co-option) of oblast level officials. At the national level, mechanisms are being sought for lobbying for changes in legislation that are supportive of decentralization, privatization and fostering of local democracy. Training modules are under preparation for future widescale expansion of MFM concepts.

We are making significant, though variable, progress against these objectives in each country, as this quarterly report will demonstrate. Specific activities, by country and city, follow in the next section. A key to the above objectives is included at the end of each city matrix for easy reference.

III. Current Core Activities/Progress During Quarter

This section will briefly describe the current country context for each of the four countries in which MFM operates, since each one is quite different. This will be followed by a table showing core activities by city indicating progress during the quarter. The "assessment" section (not included for performance monitoring activities) comments on progress relative to schedule and where appropriate indicates plans for the next quarter.

RUSSIA PROGRAM

Russia is the largest of the MFM programs with pilot cities of Moscow, Nizhny Novgorod and Vladivostok. Earlier studies by The World Bank influenced to some degree the nature of the Russia program which has a clear focus on finance, budgeting and systems management. However, in the Russia program, much is being accomplished also in the area of democratization and improved management. Moscow was selected for participation because it is seen as the lead city in the country and so clearly influences and sets the pace for other cities. Nizhny Novgorod was selected as a reform oriented city in an Oblast famous for its reform leadership. Vladivostok was a reform city at the time of its selection, but was seen as key also because of its importance as a gateway city in the Far East and the dominant city in that region. A heavy handed removal of the democratically elected leadership of the city casts doubt on Vladivostok's capacity for democratic reform in the short term though management reforms are being realized and we sense that MFM is building the institutional base for future democratization and reform in that city.

Indeed, our program there in Finance and Economic planning have been highly effective and influential. This quarter, work began in earnest in the Russia program to disseminate our experience to other cities in Russia and to prepare the groundwork for influencing national level policy and legislative reform for cities. A matrix covering the national level was added to this report last quarter and will be followed not to the conclusion of the MFM program.

NATIONAL LEVEL. Dissemination of MFM lessons and experience and implementation of outreach programs like that begun in the city of Vladimir extended this quarter to more cities. A chart below shows the program of dissemination work building on the experiences of the three pilot cities. This work includes seminars, workshops, direct TA and training and building training capacity, e.g. in the Union of Russian Cities.

Our Moscow office is the locus for our overall program in Russia. Al Sharp as Chief of Party oversees the entire MFM program for Russia.

The pilot rollout or dissemination program started last quarter was intensified this quarter as the national level matrix and the chart that follows it indicates. Dissemination work and work with the Russian national and regional associations of cities will continue and intensify during the next and subsequent quarters.

NATIONAL PROGRAM

Objective	Core Activity	Results During Quarter
1,4	<p><i>Training in Principles of Municipal Budget Analysis</i></p>	<p>As part of MFM expansion to other Russian cities, this course took place in Vladimir. The participants were budget officers, accountants, and prospective development analysts from the city administrations of Vladimir, Tver, Kostroma, Novokuznetsk, Yaroslavl, and Suzdal. The Union of Russian Cities was represented at this course as part of MFM's effort to institutionalize the dissemination of MFM concepts in Russia. The course was 4 days and covered the following topics: U.S. local government overview, implications of the new local self-government code in Russia, revenue and expenditure analysis using the Budget Analysis and Transparency model, fiscal policy formulation, debt financing, user fees, private provision of public services, and cost performance monitoring.</p> <p>ASSESSMENT: The participants of this activity gave high marks in their evaluation of the course. They found the training techniques to be new to them and beneficial. The topics of greatest interest were municipal bonds, independent auditing, tax and fiscal policy development and approaches for developing utility tariffs.</p>

NATIONAL PROGRAM

Objective	Core Activity	Results During Quarter
1,4	Training in Capital Finance	<p>Participants from six cities in Far Eastern Russia attended and praised highly the new information and skills they picked up at the workshop. This was the first outreach program of the MFM program to this area of Russia. Several municipal bond models were presented. Discussions centered on which features were likely to be found in future Russian municipal bond issues. A sample bond issue was designed and discussion on national and local policy issues concerning local government debt.</p> <p>ASSESSMENT: Evaluations pointed to a great success. The integration of materials from the U.S., Eastern Europe and Russia was a key to the course's success. The participants were exposed to concepts and analysis that they will need as they contemplate municipal borrowing.</p>
1,2,4	<p><i>Develop approaches to provide professional support to municipal finance officers and build basis for influencing national policy and legislation on municipal finance and management</i></p>	<p>President of the Government Finance Office and RTI Consultant, Bob Leland, met with members of the Union of Russian Cities' (URC) Budget and Finance Section. Their discussion included lobbying for city's fiscal interests at the federal level and approaches to budget development and execution.</p> <p>ASSESSMENT: URC and MFM representatives have agreed to conclude a formal agreement between the MFM project and the URC regarding institutionalization of MFM activities through their organization after the parliamentary elections.</p>

- Key Objectives:
- (1) Finance and management
 - (2) Democratization
 - (3) Building basis for hope
 - (4) Institutionalization and sustainability

Future plans include a joint offering of the Municipal Budget Analysis course with the Union of Russian Cities to take place in Krasnodar the third week in March. This was a result of discussions with Vasily I. Mateyuk, the Finance Director in Krasnodar and the Head of the Budget and Finance Section of the Union of Russian Cities. Mr. Mateyuk introduced a unified budget system so that the raions do not have independent authority over their budgets. He has also introduced a western budget classification scheme. Participants for this course will include finance directors from Southern Russia and finance officials from the city of Krasnodar and the Krai administration. Also potential participants include members of the budget and finance lobbying and research staff based in Moscow and a representative from the Ministry of Finance.

During the next quarter a Capital Finance seminar will be held in Golitsino outside of Moscow. Through the coordination with the URC, the seminar will reach many new cities that we have not worked with before.

The national level or rollout program is reaching many cities. The chart shows the cities that MFM is influencing beyond the original three pilot cities of Moscow, Nizhny Novgorod and Vladivostok through participation in workshops and seminars and direct technical assistance.

Cities Affected by MFM

Pilot Cities	Quarter 8	Quarter 9	Quarter 10
Moscow Nizhny Novgorod Vladivostok	Moscow Nizhny Novgorod Vladivostok St. Petersburg Vladimir Tomsk Tver	Moscow Nizhny Novgorod Vladivostok Vladimir Tomsk Tver Novosibirsk Kostroma	Moscow Nizhny Novgorod Vladivostok Vladimir Tver Kostroma Novokuznetsk Yaroslavl Suzdal Nakhodka Kharbarovski Yuzhno-Sakhalinski Irkutsk Magadan

MOSCOW. The theme of the Moscow program is *to increase accountability, transparency, and efficiency in fiscal management and effect organizational change in the city bureaucracy that will yield a more democratic and participatory system of governance.* Toward this end, the Moscow MFM program focuses on:

- Fiscal systems reform, and
- Executive and legislative management change and reform.

The Moscow MFM program is the largest and most complex, reflecting the size and importance of this city. Specific activities have been refined to four core areas under which all actions taken during this and other quarters fit. Specific activities will be shown in the progress section.

MOSCOW		
Objective	Core Activity	Results During Quarter
1,2	<i>Development of an Integrated Financial Management System in the Dept. of Finance.</i>	<p>Completed network enables the computers that were purchased under the USAID contract and supplemented by additional equipment from the Federal Ministry of Finance and the Moscow City Government to improve fiscal and management analysis capability, facilitate transparent information exchange, and increase productivity in the DOF.</p> <p>ASSESSMENT: The network is designed to link and integrate the major activities of the city's main finance agency, in order to significantly strengthen the Mayor and his key staff's ability to analyze the city's fiscal position and make appropriate policy decisions.</p>

MOSCOW		
Objective	Core Activity	Results During Quarter
1	<i>Development of Fiscal Analysis/Forecasting Capability within the Department of Finance.</i>	<ul style="list-style-type: none"> • RTI and Moscow State Tax Directorate have agreed to work on development of revenue projection models that will have significant impact on municipal and national policies and revenues. • Revenue forecasting models to be used as policy tools to evaluate the impact of proposed changes in tax laws on Moscow and national revenues and use this analysis as a basis for influencing national tax policy and evaluate comparatively the performance Moscow’s 37 District Tax Inspectorates in order to improve performance. • An agreement to provide in-country training for Russian tax professionals at the State Tax Inspectorate training center was signed by RTI, Georgia State University and the Russian State Tax Inspectorate. • Development of Tax Policy Evaluation Models which will openly describe the data to be used is to be part of the training. <p>ASSESSMENT: This work will openly describe the data to be used, a departure from a more closed past policy. This follow-on to the Phase I work with the Finance Department continues to add a new dimension that will allow MFM to influence policy, laws and administration at the national level. The Moscow State Tax inspectorate accounts for 40% of the country’s revenue so when it gets the capacity to analyze and anticipate the impact of new regulations and legislation, the Inspectorate feels it will be able to influence and change national tax and revenue policies.</p>

MOSCOW		
Objective	Core Activity	Results During Quarter
1,4	Mayor's Management Decision Support System.	<ul style="list-style-type: none"> • A training course for the Department of Social and Economic Reforms and Forecasting and the State Tax Inspectorate in Delphi software was completed. • An agreement was signed with the Institute for Social Sciences to produce Russian digests of American local government publications. These digests will be available electronically via the project network that connects the Mayor's library, the Department of Social and Economic Reforms and Forecasting and the Department of Economic Policy and Development. • The Information Technology Center financed the establishment of communication links between the Forecasting Department and the Vice Mayor and Mayor. • RTI Consultant, Bob Leland spoke to Moscow government members interested in city property (asset) management. His talk covered issues such as private management of public property, improving public management of its own property, the city role in real estate development, planning and zoning. <p>ASSESSMENT: This program covers several areas based on improving communication among several segments of local government. An MFM customer survey planned for the next quarter (Quarter 11) will shed light on areas where additional instruction or information is needed.</p>

MOSCOW		
Objective	Core Activity	Results During Quarter
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	<ul style="list-style-type: none"> • Plans and prototype developed for customer survey next quarter. Tested in Nizhny Novgorod and Vladivostok. • Continued refinement of baseline and target measures related to specific project activities. • Collection of monthly and quarterly performance data.

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope

NIZHNY NOVGOROD. The theme of the Nizhny Novgorod program is *to improve the overall performance of the Department of Finance and thereby increase the city's capacity to finance and manage its services most efficiently.* The Nizhny Novgorod program is in its final phase -- translation and adaptation of an integrated finance system. RTI software subcontractor, American Management Systems (AMS) had a representative or team of experts on the scene during most of the quarter. The program is being closely watched, visited and supervised by our Moscow office with RTI technical systems backup. Visits are made bi-weekly by Juliet Johnson of our Moscow office and whenever required by MFM's Russia Chief of Party, Al Sharp. In January, RTI MFM Director, Eric Chetwynd, visited Nizhny Novgorod with Juliet Johnson to assess progress.

Nizhny Novgorod was the first MFM city to have a long term advisor. It was the first to see the long term advisor complete his eighteen month assignment. MFM in Nizhny has had a strong influence on the city's openness, transparency, and management effectiveness. Already substantial savings are being realized through better financial data and controls. Moreover, the city has been taking bold steps in sharing budget and other information with the public and attempting to resolve conflicts with the Oblast using conflict resolution and team building skills. The city will create its 1997 budget using its new integrated financial management system installed through MFM. This Local Government Financial System (LGFS) software, as modified, will be jointly owned by its originator, American Management Systems and the city.

A local company, Consul Incom, was spawned through the MFM program and will be fully experienced in the operation and maintenance of the new LGFS system when the program is completed.

NIZHNY NOVGOROD

Objective Served	Core Activity	Results During Quarter
1,2	<p><i>Implementation of the Local Government Financial Software (LGFS) in the Department of Finance and linkage to one district. Includes installation of technical infrastructure for the central and eight district finance departments, customization of LGFS for Nizhny Novgorod, and technical systems and software training.</i></p>	<ul style="list-style-type: none"> • LGFS Working Group met regularly to discuss the necessary modification to the software. They inputted financial data into the system to see how it conformed to the existing budget and account structure. • AMS programmers worked with Consul Incom and the user group to design the software modifications. All of the screens and system (error) messages in the software have been translated into Russian. • RTI Sub contractor, AMS, assisted the Department of Finance in establishing three LGFS platforms, an LGFS version for training, and LGFS version for programmers to experiment on, and a control version of LGFS for verification. • Local staff were provided with advanced training on the LGFS basic platform system locally. • Site visit by MFM Director, Eric Chetwynd. <p>ASSESSMENT: A concern is the need to simultaneously convert to the new federal account classification. The new classification became valid as of January 1, 1996 and is expected to be operational by mid-year. Both RTI and the city administration want to modify LGFS in accordance with the new accounting classification, but it creates an added burden of work in mid-course. Members of the LGFS working group stated that once the software is used throughout the city and raions, it will create uniform and consistent financial reporting. The city is excited about</p>

NIZHNY NOVGOROD		
Objective Served	Core Activity	Results During Quarter
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	Results of customer survey to determine user perceptions of MFM project and utility of city's progress under MFM: <ul style="list-style-type: none"> • City and Raions “getting closer together” • Greater receptivity by city officials to the need for computers to manage the city effectively • Change in city officials’ and staffs’ attitudes about their work • Potential impacts beyond Nizhny Novgorod- new classification of accounts • Opening up of city business to the public

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope

VLADIVOSTOK. The theme for the MFM program in Vladivostok is *to give the city the basis for a modern approach to management by transforming two key departments -- Finance and Economic Planning.* It is time to alter our perceptions of what we are going to achieve in Vladivostok. Positive change is happening in the areas of accountability, efficiency and transparency. These changes are being built into the structure of the city and they are spreading.

The isolation of Vladivostok from Moscow, the conservative attitude of officials that stems from this isolation and the lack of democratic leadership there since early in the project has made the city a difficult place in which to get things done. However, we still are getting excellent cooperation and participation from the Finance and Economic Planning departments and the city is meeting its obligations. Dramatic changes are occurring in the Economic Planning Department as a result of MFM's work and a solid foundation for efficiency, transparency and accountability in budgeting is being created in the Finance Department. It is no accident that MFM chose for its focus in Vladivostok, two key departments that had dynamic and reform

oriented leadership. When political circumstances change in Vladivostok, MFM will have prepared important ground for democratic governance.

Our full time advisor, Jim Alloway, left Vladivostok at the end of November. A residual staff of two Russians remained to oversee the final implementation of ADP systems and training and completion of software. We are monitoring that site from Moscow and Washington and made supervisory visits frequently over the final months of the Vladivostok MFM project. Trips this quarter included Project Administrator, Heather Jackowski (December), Project Director, Eric Chetwynd (January). Visits are planned in February and March by Chief of Party, Al Sharp, RTI Consultant, Mahesh Reddy and RTI Systems Expert, Gordon Cressman.

Heather Jackowski's trip to Vladivostok included setting up systems and procedures for finalizing and monitoring the finances and activities of the office. She also worked on concluding the process for equipment turnover to the City, disposition of files, etc.

One of the main aspects of her trip was working with city officials on resolving the VAT situation. As a result of several discussions between RTI's Moscow Office, the Commission on International Humanitarian and Technical Aid, Russian Federation and the City of Vladivostok, a delegation from the city traveled to Moscow to meet with the Commission on International Humanitarian and Technical Aid, Russian Federation. This meeting resulted in the City of Vladivostok receiving an exemption from the VAT and the notification to customs of the waiver of VAT, therefore, allowing the delivery of equipment to the city.

Eric Chetwynd traveled to Vladivostok in mid January on a general supervision visit to Russia. The purpose of the visit was trouble shooting, problem solving and helping to lay the groundwork for the last quarter of work through strategic planning sessions with the RTI Russian staff and the local vendors whose work they oversee.

VLADIVOSTOK

Objective Served	Core Activity	Results During Quarter
1,2	<p><i>Modernize the budgeting and finance process -- making the Finance Department more effective, accountable and transparent.</i></p>	<p>Automated Municipal Finance Software (AMFS) development was reviewed by Mahesh Reddy:</p> <ul style="list-style-type: none"> • Loan monitoring module was developed to automate the management of the loans given from budget funds and extra-budget funds to enterprises. The module has adequate control and early warning features for loans outstanding, delinquent loans, interest and principal repaid and loans retired. • Systems features include: automating the budget preparation function, automating the revenue collection and reporting function, automating the expenditure recording and reporting function, automated communications feature for electronic data transfer between sub municipal entities, and security/audit log to maintain an audit trail of information processed. <p>ASSESSMENT: System is more advanced than the existing infrastructure in the banks and the Tax Inspectorate. Automatic payment transfer system works well. Work is proceeding well, but a decision was made to extend the two RTI local staff, one through March and the other through May to cover residual software development and training activity.</p>

VLADIVOSTOK

Objective Served	Core Activity	Results During Quarter
1,2,3	<i>Modernize the Economic Planning Department and enhance its policy influence and capacity to promote economic development.</i>	<p>Follow up visit of Consultant Michael Daun resulted in 6 recommendations:</p> <ul style="list-style-type: none"> • Consolidate economic development activities in the current Economic Planning Department. • Establish a joint city/bank lending program for small business. • Delay decision on establishing regional agency for small business support until survey of current services and needs is completed. • Establish joint venture support enterprise. • Establish an information sharing work group to promote full use of the capabilities of the new systems. • Consider the conduct of a tax collection audit.
1,3	<i>Develop approaches to increase revenues, decrease costs and improve services in city transportation.</i>	<p>Activity completed. See quarter 8 report. Some of recommendation have been implemented, for example, an increase in fares to help cover costs and plans by the Transportation Department to set up a joint stock company to maintain and stock bus/trolley parts.</p> <p>ASSESSMENT: More concrete change would have been accomplished in this sector had it been selected as one of the two key focus areas for the MFM project. However, the MFM Transport report provides the city with a blueprint for transformation as it is ready. We know the report is being used.</p>

VLADIVOSTOK

Objective Served	Core Activity	Results During Quarter
2,3	<i>Democratization</i>	<p>Much of what has gone on in the MFM program as reported above represent the underpinnings of a more democratic approach to governance. This includes: turning around two key departments that influence policy and all other city departments plus introduction of an audit trail, a corps of auditors, an audit department and an association of professional auditors all are part of this underpinning. Introduction of competitive bidding, giving the city a good basis for assessing priorities and presenting budget information to the public in understandable format also will have a long term impact as will the information sharing that will be going on throughout the city administration as a result of MFM management systems.</p> <p>ASSESSMENT: MFM 's impact on democratization has not been as direct as in other cities due to the unfavorable political environment and the rapid turnover of our principal counterparts, the First Deputy Mayors. However, the institutions of accountable and transparent governance are being put in place very effectively and should have a positive long term impact. Moreover, during this quarter, the city leadership has taken an interest in the project that approaches the earlier pre-coup days.</p>

VLADIVOSTOK

Objective Served	Core Activity	Results During Quarter
1,4	<p><i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.</p>	<p>Results of customer survey to determine user perceptions of MFM project and utility of city's progress under MFM:</p> <ul style="list-style-type: none"> • Change in city attitude • Computer LAN system for the city and Raions • Successful study tours - exposure to new ways of doing city business • Valuable transition assistance during period of political instability • Increase in demand for department services (Information Department) • Easier work because of computers; staff ability to spend more time doing analysis • Possibility of quicker and more frequent budget analysis • City embarkation on work in capital bonds, with guidelines prepared and capital finance seminar planned • Transportation sector assessment as basis for management improvement • More efficient reporting to KRAI, on computer diskette • Elimination of work redundancy by using computers • Better ability to monitor budget expenditures using computers • Improved hope for the future of the city • Quicker tax rate preparation for the Raions by using computers • Information base for small business development • Better ability to monitor city department performance through LAN and database

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope

Changes in Work Program: The decision has been made by USAID and with RTI endorsement, to start reprogramming elements of the Moscow budget to permit the Russia MFM program to move into an outreach or rollout phase that would have an impact on national policy and decentralization. The money effected is that which had been reserved for an integrated finance system for the city of Moscow, but to which the city has been reluctant to commit. Serious implementation of the outreach program started this quarter, as reported.

In Vladivostok, MFM has made the transition to a wholly locally staffed office, which will remain active through final implementation of that program. As a result of the Chetwynd visit, a decision was made and concurred in by USAID, to extend the local staff -- one through March to cover final computer installation and training and the other through May to cover final software development and training for the Finance Department. Moscow is the only MFM city now with long term US RTI representation. That Office, with the backing and supervision of the RTI Washington Office now oversees the entire RTI MFM Russia program and Al Sharp has been made Chief of Party.

No changes in the contract are foreseen as a result of these programmatic changes, which are consistent with the scope of the contract.

UKRAINE

The Ukraine program is moving to complete work in the three initial cities and is preparing for dissemination of successful project innovations to new cities. The MFM Project has made significant progress in assisting pilot cities to increase transparency, openness and accountability of municipal administration. Long term advisors in each city have taken differing approaches to improving management systems and these differences are apparent from the sections below. However, the results have contributed to major turnarounds in the approach to management in the pilot cities. This quarter, the long term advisors and staff in the pilot cities intensified efforts to coordinate their programs and learn from the successes in each pilot city.

Work with the Ukraine Association of Cities has given MFM the opportunity to have a significant impact at the national level on legislation concerning local government. The new headquarters for the Association was officially opened on December 1, 1995. The highly publicized opening activities included speeches by the Association President and Kharkov Mayor Kushnaryov and Ukrainian Prime Minister Yevhen Marchuk. The MFM project also opened a Kiev office. Relocation of the COP to the capital has strengthened MFM's national-level ties and enables the program to have greater influence on the national agenda and legislation for strengthening democratic governance at the local level.

The Ukraine program is evolving from the first phase which focused on pilot cities, to the second phase during which the MFM focus will shift to dissemination to new cities, strengthening the UAC in its role of representing local government interests at the national level, and direct work on policy and legislation affecting local government. Intensive planning for the second phase of activities was underway this quarter with a proposal for phase II activities expected early next quarter.

National level. MFM Chief of Party, Paul Hoover, opened an MFM office in Kiev this quarter to further support the establishment of effective representation of local government at the national level. Much advisory time has been spent with the Association of Cities, which has set high goals requiring technical assistance and input from MFM staff. MFM, through the Association, has been participating in the creation of a new national legal and financial framework for local government. MFM has been identified as a technical advisor to working groups established by presidential decree to focus on new local government legislation.

The Association of Cities has also identified membership services as a focus for activity and assistance to strengthen the professional skills of municipal managers and staff. Specifically, the Association will be working to develop three types of services: in-service training, information services, and communication.

NATIONAL		
Objective Served	Core Activity	Results During Quarter
1,2,4	<i>Ukraine Association of Cities(UAC)</i> . Help build the association into a powerful force for representation of local government interests at the national level.	<ul style="list-style-type: none"> The Mayors of approximately 70 Ukrainian cities are now members of the Association. UAC has worked to establish a new, regional form of membership for smaller cities and towns referred to as “oblast associations”. The Ternopil region was the first, starting an oblast association in November 1995 as a result of a regional conference of Mayors sponsored, in part, by MFM. Poltava followed with formation of a regional association in December. The UAC professional staff and members of the Board have met with the Presidential administration, with the Cabinet of Ministers and with committees of the Verkhovna Rada to discuss local government issues, specifically, the wording of articles in the draft constitution concerning local government. The constitution and local government was the topic of the January general meeting of the Association and a January meeting of the Intergovernmental Coordinating Committee hosted jointly by the UAC and the MFM project. <p>ASSESSMENT: Individually cities face many challenges associated with democratic transition and have limited influence at the national level. As a group speaking with a unified voice, municipalities can have significant input at the national level. MFM’s goal is to strengthen city associations, along with their ability to organize and have a voice. This has been pinpointed as the most effective strategy for achieving sustained input from the local level to the national government.</p>

NATIONAL		
Objective Served	Core Activity	Results During Quarter
2,3,4	<i>Improve training and municipal management skills for city officials through the UAC.</i> Assist UAC in developing training capacity and membership services.	<ul style="list-style-type: none"> • MFM staff in Kiev have been providing technical assistance to UAC in focusing on membership services. The Association has decided on what type of services and facilities it wants to provide for members and work continues in coordination of these goals. • Communication to members and others about city management, communication among cities to share experience, and a forum for common discussion of problems will be aided by publication of "MEDIAPOLIS", a quarterly journal of the Association devoted to city management issues. • Preparations continued this quarter for a thorough assessment of in-service municipal management training. In March, two training experts will travel to Kiev and to all MFM cities to undertake an inventory of existing in-service training for municipal leaders and staff, evaluate training needs, and assess in-service training capacity of institutions offering, or potentially able to offer appropriate training. This assessment is in preparation for Phase II which will utilize training to disseminate Phase I results to new cities. <p>ASSESSMENT: The UAC is eager to offer membership services that strengthen local leaders and municipal staff. UAC recognizes that in-service training will plan an important role in the education of city officials. MFM will continue working with the UAC to strengthen their membership and expand the services offered.</p>

NATIONAL		
Objective Served	Core Activity	Results During Quarter
1,2,4	<i>Local Government legislation</i> Provide technical assistance in creating a legal foundation for local government	<p>This quarter UAC and MFM staff were involved in planning for the January Intergovernmental Coordinating Committee meeting and the Association of Cities meeting, both of which took place during the last week of January. Activities in the Coordinating meeting included a panel discussion of the draft constitution and the local government law. UAC had completed a chart clearly detailing the present wording and the suggested changes to the constitution which was disseminated at the meeting.</p> <p>ASSESSMENT: The UAC, with assistance from MFM, is successfully engaged in legislative matters at the national level. The Association has a difficult role in representing local interests at the national level while maintaining strong ties to the grassroots. Legislative change to favor municipalities cannot be accomplished by the UAC alone. MFM needs to assist the UAC in taking steps to engage other national level organizations.</p>

Key to Objectives:

(1) Finance and management
(2) Democratization
(3) Building basis for hope

KHARKOV. The goal of the MFM program in Kharkov is to implement the mission reflected in the following statement:

We believe that performance management is the key to improved service delivery. Further, we believe that, for Kharkov, the link between performance management and improved service delivery is information technology.

This statement was developed and agreed to in an RTI/MFM sponsored performance management workshop held at the outset of the project and attended by city officials and administrators. It was endorsed by the mayor and became the theme of the program. Given this performance goal, the objective of the Kharkov program was refined to three specific objectives.

- Improve the city's use of performance management techniques.
- Improve the city's use of information technology.

- Improve the city's delivery of services.

A fourth objective can now be added given the specific turns the project has taken in response to the economic needs of the city, namely:

- Improve the city's ability to attract investment and foster economic activity.

The new LTA in Kharkov, Kenneth Mahony, is an award-winning city manager from Massachusetts who arrived in Kharkov in October. During his short tenure he has become intimately involved with and knowledgeable about the program and MFM goals in Kharkov. Mr. Mahony has focused on completion of the original, Phase 1 goals of MFM in Kharkov and documenting successes and lessons that can be learned from the program in Kharkov.

KHARKOV

Objective Served	Core Activity	Results During Quarter
1,4	<p><i>Development and use of an executive information system (EIS). This includes: (1) creation of a unified data management system for the city and raion registration departments; (2) development of an EIS budget for the city administration; and (3) improvement of project designs and proposals presented by city officials.</i></p>	<ul style="list-style-type: none"> • MFM staff continues to work with the city registration department. Three major raions within the city have transferred all information to the business registration system. Progress in registering existing business in the smaller raions has been hampered by inadequate computer hardware and staff, however, new business in all of the city's 9 raions are following the new registration procedures and are being entered into the City's database. • The budget system, consisting of a number of programs including a payroll program and a bank reconciliation program, is up and running. Reportedly all are functioning adequately. More details on the efficiency of the system will come after completing a fiscal year this summer. The budget revenue control application is being successfully utilized by the Executive Committee Principal Directorate for Budget and Finance. • A reorganization plan for the Information Department was approved last quarter. Implementation was delayed this quarter, but expected next quarter. • The information management application was completed and submitted to the Finance Department for comment. <p>ASSESSMENT: Although activities continue, systems progress and effectiveness are directly linked to ADP procurement and installation. Once appropriate hardware is provided, the new systems should be fully operational.</p>

KHARKOV

Objective Served	Core Activity	Results During Quarter
1,4	<p><i>Development and installation of a management information system for the city administration. This includes: (1) Creation of a staff computer training program; and (2) establishment of data links among departments, between city departments and raions and among raions.</i></p>	<ul style="list-style-type: none"> • The city, with guidance from MFM systems specialists, has completed the competitive bidding process and has chosen vendors for computer hardware and improved communications system following a careful assessment of the bids. Delivery and installation of equipment is expected next quarter. • This quarter the computer training center relocated to City Hall making training more accessible to City staff as well as increasing the City's ownership of the training program. An estimated 200 people have received computer training since start up of MFM. Basic training in the new facility began this quarter and 16 more people will be trained by the end of February. The Directors of the Health, Finance, and City Press Departments as well as the Mayor's Secretariat Chief are presently receiving specialized training. • Formal computer training classes began in Sumy this quarter with more than 30 people applying for the 12 slots open. • The training materials for beginning and intermediate classes have been formally compiled in Russian (and shortly, in Ukrainian) and will be made available for use in other cities. <p>ASSESSMENT: Systems procurement continues on a fast track. The rewiring of City Hall is underway in preparation for new computer hardware. AID approval, delivery and installation are expected next quarter.</p>

KHARKOV		
Objective Served	Core Activity	Results During Quarter
1,2,4	<i>Creation of a city automated personnel system.</i>	<p>The automated personnel system is complete and now used by the Personnel Department of the City and the Council Secretariat for initial processing and analysis of personnel information. Other departments are eager to take part and are awaiting a memorandum of action from the city council. An additional computer has been relocated to the personnel office to assist with anticipated increase in work load.</p> <p>ASSESSMENT: Progress continues in this area. Once City Council approves more general use, department heads, anxious to be involved, have promised delivery of the necessary information.</p>
1	<i>Local development of application software.</i>	<ul style="list-style-type: none"> • Development of applications software continues at an accelerated pace now that the training center is located in city hall. After lengthy negotiations, MFM programmers are now able to use the computers in the center during off hours and on weekends for software development. • This quarter MFM staff began indexing all applications software programs developed in Kharkov in a directory for distribution to and use in other cities. • In January, MFM representatives from Lviv and Ternopil traveled to Kharkov to review application software development in progress. <p>ASSESSMENT: Much of the software is in the final stages of development, including at least 12 programs from scratch according to the City's specifications. Many applications are ready to use. Delivery of the "engine set" will greatly advance the accessibility and use of the software programs. Software applications development in Kharkov continues to be overwhelming success.</p>

KHARKOV		
Objective Served	Core Activity	Results During Quarter
2,3,4	<i>Democratization and institutionalization.</i>	<ul style="list-style-type: none"> • MFM initiated a regional public polling project this quarter. This exercise will reveal and document the concerns of the citizens of eastern Ukraine, provide a public forum for discussion of the survey results and supply baseline data to measure the effectiveness of ten cities' efforts to resolve citizen concerns. Further, the baseline data will allow changes in concerns to be identified in each city. Polling in ten sites will provide local governments insight into local, regional and potentially national concerns. Questionnaires were completed this quarter and the Mayors of each city have provided the final approval of the project. The questionnaires are being readied for distribution to approximately 3,000 people in the 10 cities. • With assistance from MFM, the Director of Health Care and Social Issues, Dr. V.F. Moskalenko, compiled and published a document outlining the city's Social Services programs. The publication, a first of its kind, provides detailed descriptions of the status of social protection programs, including information about who is responsible and how the programs function. Dr. Moskalenko hopes to follow up this document with periodic updates in the status of Social Services in Kharkov and is presently working on an expanded report, for publication and general distribution, on Health Services in Kharkov. • Mayor Kushnaryov continues his weekly television addresses and has initiated weekly press conferences attended by City Department Heads and the Press Secretary. These open fora provide the press and the public with an opportunity to question and communicate directly with the municipal leadership. • A video describing Kharkov's socio-economic situation and how the City officials are working with MFM to overcome the obstacles of transition was completed and aired on national television. Mayor Kushnaryov as well as MFM advisors were interviewed at length and provided much insight on the program.

KHARKOV		
Objective Served	Core Activity	Results During Quarter
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward work plan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	Preparations were completed this quarter for a performance monitoring assessment and training trip by RT I. evaluation specialists. Early in February, Kharkov will host a brief conference on performance monitoring attended by city officials from Ternopil and Lviv.

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope
- (4) Institutionalization and sustainability

LVIV. The MFM project in Lviv focuses on three areas, namely:

- Improvement of the city administration and its management (especially relating to public services).
- Increased citizen access to the city administration.
- Improve the well-being of citizens by improving the economic opportunity, encouraging private enterprise, and capitalizing on the city's assets to increase the tourism industry.

The first two objectives are partially achieved in the approach MFM has taken in the city, namely, to institute a task force process which draws on the best of the city's talent, involves citizens and key decision makers in the process, and dramatically improves the city's ability to attract resources. The matrix will indicate how this process is playing out in practice. It is the

core of the MFM project in Lviv and has made a major change in the way the city is managed. The city now wants to apply the task force approach to a wide variety of problems.

LVIV		
Objective Served	Core Activity	Results During Quarter
1,2,3	<p><i>Broadening the decision making basis in the city.</i> A focal point in the Lviv program has been the introduction, development and utilization of task forces with the goals of bettering the city management, services to the citizens and the economic situation in Lviv.</p>	<p>The Task Force approach taken in Lviv continues to be a success. Although it took a brief time to gain momentum, the task force process is now accepted and utilized as a tool for problem solving in Lviv. The process includes: a planning period, a public hearing, completion of a report and or action plan, submission of the report to the Executive Committee, submission of the report to the City Council, and, upon approval of the report, implementation of the plan. Seven task forces have be established and are in various stages of the process.</p> <p>This quarter the finance task force set up five subgroups to address different issues and has chosen to focus in on locating funds to extend a tram line to a suburban community. In November, a short-term advisor worked closely with the task force in drafting a report. Technical assistance to the finance task force will continue next quarter with consulting from a municipal budgeting specialist.</p> <p>The report presented to the Executive Committee by the refuse disposal task force was approved. The report details the steps necessary to better the city's environment.</p> <p>The City Administration has indicated that all new contracts for services or equipment will be competitively bid, indicating that MFM has had an impact on the day to day management and administration of the city.</p> <p>ASSESSMENT: The task force approach to problem-solving continues to be an effective management tool. This process has provided the city with control over improvements in different areas of municipal management</p>

LVIV		
Objective Served	Core Activity	Results During Quarter
1,2	<i>Development and installation of a Lviv Integrated Information Handling System (LIIHS).</i>	<p>Delivery of part of the PBX phone system this quarter sparked the city into completing the construction necessary for installation of the communications system. Outfitting the operations room is complete and the current focus is on the completing of the wiring and cable installation connecting various city offices with city hall. Installation of the PBX system, scheduled for March, will allow for better communications between city offices and will avoid the per call charge for using the central city exchange resulting in an estimated saving of \$50,000 each year for the city administration.</p> <p>In an effort to expand the use of the new phone system, a task force subgroup has been investigating how the PBX system might work to relieve congestion in the existing telephone system serving the central city. Lack of decent telephone service for both voice and data has been an impediment to business development and intercity communications.</p> <p>Upon submission of the winning bid for Phase II of the LIIHS system, computer hardware and software, further clarification from the vendor was required before approval. Once approved, the hardware can be delivered and installed quickly. Application development began last quarter and computer training, seen as an immediate need, will begin next quarter.</p> <p>ASSESSMENT: Although somewhat slow in coming, LIIHS is now more of a reality. It took the delivery of some of the equipment, proving that a better information system was soon to be a reality for Lviv, to motivate city officials. AID approval of the procurement and delivery of the computer hardware is expected this quarter and work continues on software development.</p>

LVIV		
Objective Served	Core Activity	Results During Quarter
1,3	<i>Economic Development to increase employment, generate revenue and attract investment.</i>	<ul style="list-style-type: none"> • The tourism task force report approved by the Executive Committee in November has yet to be submitted to the City Council causing delays in planned technical assistance which cannot proceed without Council approval. Work continues on what can be done without approval from the City Council including preparation of updated city guide information and translation of tourism materials. • MFM continues to coordinated with others in economic development in the region. Staff are researching possibilities for international involvement or connections with Lviv light industries. A local van manufacturing plant, with assistance from MFM, has completed a business plan. MFM will also play a role in a March conference, organized by the Center for International Management and Education (CIME), aimed at drawing interest from American companies, and the involvement of local businesses and government to improve the local economy. • At the recommendation of MFM, local businesses are underwriting an effort to utilize the scientific strength of the area to assist local industry (RTI's experience has been offered as a model). <p>ASSESSMENT: Although project staff continue to assist and encourage business activity, primary responsibility for expatriate economic development assistance has shifted to DAI and CIME.</p>

LVIV

Objective Served	Core Activity	Results During Quarter
1,3	<p><i>City services improvement, including: water and refuse disposal</i></p>	<ul style="list-style-type: none"> • The action plan submitted by the task force on refuse disposal was approved by the City Executive Committee. The report utilized information gained at the month-long conference in Sweden and demonstrated various refuse disposal techniques practiced in Sweden. This report sets out a series of steps to be taken by individuals, businesses, and institutions to counter pollution problems. • Research continues with the task force on how to make use of coal waste materials in a possible refuse incineration/electrical generation/reduction of coal mine pollution hazard project. • MFM coordination efforts continue with the Water '98 task force and the many parties involved in the project. The Water '98 report was translated, and data on the tariff structure was provided to the World Bank. Work began on examining the alternatives available to the city under the proposed requirements of the World Bank. Preparations are also being made for the task force presentation to the City Council. <p>ASSESSMENT: Improving city services continues to be a primary goal for the city administration. Work continues on basic provision of a continual supply of water and a clean environment. The Finance department has started reviewing procedures and has begun organizing a search for funds to expand the city's tram line.</p>
1,4	<p><i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward work plan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.</p>	

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope
- (4) Institutionalization and sustainability

TERNOPIL. In Ternopil, the city has a mission statement as follows:

The Ternopil City administration aims to create the best living conditions and deliver the highest quality public services to the citizens of the city.

This statement is the result of a performance management workshop sponsored by RTI/MFM. It is the basis for the decision to focus the MFM Ternopil project on three areas:

- Improvement of municipal management.
- Economic development.
- Public services improvement.

New LTA Dan Goetz continues implementing Ternopil's MFM program. This quarter much of his advisory time has been spent working with city officials and local staff on preparations for the release of the request for bids for the completion of the ADP plan. Further, Mr. Goetz has been coordinating closely with the Economic Development Office staff on follow-up of the November study tour to the U.S. and Canada. Mr. Goetz has also been instrumental in initiating training between MFM offices and proposing further municipal finance training for city officials. As both a systems and municipal finance specialist, Mr. Goetz has been an asset to the Ternopil program.

TERNOPIIL		
Objective Served	Core Activity	Results During Quarter
1,2	<p><i>Improvement of Municipal Management.</i> To include: (1) alternative structure for city; (2) modernize city budget; (3) explore capital budgeting and municipal borrowing; (4) applying spreadsheet techniques to budget preparation; (5) improve communication and management information; and (6) develop an employee training program.</p>	<ul style="list-style-type: none"> • Computer hardware arriving in Ternopil as apart of the city's "starter set" was assigned to priority departments of the city significantly upgrading the city's capacity to program applications and use packaged software (word processing and spreadsheets). • The Information and Public Response Department took initiative to engage two programmer-analysts to design and program an application for registering emergency service calls from citizens. City officials and MFM staff from Ternopil traveled to Lviv to look at the PBX and emergency dispatch system to be implemented there. The trip allowed the Ternopil officials to conclude that they should concentrate on a dispatch system and explore use of switching units as a way to get maximum impact from communications expenditures. • With assistance from MFM, the Electric Bus Company also issued a solicitation for bids to develop a specialized computer program and chose a local vendor for the work. A 30 day timetable was set in January for the chosen firm to produce a parts and supplies inventory application. • City officials and MFM staff traveled to Kharkov to learn of the computer applications and uses in numerous city departments. • MFM worked with the Computer Programming Center staff to create an update on computer needs and process for another computer procurement. Bids as scheduled to be received by end of February. • City staff commenced computer training this quarter. 11 people from the Information and Public Response Dept., Emergency Dispatching Dept., Legal Dept, Personnel, Dept. and General Services Dept. had completed introductory training by the end of January. <p>ASSESSMENT: Delivery of the remaining starter set hardware, on order since August, was delayed. A quick turn around will be required for the second procurement of hardware and software for the city.</p>

TERNOPIL		
Objective Served	Core Activity	Results During Quarter
1,3,4	<p><i>Economic Development.</i> To include: (1) creating an economic development office; (2) establishing an economic development commission; and (3) determine feasibility of an economic development authority.</p>	<p>Staff of the Economic Development Office traveled to the US and Canada on a specialized training program in November. They returned with a plan of action and practical steps to create better economic conditions in Ternopil, including: creation of a small business incubator; extensive business training; establishing better ties with foreign companies through trade missions to and from Ukraine; targeting and marketing specific areas of productions for potential foreign investment and joint ventures; and researching Ternopil's potential for an industrial park. The Economic Development office staff, with assistance of MFM staff, will submit a proposal to the Eurasia foundation for the creation of the small business incubator. Ternopil's Economic Development Office will also assist the Trade Facilitation Office of Canada is organizing a trade mission for Canadian importers to come explore potential business opportunities and trade ties with companies in western Ukraine.</p> <p>ASSESSMENT: The Economic Development Office is becoming a respected individual entity and moving out from under MFM's protective wing although is still housed in the MFM office. Much work lies ahead in this area, but the staff is eager, knowledgeable and proactive in their efforts.</p>

TERNOPIIL		
Objective Served	Core Activity	Results During Quarter
1,3	<p><i>Public Services improvement.</i> To include: (1) assessment and implementation of management improvements in routing, operators, fee collection, maintenance, etc.; (2) increasing revenue earmarked for spare parts fund through user fees; (3) public information campaign to increase fee collection rate; (4) increasing rolling stock through one time infusion of funds for spare parts, new and rehabilitated busses; and (5) service planning for maintenance, rehabilitation and expansion.</p>	<ul style="list-style-type: none"> • In December, the electric bus company was able to purchase, with its own funds, three additional remodeled buses from the Czech firm that has been refurbishing the city's old buses. Only one bus from the original plan remained to be refurbished this quarter and is expected back from the Czech firm in February. This will conclude the very successful MFM-funded bus refurbishing program. • Ternopil's transport program has set an example for other cities interested in refurbishing buses and bettering municipal transport. MFM sponsored a seminar for bus companies in November that highlighted the Ternopil program. • In December a delegation from Ternopil, including our MFM advisor, the mayor and key officials in the transport sector, traveled to Poland to learn about passenger ticketing and control technology used in Eastern Europe. The devices seen in Poland could better record information on fares and ridership, but may not prevent fare avoidance. Ternopil, like many cities, has difficulty with fare collection; the aim is find and implement a system where all fares are paid and increase the revenue. • In mid December, the electric bus company issued a solicitation for bids to develop bus parts inventory and repair application software in order to better manage and track the buses and maintenance. The bid went out to local firms, one of which will be chosen after a competitive assessment of proposals. <p>ASSESSMENT: The transport project has been a glowing success. Other cities have shown great interest in the program that not only improves city services but also eases the pain of transition for the populous. Now transport enterprises from 5 other localities are planning similar program and Ternopil is looking into ways to continue and finance its own improvements.</p>

TERNOPIIL		
Objective Served	Core Activity	Results During Quarter
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward work plan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	

Key to Objectives:

- (1) Finance and management
- (2) Democratization
- (3) Building basis for hope

Statement of Work Changes

There were no significant changes to MFM’s statement of work this quarter. MFM staff in all four sites are focusing on completing work as originally planned, documenting the outcome, and preparing for Phase II of the MFM program. A Phase II, or Dissemination, proposal will be submitted in February after careful analysis of the programs in each pilot city.

CENTRAL ASIA

The program in Central Asia, managed by the Mission in Almaty, involves the two smallest cities in the program -- Atyrau in Kazakhstan (Pop. 150,000) and Karakol in Kyrgyzstan (Pop. 70,000). Atyrau was selected for its key position in the oil region and interest in making the kind of reforms promoted by MFM. Karakol was selected as one of the most progressive of the cities in Kyrgyzstan and the only city headed by a woman mayor. The Central Asian programs are approaching maturity. This quarter saw consolidation of work in many of the program themes and recruitment of finance advisors for each city for development and installation of modern finance systems.

ATYRAU. The broad themes of the Atyrau project are planning, organization, financial sustainability. The themes were arrived at jointly by RTI and local officials, including the Oblast Governor, and were endorsed by USAID. The themes are responsive to the tremendous structural deterioration that has taken place in the city with virtually every service and major infrastructure system sub-standard, inadequate to needs, and in bad state of repair. Given the pivotal role that this city is expected to play in an oil industry that could overshadow that of Kuwait potentially, preparing the ground for effective finance systems and investment in infrastructure were thought to be the city's highest priorities. Its oil income could attract significant investment but a long term development strategy is very badly needed if this is to become a reality. The process of improving the city's financial system and giving Atyrau an infrastructure investment strategy affords many opportunities for enhancing democratic practices and improving general management of the city, in line with MFM objectives.

At the beginning of this quarter, RTI submitted a letter to the field COTR in Almaty, the regional Mission, requesting clarification of the situation regarding project workplans, which had been awaiting approval or directions for revision for some months. It evolved that the regional Mission was preparing to undergo an internal review of its portfolio and a subsequent reassessment of technical direction under changing budgetary and political realities. Following this reassessment, a final revised Atyrau workplan was submitted to the regional Mission on December 14, 1995, and approved on 24 January 1996.

ATYRAU		
Objective Served	Core Activity	Results During Quarter
1,2	<i>Plan and install modern finance and information system.</i>	<ul style="list-style-type: none"> • Phase I of financial management system (FMS) implementation is completed. Database software is installed in the Finance Department, and the Health, Education, and Tax Departments are networked to the Finance department. • A budget expert, Dorinda Floyd, is recruited from the city of Milwaukee to come to Atyrau at the start of next quarter for 4 months to work with finance staff to develop their analytic skills. • New mayor sets up a tax collection division at the city level; eliminates the Oblast level of oversight of municipal services
1,3	<i>Produce a long range development strategy addressing most critical infrastructure needs of the city. Will include recommended financing options and implementation mechanisms.</i>	<ul style="list-style-type: none"> • Translated the LRDS final report into Russian and produced multiple copies in English and Russian for use in presenting the findings to the business and donor communities. • Continue to work with Tengiz Chevroil, KCS, and other western oil companies to obtain commitments to fund LRDS activities • Decisions are reached on forming a development corporation comprising local business and government leaders to implement the strategy.

ATYRAU		
Objective Served	Core Activity	Results During Quarter
2,3,4	<i>Strengthen Democracy Through increased public participation.</i>	<ul style="list-style-type: none"> • Peace Corps volunteers Angela Rivers and George Bernhardt are working with MFM on a program of public information to promote creation of nongovernmental organizations and public participation in government. • A Professional Women's Association has been formed, with elected officers and a charter to govern operations. • Discussions are ongoing with the city and ICMA to form owners associations to maintain housing blocks. • Work with the city continues on producing an Annual Report on municipal operations.
1,3	<i>Improve enabling environment for free market economy.</i>	<ul style="list-style-type: none"> • Individual meetings have been held with business leaders on the subject of joining a new Chamber of Commerce; former deputy mayor Sultangalieva has agreed to provide leadership direction on the Kazakh side. • Chamber of Commerce and Development Corporation organization begin
1	<i>Institutionalization and dissemination.</i>	Atyrau Oblast Governor continues to assist with promoting the long-range development strategy; plays an instrumental role in setting up meetings with the Ministries of Oil and Finance in Almaty in the next quarter.

ATYRAU		
Objective Served	Core Activity	Results During Quarter
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	A PME planning and training visit by MFM subcontractor MSI anticipated for this period was postponed until next quarter.

- Key to Objectives:
- (1) Finance and management
 - (2) Democratization
 - (3) Building basis for hope
 - (4) Institutionalization and sustainability

KARAKOL. The MFM theme in Karakol is *to create a democratized form of city government and to transform the economy to one that has the potential to be productive in a free-market environment.* Activities fall under two categories: municipal government and economic development. The good standing of the mayor with the President of the country has afforded MFM some unique opportunities to register its impact at the national level and to influence reform of government countrywide. The MFM program in Karakol has taken full advantage of this situation and is poised to do some pioneering work at the national level, much of it based on progress in Karakol. For example, the President has praised the city's budget and MFM's financial management training programs. He has asked MFM to do a financial management training seminar for all of the country's 150 mayors, council chairs and finance directors. MFM, of course, is responding and will also work on local government reform at the national level.

At the beginning of this quarter, RTI submitted a letter to the field COTR in Almaty, the regional Mission, requesting clarification of the situation regarding project workplans, which had been awaiting approval or directions for revision for some months. It evolved that the regional Mission was preparing to undergo an internal review of its portfolio and a subsequent reassessment of technical direction under changing budgetary and political realities. Following this reassessment, a final revised Karakol workplan was submitted to the regional Mission on December 14, 1995, and approved on 24 January 1996.

KARAKOL		
Objective Served	Core Activity	Results During Quarter
1,2,3	<i>Plan and install a modern financial and management information system.</i>	<ul style="list-style-type: none"> • New parameters for hardware and software to support a financial management system are defined in light of workplan revisions calling for additional short and long-term technical assistance. A request for quotes is issued at the end of January; contract award expected in February. • A local finance expert, Jim Gordon, is recruited to go to Karakol for 4 months (Feb-May) to oversee all aspects of the new financial system design and implementation. • Initial discussions are held with TOT (formerly KRAMDS) on a contract to design software to support a new chart of accounts and budget process. Another firm, Practica, located in Bishkek, has also been identified as a possible local programmer. • Discussions are held in Washington with Ilona Castro, who oversaw development of the national chart of accounts which is the basis for Karakol's new system, to ensure understanding of requirements. • Discussions go forward on creating a local finance model that will be adapted on a regional basis.

KARAKOL		
Objective Served	Core Activity	Results During Quarter
1,2,3,4	<i>Local self government reform.</i>	<ul style="list-style-type: none"> • A legal reform specialist (Donna Stinson) is recruited to work with charter commissions to draft model charters for Karakol, Aksu raion, and a village in Issyk-Kul. This TA approved in the final workplan. • Donna Stinson drafted a federal law on local self-government for review and passage through the new Kyrgyz parliament. Chief counterpart is Mr. Temirbek Koshoev, chairman of Akaev's Local Self Government Commission. • Donna Stinson drafts a presidential decree which would authorize Karakol and Aksu raion to implement their local charters. Chief counterpart is Koshoev. • Weekly regional broadcasts of a 28-part USIS television series on government by consent continues. Foreign Minister Otunbaeva, who viewed a program in Karakol, proposed showing the series on national television; this will be pursued by USIS.

KARAKOL		
Objective Served	Core Activity	Results During Quarter
1,2,3,4	<i>Executive and legislative leadership reform.</i>	<ul style="list-style-type: none"> • Planning and participant selection are going forward for an executive seminar in the U.S. for key players in executive and legislative reform at the national level. The seminar will focus on decentralized intergovernmental relations in the U.S. context of a free-market democracy. The goal would be further refining and support for the draft federal law on local self-government. • Karakol mayor Abdurekhmenova, Issyk-Kul Deputy Governor Marat Chanachev, and Issyk-Kul Oblast legislative head Joluchy Turdubaev continue to work with advisor Musante on refining a regional model for self-government that can be emulated nationwide. • Mayor Abdurekhmenova is working with MFM to prepare a public presentation on the city's budget, which will be televised to the region's viewers sometime in the next quarter.

KARAKOL		
Objective Served	Core Activity	Results During Quarter
1,3	<i>Create capacity in city for realizing its economic development potential.</i>	<ul style="list-style-type: none"> • The Karakol Tourism Association has devised an international distribution plan (25 countries) for the 15-minute tourism video produced in the last quarter. The video will be shown at the International Tourism Exchange Convention in Berlin in March. Foreign Minister Otunbaeva would like to sponsor a special showing of the video in Bishkek to encourage its broader distribution and showing. This is the first tourism promotion effort under a western donor that has potential to bring significant results. • MFM is working with Winrock International, the Central Asian Enterprise Fund, and IESC to help Kumtor Gold Company to meet its requirements to outfit miners and otherwise meet their needs using local Kyrgyz suppliers. The Purchasing Director for the company has agreed to route his purchase orders for clothes and foodstuffs through the Karakol Economic Development Office.

KARAKOL		
Objective Served	Core Activity	Results During Quarter
1,4	<i>Performance Monitoring and Evaluation (PME) System.</i> The PME system is used by resident advisors to: 1) track progress toward workplan and project objectives, 2) provide systematic reporting of performance data, and 3) develop and institutionalize the concept of performance management in pilot cities.	<ul style="list-style-type: none"> • A PME planning and training visit by MFM subcontractor MSI was postponed until next quarter.

Key to Objectives:

(1) Finance and management
(2) Democratization
(3) Building basis for hope

Statement of Work Changes

IV. Administrative Information

The expenditures during this quarter, cumulative expenditures and balance are as follows:

Expenditures (last three months):	\$ 2,116,215.45
Cumulative (Expenditures to date):	\$17,486,859.20
Remaining unexpended balance:	\$ 6,685,800.80

Because programs have been extended in all MFM countries, we project that expenditures will remain high through to the end of the project. Also, during this quarter, USAID indicated that an extension of the project was imminent for a dissemination phase. Therefore, the money shown in the last quarter of this current contract that is not spent during the quarter or accounted for by the usual end of project lag in invoicing will roll over into the USAID planned dissemination phase of the contract.

The chart at Annex 1 for a history and project of funding by quarter and projections for the last two quarters.

V. Conclusion

Nothing occurred during this quarter that would suggest that we are not still headed for a successful implementation of this contract. The value of the accomplishments of the project have been recognized by AID in their recommendation this quarter that the contract be extended to continue in greater magnitude and extent the dissemination of results that have already begun under the contract, as planned. Also, the World Bank has requested that MFM training be applied in some of their target cities in Russia.

We have had added two more items to the MFM Current Impact Series and several more are in various stages of completion. Our customer surveys in Russia and Ukraine corroborate our and USAID's sense that the MFM program is having the desired results.

ANNEX I

Actual and Projected Expenditures by Quarter

ANNEX II

Current Impact Series