

EVALUATION OF THE INTERGOVERNMENTAL FISCAL REFORM PROGRAM IN RUSSIA

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List of Acronyms Used

<i>Acronym</i>	<i>Full Name</i>
<i>CFP</i>	Center for Fiscal Policy
<i>CIDA</i>	Canadian International Development Agency
<i>DFID</i>	Department for International Development, UK
<i>DTT</i>	Deloitte Touche Tohmatsu
<i>EPT</i>	Enterprise Profits Tax
<i>FFSR</i>	Fund for Financial Support of Regions
<i>GRP</i>	Gross Regional Product
<i>HR</i>	Human Resources
<i>IET</i>	Institute for the Economy in Transition (Gaidar Institute)
<i>IGFR</i>	Intergovernmental Fiscal Relations
<i>IT</i>	Information Technology
<i>IUE</i>	Institute for Urban Economics (Institute Ekonomiki Goroda)
<i>MSI</i>	Management Systems International
<i>PER</i>	Public Expenditure Review
<i>PIT</i>	Personal Income Tax
<i>SIDA</i>	Swedish International Development Agency
<i>TACIS</i>	Technical Assistance to the Commonwealth of Independent States
<i>USAID</i>	United States Agency for International Development
<i>VAT</i>	Value Added Tax

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1.0 EXECUTIVE SUMMARY

1.1 Overview

During the past two and one half years, USAID has supported the work of the Center for Fiscal Policy in providing technical assistance in the area of intergovernmental fiscal relations and public expenditure reviews to both the federal government (executive and legislative branches) and regional governments. The quality of this assistance was universally described to the team by recipients, by other donors, and even by competitors of the Center as being timely and of the highest quality.

Russia has made substantial progress in IGFR at the federal level and the CFP played a pivotal role in that progress. The CFP has been a central resource for both the legislative and executive branches of the federal government in resolving a broad range of IGFR issues. The most important contribution of the CFP during the project was its role in the past year in the Kozak Commission, created in August 2001, to review the entire body of the existing federal legislation that had to do with the assignment of expenditure responsibilities across tiers of government and recommend reforms. The Center effectively guided the discussions of the commission to resolve unclear expenditure responsibilities and identify, and either fund or eliminate, unfunded mandates arising from federal legislation.

At the regional level, the Center has worked very intensively with certain regional governments (Stavropol Krai, most notably). Some of this experience can be transferred to other regions with appropriate modifications. The CFP has developed a series of partially standardized products, including a revenue-forecasting model, an expenditure requirements model, and a model of federal transfers. These models, customized with region-specific data, provide the regions with a basis for both decision-making and negotiations with the federal and raion/municipal authorities.

During the project, Deloitte Touche Tohmatsu, Emerging Markets (DTT) has worked with the Center to develop financial control, accounting, business development and other systems and a Business Plan and Strategic Plan to enable the Center to compete successfully for donor contracts, contracts from Russian government entities, and even commercial sources. This effort has been successful and the Center won contracts from the World Bank, UK DFID, regional governments, and even Russian commercial companies. The systems in place were carefully reviewed by the team and judged to be entirely adequate for the Center to assume the role of prime recipient of USAID funding in a follow-on project. However, the team has a number of suggestions for further measures, which the Center and USAID may wish to consider, which the team believes would strengthen the Center. The team recommends that funding for such work be provided for in a follow-on project and that the Center contract directly for it from an appropriate source.

Despite its success in diversifying its funding sources, the Center remains overwhelmingly dependent on USAID for funding. For the future sustainability of the Center, the team recommends that the Center and USAID gradually reduce the proportion of the overall budget supported by USAID to less than 50 percent.

The team recommends that the Center be given an opportunity to demonstrate the viability of its Business

Plan for the remainder of its current contract and the first half year of the follow on project. At that point, USAID funding should gradually decline. However, the level of USAID funding should be sufficient during the next three years to enable the Center to provide a significant amount of *pro bono* assistance to low income regions and to provide an independent advocacy voice for regional and local autonomy and accountability

The team also recommends that the relationship between the USAID and the Center in the follow-on project should gradually shift to one of purchasing specific TA products by USAID in areas of particular interest to it. The assistance instrument should be a cooperative agreement with AID involvement taking the form of increasingly specific TA instruments to be provided.

1.2 Key findings, conclusions and recommendations

Findings:

- Russia has made great progress in resolving the “assignment problem” and other aspects of IGFR in the last ten years, and particularly in the past two years
- The Center for Fiscal Policy has played a central role in the resolution of IGFR issues, especially at the federal level
- A great deal of work remains to be done in the area of implementation both at the federal level (implementation of the conclusions of the Kozak Commission) and at the regional and local levels (local autonomy in taxation authority, and local autonomy in spending levels).
- IGFR issues at federal/regional level and regional/local level are interrelated and must be solved simultaneously
- CFP has adequate accounting, financial control, human resources, and business development systems and has received contracts from an international financial institution (the World Bank), and a direct grant from a bilateral donor (DFID).
- The CFP is a highly cost-effective source of international quality technical assistance in both IGFR and PER at considerably less cost than alternatives (US universities or consulting firms).
- CFP has a diversified funding base, including some cost recovery from regional government customers, international loans and grants, in addition to its funding from USAID.

Conclusions:

- The CFP has provided high quality advice and technical assistance at both the federal and regional levels in the resolution of IGFR issues.
- In addition to its technical capacity, the CFP has brought a particularly “American” perspective to the policy issues in IGFR (such as local autonomy and accountability to voters in local taxing and spending decisions).
- Despite its success in diversifying its funding sources over the past two and one half years, the CFP is far from financial self-sufficiency in the event of a sharp decline in USAID funding.
- Deloitte assistance in institutional development has been successful in establishing effective accounting systems, financial controls, human resources systems, and business development functions.
- Additional assistance in institutional development may be useful (whether from DTT or other sources) but should not be the focus of future assistance.

Recommendations:

- USAID should continue to provide assistance to the CFP to support its IGFR efforts in implementing the recommendations of the Kozak Commission as well as its efforts to support regional and local governments in addressing IGFR issues at a regional level.
- USAID assistance to the CFP should focus increasingly on regional and local governments.
- USAID should continue to finance assistance to regional and local governments on a cost-sharing basis for the foreseeable future. However, flexibility should be maintained to take into account the limited financial capabilities of poorer regional and local governments.
- Overall, the share of costs paid by both regional governments and the federal government should gradually be increased with a view toward full cost recovery at some time in the future for a large portion of the Center's products.
- CFP should be the direct USAID grantee in any follow-on project, with provision made for it to purchase institutional-strengthening technical assistance from international firms, as needed.

2.0 EVALUATION METHODOLOGY AND TEAM COMPOSITION

The evaluation of the Intergovernmental Fiscal Reform Project in Russia addresses the technical assistance provided by the two implementers: Deloitte Touche Tohmatsu (DTT) and the Russian partner, the Center for Fiscal Policy (CFP). The period reviewed is May 2000 to the present. The Evaluation focuses on three areas: (1) The state of Intergovernmental Fiscal Relations (IGFR) in Russia and, (2) the quality and relevance of assistance provided by the Center to date and the need for future assistance in IGFR in general and USAID-funded assistance in particular, and (3) the success of institutional strengthening efforts by the Center and the ability of the Center to become self-sustaining in the relatively near future. Recommendations are produced for a follow-on program after completion of the third year of the current project.

At the outset, the team reviewed the approach and work plan with Moscow and Washington-based staff to identify priority issues and refine objectives. The evaluation questions listed in the scope of work were reviewed to assure understanding of the issues behind the questions. Documentation was reviewed and other resources identified. While in Washington, two team members met with the Deloitte staff responsible for project activities

Upon arrival of the full team in Moscow, meetings were held with USAID, CFP staff, other donors, officials of executive and legislative branches at the federal level, and officials of representative regional and local governments at various stages of the CFP regional assistance process. The evaluation methodology has been participatory to the largest extent possible.

The evaluation team consists of four members:

The team leader is **Dr. Robert Burke**. Dr. Burke has more than 30 years of experience in macroeconomics, economic reform, public finance, monetary policy and balance of payments, private sector development, and analysis of poverty. He was one of the most senior economists in USAID and served as Deputy Mission Director of USAID/Russia from 1992 until 1995.

Alan H. Edmond is a democracy and governance specialist with over thirty years experience in public management and institutional capacity development, including public finance, revenue generation, fund allocation and distribution, budgeting, infrastructure, and institutional development.

Ekaterina Greshnova is the co-director for monitoring and evaluation of the Center for NGO Support in Moscow. She has conducted training workshops in monitoring and evaluation and has carried out program evaluations a variety of donor-supported foundations and think tanks in Russia.

Dr. Alexander Lukin is an institutional strengthening expert who has written extensively on politics and public policy in Russia. He is a professor of Political Science at Moscow State Institute of International Relations.

3.0 ACTIVITY BACKGROUND

3.1 Historical & technical context

Although Russia formally had a federal system for many decades, in fact, until 1991, regional and local governments acted as agents of the central government. With independence, there was a widespread consensus that, in view of the country's size and diversity, Russia should have a federal system in fact as well as in theory. This required establishment of responsibility for delivery of services, assignment of revenue sufficient to finance such services, and agreement on which level of government (federal, regional, municipal), establishes standards for such services.

Lack of clarity in expenditure assignments between federal, regional, and local governments continued to be a difficult problem throughout the 1990s. In the early years of the transition (1992-93) the system of intergovernmental relations largely continued the system inherited from the Soviet Union, revenue-sharing rates and negotiated transfers were established on an ad hoc basis to meet budgetary targets deemed adequate to meet spending needs as judged by the federal government.¹ However, at the same time, day-to-day responsibility for a wide variety of government services were shifted (e.g. local transportation, public utilities) from federal to regional government. However, despite this increase in responsibilities, only limited fiscal autonomy was devolved to regional governments.²

The Constitution of 1993 substantially increased the budgetary autonomy of regional governments. Subsequent to its enactment, the earlier practice of ad hoc devolution of responsibility for spending by the federal authorities to the regions was largely stopped. On the revenue side, sharing rates of tax revenues between federal and regional governments were fixed, providing regional governments with reliable sources of revenues.³ During the mid-1990s, economic growth rates between regions began to diverge substantially, increasing the importance of federal transfer payments to equalize expenditure capacity for critical services and, at the same time, creating a political conflict between prosperous and lagging regions.

In late 1997 and 1998, a series of important measures stabilized intergovernmental fiscal relations in Russia. These included a Tax Code which fixed revenue assignments, a Budget Code, which came into effect in 2000, which, among other things, prohibited unfunded mandates, at least in theory, and a Law on the Financial Foundations of Local Self-Government, which similarly prohibited regional governments from issuing unfunded mandates to local governments.⁴

This series of legal mandates, in which USAID assistance played a major role, established a legal framework for a system of stable and sustainable intergovernmental fiscal relations within the Russian Federation. However, the implementation of this framework at both the federal and regional level, remained a difficult challenge. Addressing this challenge has been the key to establishing an effective and equitable system of intergovernmental fiscal relations in Russia.

USAID involvement in IGFR began at a very early date. This involvement reflected a view within USAID/Russia that resolution of IGFR issues was essential for achievement of both economic growth and democracy objectives. On the economic growth side, the view was that development of a strong market

¹ Martinez-Vazquez, Jorge, and Jameson Boex, *Russia's Transition to a New Federalism*, The World Bank Institute, Washington DC, 2001, p. 5.

² Martinez-Vazquez, p. 5.

³ Martinez-Vazquez, p. 6.

⁴ Martinez-Vazquez, p. 19.

economy required the development of a strong government. A strong government, in this context, means, a government delivering essential services—protection of life and property, administration of justice, education, health, and minimal levels of social protection—efficiently and effectively. Similarly, development of democratic institutions at a regional and local level required clear delineation of responsibilities for delivery of essential services. Development of democracy at regional and local levels required sufficient discretion on the part of local elected officials, and sufficient transparency, in both taxing and spending decisions, that voters could hold them accountable for their decisions.

Early USAID assistance was carried out by a variety of implementers under various instruments. Chief among these were the Harvard Institute for International Development, which focused chiefly on tax policy but also provided short-term assistance on tax administration and intergovernmental fiscal relations. Although Harvard played a leadership role in this early assistance, Barents played an important role in assistance on tax administration and revenue forecasting. During this period, Georgia State University also had a small program working with the Moscow City tax administration.

In 1997, USAID awarded a \$16.5 million contract to Georgia State University. Georgia State, in cooperation with the U.S. Treasury, worked on a broad program of fiscal reform covering five areas: (1) tax reform and legislation, (2) tax administration, (3) intergovernmental fiscal relations, (4) pilot real estate property tax, and (5) revenue forecasting and economic analysis techniques. This project worked successfully with executive and legislative bodies at the federal level, as well as with four pilot regional governments. Georgia State’s work included some of the important initial work on revenue assignments, expenditure assignments, and transfers at the federal level and in the pilot regions.

Shortly before the conclusion of the Georgia State contract, in February 2000, Georgia State assisted a number of Russian professionals who had worked under the previous project to form the Center for Fiscal Policy as a formally registered, not-for profit entity under Russian law. At its inception, the Center had a staff of eight full-time and two part-time professionals and five support staff.

In May 22, 2000, Deloitte Touche Tohmatsu was contracted under a USAID SEGIR contract to provide technical assistance in fiscal reform. The Center for Fiscal Policy was to be clearly at the center of this assistance effort, reflecting a USAID/Russia policy of developing Russian institutions to provide a source of ongoing technical assistance in key policy areas. Under this contract, Deloitte’s role was to be a source of institutional development support for the Center, while the Center, supported, as needed by Georgia State, was to provide assistance to Russian institutions on Intergovernmental Fiscal Relations.

3.2 Strategic Objectives, Results, Targets and Indicators

The following table summarizes the strategic objectives, intermediate results, and specific tasks as specified in the project task order:

Table 3.2: Project Objectives

Strategic Objective:	SO 1.4 Improved Economic Infrastructure to Support Market-Oriented Growth.
Intermediate Results:	1.4.3 Objective Criteria and System Developed for Transfer of Resources from Center to Regions 1.4.1 Tax System Fair and Efficient
Task 1:	Technical Assistance on Intergovernmental Fiscal Relations Objective: Intergovernmental Fiscal Relations in Russia that are increasingly fair, rational, objective, and transparent. More particularly, objectives are a more transparent, objective, and rational system of transfers and improved revenue and expenditure

	assignments based on tax capacity and client-based expenditure norms.
Task 2:	Institution Building Objective: The establishment of a Russian Fiscal Policy Center staffed by Russian experts who will provide high-quality fiscal policy advice to Russian policy-makers.
Task 3:	Public Expenditure Review Objective: To analyze and produce recommendations to streamline the Federal Budget and improve the efficiency of federal spending in various public sectors (science, R&D and judiciary/penitentiary systems).

Table 3.3 Targets and Indicators

Task 1: Technical Assistance on IGFR	<ul style="list-style-type: none"> • Establish the policy framework and implementation for effective economic decentralization • Improve federal and regional transfer formulas and reduce negotiated transfers • Improve federal and regional revenue and expenditure assignments to be increasingly objective, rational, and transparent • Reduce unfunded mandates and reduce extra-budgetary funds • Strengthen institutional capacity of pilot regions to provide objective and transparent intra-regional fiscal relations
Task 2: Institution Building	<ul style="list-style-type: none"> • Prepare an initial strategy for the CFP to become independent and self-supporting • Develop into a stable fiscal policy center, able to independently provide high-quality assistance to governmental policy makers, recognized and respected by the international community • Develop necessary expertise in management and financial skills • Receive a portion of its funding from donors other than the U.S. government • Develop solid and good relationships with counterparts
Task 3: Public Expenditure Review	<ul style="list-style-type: none"> • At the federal level, determine all extra-budgetary revenues of public institutions and develop a system to account for them • Develop transparent criteria to assess expenditure needs of federal budget recipients • Review laws and regulations pertaining to public companies and institutions • Review laws and regulations pertaining to government overdue liabilities and the system of state procurement • Prepare amendments and changes as needed and

	<p>develop draft regulations</p> <ul style="list-style-type: none">• Analyze government spending within science/R&D, judicial, and federal penitentiary system
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4.0 PURPOSE OF THE EVALUATION

Deloitte Touche Tohmatsu (DTT) and the Center for Fiscal Policy (CFP) are now approaching the end of the third and final year of their contract to carry out USAID/Russia's Intergovernmental Reform Project. USAID has contracted MSI to carry out an evaluation of this activity. The evaluation will cover the program implementation period from May 2000 to the present, and will focus on three key issues:

- To assess the state of Intergovernmental Fiscal Relations (IGFR) in Russia as well as the current and planned (IGFR) activities of other donors to determine if additional USAID funded assistance is advisable.
- To examine the overall performance of CFP in terms of its ability to provide technical assistance in intergovernmental fiscal reform at the federal, regional, and municipal levels of government and to provide recommendations on the focus of future work.
- To evaluate the institutional capacity and self-sustainability of the Center for Fiscal Policy (CFP) and to determine whether further institutional strengthening assistance is needed.

5.0 STATE OF IGFR IN RUSSIA

5.1 Why are Intergovernmental Fiscal Relations Important?

As outlined in Section 3.1 above, USAID assistance in the 1990s covered a range of fiscal issues in addition to Intergovernmental Fiscal Relations, including tax policy and tax administration. Basic fiscal problems, an imbalance between revenues and expenditures, and a lack of hard budget constraints in many institutions, produced first the high rates of inflation in the early 1990s, and then the financial crisis of 1998. The reforms of late 1997 and 1998 largely eliminated the fiscal deficit as a source of macroeconomic imbalance and imposed hard budget constraints on sub-national governments.

That legislation, however, although the beginning of establishing a framework for resolving problems of expenditure and revenue assignment and compensatory transfers to poor areas, did no more than that. The actual political decision about where implementation responsibilities for government services should be lodged, how they were to be paid for, and how standards were to be set, remained largely to be determined.

These questions matter. The presence of hard budget constraints at each level of government does not minimize the need to ask who does what and who decides what. The quality of government spending is very important, both for economic growth and for the development of democratic institutions. It has long been the view of economists who deal with developing and transition economies that “strong economies require strong governments.” The effective functioning of a market economy requires a government that delivers essential public services—protection of life and property, administration of justice, a well-regulated financial system, health and education services for the labor force, minimal levels of social protection, transportation and communication infrastructure, etc.—efficiently and effectively. In a multi-tiered system of government, this requires the setting of appropriate standards, clear and appropriate assignment of expenditure responsibilities, and revenues sufficient to meet those responsibilities.

IGFR is equally important for the development of democratic institutions. And here the details really matter. If elected officials are to be held responsible by the voters for the quality of public services, they must be clearly accountable for delivering those services, and they must have the necessary resources to deliver those services. If the local officials are simply agents of the central government, receiving direction and (perhaps) resources from the central government, it is difficult for the voters credibly to hold them accountable for decisions actually taken at a higher level. In addition to spending decisions, democratically elected local officials should have the ability to alter tax rates, to choose, and to be accountable to the voters for choosing, between higher tax rates and higher levels of services, and lower tax burdens and lower levels of services. Regional and local officials already have some ability to raise or lower rates for certain taxes, but the major sources of revenue, Value Added Tax (VAT), Enterprise Profits Tax (EPT), and Personal Income Tax (PIT), 90 percent of overall tax revenues, are set at the national level and regional and local officials have no power to alter them.

5.2 Progress in Improving IGFR Since Project Inception

5.2.1 Kozak Commission and role of CFP

Russia has made a great deal of progress in addressing intergovernmental fiscal issues in the two and one half years since the current project began, and the CFP has played a pivotal role in that progress. The CFP has been a central resource for both the legislative and executive branches of the federal government in resolving a broad range of IGFR issues. The details of this involvement are set out in Annex A.

The most important contribution of the CFP during the project was its role in the past year in the Kozak Commission. The Presidential Commission on Clarifying the Assignment of Responsibilities Across Levels of Government (Kozak Commission) was created in August 2001. Its task was to review the entire body of the existing federal legislation that had to do with the assignment of expenditure responsibilities across tiers of government and to produce a list of recommended improvements. These recommendations, after review by the President, were to be submitted to the State Duma for consideration and approval. The Commission set up eight work groups, each in charge of reviewing federal regulations governing the delivery of public services in a particular field. The Commission headed by Presidential Advisor Dmitry Kozak held a total of 55 meetings to hear the proposals developed by each of the eight work groups.

The CFP was a member of the Group on Intergovernmental Relations whose task was to estimate the possible redistribution of expenditures associated with implementing the proposals developed by the other work groups (General Issues of Public Governance, Property Rights over Mineral Resources and other Assets, Economic Growth, Education & Health, Environment Protection, Public Order and Safety, Local Self-Government). However, most of the recommendations developed by the other work groups were very general in nature (general improvement of governance rather than redistribution of responsibilities) and could not be “priced”. The Center resolved the situation by preparing detailed lists of government functions whose assignments were unclear, and distributed those lists back to the work groups to go through the lists and mark each function as either federal, regional, or local. The last two meetings of the Kozak Commission were fully dedicated to discussing and voting the expenditure assignment options suggested by the Center for Fiscal Policy in those detailed lists.

As part of this effort, the Center for Fiscal Policy drew up an inventory of spending responsibilities imposed by federal legislation; identified unfunded federal mandates; estimated the burden imposed by unfunded federal mandates; identified the spending responsibilities whose assignment was unclear; estimated the costs of the existing spending responsibilities of each level of government. It proposed amendments to federal legislation needed to clarify responsibilities, abolish unfunded mandates and reduce the share of the government sector in GDP; estimated the costs of the proposed spending responsibilities of each level of government and compared them against the existing spending levels.

The Kozak Commission approved virtually all CFP recommendations, including the abolition of unfunded mandates, an effort to decentralize expenditure responsibilities wherever possible, reduction in the scope of federal government regulation of regional and local functions, and abolish the federal uniform wage scale which currently applies to government employees at all levels.

5.2.2 IGFR at Regional Levels

If the federal/regional IGFR issues are well advanced, the picture at the regional/local level presents a much more mixed picture. There are a number of reasons for this. One is simply that regional officials, who see the wisdom of devolution by the federal government to themselves, are a good deal more

ambivalent about further devolution to raions and municipalities. Beyond this, the situation at the regional level is complicated, especially at the raion/municipal level, with a wide variety of situations in different oblasts, republics, and krai.

The Center has worked very intensively with certain regional governments (Stavropol Krai, most notably). Some of this experience can be transferred to other regions with appropriate modifications. The CFP has developed a series of partially standardized products, including a revenue-forecasting model, an expenditure requirements model, and a model of federal transfers. These models, customized with region-specific data, provide the regions with a basis for both decision making and negotiations with the federal as well as raion/municipal authorities.

The problem of unfunded mandates exists at both the regional level and at the raion/municipal level. The implementation of the Kozak Commission's recommendations should substantially reduce the number of unfunded mandates originating from the federal government. A problem of a similar magnitude continues to exist, originating at the regional level, with respect to its raions and municipal authorities. Without a decentralization of the tax system, the problem of unfunded mandates will continue.

5.3 What remains to be done?

5.3.1 At the federal level

Among government officials, think tanks, and donors, there appears to be a consensus about the future IGFR agenda. At the federal level, the Kozak Commission's recommendations, incorporating a great deal of CFP input, provide a detailed road map for a division of spending authorities among the levels of government, and, in particular, for the identification and elimination of unfunded mandates.

As indicated above, 90 percent of tax revenue is initially assigned to and collected at the federal level, with fixed shares redistributed to regional governments. One problem has been that the system of redistribution, as well as the formula for distribution of compensatory funds, has been subject to frequent change. There is a basic problem here between stability and "getting it right". However, the CFP's work with regional governments has revealed continuing problems with the formulas.

The fundamental problem however, remains the elimination of unfunded mandates, which make up a majority of spending at lower levels of government. The majority of these are social guarantees, which are not being fulfilled. The Kozak Commission identified conflicts and made political decisions on how to resolve them. However this resolution will require the revision of as many as 500 pieces of legislation and many of these may raise complex technical issues. The devil here is truly in the details.

In addition to purely IGFR issues, there is a wide range of work yet to be done on a more systematic and rational approach to budgeting, including the implementation of performance based budgeting and multi-year budgeting.

5.3.2 At the regional level

A key issue at the regional issue is the development of dynamic local systems of taxation to give greater autonomy and transparency as to the locus of spending and taxing decisions. Unfunded mandates are likely to continue as long as sub-national governments have limited tax capacity. However the choice of taxes for regional and local governments needs to be carefully considered so as to give sub-national governments comparable tax capacity. Taxes on natural resources, for example, are highly unequal

among regions and should remain a federal levy. Local sales or real estate taxes, especially the latter, require a local capacity that does not now exist.

The biggest problem in the regional/local government is perhaps that of sorting out regional and local governments and their respective financing and spending responsibilities. At present, the law seems to require the recognition and political organization of even the smallest population centers. According to present criteria, federal officials estimate that this would require the expansion of the number of units of local government from the present 12,000 to 30,000 units. The further this process proceeds the more complex becomes the process of determining spending needs and assigning revenues. This process of organizing revenues and expenditure responsibilities at the raion/municipal government level is likely to take a different form in each of the 89 regions.

Each of the 89 regions in the federation requires a budgeting process to assess spending needs of each subdivision, some process of either allocating revenues or establishing tax authority, and some method of compensatory transfers to local authorities with fewer potential resources. In effect, each of the regions needs to go through much of the same process now being carried out at the federal level, in the region, vis-à-vis local government.

A particular complexity of this process is that it needs to be carried out interactively with IGFR decisions at the federal level. Changes in the federal revenue-sharing formula, compensation formulas or expenditure responsibilities at the federal level will require changes at the regional level. One of the Center's particular strengths is its ability to see the same problems simultaneously from the federal and regional level and understand the nature of possible solutions that meet the needs of both. The CFP's history of effective interaction with both federal and regional authorities also makes it an effective "honest broker" in first clarifying issues between the two levels of government, and then suggesting technically appropriate resolutions which meet the needs of both.

A possible agenda item somewhat further in the future is assistance to regional and possibly some local governments in accessing bond markets. At present the three largest cities in Russia are legally authorized to issue dollar-denominated bonds and the two largest have actually done so. It would be very useful for the future of regional capital projects if regional governments and larger municipalities could develop effective access to financial markets, even if just in Russia. The presentation of financial information for future bond issuances would be a potential market for the Center.

5.4 International donor activities, levels of involvement, and focus

5.4.1 The World Bank

By far the most important donor in the area of IGFR is and will continue to be the World Bank. The Bank's principal instrument for technical assistance in this area has been its \$30 million Regional Fiscal Technical Assistance Project. This project was approved on December 22, 1999 and is to be disbursed over a five-year period ending in December 2004. Of the \$30 million total Bank funding, \$14.3 million was to cover foreign technical assistance, \$5.2 million to cover technical assistance from Russian sources, \$6.8 million, operating costs of the Fiscal Monitoring Division of the Ministry of Finance and the project management unit, and the remainder, commodities and other costs.

The Project is financing four components: (i) Strengthening of Federal Legislation on Inter-Governmental Fiscal Relations; (ii) Strengthening of Federal Fiscal Monitoring Capacity; (iii) Regional Reform of Accounting and Budget Practices; and (iv) Sectoral Public Expenditure Reviews.

The first component (\$2.4 million life of project) focuses on development and implementation of the Government's fiscal reform and will address improvements in the current legal framework for inter-governmental relations. It analyzes different options for the reform of inter-governmental transfers; drafting of federal regulations for monitoring sub-national fiscal performance; design of formula-based equalization transfers for the regions; and analysis of the consistency and compatibility of existing legislation on inter-governmental fiscal relations.

The second component, Strengthening of Federal Fiscal Monitoring Capacity (\$14.8 million), focuses on institutional strengthening within the Ministry of Finance itself. The third component, Regional Reform of Accounting, Budgetary Process and Institutions (\$10.1 million) supports the development of sub-national government budgeting and financial reporting standards, with particular emphasis on off-budgetary liabilities, introduction of accrual-based expenditure accounting, and better separation between current and capital expenditures, between budget expenditures and deficit financing, and between debt service and repayment of principal. The project is providing assistance to six regions (Volgoda Oblast, Samara Oblast, Belgorod Oblast, Chelyabinsk Oblast, Khaborivsky Krai and the Chuvashi Republic) by financing diagnostic studies of the region's financial and fiscal systems and preparation of fiscal rehabilitation programs. Finally, the fourth component (\$2.4 million) proposed to carry out sectoral public expenditure reviews in the regions.

It is clear from the above description, and even clearer from the Bank's project documentation, that a relatively small part of the total Bank funding is being provided in areas in which the CFP would be able to compete for contracts. The largest single component, number two, is focused on training, equipment, and institutional strengthening within the Ministry of Finance, and the funding of the Bank's project implementation unit.

Even in the area of subnational government funding, Bank funding is provided for a broad range of technical assistance in addition to intergovernmental fiscal relations. Among the areas in which the Center would be unlikely to compete are: treasury functions and cash management; budgetary accounting and audit; regional procurement systems; and computer equipment and software systems. In addition, a large part of the Bank's funding (73 percent) is earmarked for foreign technical assistance providers. Thus, although the Center can compete and will compete for tenders from the Bank project, the potential value of such tenders is much less than the \$30 million size of the Bank project might imply.

The Center, in a consortium with the Institute for the Economy in Transition (Gaidar Institute) and Georgia State University, has won a major tender under this project. This contract represents the single principal source of non-USAID funding for the Center, with a value of \$480 thousand over a 30-month period.

In addition to the World Bank technical assistance project, the Bank also has in implementation an adjustment loan, approved January 29, 2002, for \$120 million. This loan, the Fiscal Federalism and Regional Fiscal Reform Loan, is not a technical assistance project but an adjustment loan with disbursements directed to regions of the Russian Federation which have carried out or are in the process of carrying out fiscal reforms. Although a loan to the federal government, disbursements are grants to the regions. They will expand the budgets of these reforming regions for a broad range of public services. It is to be implemented in three tranches of \$40 million each.

5.4.2 DFID

The British Department For International Development (DFID) is also providing assistance in the area of IGFR, in close coordination with the World Bank technical assistance project, and is providing assistance

to 15 regional governments in a variety of financial management areas. It is also providing assistance to the Ministry of Finance in the area of expenditure criteria and on the actual performance of regions. The total budget for these activities from now through the year 2005 is the equivalent of \$10-11 million. A portion of this assistance is provided through PKF, a British consulting firm, and part through the Fund for Enterprise Restructuring in Russia, the project management unit for the World Bank projects. A small amount of assistance is also being provided at the municipal level. A small part of this assistance is currently being provided through a contract with the CFP for \$130 thousand over a three-month period.

5.4.3 TACIS

The European Union's TACIS program is also involved in IGFR issues for a total of Euro 2 million. This program is heavily concentrated in Southern Russian Okrug. The most important implementing organization is the Netherlands Economic Institute which is providing assistance in financial management and public economic law at the sub-federal level in this region.

5.4.4 CIDA

The Canadian International Development Agency (CIDA) carries out a small program of assistance in IGFR, implemented through the Institute for Economies in Transition (Gaidar Institute), and, on the Canadian side, is implemented directly from Ottawa. The team was unable to develop further information about this program, including funding levels, due to the absence of cognizant CIDA staff in Moscow.

5.4.5 SIDA

The Swedish International Development Agency (SIDA) has a program of assistance concentrated on Kaliningrad Oblast. This program includes an arrangement with the federal Ministry of Finance for financial management reform at the oblast level.

5.5 What are donor trends?

From conversations with the World Bank and other donors, it is clear that virtually all of the potential funding for IGFR is currently on the table. The World Bank technical assistance program, with its continuing heavy emphasis on foreign advisors, will continue the end of 2004, disbursing at its current level. Other donors appear to be either holding their assistance levels flat or slowly declining. The World Bank's documentation suggests that the Bank will face an important decision point in 2005, at which time the Bank-supported tax reform efforts are expected to be implemented.

5.6 Political support for IGFR

5.6.1 Federal level vis-à-vis Oblasts

The successes of IGFR efforts to date are clearly a result of the strong support for fiscal decentralization efforts within the current Russian administration. This support is clear from conversations with officials of both the executive and legislative branches and with the results of the Kozak Commissions efforts. The Center has played a key role in mobilizing that support within the Russian government.

5.6.2 Oblasts vis-à-vis municipalities

Regional government is the "natural enemy" of local government. Regional officials who see the obvious wisdom of devolution of authorities to themselves do not necessarily see the logic of further devolution to

raion and local governments. This is the primary reason why a law giving effective powers of self-government to local government has lagged so long.

Continued progress in IGFR at the regional level will depend on pressure from the federal authorities for regional governments to implement the provisions of the Constitution with respect to local autonomy as well as the financial incentives provided by the \$120 million World Bank loan.

5.7 Overall government financial and non-financial support of IGFR

Overall, efforts at decentralization and devolution of authority to regional and local government have made surprising progress in a relatively short space of time. The federal authorities, with the help of the Center, have devised a rational approach to allocation of federal tax revenues as well as transfer mechanisms based on expenditure need and tax capacity. As suggested above, the \$120 million World Bank Loan provides strong financial incentives for further progress in IGFR implementation at the regional level. In addition to committing budget resources to the transfer of spending authority to subnational governments, the federal authorities have devoted substantial staff resources to the efforts of the Kozak Commission over the past year.

Political will is a necessary but not sufficient condition for successful implementation of IGFR in Russia. The issues involved also involve complex technical public finance questions. The Center for Fiscal Policy has played, and will continue to play a central role in this effort by continuing to provide international quality technical assistance keyed to Russian economic, political, and institutional realities.

6.0 CFP PERFORMANCE/TECHNICAL ASSISTANCE

6.1 Assessment of project model and hypotheses

6.1.1 Project hypotheses articulated in activity documentation

- 6.1.1.1 The Center for Fiscal Policy can provide technical assistance to Russian government institutions equivalent in quality, objectivity, and lack of political bias to that of the principal U.S. providers of such assistance (Georgia State University, Barents, Harvard, etc.)

All the team's conversation with Russian customers and partners of the Center revealed that the quality of technical assistance provided by the Center was equivalent to that provided from international sources. In addition, the Center was viewed as more responsive to the perceived needs of its customers. The Center was said to be prepared to craft new products to deal with problems presented to it by both federal and regional government officials.

- 6.1.1.2 The Center for Fiscal Policy can, with USAID assistance, develop an administrative structure sufficient to compete successfully for Russian, international donor, and commercial contracts.

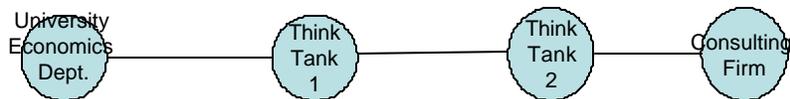
In the two and one half years since its founding, the Center, with the help of Deloitte, Touche, Tohmatsu has adopted and implemented all the financial, human resources, and business development systems and procedures needed to compete for donor, Russian government, and private sector contracts as an independent think tank. However, the Center remains heavily dependent on USAID financing which, at present, accounts for some 84 percent of its total budget.

In this respect, the team obtained comparable financial information from the Institute for Urban Economics about its financial development over the seven years of its existence. The proportion of USAID funding to total funding for the CFP is very similar to that of the IUE at the same point in its development. The IUE has since evolved after seven years of its existence to the point where approximately 50 percent of its funds come from USAID. It seems reasonable to expect that the CFP will follow a similar path and that, at the end of six years, the CFP should also be dependent on USAID for less than half of its funding.

6.2 Replication and scale-up of approaches in activity area or elsewhere

The CFP has demonstrated considerable agility in developing new products in the broad areas of fiscal policy. At the same time political support for reform is an indispensable precondition for reform of intergovernmental fiscal policy. At the federal level, such support currently exists. In many regions, political support for devolution of authority to raion and municipal level governments is lacking. The motivation for the World Bank's \$120 million loan package is precisely to provide an incentive for regional governments to begin implementation of IGFR at the regional level. The extent to which this will happen depends, among other things, on political support from the federal authorities. However, IGFR at the regional level, just as at the federal level, depends not only on political support, but also on the solution of some complex technical issues. Once the political decision is made to proceed with IGFR has been made, the CFP has shown itself very effective in addressing these technical issues at the regional level, just as at the federal level.

Figure 1
Range of “Think Tanks” in Russian
Context



The Center’s role as a “think tank” requires some comment. Think tanks exist to advocate public policy. As such, as suggested in Figure 1, think tanks operate along a continuum between pure research departments, such as exist in universities, to, at the other extreme, consulting firms responding essentially to market demand. One of the objectives of USAID funding, is to give the Center for Fiscal Policy the ability to operate more in the manner of Think Tank Number 1, in the figure, responding to a public purpose, but with the objective of influencing public policy in the short run.

6.3 Quality of CFP Performance

6.3.1 Is mix of technical assistance at the federal, regional, and local levels appropriate?

The Center has divided its efforts between technical assistance to federal and regional levels during the course of the project. In general, the Center has not provided assistance at the raion/municipal level. The experience of the Center is that there has been a strong synergy between assistance at the federal level and at the regional level. The Center has been able to provide each side with the perspective of the other and to provide a reality check on the assumptions that may underlie a particular approach. As the emphasis shifts from devolution at the federal level to devolution at the regional level, it may well be that a similar synergy may exist between assistance to regional government and assistance to local government.

6.3.2 Relative Effectiveness of TA in pilot vs. non-pilot areas

The team conducted interviews with both “pilot regions” currently receiving intensive assistance from the Center and “previous pilot regions” which are currently receiving much less attention from the Center. The conclusion from those interviews was clearly that the assistance to the pilot regions was much more effective. The degree of detailed understanding of the particular problems faced by the regions was critical to the crafting of measures for the regional government. The follow-up assistance to former pilots, while appreciated, appears to have been much less influential.

7.0 INSTITUTIONAL CAPACITY OF CFP

The CFP now has a history of being a fast-paced, aggressive organization which seeks to broaden its client base and its areas of professional expertise as reflected in their Business Plan and Strategic Plan. While it has concentrated on carrying out several projects for regional and national clients, and has used its consulting and research resources to their limits, the CFP has taken several steps to strengthen organizational administration.

With DTT assistance the CFP has crafted master plans for business development and overall organizational strategies. The CFP has also begun to institute personnel administration procedures and systems to provide incentives for high performance and internal consistency in managing a dynamic workforce. There are also some measures the CFP is about to institute which promise to bring about an effective method for evaluating the success and efficacy of the CFP's "product line" and its individual consulting projects.

7.1 Administrative/reporting performance

7.1.1 Administrative Performance

The CFP has grown from an initial staff of 12 to its current level of 33 with a very small cadre of top management staff. The Center for Fiscal Policy is being managed by an Executive Director and three functional directors—a Director for Business Development, a Technical Director, and a Financial Director\Chief Accountant. These three persons comprise an Executive Board or "Management Team".

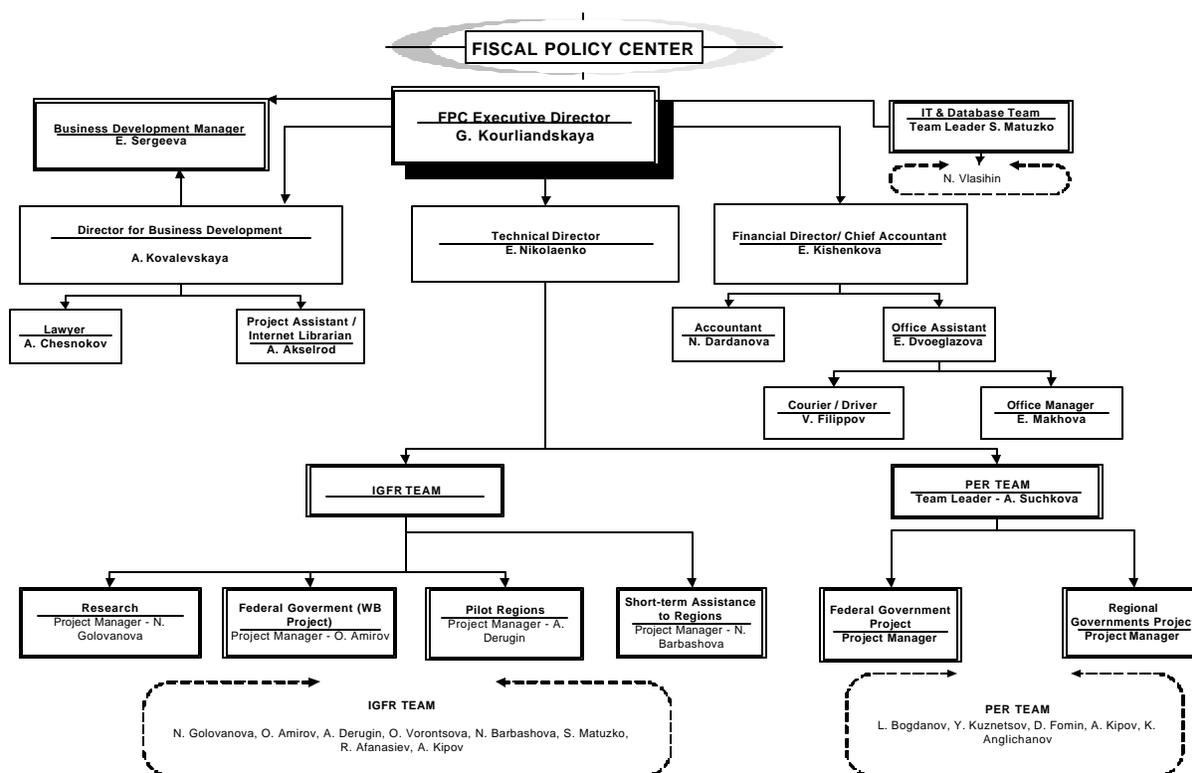
Current Administrative Structure

The Executive Director is responsible for the overall CFP operations, executes the general management of the organization, is deeply involved in the Center's promotion and public relations, is involved in negotiations with the clients, and is legally responsible for all financial issues related to the Center's operations. She also is the main spokesperson for the Center, and performs highly complex tasks in advocating for change in national laws and fiscal policies.

Functional directors are responsible for the specific administrative issues (i.e., business development, finances, and services provision). One of them is also involved in program activities and direct service provision. 50% of her time is billed out to clients, while the other 50% is covered by overhead. The Financial Director's time is 100% administrative support. The Technical Director's time is 100% direct service provision, though she carries out some administrative tasks as well, as she manages both IGFR and PER teams and is responsible for quality control in the Center.

The Center now has 33 staff. Two years ago the Center had only 12 people on staff. The Executive Director supervises not only the IT and Database Team, but the entire Center. The Director for Business Development supervises the Business Development Manager (who is also supervised by the Executive Director), as well as the Center's lawyer and Project Assistant / Internet Librarian. The Financial Director supervises an Accountant, an Office Assistant, the Office Manager, and the driver. The Technical Director manages two research\consulting teams—the IGFR Team and PER Team, each of which has a Team Leader, although the Executive Director indicated to the assessment team that this arrangement is unworkable and will be modified soon. Each functional team is split into project teams (four for the IGFR team and two for the PER team), each with its own Project Manager.

Figure 2
Center for Fiscal Policy Organization Chart



According to the Executive Director, the existing system of research and project teams is not appropriate for the new mode of the Center’s operations—a combination of one long-term contract (USAID) and several medium-or short-term contracts (World Bank, DFID, regions). The Center’s management is considering changing to temporary project teams according to the specifics of the contracts the Center receives. It may no longer be effective to have team leaders in charge of a greater number of projects that may be dissimilar in content, clients, and geographic regions.

For-Profit and Not-For-Profit Branches:

In September 2002 the Center’s founders registered a for-profit company to meet the formal requirements of the Russian tax inspection service as to reporting on administrative costs (overhead). This arrangement should also improve accountability and cost control for the USAID project. All the for-profit contracts now will be implemented through the for-profit, commercial company. At present the Center has one account for the USAID project, which is a sub-contract from DTT, and one for all other contracts, which are for-profit commercial activities. The only project accounted for through the for-profit company as of November of 2002 is the DFID project.

Management procedures for interaction between the for-profit and not-for-profit portions of the Center are not yet fully developed, although the management personnel and “pool of experts” are to be shared by the two entities. This separation of the Center into two units for financial control and accounting purposes is likely to increase the administrative burden on all senior managers. The temporary project teams

mentioned above may be part of the solution. Careful and frequent review of time sheets will be required to assure proper allocation of personnel and other costs between the two entities.

It is unclear at this time whether such procedures will be complex or extensive. Internal financial control systems for the Center are already in place. These provide for cost accounting based on hours/days assigned to specific projects or overhead. Timesheets are reconciled with project staffing reports. The division of the Center into for-profit and non-for-profit entities is primarily an accounting and financial control device. Some additional procedures may be required to comply with taxation regulations and fulfill mandatory Russian accounting rules.

Personnel

The Center's personnel are full-time employees, with few exceptions—two secretaries and several junior researchers. In addition, the Center from time to time engages outside consultants, but that is an exception rather than the rule.

The Center has plans to add two more full-time employees to the staff—a Public Relations specialist and an Information Technology specialist—to increase the visibility of the Center and promote the Center's unique expertise with potential clients, as well as to improve the Web site and data processing. There is also a tentative plan to hire a lawyer, two economists, and another researcher.

The evaluation team found that regional clients depend heavily on the Center's Web site and email contacts with Center staff to gain technical information and other research materials, and therefore having an increased IT function is reasonable and logical in terms of the Center's growth plans.

7.1.2 Reporting Performance

The Center reports to DTT on both financial and program issues. Financial reports are submitted on a monthly basis, while program reports are submitted on a quarterly basis. In addition to that, the Center develops annual work plans that describe program activities for the next year.

Reports are being submitted to DTT according to the schedule. The program reporting format corresponds to the format of the Annual Work Plan, which makes it easy to track the Center's progress in implementing planned activities and achieving objectives set up in the Work Plan. The reports are submitted promptly to USAID through DTT, with very few changes, mostly related to editing, according to the Center's staff. The Center staff also mentioned that reporting through DTT causes some delay in updating USAID on the Center's activities. Regular meetings with USAID staff, though, helped to meet that constraint.

7.2 Adaptability to external/internal changes

As a major player in the IGFR process, the CFP in some ways influences the pace of reform and is therefore positioned to anticipate and to act as changes in laws and intergovernmental regulations take place. The Center has the mix of skills and an internal training and mentoring system necessary to field experts in the major areas of IGFR at the national and regional levels. The Center's Business Plan and Strategic Plan were derived from information on the changing IGFR and legal climate, and the perceived potential for new product lines and an expanded client base.

The team found, in interviews with regional and national officials, that the changes in market demand which the CFP needs to anticipate and build into the design of its assistance programs are logical extensions of existing CFP products. That is, the CFP in its Business Plan has identified future areas of

activity that they believe will have a well - defined demand. Those are 1) budget planning, execution and control, 2) governmental financial statistics, and 3) e-government applications.

The CFP has an ambitious program that targets regions, the international donor programs, international clients, and “opportunistic” product lines. It seeks a few large donor programs to form a financial base. If such a base fails to be established, it is problematic whether the regions alone will form enough of a demand for services to sustain the Center. In order to adapt to fluctuations in the marketplace caused by the pace of reform and the demand for the CFP’s specialized products, the CFP has adopted a plan for very aggressive marketing.

How would the CFP adapt to unanticipated changes in market demand? The team found that the CFP relies on a mix of senior and junior experts who are virtually permanent staff but who are on one-year contracts. They are hired and trained in anticipation the CFP’s successfully marketing products, primarily to regions.

In the consulting industry, firms must be able to survive financial downturns, or “dry spells”, when cash flow is low or stopped due to insufficient demand or unsuccessful bidding efforts. The CFP, like other organization, has some contingency funds for such periods, and has plans to build up that reserve fund from contract fee income. However, until its reserve fund becomes better established, the CFP must rely on core funding from USAID. It must eventually become more adaptable in reducing its costs.

That requires the ability to shed staff when necessary and to rehire them when financially possible. One device for doing so is the three-month contract, as used by the Institute of Urban Economics and others. Short term contracts and other devices for decreasing the workforce may have an adverse impact on morale by increasing uncertainty. It may also lead to a loss of staff in whom the Center has a considerable investment.

Another device actively being considered by the Center is the hiring of staff on a contingency basis, that is, guaranteeing a certain level of hours and pay, and if funds are not available, putting staff in a part-time status until funds are once again available. That system may be acceptable to junior staff who are also interested in time off to attend graduate school or to pursue personal research projects. It may also be an incentive for those staff to spend time seeking other contract work to perform for the Center. On the whole, this approach appears more promising.

The Business Plan calls for arrangement of the staff in two teams, IGFR and PER, yet recent experience has shown that such a division diminishes communication laterally among staff members. Therefore the team leader positions will be abolished and a new structural arrangement made in the near future.

Many of the external changes the Center will face and will need to adapt to will be in the demand for IGFR services among regional clients. Change will occur as the donor community offers grants and loans to Russia which will have an emphasis on making local self governments capable of managing their own revenues and expenditures as well as enjoying the benefits of a rational federal funds distribution system. The Center seems at this time to be capable of adapting to those changes in the sense that it is selecting and training staff with the proper skills for the new areas of program emphasis. The Center is also seeking the creation of representative offices outside Moscow, to use local experts to perform sales duties in order to compete for regional client contracts.

7.3 Right skills for jobs

In terms of sustaining itself as a provider of consulting services, the Center will have to make an effort to provide administrative, logistics, and human resources expertise at such levels as are appropriate for an

expanding cadre of experts who will be involved in field activities in many regions of Russia and possibly in other countries. At this time the Center has 33 staff, 23 of whom are subject-matter specialists, and 10 of whom are managerial, clerical, and administrative. By comparison, the Institute for Urban Economics has 96 employees, 59 of whom are subject-matter specialists and 37 of whom are in managerial and support positions.⁵

Those ratios of support and managerial staff to consulting experts are roughly comparable, and so the CFP, as a new, specialized organization may be adequately supporting and maintaining its field staff at today's level of activity. However, the CFP's planned next step is to add several field staff without adding to the managerial and support employees. This is appropriate, but in order for the CFP to expand its activities and client base (as well as geographical range), it should strongly consider adding support *functions* without adding support *staff*, through job redesign, job consolidation, and other efficiency actions.

As the CFP follows its Strategic and Business Plans, it will add some staff support functions, and it may alter its management responsibilities structure to accommodate a greatly increased scope of activities. Its management responsibilities structure at this time has all major decisions being made by the top three administrators, and PER and IGFR team leaders carrying heavy supervisory and program quality control responsibilities.

Based on input from DTT, the Center is now engaging in a rudimentary performance review program for junior professionals. However, it is not a formal program in the sense that salary increases, promotions, and separations are based on a written, standardized system of evaluating performance against agreed-upon performance goals that are measurable within industry and professional standards. It may be necessary for a member of the staff to become more expert in such systems and to administer performance measurement for a growing number of staff. Alternatively, at some point there may be enough employee-related programs in place or contemplated to justify a full-time Human Resources staff person.

Professional Development

The CFP managers have reported to the team on their staff training and mentoring system. It consists of a one-on-one relationship between a senior expert and his or her junior associate(s). The mentoring is largely a structured learning program of readings, lectures, and dialogue which imparts specific skills in the subject matter of the firm, primarily financial and economic research and application.

As IGFR progresses to institution building at the local levels of government, there will be a need for management training of various kinds, along with the application of various local government management practices which Russian universities at this time are not teaching. Those non-financial disciplines - policy making, program planning and implementation, human resources, local economic development, capital planning, to name a few - are taught in schools of public administration in other countries, and are the types of programs international donors typically fund and advocate in developing countries. The CFP should familiarize itself with such curricula and position itself for action in the local governmental units as the World Bank and other large assistance programs begin to be implemented.

That may mean calling in consultants from Poland or other countries that have gone through substantial local government development programs and have produced cadres of experts in local, non-financial public administration. CFR could certainly maintain its emphasis on financial consulting, but by forming

⁵ These numbers are approximate, and it is not possible to define each staff person's role precisely because of overlap in duties among them.

“strategic alliances” and teaming for bids with other think tanks and consulting firms which specialize in the non-financial aspects of local self government, the CFR might be successful in securing contracts especially of the opportunistic type. Here “opportunistic” means contracting opportunities with deliverables outside the main focus of the Center, but with the help of firms with complementary capabilities, have a high likelihood of successful bidding.

Academic Standards and In-House Professional Development

The Center has established, and maintains through its cadre of senior researchers, strong research and consulting standards. Four staff members have PhD degrees in economics, as well as one in law and one in mathematics. Most of them are often invited to deliver lectures at Moscow State University (MSU) and the Higher School of Economics. One has a long-term contract with MSU for the presentation of research findings.

The Center’s staff development strategy is based on enhancing the skills of specialists inside the Center. Fiscal policy is a relatively new topic for Russia, and, according to both Center’s managers and the Academic Supervisor of the Higher School of Economics, no educational institutions provide adequate education in this area.

Moscow State University, the Higher School of Economics, the New Economic School and others provide only basic economic education. Post-graduate courses in fiscal policy are not available. Therefore the Center concentrates on identifying promising senior class students and recent graduates as the main source of staff recruitment.

The system of staff professional development is based on four major mechanisms:

1. Orientation. The newcomers read all the reports, articles and papers developed by the Center to learn of the Center’s approach and its quality standards.
2. Coaching. Each senior consultant\researcher has a few junior staff members to advise and train on an every day basis.
3. Internal workshops on various topics are organized for the Center’s staff on a regular basis.
4. Junior consultants as well as senior experts make presentations at the training events which the Center organizes for its clients from the regions.

The Center can now (with USAID funding) offer competitive salaries to both senior and junior researchers, which allows it to select and keep the most promising specialists (several junior professionals are preparing their theses on fiscal policy for a PhD in economics). Inevitably, as the Center comes to rely more and more on contracts, its income stream will become less stable. To accommodate this, the Center is in the process of using its fee income from contracts to create a reserve fund.

The Center, in its first two years, has had some negative experience with outside consultants, according to the Center’s management. The main concern is that it is hard to find an available expert with adequate qualifications and a similar project approach to the Center’s standard approach. Although it still occasionally engages outside experts on a short-term basis for specific tasks (e.g., editors for publications), that source of labor has not been significant for the Center and does not fit its institutional approach.

Outreach to the Regions

The Center plans to establish a more permanent presence in the regions, and Buryatia and Stavropol may become first sites. In this respect the Center plans to provide special training for a professional identified in the regions, as there are few specialists with the necessary qualifications outside the Moscow area.

All the Center's clients who were interviewed commented on the high quality of services and products provided by the Center's staff, and the assessment team concluded that the Center is considered widely to be the foremost provider in the area of fiscal policy. Officials in the regions consulted (Leningrad Oblast, Novgorod Oblast, and Arkhangelsk Oblast, Stavropol Krai, the Buryatia Republic, Karelia Republic, and Belgorod Oblast) were strongly supportive of the field staff sent to work on their projects. They reported that the Center staff were skilled in the revenue and expenditure projects they managed, and they had the interpersonal skills necessary to gain the active participation of regional and local officials, even to the extent of changing the "intergovernmental culture", as one Leningrad Oblast respondent put it.

When asked about to compare the work of the Center to that of previous TA providers, such as Georgia State University (GSU), the Leningrad Oblast and Novgorod Oblast officials expressed some reservations about the GSU consultants who were characterized as too theoretical in their approach at first. Until they became better versed in the mechanics of constructing local budgets in the Russian context, GSU made mistakes and failed to convey their technical knowledge effectively. Both oblasts reported, however, that the CFP consultants did not display any of those adjustment problems.

7.4 Systems

The Center has developed a financial policy, which covers some personnel management issues (personnel contracts), a staff performance assessment system; and an internal quality control system. Financial policy is available in a written format, while the two others are not formally described yet.

Financial policy is focused on meeting reporting requirements to both Russian tax inspection and Center's major donor USAID. All necessary forms have been developed. The Center has been audited by DTT as part of its institutional development process and no significant weaknesses were found. No independent audit has been carried out since the moment of the Center's establishment.

Staff performance assessment system is quite new for the Center and is fairly informal as yet. The first time the Center's personnel performance was assessed was January 2002. Assessment was carried out by personnel supervisors through individual interviews. When necessary, the senior management participated in those interviews. Interviews were focused on staff members' areas of interest, professional preferences, and on possible areas of professional growth. The evaluation team did not find a close connection personnel assessments and staff development. On the other hand, there were a few cases of salary increase following the assessment (but not necessarily as a result of the assessment). At present personnel performance is being assessed mainly through supervisors' informal impressions rather than mutually-agreed work plans.

The Center is a member of the recently established Association of Think Tanks, which plans to develop unified personnel assessment criteria for Russian Think Tanks, but it may take more time than expected to develop those.

The quality control system has several levels. Project managers and team leaders provide ongoing control of the services provided and documents\reports developed. The Technical Director provides scientific control of major outputs of the teams, while the Executive Director reviews the most important products

of the Center. The Director of Business Development provides control of the compliance of Center's activities, schedules and products with the terms of contracts.

The Center's senior management plans to improve the quality control system through adding chief advisors\reviewers to it. Each chief advisor will be responsible for one of the main topics - intergovernmental fiscal relationships, public expenditure review and tax policy (a relatively new area of activity for the Center, which may become the third major focus of CFP in the near future). Chief advisors will be independent of the teams to provide external expertise of the teams' outputs.

7.5 Leadership

The assessment team considered the following elements of CFP leadership:

- a. managing staff, work flow, and finances
- b. representing the CFP in government circles and in the international donor community in terms of building up respect for the CFP as a center of expertise on government finance
- c. long range institutional strengthening, developing and marketing new products, and client development
- d. making effective use of CFP resources.

By all accounts the Executive Director and other top managers of the CFP perform very well against the leadership criteria listed above. Based on their ability to keep the Center financially viable as it grows and to position itself to secure large contracts, the CFP's leaders qualify as effective managers of the process of growing a consulting firm. Based on reports that the leaders of the CFP are often called upon to present research papers and to participate in high-level discussions of reform (and greatly influence the outputs of working groups in IGFR), they qualify as leaders in the reform process.

Those top leaders of the CFP, however, recognize a shortcoming that must be addressed as the CFP grows and evolves into a complex organization. That is, the top leadership has not yet adopted a system in which management decisions and quality control procedures are delegated to professional staff. All such matters are funneled to the top three administrators, and they must put in the time to deal with a review of all outgoing documents and products, and they must spend the time to deal with contractual matters others in the organization may be capable of processing.

Those top leaders have recognized that a partial solution to the lack of time for their personal review of all Center outputs and process documents is to have a peer review process for project outputs, an ongoing quality review process whereby project managers review one another's working assumptions, calculations, the appropriateness of the types of consulting provided, and the final reports and other products. In this way the quality control work may be dispersed among highly-qualified professionals who are in a position to make such judgments in the best interests of the Center and its clients.

7.6 Governance issues

Both the for-profit and the not-for-profit portions of the Center are formally organized as partnerships and a directed by the three general partners. There is, in the formation stage, an Advisory Board which could fill an important set of roles, especially as the Center separates into non-profit and for-profit entities. The Business Plan calls for an expanded Advisory Board with the following broad duties:

- a. promotion of the Center as a reservoir of public fiscal management expertise
- b. advisor on resource allocations
- c. ad hoc advisor on business issues
- d. advisor on planning issues

In that the Center's goal is to expand commercial consulting contracts, it is advisable for it to take all reasonable measures to increase its business growth, including the vigorous use of an Advisory Board which has access to the marketplace and uses that access to promote the products of the Center as well as its expertise. Advisory Board members would in that case be chosen from the client groups, from affiliates of the Center, and from private businesses. Under that scheme, the Center might appoint a present or former member of a regional government administration who would provide access to regional clients (other than his or her own region), a member from an affiliate think tank from Russia or Eastern Europe, and someone from one of Russia's privately-owned financial firms (could be a branch of a Western accounting/financial management firm).

An Advisory Board under this arrangement would be careful to stay out of management issues of the Center, and would concentrate on business development issues, client development, and analyses of the effectiveness and appropriateness of various Center products. The Advisory Board would also provide an informal, ongoing review of the progress of the Center's Business Plan and Strategic Plan, concentrating on the degree to which the Center is being successful in matching products with clients, keeping its staff trained and poised to carry out new assignments, and how the Center is performing in its role of advising the central government.

One issue that both the Center and the Advisory Board members need to be very careful about is the potential for conflict of interest (or at least the appearance of conflict) where members of the Advisory Board are also potential decision-makers on Center contracts with government entities. The present informal structure of the Board, and the absence of compensation for its members, would seem to avoid any conflict, strictly speaking. Nonetheless, it would be prudent for the Center to suggest to Advisory Board members that they recuse themselves from contractual matters related to the Center.

7.7 Mission, products, clients

The assessment team reviewed the mission statements in the Strategic Plan, examined samples of the products that were created for various clients, and spoke with a cross section of clients. In addition, the team met at length with Center managers, the head of the Association of Russian Think Tanks, and the Director of and the advisor to, the Institute of Urban Economics, which is both a parallel organization and a competitor of the Center's.

The Center's mission, as expressed in many of its documents, is to further the IGFR movement, through offering advice and products at all levels of government. Its methods are those of a consulting firm which has some characteristics of a think tank as well. The Center's products are packages of advice and financial tools for the central government and the regions to employ in changing national fiscal policy (national level). These same tools are also useful for analyzing the impacts of various distribution formulas and constructing budgets using rationalized norms which fit local conditions (regional level) including some interaction with units of the sub-regional level). The Center's clients are the donor community, the national government, and the regions, with plans for expansion of the client base into many more regions, the private sector, and the international sphere.

The team concluded that the mission, the products, and the client base (present and projected) were all derived from a highly systematic business planning approach, and that each is appropriate to the type of organization the Center has evolved into becoming.

The mission is totally congruent with the wishes of reformers at the central government level, even to the extent that the Center could be an instrument or agency of the central government were it not independent because of its funding and its internal governance structure.

The products have been refined and implemented with clients, and are constantly refined based on updated information from past clients. These are primarily estimating and forecasting instruments and analytical tools whose outputs are variable, depending upon local demographics and the peculiarities of each region's economy and political structure. All interviewed clients responded favorably to the applicability of the products created and used in those regions, and to the competence of the Center's employees who worked in the field.

The client base is wholly appropriate for an organization of this type, and the projected client base is reasonable in view of the Center's plans to branch out geographically and into new product and service lines. The list of potential clients is broad, and that is reasonable for a consulting company assessing the marketplace and looking for opportunities.

7.8 External relations

The Center has gained a very good reputation with all the stakeholders including clients, donors, and partners\competitors. All interviewees stressed the professionalism, unique expertise and high quality of services/products provided. Within two years the Center managed to expand its sources of funding from just USAID contract to a major contract with the World Bank, a contract with DFID, establish relationships with the new regions of Russia, and start relationships with Uzbekistan, Ukraine, and other NIS countries. The Center is well respected with the Russian Ministry of Finance and with the Federal Council, and provides advice in the economic policy decision-making process.

The Center maintains close relationships with other economic think tanks in Russia - mainly the Institute of Urban Economics, Higher School of Economics, and the Institute for the Economy in Transition (Gaidar Institute). Though in many cases these organizations may be natural competitors, the Center has joined with them on occasion in donor tenders and other activities.

The CFP is one of the founders of the Association of Russian Think Tanks, which has been established this year and is in the process of legal registration. The Association is intended to provide networking among think tanks of various kinds, to share research and product information resources, and to influence tax laws and policy for commercial and non-profit entities. The CFP can be a leader in that organization.

Establishing relationships and approaching new clients start with the presentation of the CFP concept of fiscal policy reform in Russia and specific products developed by the Center. The Center makes presentations at conferences and training events, uses its Web site as a promotion instrument, and sends out letters to potential clients. For example, Deputy Director of the Department of Finance of Arkhangelsk Oblast stressed that she first learned about the Center from the presentations made by its Executive Director, as well as from the Center's Web site, long before she received the Center's letter inviting the Arkhangelsk Oblast administration to take part in the Center's project.

Personal contacts have also become an effective tool to promote the Center. The Advisory Board will allow the Center to use those contacts more effectively both to promote the Center's concept and approach new clients. These efforts are then followed by meetings with potential clients and discussions of the clients' concerns and problems. Then the clients' needs are defined and the scope of work to address them is developed.

There are two major concerns in this respect expressed during the interviews. One is related to the Center's internal capacity in Public Relations. At present everything in this area is being done by the Center's Directors, especially the Executive Director. She mentioned that there is a strong need for a PR person to be hired who could professionally develop promotion materials for the Center. The problem, though, is to find a person who is not only professional in public relations, but has a deep understanding of fiscal issues in general and the Center's approach in particular.

7.9 Assessment of Business Plan

The Business Plan for years 2002-2003 was developed by the CFP and DTT in June 2002. The Business Plan Executive Summary and Timeline document was available for the evaluation team to review.

The main goals and objectives stated in the Business Plan are as follows:

- Launch and grow a commercial firm
- Begin leveraging the Advisory Board as a promotion, fundraising and strategy development resource
- Diversify sources of funding/commercial clients and reduce USAID support to 78%
- Initiate regional representation; work with six regional/municipal governments; establish long-standing business relationships with two regions
- Expand to international markets
- Internally develop ten service lines
- Develop relationships with Eastern European think tanks
- Pursue tenders in consortia with North American and/or Western European partner organizations
- Form a strategic alliance with a Russian software development firm.

The Management and Organization section of the Business Plan presents a detailed description of the existing CFP organizational structure, a general scheme of the commercial firm's organizational structure, and linkages between non-profit and commercial branches of the Center. As is stated in the Business Plan, interaction between the two branches will be implemented at both governance levels (through their common management team) and shared teams and consultants between the two branches). According to the Center's managers, there will be an information and expertise turnover between the two branches – information gained through for-profit consulting activities will be then processed and analyzed by the CFP researchers, and then used to further improve commercial services.

The Business Plan briefly addresses the Advisory Board's proposed functions, as well as a desire to add a prominent government official and an oil company executive to it. Recruitment efforts to date need to be detailed. Similarly, the current functions of the Advisory Board should be delineated. In general, the Advisory Board is intended to promote the public perception of CFP's eminence in public finance and expenditure management, recommend resource allocations, provide guidance on other business issues as they arise, and advise senior management on future planning issues.

Key steps for commercial operations start-up seem to be clear, and some of them have already been completed (details of founding, content of charter, registration of the for-profit company, open bank account). The first engagement has already been obtained with the DFID contract. Some actions are underway—such as securing and furnishing the office space, developing operational policies and procedures, establishing organizational details of dual employment by the non-profit and commercial

entities. Establishment of commercial operations is still in the planning phase. Major milestones are identified, though no specific schedule is in place.

At the time of this evaluation, the Business Plan provides a rough blueprint for organizational development and growth. The final version should highlight modalities for Business Plan consultation and implementation, as well as the mechanisms available for formal review and possible revisions of key assumptions. Mechanisms for enforcement must also be well-elaborated.

The Market and Competitors section provides an analysis of the current opportunities and identified targets for the Center. As it stands now, the Center has long-term relationships with 11 pilot regions, short-term contracts with nine other regions, and 10 more regions are considered as potential clients for the Center. Representatives from 27 of the 89 regions have participated in the Center's seminars.

Seven target projects are presented in the Business Plan. Five of those are commercial ones to be funded through the World Bank, DFID, USAID\KPMG\Barents, the Uzbekistan Ministry of Finance, and the Stavropol Oblast administration. Three of them have already been signed, **or are under final negotiations** with the World Bank, DFID, and the Stavropol Oblast administration.

Two projects will be co-financed by USAID and oblast administrations (Buryatia and Belgorod). The projected amounts were stated for four out of seven projects. Timing was also proposed for four out of the seven, though no project personnel had been identified as of yet.

The Business Plan does not reflect on the strategic possibilities of using new projects as a means of reaching out to or approaching other regions as new clients. Similarly, possibilities for assistance to the Russian Federal Government have not been mentioned. The revised Business Plan might also consider for-profit companies as potential clients. The Center already has some experience with Russian for-profit companies (for example, "Uralelectromed," a steel company in Ekaterinburg, at about \$6,000). It is planning to recruit a private sector representative to the Advisory Board.

The Product and Service Lines section needs considerable amplification and detail. It enumerates the following lines:

- Budget planning, execution and control
- Public debt management
- Government financial statistics
- Government property and investment analysis
- E-government.

Each of these products and services should be presented in full, with a complete description of all products developed under each line. The Business Plan should also identify potential clients for each product, and the reasons for that determination. In this respect, the e-government line offers more details than the others. That said, the current review of products and service lines focuses mainly on the Center's internal capacity (though professional skills are not addressed). It is critical, however, that the review contain a well-devised assessment of market potential.

The Marketing and Sales section briefly presents business selection criteria (fit with target technical areas, expanding regional use of methodologies and tools, length of contract, expected revenue, target clients), marketing channel tactics (publications, media, direct mailings, seminars and workshops), and description of the market analysis process and plan development.

7.10 Is More Institution Strengthening Assistance Needed?

The Center has matured as an organization that has sought to be an agent of change in the IGFR process, having influenced the central government's initial attempts at rationalizing a system of devolution of certain fiscal powers, and having sought to develop a body of knowledge to be applied to specific regions and other clients. During the first two years of assistance from USAID, through DTT, the Center has taken the shape as a consulting firm with some of the characteristics of a think tank, and it has developed a business culture of aggressively identifying clients and mobilizing resources to provide services and product lines it has determined to be helpful to the IGFR process.

Outside assistance from USAID has been in the form of financial aid and technical assistance provided by GSU and DTT. GSU now plays only a minimal role, providing occasional research materials only, and DTT has completed the bulk of its institution building assistance. Personnel systems are in place or are about to be, financial reporting and accounting systems are adequate, and the Center has in place a rudimentary advisory committee, as well as a Business Plan and Strategic Plan which lay out a rough course of action for growth and self – sustainability.

The assessment team finds, therefore, that the Center will need only minimal assistance from DTT and other outside sources in order for the Center to finalize its next stage of development, which is to become a consulting firm with a think tank component. The following recommendations are relatively minor and should be viewed as suggestions offered to USAID and the Center for their consideration:

1. Personnel performance system formalization.

Currently the performance evaluation system for staff is incomplete in that it does not have a standard format for goal setting and for measuring performance of individuals against predetermined standards. It is rather a procedure where staff members identify the kinds of tasks they want to perform and the skills they want to acquire on the workplace. A true performance evaluation system has predetermined criteria, which are applied across the organization, and each individual's attainment of certain performance goals is used as a criterion for salary increases, promotion, and separation.

2. Developing mechanisms for dealing with variations in workload

The Center's largest budget cost is its payroll. Because of the way in which it works, most staff are developed and trained within the Center in its approach and methodology. As the Center diversifies its funding sources, its cash flow will inevitably become more irregular. This will require the accumulation of cash reserves, which the Center is now doing. The Center must develop a way to make its staff costs more flexible while preserving its "brand" identity. The team suggests that the Center explore employing staff on a basis which permits change to part-time status when workload declines.

3. Developing and maintaining a separate think tank component.

There is great value in the Center's having a highly credible unit which deals in academic matters and "pure" research, and does not involve itself directly in consulting. Producing original research findings which are the products of studies the Center originates or which are commissioned from outside the IGFR community would lend great prestige to the Center, provide better access to the academic and international philanthropic community, and aid the consulting branch in raising its knowledge level concerning fiscal issues. All of that translates into a better positioning of the Center in the consulting industry.

Western think tanks have endowments for such activities, and ways would have to be found to build a financial base for the think tank component when cash flow is a problem. The think tank component should be funded as a separate entity (probably the existing not-for-profit entity) from the commercial branch of the Center, and should call upon staff members and outside experts to carry on its research activities.

There are models for such think tank arrangements, and it would be possible with minimal assistance to establish a design for one. The Russian Association of Think Tanks may be a source of such information, and the Center could provide leadership within the Association by developing a model applicable in similar institutions around Russia.

4. Continued training in business development, with an ongoing review of the progress of the Center's Business Plan and Strategic Plan.

DTT has provided a solid body of knowledge for the inception of a consulting organization, and has been instrumental in putting financial, personnel, and general reporting systems into place. The bulk of that work is done, but the monitoring and refinement of systems now in place will continue as a need. The Center should therefore investigate the feasibility of continuing DTT's mentoring relationship through frequent emails, teleconferencing, and occasional training sessions on critical business development topics. Alternatively, the Center should investigate the availability of business development assistance from DTT's Moscow office or from other firms in Russia and Central and Eastern Europe.

5. Instituting a comprehensive quality control program for project outputs and for the Center's products.

As discussed above, the Center has a basic system for peer review of project design and outputs. Minimal outside assistance would permit the Center to take the system further and to refine the review process made by program managers, and deliver the results of the analyses to a top administrator charged with overall quality control for the Center. The peer review would incorporate findings from interviews with the consumers of the project components and any products applied to the project.

6. Strengthening the Public Relations and Human Resources functions.

It would not be cost effective to add staff for those two functions at this time or before the Center has a solid financial footing which would allow full time salaries for those purposes. However, the Center could secure some short term technical assistance to strengthen some areas of personnel development and management, such as the performance evaluation program, the indoctrination of staff and regular outside consultants in the Center's procedures and ethos, and the management of the increasing number of logistical issues the Center will face as it expands geographically and in sheer numbers of clients. Public relations is a function of top management primarily, but it also entails the development and dissemination of promotional materials, the training of field staff in salesmanship and client feedback techniques, and media relations training for all those staff authorized to speak for the Center.

7. Producing the next round of fiscal management and IT products.

The Business Plan calls for several specific products, most of which are logical follow on financial tools and analytical procedures stemming from the first round of technical assistance to the national

and regional governments. This product development cannot be done without substantial outside resources, and the Center should investigate local and European sources of assistance as well as DTT and affiliates.

8. Assuring that the Center's accounting system is compatible with DCAA audit requirements.

The team suggests that the Center be subject to a DCAA audit, to double check its financial control system and assure compatibility with GAAP or International Accounting Standards (as appropriate) as well as Russian tax laws and mandatory chart of accounts.

7.11 Institutionalization of Senior Management and Role of the Executive Director

The team has concerns about what appears to be a lack of institutionalization of the Center's senior management in practice, as opposed to what appears on the organization chart. The Center strongly bears the imprint of its principal founder and Executive Director in its technical approach and institutional priorities. This is very much the source of its strengths. However, as the organization has expanded, this dominance by a single person threatens to stretch her span of control beyond practical limits. It is very important that the Center's management become institutionalized and less dependent on a single personality. Any member of the Center's senior management should be able to speak for the Center and be able to step and speak authoritatively in the absence of the Executive Director. This type of shift in corporate culture represents a difficult step in the growth process of any organization. However it is extremely important for the future of the Center

8.0 PROGRAM MANAGEMENT AND IMPLEMENTATION

8.1 Project management

8.1.1 DTT

During the course of the two and one half years of the project, Deloitte, Touche Tohmatsu has been effective in delivering designing financial, HR, and business development systems for the Center to enable the Center to compete successfully for non-USAID tenders. Despite the fact that the DTT program was managed out of Washington, reports have been prepared on time and DTT has been able to maintain close contact with the Center through email and other means, to assess its requirements and to address emerging problems. It appears that project reporting has been on time despite the need to route project reports through DTT's Washington offices.

The proof of the effectiveness of the DTT project management is that the Center now appears to be able to manage USAID and other contracts on its own, as a stand-alone contractor.

8.1.2 Georgia State University—Technical assistance

Although Georgia State was initially included as a technical assistance provider, its participation in this contract has been very limited. In general, this has been a result of the fact that the Center has been able to provide the required assistance on its own, without the need of intensive participation from Georgia State.

Both Georgia State and the Center report that they maintain collegial and professional relationships. Georgia State has undertaken useful background papers for work in the area of public expenditure reviews, for example.

8.1.3 Center for Fiscal Policy

8.1.3.1 Sustainability

The question of sustainability of the Center is a two-stage process. First, the Center needed the accounting, financial control, human resources, and business development processes that would enable it to compete with other technical assistance providers for government, donor, and private contracts. Now that it has those systems, it must actually win contracts. To date, the Center has won a World Bank tender in a Consortium with the Gaidar Institute and Georgia State University, as well as a separate contract from the DFID. However, non-USAID funding remains a small portion of its overall funding.

8.1.3.2 Financial Management

The financial systems installed by DTT were also audited by DTT. The audit found that, in the area of financial controls, the Center's systems were entirely adequate. The team felt that the accounting systems currently in place were simple but adequate for a small organization. Consultation with knowledgeable independent observers confirms this view. If the Center were to expand significantly beyond its current size, it might be necessary to replace or augment the current packages with ones more suitable to a larger organization.

8.1.3.3 Cost effectiveness of technical approach

The Center has demonstrated its ability to provide international-quality technical assistance in the area of Intergovernmental Fiscal Relations. This assistance is provided primarily by Russian graduates of local educational institutions who have been trained by the Center’s senior professionals in the specialized methodology of public finance. The Center’s has demonstrated its ability to provide assistance equivalent in quality to that of international institutions and consulting firms at a fraction of their cost.

8.1.3.4 Financial Sustainability

The Center began its formal organizational existence in early 2000 and received its first USAID funding in June 2000. For the remainder of the year, the Center’s entire funding derived from its relationship with USAID, via its contractual relationship with DTT. Beginning in the second quarter of 2001, the Center received its first funding from a contract with the World Bank and also received its first funding, of \$17 thousand, from a contract with Stavropol Krai.

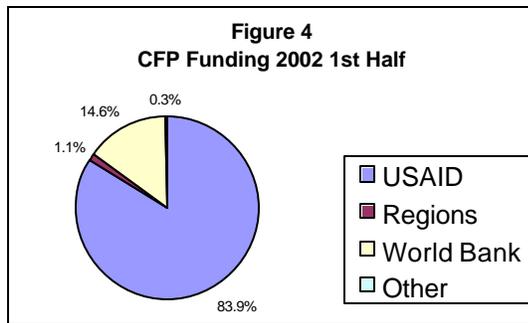
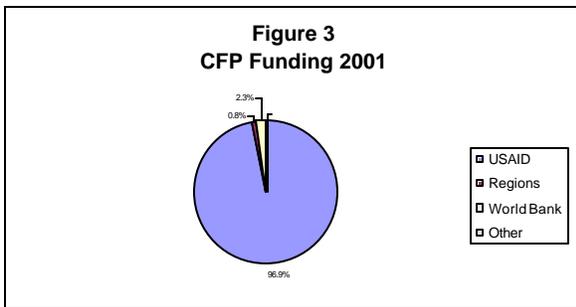
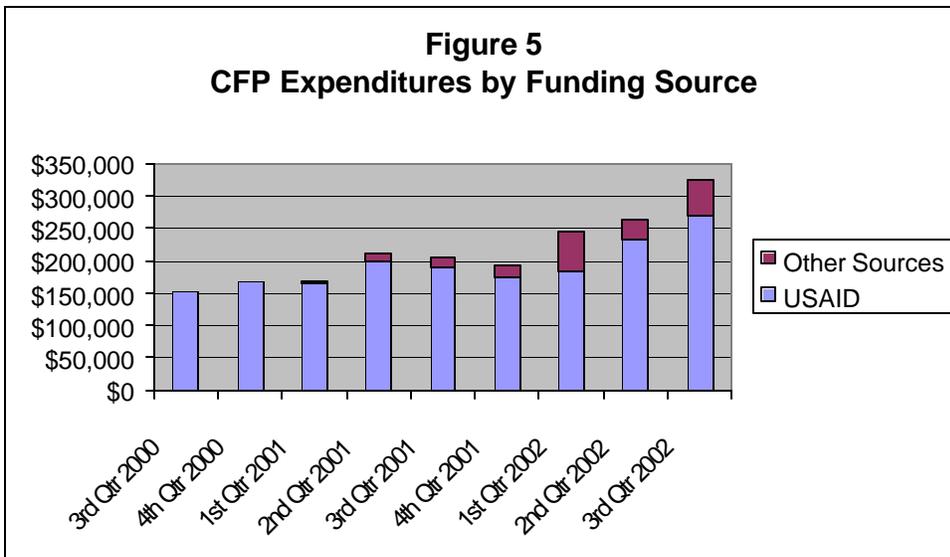


Figure 3 illustrates the proportion of the Center’s funding from USAID and non-USAID sources. Next, Figure 4 reveals the progress that the Center made in diversifying its sources of funding during the first half of 2002. By comparing Figure 3 and Figure 4, one can conclude either that the glass is half full or that it is half empty. On one hand, the Center was able to expand its non-USAID funding from a token 3.1 percent of its total income to 16.1 percent in a short space of time. On the other hand, as of mid-2002, the Center was still overwhelmingly dependent on USAID funding.



Three other factors need to be mentioned in connection with the Center's financial sustainability. First, during the course of 2002, the expenditure levels of the Center ramped up considerably. This increase, associated with an expansion of Center staffing, reflects an attempt by the Center to position itself to compete for expected World Bank and other donor tenders. Yet, as is clearly evident in Figure 5, the Center has become even more dependent on USAID as a funding source during the same period.

The second key point, also illustrated in Figure 5, is that the income stream associated with non-USAID contracts is much more variable than that from USAID. In this regard, Figure 3 does not tell the whole story. Figure 3 is based on a division of Center expenses associated with USAID and non-USAID funds. It does not represent the actual the stream of reimbursements, at least from the World Bank contracts, which is even more irregular than the associated expenditure stream. Therefore, as the non-USAID portion of the Center's total budget increases, its month-to-month and quarter-to-quarter cash flows will become more irregular. The solution to this problem is for the Center to use the fee income from other contracts to build up reserves to carry them over the inevitable "dry spells." This will take time.

The third problem affecting the Center's financial viability involves the way it acquires and develops staff. The Center typically hires graduates with a general economic education and trains them internally in its methodology and approach. While this is the source of the Center's strength—its consistency of approach, methodology, and quality—it leads to a considerable rigidity in staffing and payroll. When the Center is in a growth phase, it takes time to develop trained staff. When business is slow, there is an understandable reluctance to release trained staff in which the Center has a considerable investment.

All these considerations lead to the inevitable conclusion that the Center would not survive in its current form without additional USAID funding. At best, it would collapse into a small consulting firm carrying out specific scopes of work. It would not be able to continue to provide the leadership role in the area of Intergovernmental Fiscal Relations.

9.0 CONCLUSIONS AND RECOMMENDATIONS

9.1 Additional USAID and other donor assistance to CFP and IGFR?

Russia has made enormous progress over the past three years in establishing a framework for a separation of functions and associated financing between federal and regional government. This progress, culminating in the work of the Kozak commission is embodied in two pieces of framework legislation currently being considered by the Federation Council.

Beyond the framework legislation, however, are the implementation measures which are necessary to put the framework legislation into effect. It has been estimated that up to 500 pieces of legislation are necessary to implement the decisions of the Kozak Commission.

Beyond the implementation at the federal level, IGFR at the regional/local level lags far behind. As has been true at the federal level, a political decision to implement reforms is the indispensable first step. The availability of funding from the World Bank's \$120 million loan will provide an incentive for regional governments to begin adoption of reforms. That decision will require the resolution of a myriad of technical issues. The Center for Fiscal Policy has shown the combination of technical skill and political astuteness to judge which issues are ripe for resolution and to bring about the adoption of the necessary reforms.

A relatively small level of funding from USAID over the next three years can make a substantial contribution to the implementation of IGFR reforms at the federal levels and to the initiation of reforms at the regional level in regions prepared to begin or continue the process.

Finally, the implementation of IGFR at the federal and the regional levels are interrelated. Decisions at one level will require adjustments at the other. The CFP's good relations at both the federal and many regional levels makes it ideally suited to encourage the sort of sequential adjustment process that will inevitably be required.

9.2 Design for a possible follow-on program

9.2.1 Strengths of the Center for Fiscal Policy and Role in a Future Program

The Center has demonstrated a number of unique characteristics in being able to promote effective reform of Intergovernmental Fiscal Relations both at the federal level, and where the political will has existed at the regional level, at that level as well. First of these is a high level of technical capability on the part of the Center's senior staff which they have conveyed, through an intensive staff development program, to the more junior staff. Second, the Center leadership has demonstrated an ability to mobilize political support for reform within both the executive and legislative branches of the federal government, as well as the regions. In part, this reflects an ability on the part of the Center's leadership to identify issues which are ripe for political decision, and then provide the political leadership with a road map for addressing them. This ability to know when reforms are ripe for decision is an essential—and all too often overlooked—element of the policy reform process.

9.2.2 Constraints Facing IGFR

The two major constraints facing reform of Intergovernmental Fiscal Relations, whether at the federal level or at the regional level are first, the political will to carry out reforms, and second overcoming the very complex revenue, expenditure, and transfer issues that IGFR involves. This process is well advanced at the federal level but there still remain a large number of implementation issues that will have to be resolved.

9.2.2.1 Role of Pilot Regions

Both the current project and its predecessor carried out the bulk of their regional activities through intensive assistance to “pilot regions” which received intensive assistance. The team talked with officials of the current pilot regions, as well as officials of regions which were pilots under the preceding project but which received less intensive assistance under the current project. The team’s conclusion has been that reform has been most effective in the current pilot regions. Occasional technical assistance, outside the context of the intensive pilot effort, has often been ignored by regional officials. If IGFR is to continue, every one of the 89 regions in Russia is going to have to become a “pilot region”, and remain so until the process is complete.

The need for intensive engagement at the regional level, along with the need to motivate the political leadership at the regional level, implies that carrying through IGFR at a regional level is going to be an expensive process. The World Bank’s \$120 million loan to provide an incentive for regional governments to sign on to such reforms implies a recognition, at least on the part of the Bank, that this will be a very expensive process.

9.2.3 Role of the Center for Fiscal Policy

Given the likely ultimate cost of IGFR, especially at the regional level, it is essential that the process be carried out as cost effectively as possible. The Center for Fiscal Policy has provided, and can continue to provide international quality technical assistance at a fraction of the cost of those international sources. Moreover, experience under the current project has shown that such assistance can be much more carefully attuned to the pace of the reform decision-making process than international assistance is likely to be. **The team’s very strong recommendation to USAID is that the availability of large funding from the World Bank to support the process, far from being a reason for USAID to pull out, is the principal reason that USAID needs to stay engaged until the regional reform process is well underway. The financial incentives provided to regions under the Bank program are a perfect complement to the technical assistance provided by the Center under USAID financing.**

Future activity with respect to the regions will need to continue to focus on the core areas that the Center has focused on to date. These include budgetary process, both standards-based budget planning and budget administration, regional debt management, revenue forecasting, property management, delimitation of authorities vis-à-vis both federal and local governments, and federal transfers. In addition, the Center is likely to move more intensively into tax policy and tax administration as it affects the limited range of taxes over which regional governments have discretion (currently six percent of total revenues at the regional level, with a further three percent at the local government level). In the event that the federal government authorizes greater flexibility in the federal taxes, more assistance in revenue forecasting from these sources may also be required.

Over the longer term, in coordination with the World Bank TA project, regions will need assistance in moving from a cash to an accrual based accounting and budgeting conventions and clear distinctions between current and capital budgeting. These changes will have to be coordinated with development of a

treasury function within regional government and improved procurement practices, areas which are likely to be outside the Center's areas of TA but which will need to be coordinated with it.

9.2.4 Duration of the Follow-on Program

The team recommends that the follow-on program be of three years duration, not so much because that is a logical end point, but because it is the next logical decision point. A number of activities will be coming to a culmination at the end of 2004 or during 2005. These include the World Bank's IGFR technical assistance project and its \$120 million program for support of IGFR in regions. This is also the expected implementation point of the government's tax reform efforts. By 2005, USAID will be in a position to assess the success of the Center in implementing its Business Plan. It is a logical time to again review the situation and make a further decision about the need and appropriateness of further assistance through the Center, if any.

9.2.5 Need for and Role of a U.S. Partner

Although the team has made a number of recommendations in Section 7.9 above for further institutional strengthening for the Center, it is recommended that the Center itself be the prime implementer of the follow-on project. The review of the Center's financial controls, accounting systems, human resources, and business development functions has convinced us that the Center is fully capable of fulfilling this function. The additional institutional strengthening suggested in Section 7.9 can be obtained from a variety of sources, including DTT Emerging Markets, which has done an excellent job in the current project. USAID and the Center should explore a variety of options, including Russian sources for the additional institutional strengthening assistance required.

9.2.6 Cost Recovery from Regional Governments and Federal Government

During the past two years, the Center has negotiated contracts with pilot regions with which it is working which cover a portion of the cost of work done by the Center in those regions. In principle, the team believes that the Center must eventually move toward full cost recovery on such contract, either by increasing its fees or by reducing its cost of providing such services. In the short run, however, there is a conflict between such cost recovery and the Center's and USAID's desire that such services be provided to regions with less than average income levels. Therefore, we recognize that a large *pro bono* element in the Center's work with regions will be required throughout the follow-on project.

Although the Center has long collected partial reimbursement for its work with the regions, no similar cost sharing has been required from the federal government. Since the value of the Center's work has been so abundantly demonstrated the federal authorities, both executive and legislative, this inconsistency needs to be addressed in the interest of the long-run sustainability of the Center. The Chairman of the Federation Council Budget Committee has indicated a willingness to provide partial funding for the Center's work. It is recommended that similar arrangements be negotiated with the Ministry of Finance and the State Duma.

9.2.7 Assistance Instrument and Relationship with USAID

If the Center is to become sustainable in the long term, it must become less dependent on USAID as its principal source of funding. This requires that the Center continue to aggressively pursue other donor, Russian government, and even commercial contracts. During the course of the follow-on project, USAID should shift from general support to the Center as an institution to use of the Center as a conduit for assistance in areas of particular interest to USAID.

This recommendation suggests that the assistance instrument should be a cooperative agreement rather than a grant or a contract. The substantial USAID involvement should take the form of increasingly specific products of interest to USAID. Thus USAID would shift from a provider of institutional support to the Center at the beginning of the follow-on project, to a purchaser of the Center's services at the end.

9.2.8 Level of Funding

During the first half of 2002, USAID funded almost 84 percent of the Center's total budget. That budget has been growing during 2002 and reached \$323,550 in the third quarter. This figure includes some large, one-time equipment purchases in September, as well as a ramping up to compete for World Bank and other donor tenders expected in the coming months. Even adjusting for extraordinary items, the annual budget of the Center is about \$1.2 million on an annual basis.

USAID needs to recognize that there will probably be a tension between the level of assistance that is optimal to achieve the fiscal reform goals that USAID wants to accomplish in the next three years and the level of assistance that is optimal for the Center as a self-sustaining organization. For the latter, the Center should be given an opportunity to demonstrate the feasibility of its Business Plan. This will require sustaining the current level of USAID funding during the first year of the follow-on project (approximately \$900 thousand). Thereafter, the level of funding should drop until USAID funding is less than half the total expending of the Center (\$600 thousand at the current budget level). Assuming an intermediate funding level of \$750 thousand in year two and a small additional funding of, perhaps, \$100 thousand for institutional development to deal with some of the institutional issues outlined in Section 7, implies a total funding requirement in the follow-on activity of \$2.35 million for the three year follow-on project.

There is nothing magic about the level of funding proposed in the previous paragraph but that level would provide the Center with the opportunity to adjust to non-USAID funding while, at the same time, continuing to make a significant further contribution, especially to reform in lower income regions of the federation.

ANNEXES

A. Project Time Line

Task 1 Technical Assistance on Intergovernmental Fiscal Relations

Quarter	Federal Executive	Federal Legislative	Regional	Other
10/1/00 to 12/31/00	<p>CFP prepared comparison of revenue, expenditure, and financing and transfers between 1999 executed budget, January-June 2000 executed budget, and draft 2001 budget law</p> <p>CFP prepared analysis of amendments to equalization formula</p> <p>Comments on expenditure from Road Fund</p> <p>CFP convinced MoF to change FFSR formula to achieve more equitable distribution</p> <p>Material on international expenditure norms prepared</p> <p>Prepared recommendation on tax revenue assignments</p> <p>Comparison of results of equalization formulas used in 2001 and 2000</p>	<p>CFP prepared analytical reports in response to request from Duma for 2001 federal budget</p> <p>Large package of analytical information and tables on local self-government to Duma</p> <p>Assistance to Duma in preparation of Law on IGFR</p> <p>Assisted in development of Law on Budget Chamber of State Duma</p>	<p>Astrakhan Oblast --CFP explained methodology of federal financial support distribution</p> <p>Stavropol Krai --discussed contractual arrangement with Stavropol Krai</p> <p>Moscow Oblast --discussed the possibility of formalizing all systems of IGFR in Moscow Oblast using approach suggested by CFP</p> <p>Karachai-Circassian Republic --computer models developed for revenue, expenditure, and transfer using republic specific date</p> <p>Leningrad Oblast --adopted IGFR scheme suggested by CFP</p> <p>Novgorod Oblast --CFP provided TA in calculating 2001 budget revenues --finance department used CFP's index of budget expenditure needs rather than number of social infrastructure institutions --assisted oblast in analyzing changes in FFSR formula</p> <p>Tomsk Oblast --CFP finalized 2001 revenue, expenditure, and transfer distribution models --analyzed reduction in federal transfers to region</p> <p>Tyumen Oblast --draft concept paper on two-tier local government structure</p>	
1/1/01 to 3/31/01	<p>New National IGFR strategy incorporates CFP recommendations on dividing government functions into financing, standards, and delivery functions</p> <p>CFP estimates share of each level of government under new strategy</p> <p>CFP prepares estimates of unfunded mandates</p> <p>CFP commented on a proposed Law on Standards of Public Service Provision. Comments incorporated in MoF proposal</p>	<p>Comments on draft law on the Enterprise Profits Tax to State Duma</p> <p>CFP assisted Duma Committee on local governments in improving system of assigning tax revenues to local government</p>	<p>Stavropol Krai --helped design better system of local self-government and improve IGFR system --held workshop for Krai officials to improve budgetary and IGFR system</p> <p>Astrakhan Oblast --Letter of Intention signed between CFP and Oblast administration</p> <p>Novgorod Oblast --CFP assisted in 2002 budgetary process</p> <p>Volga River Federal District --Workshop for regional finance officials to discuss future IGFR reforms</p>	

Quarter	Federal Executive	Federal Legislative	Regional	Other
	CFP commented on proposed legislation to fine-tune role of municipal governments and to recognize the wide variety of practices in RF			
4/1/01 to 6/30/01	Assisted MoF in refining National IGFR Strategy for 2002-2005	<p>Specialists prepared various analytical materials for State Duma dealing with various aspects of National IGFR Strategy</p> <p>CFP experts invited to take part in Federation Council hearings on IGFR Strategy</p> <p>Prepared amendments and changes to Federal Law on General Principles of Local Self-Government at request of Deputy Mitrokhin</p>	<p>Stavropol Krai --two-day training session for Krai and Raion officials on theoretical issues of fiscal federalism --advised on draft law of Stavropol Krai on the Krai budgeting process --Law on IGFR between Krai and local governments drafted --two analytical memoranda prepared on budgetary system problems and non-tax revenue --training for Krai MoF on FFSR transfer formula --cost-benefit analysis of effect of including or excluding agricultural VAT from FFSR formula --consultation in preparation of 2002 budget --possible use of equalization transfers at raion level</p> <p>Privolzhsky Federal District --Organized two-day workshop for 15 RF subjects who make up District</p> <p>Novgorod Oblast --Prepared 2002 revenue estimation</p> <p>Leningrad Oblast --CFP provided advice on improvement and formalization of support to municipal governments</p> <p>Rostov Oblast --Provided support on revenue forecasting and a model for financial support to municipalities</p> <p>Karachai-Circassian Republic --Provided support on revenue forecasting and a model for financial support to municipalities</p> <p>Moscow Oblast --assistance on use of revenue forecasting model</p> <p>Amur Oblast --Provided support on revenue forecasting and a model for financial support to municipalities</p> <p>Premorsky Krai --Provided support on revenue forecasting and a model for financial support to municipalities</p> <p>Chita Oblast --Provided support on revenue forecasting and a model for financial support to municipalities</p> <p>Yaroslavl Oblast --Provided support on revenue forecasting and a model for financial support to municipalities</p>	
7/1/01 to 9/30/01	Commission on Streamlining the Assignment of Responsibilities Across Levels of Gov't (Kozak Commission) Formed—CFP Director assigned as advisor on IGFR	CFP produced a variety of memos and analytical materials for State Duma Budget Committee	<p>Stavropol Krai --Estimated effects on Stavropol Krai of various changes in formula for equalization transfers --CFP provided updated versions of revenue, expenditures, and equalization transfer models --CFP held workshop to formalize IGFR within the region</p> <p>Astrakhan Oblast</p>	Held two-day workshop for regional finance officials on national and sub-national

Quarter	Federal Executive	Federal Legislative	Regional	Other
		At request of Federation Council, CFP commented on proposed Federal Budget	<p>--CFP won contract for IGFR from Oblast --CFP builds three models for Oblast</p> <p>Moscow Oblast --CFP started providing TA on size of federal transfer --began building three basic models for Moscow Oblast</p> <p>Novgorod Oblast --Estimated Federal equalization transfer due --updated revenue forecasting model</p> <p>Karachai-Circassian Republic --updated three IGFR models --held workshop to explain forecast and simulation results</p> <p>Rostov Oblast --updated IGFR models to incorporate changes in tax laws</p> <p>Sakhalin Oblast --analyzed reasons for sharp drop in federal transfers</p> <p>Nizhni Novgorod --Estimated sensitivity of tax capacity and budget expenditures to changes in statistical indicator</p> <p>Chukotka AO --estimated effect of changes in federal transfer formula</p> <p>Karelia Republic --estimated impact of changes in federal transfer formula in 2002</p>	equalization transfers in 2002
10/1/01 to 12/31/01	<p>Began analysis of possibilities for multi-year budgeting</p> <p>Began analysis of possibilities for performance-based budgeting</p> <p>Developed study of transparent methods of estimating expenditure needs</p>	Prepared draft report on federal expenditures on judiciary and the penal system	<p>Stavropol Krai --Division of exp responsibilities between municipalities & raions</p> <p>--Analyzed Krai-specific variables in fed. Equalization fund formulas --Fit expenditure, revenue, and equalization fund models to Krai-specific data</p> <p>Astrakhan Oblast --Recommend parameters of IGFR formulas for Oblast --Analyzed parameters in federal equalization formulas for Oblast government --Developed preliminary expenditure needs, revenue forecasting, and transfer formulas</p> <p>Republic of Karelia --Analyzed problems of change in federal FFSR formula on Karelia</p> <p>Chukotka AO --Analysis of the fiscal capacity of the AO --Identification of factors determining size of federal transfers</p> <p>Volgograd Oblast --Analyzed factors leading to cuts in federal transfers & recommended changes in federal formula</p> <p>Republic of Adygeya --Analyzed reasons for small increase in fed transfer formula</p>	<p>Delivered briefing to USAID of results of PER projects regarding road sector, R&D, and extra-budgetary incomes of public institutions</p> <p>Conducted workshop on methodology of PER for donors, think tanks, government officials, and media</p>
1/1/02 to 3/31/02	Reviewed current legislation on IGFR and sub-national finance and developed		<p>Stavropol Krai --CFP reviewed efficiency of current budgetary system and IGFR</p>	

Quarter	Federal Executive	Federal Legislative	Regional	Other
	<p>concepts and recommendations for reform</p> <p>Drafted amendments and laws on general organization principles for local self-government</p> <p>CFP reviewed and summarized comments on draft budget classification suggested by IMF</p> <p>New methodology for regional tax capacity evaluation developed for MoF</p>		<p>--prepared comparative analysis of social and economic development of Krai and other regions</p> <p>--Krai budgetary system reviewed in consolidated form</p> <p>--developed work plan for further legislation in administration and territorial structure and local self-government</p> <p>Astrakhan Oblast</p> <p>--analysis of specifics of local self-government, especially two-tier municipal structure</p> <p>Arkhangelsk Oblast</p> <p>--agreement on work in IGFR within the Oblast</p> <p>--tracking of factors affecting FFSR funding</p> <p>Khakassia Republic</p> <p>--agreement signed for assistance to review budget system and local self government and issues related to allocation of FFSR</p> <p>Buryatia Republic</p> <p>--agreement with Republic on IGFR cooperation</p> <p>Rostov Oblast</p> <p>--received explanation of Gini coefficient and its role in formulas</p>	
4/1/02 to 6/30/02	<p>As a member of the Kozak Commission Group on Intergovernmental Relations, the Center was responsible for estimating the redistribution of expenditures associated with recommendations of other groups. Center prepared detailed lists of government functions whose assignment was unclear. Center prepared recommendations for resolution of these issues</p> <p>Center identified inventory of spending responsibilities imposed by federal legislation, unfunded mandates and the associated fiscal burden.</p> <p>CFP recommended federal legislation to clarify responsibilities</p> <p>CFP prepared analysis of federal expenditures in each region, including both federal aid to regional levels and direct federal expenditures</p>		<p>Stavropol Krai</p> <p>--CFP delivered final report on Budgetary System and IGFR in Stavropol Krai</p> <p>Astrakhan Oblast</p> <p>--CFP continues its study of local self-government structure, including two-tier structure of municipalities</p> <p>Khakassia Republic</p> <p>--CFP analyzed factors affecting size of federal equalization payments</p> <p>--reviewed Khakassian legislation for internal consistency and conformity with federal legislation</p> <p>--reviewed and recommended improvements in Khakassian budgetary law and process</p> <p>Belgorod Oblast</p> <p>--made presentation to oblast officials on best practices in budgeting and expenditures</p> <p>Republic of Karelia</p> <p>--CFP analyzed tax capacity and alternative methods for determining it</p> <p>--CFP monitored changes in federal equalization formula and effects on Republic of Karelia</p> <p>Rostov Oblast</p> <p>--CFP prepared collection of all regulations prepared by subjects of the federation on intergovernmental relations at the sub-national level</p> <p>Karachai-Circassian Republic</p> <p>--CFP developed customized set of decision support tools for the republic, including municipal revenue estimation model, expenditure needs estimation model, and the equalization model to be used in 2003 budget.</p> <p>Chita Oblast</p> <p>--CFP produced three models for Chita Oblast</p>	

Quarter	Federal Executive	Federal Legislative	Regional	Other
			Novgorod Oblast --CFP studies reasons for cuts in welfare expenditure standards in federal transfer formula for 2003 --Comparative analysis of federal transfers to Novgorod and Pskov Chukota AO --Analyzed components of public service appreciation formula used in federal allocation formula	

Task 2. Institutional Development of Center for Fiscal Policy

Quarter	Developments
10/1/00 to 12/31/00	Website developed Subcontract between CFP and DTT discussed
1/1/01 to 3/31/01	Center Advisory Board established
4/1/01 to 6/30/01	DTT and CFP developed terms of a subcontract arrangement CFP created and implemented board of directors Financial controls, monitoring, and reporting systems implemented Work on CFP Strategic Plan begun CFP awarded contract under World Bank Regional Financial Technical Assistance Loan for \$480,000 Three CFP staff study tour to Washington
7/1/01 to 9/30/01	DTT and CFP formalized subcontracting arrangement under USAID contract Held strategic planning retreat with DTT to review strategic planning and business development CFP developed marketing materials to improve market exposure USAID carried out financial review of CFP Improved visibility through higher profile publications Training tours to U.S. and Canada
10/1/01 to 12/31/01	Developed HR policies including job classification, performance review, recruitment, and a personnel handbook Developed affiliate database Implemented marketing strategy
1/1/02 to 3/31/02	CFP prepared goal-setting proposals for performance planning CFP joined IUE in expression of interest in World Bank PER of Russian Transport Sector CFP joined Georgia State University in expression of interest in compilation of General Government Sector of System of National Accounts
4/1/02 to 6/30/02	3 year strategy developed

Task 3. Public Expenditure Reviews

Quarter	Federal Executive	Federal Legislative	Regional	Other
1/1/01 to 3/31/01	Prepared report on federal expenditures on transportation and the road sector Prepared report on federal spending on science and technology			Prepared estimate for USAID of per capita expenditures, revenues, and deficits, in Krasnodar Krai and Tyuman Oblast in 1999 for

Quarter	Federal Executive	Federal Legislative	Regional	Other
	<p>Prepared report on extra-budgetary accounts and expenditures</p> <p>Began work on review of expenditure on judiciary and penitentiary system</p>			input into USAID projects
4/1/01 to 6/30/01	<p>Delivered final report on federal expenditures on transportation and the road sector</p> <p>Delivered final report on federal spending on science and technology</p> <p>Final report on extra-budgetary accounts and expenditures</p> <p>Work proceeded on review of expenditure on judiciary and penitentiary system</p>			
7/1/01 to 9/30/01	<p>Delivered reports on roads, extra-budgetary revenues of public agencies, and research and development</p> <p>Analyzed northern airports, ice-breakers, and inland waterways</p> <p>CFP analyzed the existing practices in budgeting expenditures for courts and proposed ways to strengthen the autonomy of the judiciary</p>			
10/1/01 to 12/31/01	<p>Began process of analyzing possibilities for multi-year budgeting</p> <p>Began analysis of performance-based budgeting for MoF</p> <p>Developed proposals for improving budgeting methods based on objective quantitative and qualitative criteria</p>	Review of federal expenditures on criminal justice	Stavropol Krai --prepared proposal for estimating fiscal potential of resort cities	Conducted workshop on methodology of public expenditure reviews for other think tanks, government officials, donors, and the media
1/1/02 to 3/31/02	<p>Circulated Draft on Multi-Year budgeting</p> <p>Work continued on performance-based budgeting study</p> <p>CFP continued study of criteria for estimation of expenditure needs</p>		<p>Arkhangelsk Oblast --CFP conducted analysis of budgetary process and suggested areas for work</p> <p>Khakassia Republic --CFP signed agreement to review the draft 2002 budget and quality analysis of budget management</p> <p>Buryatia Republic --cooperated with software firms to produce</p>	

Quarter	Federal Executive	Federal Legislative	Regional	Other
4/1/02 to 6/30/02	<p>Final report on theory and international practice of performance-based budgeting</p> <p>Final Report on estimating the expenditure needs of public spending agencies</p>		<p>product to automate budgeting process</p> <p>Stavropol Krai --Contract awarded to CFP on improving the fiscal position of spa resorts in the Krai</p> <p>Arkhangelsk Oblast --CFP began study of use of property in oblast ownership --review oblast expenditure on roads</p> <p>Buryatia Republic --analyzed expenditures and budget process --special emphasis on health care, IGFR, and budget process itself</p> <p>Republic of Khakassia --comments on the draft law on budgetary system and budget process in Khakassia</p>	

Annex B: Achievement of Targets and Indicators:

EVALUATION OF THE INTERGOVERNMENTAL FISCAL REFORM PROGRAM IN RUSSIA

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified? ⁶	Explanation for Variance	Target Met?
Task 1: Technical Assistance on Intergovernmental Fiscal Relations (IGFR)						
1. IGFR in Russia are increasingly fair, rational, objective, and transparent	1. Establish the policy framework and implementation for effective economic decentralization	1.1 The policy framework and implementation for effective economic decentralization established	1.1 The Center developed detailed lists of government functions whose assignments were not clear; proposed amendments to federal legislation needed to clarify responsibilities, to abolish unfunded mandates and to reduce the share of the government sector in GDP; assisted Federal Duma in preparation of Law on IGFR; assisted MoF in refining National IGFR Strategy for 2002-2005	Y	Substantial progress has been made in the implementation of IGFR Reforms at the federal level	In progress
2. System of transfers is rational, more transparent and objective	1. Improve federal and regional transfer formulas to reduce negotiated transfers	1.1 Federal transfer formulas improved	1.2 CFP prepared analysis of amendments to equalization formula; convinced MoF to change FFSR formula to achieve more equitable distribution	Y		Y
		1.2. Regional transfer formulas improved	1.2 Regional transfer formulas improved in Stavropol Oblast, Arkhangelsk Oblast, Leningrad Oblast, Novgorod	Y		Y

⁶ Enter “Y”, if data were verified by evaluators and “N” if it was not possible for evaluators to substantiate project team data. Items to be reviewed will be based on 1/5 random review of objectives/activities.

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified? ⁶	Explanation for Variance	Target Met?
	2. Reduce unfunded mandates and reduce extra-budgetary funds	2.1 Unfunded mandates and extra-budgetary funds reduced	Oblast through applying models developed for revenue, expenditure and transfer using regions' specific data 2.1 CFP prepared estimates of unfounded mandates. The Kozak Commission approved CFP's recommendations on the abolition of unfunded mandates originating from the federal government. The problem still exists at the regional-local level and cannot be solved without decentralization of the tax system. CFP developed report on extra-budgetary accounts and expenditures.	Y		In progress
	3. Strengthen institutional capacity of pilot regions to provide objective and transparent intra-regional fiscal relations	3.1 Institutional capacity of pilot regions strengthened to provide objective and transparent intra-regional fiscal relations	3.1 Stavropol Oblast, Arkhangelsk Oblast, Leningrad Oblast, Novgorod Oblast, Buryatia and other target regions have received profound and focused on regional specifics training and consulting services in IGFR	Y		Y
3. Revenue and expenditure assignments are based	1. Improve federal and regional revenue and expenditure assignments	1.1 Federal revenue and expenditure	1.1 The Center drew up an inventory of spending responsibilities imposed by	Y	Substantial progress has been made in improving revenue and expenditures	In progress

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified? ⁶	Explanation for Variance	Target Met?
on tax capacity and client-based expenditure norms	to be increasingly objective, rational, and transparent	assignments are objective, rational, and transparent 1.2. Regional revenue and expenditure assignments are increasingly objective, rational, and transparent (in target regions)	federal legislation. CFP prepared analysis of federal expenditures in each region, including both federal aid to regional levels and direct federal expenditures. CFP developed a study of transparent methods of estimating expenditure needs 1.2 The Center helped oblast administrations in the target regions to improve their fiscal relations with the local administrations through setting up objective and transparent criteria for revenue and expenditure assignments. New methodology for regional tax capacity developed for MoF.	Y	assignments	Y
Task 2: Institution Building						
The establishment of a Russian Fiscal Policy Center staffed by Russian experts who will provide high-quality fiscal policy advice to Russian policy-makers	1. Prepare an initial strategy for CFP to become independent and self-supporting 2. Develop into a stable fiscal policy center, able to independently provide high-quality assistance to governmental policy makers, recognized and respected by the international	1.1 Initial strategy for CFP to become independent and self-supporting developed 2.1 A stable fiscal policy center, able to independently provide high-quality assistance to	1.1 The CFP has developed a Business Plan to enter new markets and approach new target groups through both non-profit and for-profit branches 2.1 High-quality services in the area of fiscal policy are being provided to governmental policy makers on permanent basis on both federal and regional levels	Y Y		Y Y

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified? ⁶	Explanation for Variance	Target Met?
	community	governmental policy makers, developed		Y		Y
	3. Develop necessary expertise in management and financial skills	2.2 The Center is recognized and respected by the international community	2.2 the Center was able to receive recognition of World Bank, DFID, TACIS, as well as from Ukrainian and Uzbek governments	Y		Y
	4. Receive a portion of its funding from donors other than the U.S. government	3.1 Necessary expertise in management and financial skills developed	3.1 Marketing skills are developed. Expertise in management and financial skills developed mainly in the area of internal control. More development skills in HR and FM are needed	Y		Y
	5. Develop solid and good relationships with counterparts	4.1 A portion of Center's funding received from donors other than the U.S. government	4.1 About 16% of the CFP's budget in 2002 came from sources other than USAID	Y		Y
		5.1 Solid and good relationships with counterparts developed	5.1 The Center has positive reputation with the federal and regional governments in Russia. It has diversified its donors' base. The CFP has made attempts to enter new markets in Ukraine and Uzbekistan.			
Task 3: Public Expenditure Review						
To analyze and produce recommendations to streamline the Federal Budget and improve	1. At the Federal level, determine all extra-budgetary revenues of public institutions and	1.1 All extra-budgetary revenues of public institutions at the federal level	1.1 – 1.2 The Center developed “Accounting of Extra budgetary Revenues of Government Agencies” report, which determines	Y		In progress

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified? ⁶	Explanation for Variance	Target Met?
the efficiency of federal spending in various public sectors (science, R&D, and judiciary/penitentiary systems)	develop a system to account for them	determined 1.2 A system to account for them developed	extra-budgetary revenues of public institutions and develops accounting system for them.			
	2. Develop transparent criteria to assess expenditure needs of federal budget recipients	2.1 Transparent criteria to assess expenditure needs of federal budget recipients developed	2.1 CFP studied criteria for estimation of expenditure needs and developed proposals for improving budgeting methods based on objective quantitative and qualitative criteria	Y		In progress
	3. Review laws and regulations pertaining to public companies and institutions	3.1 Laws and regulations pertaining to public companies and institutions reviewed	3.1 The Center has started reviewing existing regulations	Y		In progress
	4. Review laws and regulations pertaining to government overdue liabilities and the system of state procurement	4.1 Laws and regulations pertaining to government overdue liabilities and the system of state procurement reviewed	4.1 The Center reviewed existing regulations and drafted proposed amendments to federal legislation. CFP also developed a report on estimation of expenditure needs of public spending agencies.	Y		In progress
	5. Prepare amendments and changes as needed and develop draft regulations	5.1 CFP commented on a proposed Law on Standards of Public Service Provision; comments were incorporated in MoF proposal.	5.1 CFP commented on a proposed Law on Standards of Public Service Provision; comments were incorporated in MoF proposal.	Y		Y

Objective/ Activity	Indicator	End of Project Target	Accomplishment	Data verified? ⁶	Explanation for Variance	Target Met?
	6. Analyze government spending with science, R&D, judicial, and federal penitentiary system	reviewed 5.1 Amendments and changes prepared/ Draft regulations developed 6.1 Government spending with science, R&D, judicial, and federal penitentiary system analyzed	6.1 The Center has developed the following papers: Analysis of Federal Budget Spending on Financial Aid to Northern Airports Accounting of Extra budgetary Revenues of Government Agencies Analysis of Federal Budget Expenditures on Inland Waterways Analysis of Federal Expenditures on R&D Public Expenditure Review of the Federal Government on the Road Sector Report on Federal Spending on Science and Technology Review of expenditure on judiciary and penitentiary system			

Annex C: Evaluation Scope of Work

STATEMENT OF WORK FOR EVALUATION OF THE INTERGOVERNMENTAL FISCAL REFORM PROJECT IN RUSSIA

I. ACTIVITY TO BE EVALUATED

The focus of this evaluation is the USAID/Russia's Intergovernmental Fiscal Reform Project. This project has been implemented since May 2000 with U.S. partners Deloitte Touche Tohmatsu (DTT) and Russian partners the Center for Fiscal Policy (CFP). Deloitte's role has been to help strengthen the CFP and help make it a sustainable organization. This evaluation will cover the program implementation period from May 2000 to the present.

The Intergovernmental Fiscal Reform program contributes to USAID/Russia Strategic Objective (SO) 1.41: Market Oriented Reforms Developed and Implemented in Selected Sectors, directly relating to Intermediate Result (IR) 1.4.4 Improved Fiscal Policies Developed and Adopted as well as the following Indicators: (1) Number of regional governments distributing budgetary funds to municipalities by transparent revenue formula; and (2) Number of unfunded federal mandates. In addition, because one of the principal aims of the program is to build local expertise by creating a sustainable Russian think tank that is able to provide expert advice and consulting on intergovernmental fiscal reform issues this program also contributes to IR 1.4.1 Independent Russian Think Tanks Strengthened.

II. BACKGROUND

Fiscal reform is a central task of post-communist economic transition. Since such transition necessarily involves economic liberalization and a significant reduction of the role of government in the economy, it also requires a complete redesign and overhaul of the public sector, with a redefined set of government functions and new sources of revenue. Such reform poses a host of intricately linked economic, political, administrative and legal problems.

Since 1994, USAID has provided technical assistance in several different areas of fiscal policy reform, including tax policy, tax administration, economic analysis, intergovernmental fiscal relations and property tax reform. USAID views fiscal reform as a key component of its efforts to assist Russia in its transition to a market economy.

In early 1998, USAID initiated a fiscal reform program implemented by Georgia State University (GSU). Despite encountering some obstacles, the GSU project achieved several notable accomplishments. For example, within the field of intergovernmental fiscal relations, GSU helped develop legislation to create a more transparent and objective system of revenue sharing between the federal government and regions. This legislation was passed as part of the Russian Government's 2000 budget package. At the regional-local level, GSU's team developed an objective revenue transfer formula for regions to use in allocating budget revenues among local governments. This new formula was implemented in six pilot regions (Leningrad Oblast, Vladimir Oblast, Rostov-on-Don Oblast, Tomsk Oblast, Tyumen Oblast and Novgorod Oblast).

Following completion of the GSU activity in spring 2000 and a thorough evaluation of the program, USAID decided to focus further assistance in the area of intergovernmental fiscal reform. USAID views intergovernmental fiscal relations as a priority area for continued technical assistance for several reasons. Macroeconomic stability, which depends on fiscal stability, is difficult to achieve without addressing intergovernmental fiscal relations. Improvement in this area is critical because Russia is a very large country going through a decentralization process. Although much Russian legislation still retains a centralized character, in reality the broad shift of expenditure assignments from the federal to the regional and local levels resulted in economic decentralization. While revenue assignment authority is derived from the central government, many functions formally carried out by the central government have been shifted to regional governments, which has created unfunded mandates and resulted in an inequitable distribution of revenues between the center and regions. Thus, comprehensive reform of intergovernmental fiscal relations is essential if the Russian government hopes to restructure the public sector, improve efficiency and effectiveness of public service delivery and support economic growth.

Building on the results of the GSU project and the recommendations of an evaluation of the project, in May 2000 USAID launched a new Intergovernmental Fiscal Reform project with a U.S. and Russian partner. An important goal of the project is to develop the capacity for a Russian institution to provide high-quality assistance to Russian policy-makers on public finance issues. This project aimed to give Russians the opportunity to take the lead in technical assistance through a think tank. The development of this type of Russian institution is critical if policy advice is to continue after USAID assistance in Russia ends. Thus, the role of the U.S. partner (Deloitte Touche Tohmatsu) is to provide institutional strengthening assistance to promote the sustainability of the Russian institution.

USAID's Russian implementer of the project is the Center for Fiscal Policy (CFP). This local think tank, specializing in public finance, was created in 2000 with assistance from USAID. The Center is comprised of a core group of Russian professionals that participated in the fiscal reform activity implemented by Georgia State University. Due to its proven expertise in the field and its record of achievement, the Center is now viewed as the leading Russian think tank in the areas of intergovernmental fiscal relations and budget policy.

Since the inception of this project, the Center for Fiscal Policy has made significant contributions in the reform of intergovernmental fiscal policy. For example, the Center developed several provisions pertaining to inter-budgetary finances that were incorporated in the recently amended federal Budget Code. These changes resulted in a more equitable and transparent distribution of federal revenues among regions. In 2001, the Russian Ministry of Finance requested the Center's assistance in carrying out a series of federal budget expenditure reviews in various areas of public sector spending, such as transport, science, penitentiary and judicial systems, and extra-budgetary revenues of state enterprises. The results from this work were incorporated into decisions for the FY01 and FY02 Russian federal budgets. In addition, CFP experts revised the National Intergovernmental Fiscal Strategy for 1998–2001 and drafted a concept paper for the Strategy for 2002–2005. The Center has also provided key technical analysis to Kozak Commission, a high-level inter-ministerial commission created at the direction of President Putin to provide recommendations on the delineation of responsibilities and revenue allocation among all levels of government in Russia.

While important advances have been achieved at the federal level, much remains to be accomplished at the regional level. Although transfers at the federal level are increasingly rule-based, regional transfers are still mostly negotiated between regional authorities and municipal leaders. As work in each region deepens, advice is needed on legislation and implementation to support recommended methodology on transfers and assignments of expenditure responsibilities and revenue allocation.

Therefore, another important focus of the Center's work is technical assistance to regional administrations. This work includes analysis of intergovernmental relations with the regions and development of recommendations on rationalizing revenue allocation. Based on revenue-forecast and transfer allocation models, experts from the Center calculate tax capacity, budget expenditure provisions and appropriate transfers to municipalities. In addition to the six pilot regions under the GSU project (see above), the Center is now providing technical assistance to the following regions: Stavropol Krai, Astrakhan Oblast, Arkhangelsk Oblast, Republic of Buryatia, Belgorod Oblast, and Republic of Karelia.

Because the Intergovernmental Fiscal Reform program is currently entering its third and final year of activity implementation, and because the USAID/Russia Office of Economic Policy Reform (EPR) is currently contemplating a follow-on program, USAID believes now is an opportune time to formally evaluate this program.

III. INFORMATION SOURCES

The following is not an exhaustive list of available information sources, but the items below provide the evaluation team with the most essential information:

1. Contract: OUT-PER-1-800-99-00003-00 with Deloitte Touche Tohmatsu for the period May 22, 2000 through May 21, 2003.
2. MAARD118-0014-01-0130 (SOW Modification).
3. Business Plan.
4. Annual Work Plans covering period from May 2000 to the present.
5. Quarterly Reports covering period from May 2000 to the present.
6. All materials produced under the Intergovernmental Fiscal Reform Program.

IV. PURPOSE OF EVALUATION

The Intergovernmental Fiscal Reform program is currently entering its third and final year of funding under USAID's existing contract with Deloitte Touche Tohmatsu and its subcontractor, the Center for Fiscal Policy. As such, this evaluation has the following purposes:

1. To evaluate the institutional capacity and self-sustainability of the Center for Fiscal Policy (CFP) and to determine whether further institutional strengthening assistance is needed.
2. To examine the overall performance of CFP in terms of its ability to provide technical assistance in intergovernmental fiscal reform at the federal, regional, and municipal levels of government and to provide recommendations on the focus of future work.
3. To assess the state of Intergovernmental Fiscal Relations (IGFR) in Russia as well as the current and planned (IGFR) activities of other donors to determine if additional USAID funded assistance is advisable.

4. If it is determined that additional USAID funded assistance is advisable, provide concrete recommendations and suggestions for the design of a possible follow-on program.

V. EVALUATION QUESTIONS

The evaluation should address the following three general areas:

- (1) How successful has the project been in creating a sustainable fiscal policy center with the capacity to provide sound public finance analysis and policy advice to Russian policy-makers?
- (2) To what extent did the project help improve intergovernmental fiscal relations and fiscal management practices in Russia to promote long-term and sustainable macroeconomic stability?
- (3) Given the present state of IGFR in Russia and the current and planned IGFR activities of other international donors (World Bank, DFID, TACIS, etc.), is additional USAID funded IGFR assistance still needed? If so, in which areas should USAID focus future IGFR technical assistance?
- (4) What improvements can be made in designing a follow-on program?

The following list of specific questions is not meant to be exhaustive, but illustrative of the issues that should drive this evaluation.

(1) Institutional capacity of the Center for Fiscal Policy:

- Is the Center self-sustaining and financially viable?
- How much or what percentage of the CFP budget is covered by USAID funding?
- How diversified is the CFP funding base?
- Will the Center be able to survive in its current form without USAID funding?
- How has Deloitte Touche Tohmatsu (DTT) performed as the prime contractor charged with providing institutional strengthening TA to the Center?
- Does the Center require further institutional strengthening assistance in order to achieve long-term sustainability?
- What are the prospects for future cost-sharing arrangements with regional governments and with other donors with which the Center cooperates?
- Is the Center's organizational structure and management capacity adequate to its tasks and growing demands on its consulting services from the federal government and regional administrations?
- Is the Center adequately fulfilling its managerial and administrative role?
- Is DTT adequately fulfilling its managerial and administrative role?
- Is the Center adequately fulfilling program reporting and administrative requirements in a timely manner?
- Is DTT adequately fulfilling program reporting and administrative requirements in a timely manner?
- In the two years since the program began, how flexible has the Center been in responding to changing conditions and contingencies?

(2) Provision of technical assistance by the Center:

- To what extent did the Center help to improve Russia's pace of fiscal policy to date, including in the areas of intergovernmental fiscal reform and public expenditures?
- What are the main results of the Center's work at the federal, regional and municipal level and what are the prospects for the future?
- Is the mix of assistance to the federal, regional and local levels appropriate?

- How did the Center work with the new pilot regions, as well as with existing ones, and what are the main results of this work?
- Is it effective for the Center to continue working with regions on a pilot basis? If not, what are alternative strategies?
- What should future technical assistance focus on and why?

(3) The present state of Intergovernmental Fiscal Relations in Russia and the role of other donors in Russian Intergovernmental Fiscal Reform:

- What is the current state of Intergovernmental Fiscal Relations in Russia at both the national-regional level and the regional-local level?
- At the present time, are regional and local governments provided with adequate funding to meet their spending obligations as mandated under Russian Law?
- Over the course of the past decade, the international donor community has invested a significant amount of resources towards improvement of intergovernmental fiscal relations in Russia. Is additional donor assistance required?
- To what extent is the Russian government investing its own resources in intergovernmental fiscal reform?
- To what extent are other donors currently involved in intergovernmental fiscal reform efforts in Russia? (Please summarize the current and planned IGFR activities of all other international donors)
- At which levels of government (e.g. federal-regional, regional-municipal) are other donors focusing their activities?
- In which technical areas are other donors focusing their IGFR activities?
- What are the funding levels of the other international donor activities?
- If other donors are heavily engaged in IGFR efforts, is it advisable for USAID to continue providing IGFR assistance as well?
- If USAID is to continue providing IGFR assistance once the current program ends, in which areas should USAID focus its assistance in order to achieve maximum synergy with other donor funded programs?

(4) Design questions for possible follow-on program:

- What type of improvements can be made in designing a follow-on program?

- What are the strengths of the program?
- What are the major constraints facing the program?
- How can these constraints be ameliorated in the design of a follow-on program?
- What are the lessons learned that could be drawn from this program?
- What are the greatest accomplishments/success stories from this program?
- Is the Center capable of independently implementing the follow-on program? Or, will the Center continue to require additional assistance from a U.S. partner?
- How long should a follow-on program be?

VI. EVALUATION METHODS

The evaluators in collaboration with USAID/Russia will finalize the overall evaluation methodology. However, USAID expects that at a minimum the evaluation will:

1. Review and analyze the existing performance information.
2. Interview field staff of USAID and the implementing organizations (Center for Fiscal Policy and Deloitte Touche Tohmatsu).
3. Interview government counterparts at the federal, regional and local level, as well as relevant Duma and Federation Council members.
4. Visit and interview officials at a representative number of regions which the Center has provided technical assistance to.

VII. SCHEDULE

Approximately 6-8 weeks are estimated to complete this evaluation with an assumption of a five day work week. If necessary, a six-day workweek is authorized. A representative work schedule is indicated below, but it may be modified on mutual agreement between the outside team and the Evaluation Coordinator from USAID/Russia.

Activity	Description	Location	Approximate Dates
Preparation	USAID/Russia will provide general background, program and other documentation	Washington	Sept. 23-27, 2002
Background Meetings	Finalize schedule, review background, program and performance information, design a list of interviews, develop survey instruments (if necessary) and report outline. Finalize and discuss the methodology and Scope of work with Evaluation Coordinator.	Washington	Sept. 28-Oct. 3, 2002
	Meet with prime-contractor Deloitte Touche Tohmatsu	Washington	September 4-10, 2002
Interviews	Begin Moscow interviews with FPC. Select site visits and determine schedule for regional visits.	Moscow	October 11-15, 2002
	Interviews with USAID Mission staff, Russian government counterparts, and with Other donor organizations and implementers	Moscow	October 17-23, 2002

Site Visits	Interviews at sites.	Russian regions	Oct. 24-Nov. 4, 2002
Analysis	Discussion of structure of report between USAID staff and evaluation team Begin drafting report.	Moscow	November 4-8, 2002
	Submit report draft to USAID/Russia for comments.	Moscow (or Moscow)	November 8-15, 2002
	Incorporate evaluation team comments and submit final report.	Washington	November 15-20, 2002

Note: The final report is expected to be submitted to USAID no later than **November 20, 2002**.

VIII. REPORTING AND DISSEMINATION REQUIREMENTS

The final report will include an overall assessment of the issues listed in section “IV. Purpose of Evaluation” and will address the questions listed in section “V. Evaluation Questions”.

Other information to be included in the report will be determined in consultation with USAID staff over the course of the evaluation.

The final report will be submitted to USAID/Russia on diskette in MS Word with ten hard copies. The structure and format of the report will be proposed by the evaluator and approved by the Evaluation Coordinator at the beginning of the evaluation. The evaluation report will be primarily for internal use by the USAID/Russia project management and appropriate offices in the Europe and Eurasia Bureau in USAID/Washington. It may, at USAID’s determination, be disseminated to outsiders.

IX. TEAM COMPOSITION AND PARTICIPATION

A team comprised of two U.S. consultants and two Russian consultants will carry out the evaluation with one of these experts acting as a team leader. Additionally, one support staff person will support the team as an interpreter and logistics coordinator. Fieldwork may be augmented by USAID Mission staff, as available. The members of the team are as follows:

- Team Leader: Responsible for coordinating and directing the reporting effort, including preparation and submission of the final report. The incumbent should have extensive overseas program evaluation experience, including USAID experience, preferably in the Europe and Eurasia region. He/she must be thoroughly familiar with techniques of program appraisal and preferably extensive experience with economic and fiscal policy issues. As team leader, the incumbent should possess excellent organizational, interpersonal and writing skills.
- Three Fiscal Policy/Institutional Strengthening Experts: Must possess both overseas and evaluation experience and be familiar with USAID programs in the areas of fiscal reform and institution strengthening. These consultants should have a combination of consulting experience that includes economic policy formulation, fiscal and tax policy reform, and institutional strengthening/civil society development skill.
- Interpreter and Logistics Coordinator: He/she should have knowledge of terminology related to economics, especially fiscal policy and public finance. He or she will translate

conversations between the evaluation team and Russian-speaking program participants, as well as any Russian language documents provided to the evaluation team. Experience in simultaneous translation is desired. This individual will also be responsible for all necessary actions as a Logistics Coordinator (e.g. schedule, travel arrangements, tickets, etc.)

Annex D: List of Persons Interviewed

Name	Organization/Title
Bushmin, Yevgeniy Victorovich	Chairman of the Budget Committee Federation Council
Dobson, Andrew C	Consultant Department for International Development UK Government
Emmanuilov, Sergei	Director of Health Department Arkhangelsk Oblast
Grigsby, Elaine	USAID/Washington/PPC (former CTO)
Gres, Evgenia	Assistant Finance Director Leningrad Oblast
Isham, Brooke	Director Office of Economic Policy Reform USAID/Russia
Korsun, Georges	Senior Manager Deloitte Touche Tohmatsu, Emerging Markets
Kovalevskaya, Antonina	Director for Business Development Center for Fiscal Policy
Kurliandskaya, Galina	General Director Center for Fiscal Policy
Maloduskeva, Galina	Deputy Director of Health Department Arkhangelsk Oblast
Marashlyan, Vartan	Development Section British Embassy
Martinez-Vazquez, Jorge Luis	Georgia State University
Morozov Alexander G.	Senior Economist Poverty Reduction and Economic Management Group The World Bank
Mosher, Daniel	Manager Deloitte Touche Tohmatsu, Emerging Markets,
Nikolayenko, Elena	Academic Director Center for Fiscal Policy
Pelliccia, Stephen	Deputy Director Office of Economic Policy Reform USAID/Russia
Piterova, Galina	Deputy Chief, Finance Committee, Novgorod Oblast
Pogorelova, Tatyana Alexandrovna	Minister of Finance Stavropol Krai
Puzanov, Alexander S.	General Director Institute for Urban Economics
Shipov, Vitaly V.	Deputy Minister Ministry of Economic Development and Trade of the RF
Struyk, Raymond, J.	Representative Office Director Institute for Urban Economics

Selivanova, Olga	Project Management Specialist Office of Economic Policy Reform USAID/Russia
Smarzik, Kenneth	Senior Manager Deloitte Touche Tohmatsu, Emerging Markets,
Sock, Madjiguene	Senior Consultant Deloitte Touche Tohmatsu, Emerging Markets
Soldatova, Elena	Chief, Finance Committee, Novgorod Oblast
Surovtseva, Tatyana	Chief of Budget Policy Department Arkhangelsk Oblast
Svetozarova, N.N.	Acting Head Economic Analysis and Fiscal Policy Unit, Ministry of Finance Buryatia Republic
Titov, Stepan A	Economist Economics and Policy Unit Russia Country Department The World Bank
Usacheva, Elena	Deputy Director Department of Finance Arkhangelsk Oblast
Yasin, Evgeniy	Academic Supervisor Higher School of Economics

Annex E

Specific questions in Scope of Work to be addressed in Evaluation

1. Institutional Capacity of the CFP

1. Is the Center self-sustaining and financially viable?	8.4
2. How much or what percentage of the CFP budget is covered by USAID funding?	8.4
3. How diversified is the CFP funding base?	8.4 and Figure 2
4. Will the Center be able to survive in its current form without USAID funding?	8.4
5. How has Deloitte Touche Tohmatsu (DTT) performed as the prime contractor charged with providing institutional strengthening TA to the Center?	8.1.1
6. Does the Center require further institutional strengthening assistance in order to achieve long-term sustainability?	7.9
7. What are the prospects for future cost-sharing arrangements with regional governments and with other donors with which the Center cooperates?	8.5 and 9.2
8. Is the Center's organizational structure and management capacity adequate to its tasks and growing demands on its consulting services from the federal government and regional administrations?	7.0
9. Is the Center adequately fulfilling its managerial and administrative role?	7.1
10. Is DTT adequately fulfilling its managerial and administrative role?	8.1.1
11. Is the Center adequately fulfilling program reporting and administrative requirements in a timely manner?	7.1
12. Is DTT adequately fulfilling program reporting and administrative requirements in a timely manner?	7.1.2
13. In the two years since the program began, how flexible has the Center been in responding to changing conditions and contingencies?	7.2

2. Provision of technical assistance by the Center:

1. To what extent did the Center help to improve Russia's pace of fiscal policy to date, including in the areas of intergovernmental fiscal reform and public expenditures?	5.2.1 and 5.2.1
2. What are the main results of the Center's work at the federal, regional and municipal level and what are the prospects for the future?	5.2
3. Is the mix of assistance to the federal, regional and local levels appropriate?	6.2.1
4. How did the Center work with the new pilot regions, as well as with existing ones, and what are the main results of this work?	6.2.2
5. Is it effective for the Center to continue working with regions on a pilot basis? If not, what are alternative strategies?	6.2.2
6. What should future technical assistance focus on and why?	5.3.1 and 5.3.2

3. The present state of Intergovernmental Fiscal Relations in Russia and the role of other donors in Russian Intergovernmental Fiscal Reform:

1. What is the current state of Intergovernmental Fiscal Relations in Russia at both the national-regional level and the regional-local level?	5.2.1, 5.2.2, 5.3.1, and 5.3.2
2. At the present time, are regional and local governments provided with adequate funding to meet their spending obligations as mandated under Russian Law?	5.3.1
3. Over the course of the past decade, the international donor community has invested a significant amount of resources towards improvement of intergovernmental fiscal relations in Russia. Is additional donor assistance required?	5.3.1 and 5.3.2, especially the latter
4. To what extent is the Russian government investing its own resources in intergovernmental fiscal reform?	5.7
5. To what extent are other donors currently involved in intergovernmental fiscal reform efforts in Russia? (Please summarize the current and planned IGFR activities of all other international donors)	5.4 with subsections for each donor
6. At which levels of government (e.g. federal-regional, regional-municipal) are other donors focusing their activities?	5.4 with subsections for each donor
7. In which technical areas are other donors focusing their IGFR activities?	5.4 with subsections for each donor
8. What are the funding levels of the other international donor activities?	5.4 with subsections for each donor
9. If other donors are heavily engaged in IGFR efforts, is it advisable for USAID to continue providing IGFR assistance as well?	9.2.3
10. If USAID is to continue providing IGFR assistance once the current program ends, in which areas should USAID focus its assistance in order to achieve maximum synergy with other donor funded programs?	9.2.6

4. Design questions for possible follow-on program:

1. What type of improvements can be made in designing a follow-on program?	9.2
2. What are the strengths of the program?	9.2.1
3. What are the major constraints facing the program?	9.2.2
4. How can these constraints be ameliorated in the design of a follow-on program?	9.2
5. What are the lessons learned that could be drawn from this program?	5.2.1
6. What are the greatest accomplishments/success stories from this program?	5.2.1 and 5.2.2
7. Is the Center capable of independently implementing the follow-on program? Or, will the Center continue to require additional assistance from a U.S. partner?	9.2.5
8. How long should a follow-on program be?	9.2.4

Annex F: Results of Regional Client Surveys

Region and Principal Contact	Products and Services Provided by the CFP	Impacts of the Products and Services	Future Efforts Needed
<p>Leningrad Oblast</p> <p>Evgenia F. Gres, Assistant Finance Director Leningrad Oblast</p>	<p>Analysis, starting with GSU, of the appropriate division of fiscal responsibilities and authorities within the regional level.</p> <p>In 1999, CFP set up a special fund for delegated responsibilities. This helped the region in its application of funds by providing analytical tools for forecasting expenses, for analyzing the details of local fiscal administration, and trending of expenditures over long periods.</p> <p>Various publications, modeled on the Maryland financial reports, have been produced.</p>	<p>This work, begun 5 years ago, was a bit theoretical as it was being approached by GSU. The overall results have been very positive.</p> <p>The methods for constructing budgets have changed. Redistribution of revenues is now done on a systematic and more transparent basis.</p> <p>Needs are now rank ordered, and underutilized facilities have been identified and treated accordingly. Some progress has been made in regional level fee – setting.</p>	<p>CFP should continue to keep a close relationship with the central government, and use regional data and influence to help change laws and regulations.</p>
<p>Novgorod Oblast:</p> <p>Soldatova, Elena Chief, Finance Committee, Novgorod Oblast</p>	<p>Public Expenditure Reviews currently</p> <p>GSU had built up a body of information and recommendations on assignment of expenditures among the regions. GSU also produced works on tax potentials and revenue growth possibilities. They developed an expenditure history in the health, education, and general management areas.</p>	<p>The region is now using GSU methods and forms for the intergovernmental fiscal assignments and tax potentials, including revenue growth possibilities. There were some GSU missteps at first, leading to errors.</p> <p>CFP held seminars to install modules for revenue prognosis that were refined from earlier</p>	<p>CFP is the link to the national reform effort. CFP uses regional data to build its body of knowledge and to influence the national level.</p>

Region and Principal Contact	Products and Services Provided by the CFP	Impacts of the Products and Services	Future Efforts Needed
		<p>GSU models.</p> <p>The region has adopted 70% of the CFP's recommendations, especially in intergovernmental relations. Expenditure recommendations in particular have not been used extensively. CFP's efforts have, however, reduced the subjectivity on the part of municipal level officials when preparing expenditure estimates.</p>	
<p>Arkhangelsk Oblast</p> <p>Yelena Usacheva, Deputy Director, Dept. of Finance, Head of Budget Administration</p>	<p>1. Effectiveness assessment of the Health Department budgeting methodologies</p> <p>2. Better use of regional properties</p> <p>3. Intergovernmental relations improvements. Discrepancies in national distribution assumptions have been identified.</p> <p>Assistance working with the national level on the distribution aid formula</p> <p>4. Roads programming improvements, including road tax enhancement possibilities.</p>	<p>CFP's improvements in federalism as applied to Arkhangelsk have been accepted in principle by the national level.</p> <p>CFP has provided comparative data and methods from other regions, through TA, training, and the internet connection.</p>	<p>Unfunded mandates continue at extremely high levels. The need exists to change budgeting norms to make unit costs more realistic and flexible for local conditions (shrinking population, for example).</p> <p>There is a need to complete the analysis of the health function and come up with fiscal planning tools that accommodate sub-regional variables. The region would also like another study to maximize revenue generation at the regional and sub-regional levels,</p>

Region and Principal Contact	Products and Services Provided by the CFP	Impacts of the Products and Services	Future Efforts Needed
			identifying and targeting low collection categories.
Karelia Republic	<p>The Republic of Karelia has improved mechanisms of assets and liabilities management. Attempts are being made to solve some problems in the area of inter-budgetary relations in the regions; a unified approach to local budgets is applied to distribute resources between the republican budget and local budgets; budget planning is based on republican social and financial standards; equalization of budgetary provision of local budgets is formalized and implemented with republican budget funds.</p> <p>The method of representative assessment of the region's tax potential, developed by CFP, is actively supported by the Karelian Government as an alternative to the official method of defining a tax potential index. Moreover, cooperation with the CFP allows Karelia to get access to other regions' experience and to international experience in</p>	<p>The CFP's results can be described as positive, visible and effective.</p> <p>The experience provided under cooperation with the Center is being applied under the Regional Finances Reform Project funded by IBRD.</p>	<p>It would be useful to continue the CFP's activities on a pilot basis. The region believes that the CFP should focus on improving the budget system and the budgetary process. Seminars, meetings with experts at the level of federal districts or subjects of the federation will help to increase the effectiveness of joint activities/cooperation. The region also believes it is useful to replicate tested models/technologies at the level of municipalities.</p>

Region and Principal Contact	Products and Services Provided by the CFP	Impacts of the Products and Services	Future Efforts Needed
	the area of fiscal policy.		
<p>Stavropol Krai;</p> <p>Ms. Tatiana Pogoraleva, Minister of Finance</p>	<p>CFP has provided assistance in equalizing revenues among units by finding “loopholes” in national laws. CFP has provided local equalization formulas and models. It has helped devise financial statements and inventories for the 65 spa institutions under the krai’s control.</p>	<p>CFP has helped in rationalizing the budgets of the numerous and unmanageably large number of sub – regional units.</p>	<p>CFP has been a catalyst for change, and facilitates the region’s communications with its municipalities.</p> <p>There is a need to account for income disparities among villages, and to distribute costs for facilities such as schools, which vary in needs.</p> <p>Having an association with the CFP will help the krai in securing IBRD funds for similar projects.</p>
<p>Buryatia Republic</p> <p>Ms. N.N. Svetozarova</p> <p>Acting Head Economic Analysis and Fiscal Policy Unit, Ministry of Finance</p>	<p>CFP has provided assistance in expenditure in health sector, and assistance in developing effective fiscal systems in the Republican systems of IGFR.</p> <p>Carried out series of analyses of effective fiscal expenditures and training of MinFin in analysis of expenditures and fiscal procedures</p>	<p>Work of project is still at an early stage (began in June of the current year) and results difficult to evaluate.</p>	<p>Region would like the Center to continue help in the establishment of effective budget systems and procedures, including staff training in analysis</p>