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FINAL REPORT

Local Government in Russia: A Sector Assessment

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FORWARD

The Mitchell Group, Inc. team consisted of 6 members, 4 expatriates and 2 Russians. The Team members included, Team Leader, Mr. Michael Schaeffer who specializes in private sector analysis; a performance measurement analyst, Mr. Raymond Miller; a management analyst, Ms. Olga Bilyk; Mr. Donald Allen, a budget and financial analyst; an applied systems analyst, Mr. Yuri Rostopshin; and a management specialist, Mr. Valery Manzhosov. Mr. Christopher Foley, USAID/Moscow Local Government Unit Chief assisted and supported the team during this assignment. The work of the Team was coordinated by TMG Senior Management Associates, Abbe Fessenden, Andrew Simpson, Clinton White and Melissa Moore Schultz.

GLOSSARY

ABC	American Business Center
AEC	American Entrepreneurship Center
BSE	Business Support Centers (Deloitte & Touche)
CFED	Center for Financial Engineering & Development
CIT	Corporate Income Tax
Duma	National Parliament (and Local Councils)
EBRD	European Bank For Reconstruction and Development
GDP	Gross Domestic Product
IESC	International Executive Service Corps
IRI	International Republican Institute
IRIS	Institutional Reform of the Informal Sector
LAN	Local Area Network
LGU	Local Government Unit (Municipality)
LINK	Link Into European NGO's Program
MFM	Municipal Finance and Management Program
MLP	Micro Loans Program
MOF	Ministry of Finance
Municipality	City / Local Government Unit - Subordinate to Oblast
NDI	National Democratic Institute
NGO	Non Government Organization
NPO	Non Profit Organization
Oblast	Subnational Government Level
PADCO	Planning & Development Collaborative, Inc.
PC	Personal Computer
PIT	Personal Income Tax
Raion	Local Government (District) - Subordinate to City
RF	Resources from the Federation
RSFB	Russian Small Business Fund
SEEF	Small Enterprise Equity Fund
SLP	Small Business Loans Program
SME	Small and Medium Enterprise
STS	State Tax Service
TACIS	Technical Assistance to the Confederation of Independent States
UK	United Kingdom
URC	Union of Russian Cities
USAID	United States Agency for International Development
VAT	Value Added Tax
VOCA	Volunteers in Overseas Assistance
WB	World Bank

EXECUTIVE SUMMARY

ASSESSMENT OF LOCAL GOVERNMENT IN RUSSIA

This report assesses the current conditions of the local government sector and the character of reforms introduced by the Municipal Finance and Management (MFM), Civil Society and other USAID programs. The tasks assigned to the team were to:

- Review the status and conditions of local government in Russia from the legal, regulatory and institutional perspectives;
- Identify "best practices" of local governments in Russia;
- Assess the relevance and results of USAID assistance;
- Review relevant other donor work and identify opportunities for cooperation; and
- Provide relevant conclusions.

During their five weeks spent in Russia, the Team of four Americans and two Russians reviewed the state and nature of reforms dealing with city management, solicitation and incorporation of citizen and business community input into local government, interaction with the local legislature (Duma) representatives and development of a non-governmental municipal services sector. In addition to interviews with USAID, project and other donor staff, Team members travelled to Nizhny Novgorod, Yekaterinburg, Novosibirsk, Irkutsk, Novgorod and Vladimir

Great changes have occurred in the **political economy of municipal finance management** during the past five years. Basic laws have been enacted for restructuring local government and municipal financial management, but implementation of the policy reforms and institutionalization of changed practices remain incomplete. The Team's major findings concerned linking the responsibility for service provision to government functions. Considerable confusion surrounds responsibilities for municipal services provision and greater clarity is needed in the division of functional responsibilities between levels of government. The Team found significant evidence of problems in allocation of revenues to appropriate levels of government for meeting expenditure requirements (part of this ties into the general fiscal crisis). Any attempt to reform the structure of municipal financial management and urban service delivery must deal with the question of intergovernmental transfers. It may be more beneficial to focus on potentially achievable capital and operating budgeting. It is clear that the various pieces of intergovernmental relationships have to mesh in order to ensure effective allocation of fiscal resources for clearly identified and transparent local government expenditures.

Many problems associated with current decentralization efforts arise from the failure to match the pace of political decentralization with that of regulatory and organizational reform. Many local governments do not seem to be able to carry out planning beyond assembling wish lists of project activities to constructing of rational priorities. In general, local governments in the cities visited have only been moderately successful at local resource mobilization. Russian budget cycle and other operations rarely include auditing and performance review. Evaluation practices, however, must be broad based, participatory and incorporated into the planning process.

Concerning **civil society integration**, local elections are common. There has been an explosive growth in NGO registration, with most concentrated in St. Petersburg and Moscow. Work has begun on an exchange of information about budgets, but budget formulation processes remain opaque and budgets were regarded as state secrets until recently. Russian civil society remains fragmented and excessively preoccupied by narrow objectives addressing immediate concerns of participating individuals. Russia does not yet have much activism in the form of national associations and other networks that integrate social concerns and civic activists across the country. Political legitimization, as well as the emergence of "policy champions" is extremely important, along with grass root level training. NGOs often have a narrow financial base, those which are more sustainable will cover broader issues and concerns as well as being more able to work with local government officials.

Some potential **best practices** have emerged, such as the start of budget hearings in Nizhny Novgorod, hot lines for citizen information, public meetings under NGO sponsorship (particularly in European Russia), private sector supply of maintenance services for municipal housing, innovative revenue raising (sale of electric power to China) in Irkutsk, some innovative NGO activities and regional linkages and exchange of information between municipalities in Siberia and the Urals, and linkage of USAID technical advice and other donor credit programs for small enterprises.

Regarding **results**, the Team concluded that while progress was noticed on a number of "process" objectives as well as outputs, adjustments were needed to reframe several intermediate results and their indicators to reflect changed conditions, achievements and future resource levels. In developing frameworks, the strategic objectives in local government and related areas seemed to be set at such a level that it was difficult to see the causal logic which would make the particular sub-objective to be within the manageable interest of the USAID Mission. Due to uncertainty, planning in smaller increments could increase consensus and make it easier to agree on short-term, linked, programs. USAID recognized the need for capacity building, but underestimated the amount of time institution-building takes. The incremental nature of these tasks should be built into the results frameworks. Based on the perceived successes to date, it appears that donor efforts are more successful in directed towards small and medium size cities.

Concerning **relevance**, USAID had implemented some activities which were interesting, yet perhaps not appropriate in terms of assistance delivery, such as large drops of computer equipment, where the recipients had not yet developed the capacity to make effective use of its end products. Relevant forms of assistance were focusing on actions to facilitate the exchange of information between and within local government organizational units and between them and the citizenry on budget and other matters, such as changes in rules and benefits. Careful selection of partners is needed, with a focus on organizations that have a clearly defined need for stable, transparent relationships and fiscal practices between and among levels and units of government.

Regarding **other donors**, duplication with the TACIS (European Union) program in particular has been avoided through focusing on different cities and on different sectors. The Team was very concerned about the lack of knowledge in the municipalities and among USAID contractors regarding other donor activities, particularly of donors who are potential partners in local government activities. There is a clear need for activities to march in parallel with frequent exchange of information, and a focus on the development of synergy with other external funding agency programs, particularly the World bank and the European Development Bank.

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I. INTRODUCTION AND PURPOSE

This report assesses the current conditions of the local government sector as well as the character of the reforms introduced by the Municipal Finance and Management (MFM), Civil Society (Non-Governmental Organizations), and other USAID programs. The Work Order required the Team to:

1. Review the status and conditions of local government in Russia from the legal, regulatory and institutional perspectives;
2. Identify "best practices" of local governments:
 - in city management (budgeting, fiscal management, revenue generation, provision of communal services);
 - in interaction with the local legislative and Duma representatives;
 - in solicitation and incorporation of citizen input; and,
 - in solicitation and incorporation of input from the business community.

Against this background, the Work Order required that the Team consider the following:

- Is there a role for USAID to play in the municipal sector, given its special mission?
- If so, what is that role? And,
- To the extent that new needs have evolved, what specific strategy should be followed in program implementation?

The report is based on a six-week assignment; one week was spent in Washington interviewing project directors of USAID municipal and civic initiatives programs and five weeks were spent on location in Russia. The Team consisted of four American specialists and two Russian consultants. In Moscow, the Team interviewed local USAID program managers, USAID staff, and other donors. The Team visited Nizhny Novgorod, Yekaterinburg, Novosibirsk, Irkutsk, Novgorod and Vladimir.

Regarding the assessment methodology, the Team developed a program performance questionnaire, based on discussions with USAID, resident program advisors (RPAs) on USAID financed projects, and The Mitchell Group (TMG). USAID/Moscow and RPAs reported on the current status of the program objectives, the project activities designed to achieve these objectives and the degree to which expected results had been achieved. USAID and the RPAs also discussed cases where planned results were not met and the reasons thereof.

The Team also developed an interview protocol for the assessment. As part of assessing views of customers/beneficiaries on needs, relevance and achievements, the Team designed and conducted citizen focus group sessions. The focus groups were drawn from a wide range of citizenry varying by age, gender, occupation and background.

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The Team met with Mayors, Deputy Mayors and other public officials in six Russian cities: Novgorod, Nizhny Novgorod, Yekaterinburg, Irkutsk, Novosibirsk, and Vladimir. The Team also met with business leaders, community groups and representatives of community organizations, and a number of private sector consultants who worked with local governments. Altogether, the Team conducted formal interviews in-country with over 100 people knowledgeable about municipal development as well as meeting with numerous local citizens, representatives of neighborhood groups, the U.S. Consulate in Yekaterinburg, and USAID/Moscow staff.

In addition, the Team observed various USAID-financed activities and the changes they have effected. Team members saw evidence of the computer training and equipment in recent documents prepared by MFM resident advisors and members of the various Russian local government units (LGUs). The Team visited municipal offices, information management facilities and reviewed some training materials. Spontaneous conversations were held with counterparts and local staff during the visits that complemented the customer assessments.

The broad scope of work and limited time affected the Team's work, in a number of areas, notably:

- *Legislation and Legal:* The legislative analysis requested for this report was too far reaching to be adequately addressed in this brief assignment.
- *Local Legislation:* The limited time spent in each city did not allow for an in depth analysis of the local government relationship with the local legislature and the Duma. The Team met a number of municipal representatives and Duma members but the Team was not given municipal charters for each community it visited.
- *The Relationship of Governors, Mayors and Dumas:* The breath of the assignment and lack of time prevented full analysis of these relationships.
- *Budgets:* Municipalities were reluctant to give Team members any budget material except for the Team received only one municipal budget, thus preventing an adequate assessment.
- *Various Meetings:* The Team unable to meet with many representatives of other donor sponsored programs and people interviewed knew very little about other donor projects. US contract people in the field did not know the local representatives and technicians supported by other donor resources. In many cases the Team would have to go to the donor's headquarters for more information. There was simply no coordination of donor programs locally, with the partial exception of Yekaterinburg.
- *Logistics:* The Team also faced constraints in terms of difficult travel logistics, traveling very great distances in a short amount of time, and the reluctance of local governments and some USAID contractors to share information. Additionally, the Russian domestic legal environment and the application of laws and regulation are in a state of transition. Very few people interviewed had a clear understanding of the current legal situation on the implications of new changes.

These circumstances have inevitable affected the coverage and depth of this report.

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II. REVIEW OF STATUS AND CONDITIONS OF LOCAL GOVERNMENT IN RUSSIA

The intergovernmental fiscal system in Russia is still in transition. The unstable economy pushes policy makers toward a more centralized fiscal system better able to support macro-economic policy, while various other forces underscore the inevitability of decentralization of the political economy. The compromise in force since 1991/92 has been that of continual redefinition, and to disguise the centralizing and decentralizing trends in a variety of ways.

The Russian Federation is still considering some basic issues in intergovernmental relations and finance, in particular the division of responsibility on expenditures and revenue allocation between the federal government and Russia's oblasts. The federal government is considering a system of transfers that will both finance the revenue shortfall of sub-national governments and support a more efficient and equitable provision of government services to oblasts. Unlike tax reform, policy changes in intergovernmental relations and sub-national finance arrangements have just begun and relatively little progress has been made in implementation of the reforms.

Exhibit 1 (see next page) is an overview matrix. It illustrates the major legislative, regulatory and institutional changes with respect to the political environment, civil society development, and the private sector. It should be noted that many current constraints present opportunities for change (donor assisted or not) while other aspects of the same problem remain resistant. Sometimes the constraint will be so formidable that action to eliminate it may not be possible and the constraint will inhibit successful implementation of other activities to achieve intermediate objectives (results). The key changes and developments in the local government environment are discussed in greater detail in Exhibit 1.

A. POLITICAL DEVELOPMENTS OF RUSSIA'S ADMINISTRATIVE AND FEDERAL POLITICAL STRUCTURE

The former Soviet Union had a four-tier federal structure written into its constitution, but in practice, the State was highly centralized and controlled from the top in terms of political, economic and administrative functions. The Russian Federation is a three-tiered federal state consisting of eighty-nine provinces or states directly subordinate to the federal government and known as subjects of federation. These states comprise the oblasts, krais, autonomous regions, national regions, metropolitan cities with oblast status (Moscow and St. Petersburg) and, until mid-1992, the autonomous republics. These states are collectively referred to as oblast level or sub national throughout this report. Below the oblast-level governments are the municipalities and raions, local governments that are subordinate to the oblast governments.

1. Legislative Changes

The Federation Treaty of 1992 was a major step in the continuing process of defining the relationship between the federal government and the eighty-nine oblast level units, but was not the concluding action. The treaty confirmed the greater role of the ethnic republics over their foreign and trade policy relations with the federal government and with the other oblasts. All of Russia's eighty-nine administrative divisions (except Moscow and St. Petersburg) are divided into raions, or districts. The roots of these administrative divisions stem from the structure of the former Soviet Union, which consisted of the Union government, fifteen Union Republics, oblasts, and cities or rayons. In the current Russian system, the central government interacts directly only with oblast-level governments.

Exhibit 1

Changes in Conditions which Provide Opportunities for Action or Impose Constraints on Potential USAID Programs

SECTOR	LEGISLATIVE	REGULATORY	INSTITUTIONAL
<p>Political Environment</p>	<p>Basic central legislation is in place which allows action on implementation steps</p> <ul style="list-style-type: none"> • Draft law on The Fiscal Fundamentals of Local Self Government (1995) • "The Law on the Principles of Budgetary Rights" of April 15, 1993 • "The Law on the Rights of Local Self Government" 1992 • "The Law on the Basic Principles of the Budget System and Budgetary Process" 1992 • "The Law on the Basic Principles of Taxation" 1992 • Presidential Decree No. 685 On Basic Guidelines of Tax Reform in Russia 	<p>Conditions which provide opportunities for action</p> <ul style="list-style-type: none"> • Each level of government now prepares its own budget, permitting decentralized programs • Russian intergovernmental system is a series of negotiated arrangements whose effects and incentives are not well understood • Poor enforcement of tax collection <p>Constraints</p> <ul style="list-style-type: none"> • Federal-oblast tax sharing rates are in principle fixed by the federal Duma, in practice they are negotiated with the MOF • Expenditure assignment responsibilities are not consistent • No mechanism yet exists to enforce and interpret laws • Revenues in Russian system are collected at the oblast and raion levels and portions are transferred up to the federal level. • Municipalities are not capable of implementing the laws on land reform. • Continually changing laws, regulations and taxes make it difficult for LGU's and citizens to know what the rules/regulations are that pertain to them. 	<p>Conditions which provide opportunities for action</p> <ul style="list-style-type: none"> • Relationships between the mayor and governor are very significant in determining legislative effectiveness • Municipal Dumas are now elected • Oblast governors are now elected • Creation of local city charters passed by Dumas • City Charter stipulates the rights of each citizen • City charters must still be approved by constituents • There are no laws governing expenditure responsibility • Inability of local governments in raising own source revenues • No awareness of government's responsibility to its citizens • Lack transparency/accountability in the budgetary and legislative process, thus offering opportunity for additional assistance • Mayors are chosen by the Duma as permanent chair of the Duma. This consolidation may sometimes facilitate planning and implementation of municipal reforms. <p>Constraints</p> <ul style="list-style-type: none"> • Some oblasts have not passed a self-government charter permitting municipalities to move forward • Specific service responsibilities are not clearly assigned to specific levels of government. • In some cities, all Duma members are from the same political party, which is not necessarily the Mayor's party

Exhibit 1, cont.

**Changes in Conditions which Provide Opportunities
for Action or Impose Constraints on Potential USAID Programs, Cont.**

SECTOR	LEGISLATIVE	REGULATORY	INSTITUTIONAL
Civil Society Development	<p>Basic legislation in place</p> <ul style="list-style-type: none"> • Law on Public Associations, 1995 • Law on Charitable Organizations, 1995 • Law on Non-Commercial Organizations, 1994 	<p>Conditions which provide opportunities for action</p> <ul style="list-style-type: none"> • Provided NGO legal status • Citizens are unaware of their legal rights <p>Constraints</p> <ul style="list-style-type: none"> • NGOs/NPOs do not have tax exempt status • NGOs with small businesses taxed at commercial rate • NGOs are not yet fully part of the decision making process 	<p>Conditions which provide opportunities for action</p> <ul style="list-style-type: none"> • 150,000 NGOs formed since 1992 • LGUs have created their NGOs • Active participation in elections • Some associations of NGOs are forming • Democratic principles are taking root in some places <p>Constraints</p> <ul style="list-style-type: none"> • NGOs focus on narrow based issues • NGOs are largely incapable of solving collective action problems • No awareness of individual rights • Oblast and municipal legislative process are not conducive toward citizen participation in legislative design and discussion • Widespread cynicism and distrust of local government
Private Sector	<p>Basic legislation in place</p> <ul style="list-style-type: none"> • Decree on the Division of State Property, 1992 • Law on Property Tax, 1992 • Law on the Supply of Products and Goods to meet Federal Needs (Procurement), 1994 • Civil Code, 1995 	<p>Conditions which provide opportunities for action</p> <ul style="list-style-type: none"> • Tax evasion/avoidance remains significant • Mechanism to implement effective procurement law is still being developed. <p>Constraints</p> <ul style="list-style-type: none"> • Corporate income tax is very high, thus having a negative impact on small business development. 	<p>Conditions which provide opportunities for action</p> <ul style="list-style-type: none"> • Privatization of large enterprises • Some municipal services are being privatized (ie. housing maintenance) <p>Constraints</p> <ul style="list-style-type: none"> • Large enterprises still perform social functions (health, school)

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The central government moved slowly towards favoring some decentralization for several reasons, including its precarious financial condition. Most importantly, the national administration has now begun to view decentralization as a way to lessen the burden on the Treasury of a chaotic and virtually bankrupt intergovernmental transfer system. In addition, obtaining major commitments of resources from donors required progress on decentralization and administrative reforms.

The Draft Federal Law "On the Fiscal Fundamentals of Local Self Government" (1995) was intended among other things to resolve these issues and to provide more concrete provisions for implementing the principles contained in the August 1995 Federal Law "On the Fundamental Principles of Local Self Government in the Russian Federation." The draft law represented a sophisticated and ambitious attempt to overcome recent problems. The package would create a number of strong incentives to encourage LGUs to take more efficient and effective action. The draft law included provisions that would establish standards for management of raion budgets and financial reporting to the LGU. It would establish the mechanism for allocating financial resources from the federation (RF), to the LGU and to the raion. The draft law also stipulated how each level of local self-government could generate revenues. It also proposed simplification of some intergovernmental revenue transfer processes for revenues which are retained at the local government level.

The 1991 Federal Law "On the Fundamentals of Taxation System" established the basic framework for the taxation system. The three most important taxes include the profit (corporate income) tax, the value added and excise taxes, and the personal income tax. Presidential Decree No. 685 (May 8, 1996), "On Basic Guidelines of Tax Reform In Russia" addressed issues of intergovernmental tax finance including the establishment of shares of revenues from each tax to the various levels of government. Beginning on January 1, 1997, the minimum shares of revenues from each tax going to the various levels of government will be determined annually. These minimum tax allocations (in percent) are shown in Table 1 below. These tax rates represent minimum levels, with the implication that tax allocations may contain considerable annual variations.

Table 1 - Estimated 1997 Tax Distribution

	FEDERAL BUDGET	REGIONAL BUDGET	LOCAL BUDGET
Enterprise Profit Tax	10%	15%	5%
VAT	30%	30%	5%
Excise Tax on Alcohol	30%	30%	5%
Excise Taxes On Mineral Raw Materials, Gasoline	100%	N/A	N/A
Excise Tax on other goods	N/A	60%	10%
Personal Income Tax	10%	30%	5%
Natural Resource Tax	30%	30%	5%
Environmental Tax	30%	30%	10%
Fee For Use of State Symbols of RF	100%		
Federal License Fees	100%		
Land Tax	10%	20%	30%
Transport Tax	N/A	40%	40%
Enterprise Property Tax	N/A	10%	40%

Source: Julia Mozharenko, October 8, 1996 Memorandum To Robert Conrad. Intergovernmental Tax Finance in Russia. World Bank, "Russian Federation" 1996.

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Over the past five years, the regional and local governments have imposed and collected increasing amounts of taxes and fees. In 1992, 55.9 percent of total collected revenue of the Russian Federation consolidated budget receipts (federal, regional, and local budgets) went to the federal budget, 16.5 percent the regional budget, and 27.6 percent to the local government. In 1994, the Federal, regional and local budgets retained 49 percent, 26.4 percent and 24.6 percent of the total collected revenue, respectively. Preliminary data since 1994 indicate that the allocations to local budgets have maintained their share, while the regions are losing ground.

2. Regulatory Environment

Each oblast supervises urban and rural areas within its jurisdiction. All local governments report to the oblast government and carry out duties according to oblast regulations. Each oblast has its own (that is, separate and freestanding) fiscal and administrative status. Under Russia's new system of budgetary and fiscal legislation, the three levels of government (excluding the raion), now prepare their own budgets. The system is based largely on sharing of federal taxes. In principle, the State *Duma* (federal parliament) fixes federal-oblast shares of taxes; however in practice shares are negotiated with the Ministry of Finance and were designed to give oblasts and local municipal governments sufficient revenue while providing adequate funding for the federal budget. This "intergovernmental system" is really a series of *ad hoc* negotiated arrangements whose effects and incentives are not well understood by citizens nor by most public sector workers. (See Exhibit 1 and city assessment annex.)

An unusual characteristic of the Russian fiscal system is that raion and municipal offices of the Ministry of Finance's State Tax Service (STS) collect revenues. They do not report to the mayor, but to the STS Office for the oblast and forward (in principle) the agreed share of tax receipts to the State Tax Service Office of the responsible oblast. The oblast STS, in turn, transmits the agreed upon share of receipts to the STS in the federal Ministry of Finance. By 1991, the system had broken down; the oblasts and raions were increasingly unwilling to transfer tax receipts to the central level.

3. Institutional Problems of a System in Transition

Since the breakup of the Soviet Union, rapidly changing institutional, administrative, political and private sector policy initiatives have contributed to increasing the level of uncertainty about many key local government responsibilities. A new conception of local government's role in economic activity is emerging, but confusion remains about the boundaries between the public and private sectors. An intermingling of functions and service provision contribute to undefined spheres of responsibility for carrying out budget functions. For example, large enterprises still furnish goods and services which most market economies consider to be "public goods" (schools, subsidized housing), while some public sector organizations still carry out functions and provide services which are regarded as being essentially "private goods."

Current System of Allocating Budgetary Resources in Russia. The current Russian system does not establish or assign detailed legal responsibilities for allocating budgetary resources to various levels of government for particular government functions or activities through legislation (although legislation may establish the general principles). In direct contrast to the USSR's minutely detailed centralized economic plans, the present system is based on the allocation of percentages of total revenues collected to the oblast and then down to the local government units. Expenditure authorizations in budgets are established as allocations of specific percentages of funds that happen

to be on hand for broad expenditure categories. Detailed separate program authorization is rare, and specific amounts of money are not allocated (or appropriated) for programs. Spending responsibilities and allocation of resources are established in each annual (or more recently, quarterly) budget. The Russian Government has explicitly tied, specified revenue streams to various levels of government. Oblast and local government decision on expenditures are driven by funds which are made available, rather than having functions and programs determine expenditure levels.

The traditional basis for assigning responsibilities for financing public services to different levels of government consists of allocation according to the geographical extent of the benefits. For example, the federal government finances public service activities whose benefits encompass the entire nation, such as the originally defense-related Siberian Academy of Sciences. Oblasts finance activities and services that cover two or more raion. The oblast level supports public sector institutions which provide services with regional coverage, such as higher education. Financial responsibilities of *raions* and cities are heavily weighted toward expenditures on social services. *Raion* budgets furnish almost all financing for basic education and nearly 85 percent of health expenditures.

During the past two years, however, the traditional system has not been followed. Assignment of responsibility for expenditures generally has not matched responsibility according to geographic coverage of benefits. At present, specific responsibilities for service provision are not clearly designated to levels of Government, and no laws govern responsibility for expenditures. This is in striking contrast to the precision of revenue allocation.

Decentralizing Central Spending Functions Downward. Recent changes in the assignment of expenditure responsibility has violated in basic ways the principle of allocating benefits by area. A large part of social, and most capital, expenditures was delegated to the oblast, city and raion governments. However, the new revenue-sharing system to the sub national level has not taken the new responsibilities into account. Since 1993 local government's share of total public spending has increased as the federal government has delegated many responsibilities to the local level. Local government's share of public spending has increased from 13 percent of GDP in 1992 to 17 per cent of GDP in 1994.¹ Higher local government revenue collection² and the doubling of transfers from the federal budget (now 3.5 percent of GDP) financed part of the expansion.. Transfers to the federal government decreased in 1995, partially due to the agreement to withhold 10 percent of the personal income tax collected by oblast level governments.

Table 2 (next page) provides the composition of local expenditure in 1995. Social expenditures, mainly education and health, amounted to 44 percent of local expenditures. Spending on administration and law enforcement is remarkably low, covering only 3.6 percent of expenditures, but this item covers only central administration in the regions. The large share of spending on the *national economy* refers to subsidies and transfers for public housing, heating, food, public transport, and transfers to agriculture. By 1995, housing subsidies already amounted to nearly a quarter of local government expenditure and were the largest single component of local municipal budgets. Energy prices increases will be the major factor driving up budgetary subsidies to the housing and transport sectors. Housing subsidies will probably continue to expand unless the government moves to restructure the utility pricing system and change responsibilities for paying for utility costs.

¹ World Bank, "Russian Federation Toward Medium Term Viability" June 1996.

² In the past, all personal income tax revenues (PIT) revenues accrued to local government.

Within Russia as a whole, major opportunities exist for applying innovative solutions to implement and apply the new frameworks at the oblast and local levels. Mostly, this calls for working out institutional arrangements between the various agencies and organization, so that the reforms are made operational. The current situation provides opportunities for assistance in facilitating the spread of knowledge on what the laws and regulations apply to the local level and in facilitating the process of preparing local rules for making the reforms implementable. This can be done as participatory processes and workshops with Russian (and expatriate) experts, including private sector consultants and NGOs. The opportunities are probably greater regarding the exchange of information and knowledge than for outsiders providing advice on legislative content, given the need for building "ownership" and institutionalizing the new processes and rules.

Table 2. Composition of Local Budget Expenditures - 1995

	AS % OF TOTAL LOCAL GOVERNMENT SPENDING	AS A % OF GDP
Total Expenditures	100.0	17.4
Social Expenditures	44.4	7.7
Education	19.8	3.4
Health	15.8	2.7
Social Protection	6.0	1.0
Other	2.8	0.5
Social Investments	11.6	2.0
Administration and Law Enforcement	3.6	0.6
National Economy	41.1	7.1
Housing	24.7	4.2
Heating Subsidies	16.8	3.0
Capital Repair	4.0	0.7
Consumer Goods Price Subsidies	2.0	0.3
Sectoral Subsidies	8.5	1.5
Agriculture	5.5	1.0
Public Transportation	2.8	0.5
Other	0.2	0.0
Investment Grants	1.5	0.3
Other	4.4	0.7
Other Expenditure	10.9	1.9

Source: Ministry of Finance, staff estimates. World Bank, 1996.

B. DEVELOPMENTS IN CIVIL SOCIETY

The Russian legal system is becoming diverse. This is particularly noticeable in the NGO field. Since 1991, the growth in registered NGOs has been dramatic. At present, there are about 150,000 registered Russian NGOs. Moscow and St. Petersburg, with less than 10 percent of Russia's population, account for more than half of all registered NGOs. However a substantial number of Russian NGOs are single person organizations with little sustainability.

Since the constraints on NGOs have been lifted, the sector has been in a state of transition because of the lack of internal consistency among new laws. In January, 1995, Russia adopted a new Civil Code, which lays the groundwork for noncommercial enterprises. It differentiates between several forms of noncommercial organizations including: consumer cooperatives, public and religious organizations, foundations, institutions, and associations of legal entities.

1. Legal Framework For Civil Society Development

Independent civic activities were first legalized in the former Soviet Union by official *de facto* recognition of NGOs and later given "de-jure" recognition in the 1990 law "On Social Associations". When the Russian Duma took over the legislative process, further elements of the legal foundation for a civil society were codified.

The principal laws that define the legal status of an NGO are as follows:

The *Law on Noncommercial Organizations* defines a noncommercial organization as one which is not primarily profit-oriented and does not distribute profits to its members. Two additional forms exist: The first, a *noncommercial partnership*, which is based on membership established by citizens and/or legal entities to assist its members in attaining social, cultural, charitable, educational, scientific, and management goals corresponding with the purposes of the noncommercial organization. The second is that of an *autonomous noncommercial organization* which has no membership, is established by citizens or legal entities on the basis of making voluntary property payments for purposes of rendering services in the areas of education, health, culture, science, law, sports and other services.

The *Law "on Public Associations"* (May 1995) helped define the legal status of public organizations. The principle behind this law is that it safeguards the Russian citizen's right of association.

The *Law on Charitable Organizations* (August 1995) complements the laws mentioned above. It has provisions affecting charitable organizations regarding preferences in taxation, customs, duties and other payments; and subsidies for charitable activities (state services or use of public property free of charge). Other legal restrictions on NGO activities limit the use of profits for charitable purposes only and restrict salaries to 20 percent of the organization's expenditures.

The 1990 Law "On Social Associations" allows federal, regional and local government bodies to create their own non-profit organizations (NPO) and provide partial or full funding for their activities. These NPOs are formally independent from the government but generally receive some support from their various government sponsors, such as privileges and exemptions from paying taxes, customs and other duties. The state can also grant tax reductions or exemptions to persons and organizations that support non-profit organizations.

2. Regulatory Environment for Civil Society Development

Linkages between NGOs/NPOs and the various layers of government have led to substantial opportunities for abuse. The law itself does not establish conflict of interest safeguards. For example, the possibility for governmental bodies to affiliate with NPOs results in exclusion of public funds from budgetary controls. Legally, prevention of conflict of interests is essentially a function of the potential subjects of such conflicts and is left for self-policing. With regard to public service

contracts, NGOs might find themselves bidding against an NGO/NPO which the tendering LGU had established. A very small number of NGOs are emerging to bid on various LGU projects, although the opaque procurement process makes it difficult for many private sector NGOs to win contracts. In addition, municipalities have a natural reluctance to put many municipal services out for bid, fearing the effect that this would have on public sector employment. Regarding sustainability of NGOs through indigenous funding, tax laws as they are currently applied are detrimental to donations to NGOs. Article 6 of the law "On the Taxation of Profits of Enterprises and Organizations"³ states that taxable profits of an enterprise must be reduced by the amount of its charitable contributions. However, the total amount of contributions can not exceed three percent of taxable profits. Deductions of up to 5 percent are allowed for donations to state institutions, art and cultural organizations. The amount of allowable charitable contribution is then added into a basket of other tax concessions, including capital loss and loss carryover. Total deductions cannot offset more than 50 percent of a company's taxable profits. In addition, tax laws do not allow for carrying over unused contributions into the next tax year.

What does this mean for the NGOs? Russian corporations currently generating losses or low profits have little or no incentive to donate to NGOs because they lose the deduction entirely. If a company generating losses today contributes to charity, it will not be able to carryover those deductions two years from now when it may be generating profits. The Russian tax code is geared toward immediate tax collection⁴. Individual Russian citizens can deduct charitable contributions for personal income tax-purposes, up to 100 percent of the citizen's taxable income. As with corporations, there are no carryover rules, there is no real incentive for corporations to make major gifts to charitable organizations, and only modest encouragement for individuals to do so. The high rate of tax evasion in Russia renders the discussion of charitable tax contributions academic. In effect, the current tax regime provides a greater incentive to evade taxes rather than to maximize allowable deductions.

3. Types of Russian NGOs

Information about Russian NGOs remains fragmented and inconclusive. This can be attributed to the rapid and somewhat chaotic development of the sector, the ingrained habits of secrecy and also attempts at avoiding public accountability and transparency.⁶ As a rule Russian NGOs have one or more of the following characteristics:

- **NGOs created or affiliated with governmental entities.** These organizations (former trade associations) are often managed by public employees. They usually have representatives of law enforcement or some other government agency on their board of directors.
- **NGOs created by firms or individuals.** Former state-owned firms created NGOs on their own to deal with the social safety net services that they previously offered but can no longer provide to their employees. Private businesses and individuals established NGOs because they did not trust government NGOs which they could not influence and control. Broadly

³ Article 6, "On the Taxation of the Profits of Enterprises and Organizations" first adopted July 16, 1992, amended on December 31, 1995 #227-A3.

⁴ However, the tax collection ability and enforceability of tax related collection still remains a fundamental problem with the State Tax Service (STS).

⁶This section is based on information from three major sources, namely: Center for Civil Society International, Save the Children Federation, and the Team's in-country focus groups and interviews with numerous NGOs.

speaking, both new and old firms establish NGOs in order to take advantage of tax exemptions and other privileges.

- **Transfer of social capital from abroad.** Russian NGOs were created when foreign organizations contributed professional, organizational and financial resources that were unavailable domestically. The typical patterns of social capital transfer are to open Russian offices of foreign based NGOs, including a gradual shift of responsibility to its Russian counterpart, and to engage in activities which strengthen broad segments of Russian civil society (e.g., American Bar Association, World Institute on Disability, World Learning, Save the Children).
- **Grass roots civic activities.** Such NGOs are usually created by concerned citizens in response to clearly articulated but unmet social demands.

4. Civil Society and the Institutional Environment

Local government offers the best opportunity for establishing a democratic political culture in Russia. The municipal level of government provides greater openings for initiating and or strengthening four critical ingredients of democracy/governance.

Participation in government is much easier at the local than at the national level. Although Russian municipalities did not historically invite community, business or other local groups to participate, the scale of local government makes participation more feasible. Citizen participation would be more welcome if the laws on self-government were modified to favor more independence at the local level, particularly in allowing more municipalities to retain more of their locally generated revenues.

Accountability is the other side of participation. In successful democracies, local governments are accountable to their electorate as well as to the laws governing their functions. The concept that local governments should render clear accounts of what they are doing is now emerging in some of the cities visited, such as Nizhny Novgorod. Evidence of the change from earlier years is demonstrated by the introduction of telephone hot-lines to the Mayor featuring questions from citizens and public hearings. In Novgorod, the city administration invited about 400 individuals who had the greatest interest in reducing taxes to discuss its proposed legislation to substitute real estate taxes for some current local taxes. The mayor and city administration also explained the proposal on television. Accountability is usually exercised in several ways: by community groups that demand (in an organized way) fulfillment of campaign promises; by city councils that demand budget accountability from the mayor; or from a mayor who wants to establish a tradition of reporting to community or business groups. In Russian cities visited by the Team, voters and local organizations receive little information about the plans or accomplishments of local governments and the costs incurred in carrying out these programs. Such activity is crucial to a democratic culture. Yekaterinburg and Novosibirsk, which are strongly centralized, have shown fewer behavior changes that facilitate democratic culture than Nizhny Novgorod and Novgorod. The differences between the cities may be attributable to the fact that Nizhny Novgorod and Novgorod have received substantially more technical assistance and international exchanges than the cities of the Urals and Siberia.

Exercising Collective choice on public services and budget constraints is also fundamental to democratic practice. Historically, the origins of democracy in most developed nations stemmed from the need to make local decisions on how the community should raise resources and spend monies for

the common benefit. The Russian cities visited still lack this sense of public finance choices. The dominant perception remains that government benefits are handed out as entitlements and that economic goods are allocated as political favors. The Team found that declining transfers of central government resources to municipal governments are creating conditions for municipal managers to search for alternative revenues to finance local government services. There are some indications that local municipalities, or communities within municipalities, have started to make choices about how their own resources will be spent on public goods. The allocation process is still dominated by distributing limited resources to the persons who have the greatest influence. Local spending on social programs was curtailed in favor of paying salaries for public sector employees and others deemed necessary to running the city or its enterprises. Although eventually collective choice about resource use can be extended to central budgets, the national government is too remote an institution to establish effective linkages for collective choice to work easily.

Decentralizing political power also strengthens local level democratic practices. To the extent that public service decisions can be made locally, using local resources (including automatic entitlement grants from the central government), dependence upon central level bureaucracies and politicians for obtaining resources is lessened. Some limited change has already occurred. For example, Irkutsk is attempting to sell surplus energy to China from the municipally owned power company. The revenue will be used for municipal improvements.

It should be emphasized that, at present, the advantages of supporting local government to strengthen democracy in Russia are almost entirely potential advantages and have not yet been realized. The evidence suggests that while there has been a formal change in the nature of the state and local government relationships since 1991, the actual implementation or institutionalization of democratic processes (aside from elections) has not yet occurred. For the most part, municipal governments do not operate to enhance citizen and community participation, do not take seriously their accountability to local constituents nor do they cultivate local public choice within reasonable budget constraints. In fact, local governments in many of the Russian cities visited present a merely formal expression of democracy.

5. Gaps in the Democratic Orientation of Municipal Reform

Local Control. Political power appears more decentralization of political power in European Russia than elsewhere. Physical proximity to Europe has exposed municipal managers to Western donors and business people. Strong centralized government predominates in the Urals and Yekaterinburg. Many Soviet structures remain in place, although they operate with a different political agenda.

Lack of Community Participation. So far there have been only modest advances in community participation under the various municipal and citizen participation oriented programs. The Team found that public disclosure on budgets and local legislation varies geographically; and that Moscow and St. Petersburg have had stronger NGO development than small and medium sized cities.

Nonexistent Relationships between the Public Sector and Private Sector. If municipalities are to make more headway on their own, they will have to facilitate the linkages between the public and private sectors. The nascent private business sector is a potential co-investor for projects, a potential manager of public services, and a potential source of substantial local tax revenue.

6. Findings on NGOs in the Urals and Siberia

The NGO development in Yekaterinburg, Novosibirsk and Irkutsk has mushroomed during the past 2 years. This is due in part to indigenous forces, and to a limited extent from encouragement provided by the USAID civic initiatives programs. The Team found that there were more than 700 registered NGOs in Novosibirsk in 1995. Most of the NGOs in the Urals and Siberia work in the social sphere and concentrate on providing social safety net services previously provided through state enterprises. As these enterprises are restructured, they often have discontinued providing services such as health, schools and housing. The LGU cannot provide many of these services so local NGOs have taken up the slack whenever possible. Urals and Siberian NGOs focus on working with disadvantaged groups (women, veterans, the disabled, large families, and children). The programs vary from humanitarian assistance (clothing, food) to helping in getting pensions on time. Very few NGOs have united under an umbrella organization, except in Novosibirsk where a USAID-supported Center for NGO Support provides free services to NGOs (including training). A branch of this center recently opened in Irkutsk and will provide similar services. In Yekaterinburg, an informal NGO network is materializing under the wing of the American Entrepreneurship Center (AEC).

The Team found that many NGO staff members have become resourceful in using information obtained from the Western contracts to gain access to international grant financing. The Team found that many organizations which received USAID grant support through intermediaries used the fund for operating purposes and were not looking for ways to increase sustainability after the grant expiration date. While Soros and TACIS also provide support to the NGO sphere, it is doubtful whether these two organizations will provide direct support for Russian NGO activities.

7. Best NGO Practices

Some NGOs have taken actions to become self-supporting. The NGOs which have broadened their membership base in addition to promoting their cause appear to have a much better possibility of surviving than those which have focused on their cause alone. In Yekaterinburg, the Association of Small Businesses finances itself through increasing membership and providing services for a fee to members. In Novosibirsk, the Women in Business NGO developed a "package" for western style audits and charge for the service (The NGO appears to be self-sustaining). Some NGOs working with the physically challenged sell artifacts that have been produced by their constituency, thus providing the NGO with financial resources to service their clients and promote sustainability.

C. PRIVATE SECTOR DEVELOPMENTS AFFECTING LOCAL GOVERNMENT

The shift of enterprise ownership has had a significant effect on the finances of oblast, municipal and raion governments in Russia. The privatization process may result in a revenue inflow for local governments from the sale of assets since the government unit that owns the enterprise recovers the sales proceeds. There are no guidelines for the use of revenue from privatization, but the most common practice is that proceeds are credited to general budgetary revenues. However, privatization has also resulted in transferring significant responsibilities for service provision from enterprises to local governments, resulting in an increased claim on local government budget resources.

Oblast, raion and city governments are becoming owners of business enterprises, housing and vacant urban land because of general decentralization actions of the central government. These asset transfers are a mixed blessing. The asset transfers are consistent with the rhetoric for increased local autonomy, and the assets also increase the resources of LGUs. However, these asset transfers also augment maintenance and subsidy burdens. Many enterprises transferred to local governments recently require an operating subsidy.

With the approval of new self-government legislation, some local governments view themselves not only as service providers, but also entrepreneurs and producers. LGUs appear relatively optimistic about their ability to increase revenue, by establishing joint ventures with a domestic or foreign business partner, or with another state enterprise. Usually these ventures are purely market-oriented activities such as hotel services. There are good reasons for this. First, there is a prospect of increased revenues. Second, profits and dividends from joint ventures can and are treated as extra budgetary revenues for the LGUs.

The drawbacks of joint enterprises however, may outweigh the benefits because they are inconsistent with the stated privatization goals. LGU officials and others fail to distinguish between tax revenues and enterprise profits. In addition, local governments may be tempted to protect their enterprises from competition by prohibiting imports from neighboring oblasts.

Local and oblast governments hesitate to move forward on privatization. Despite the effort to move to a market economy, central, oblast, municipal and raion governments intervene more than what might be considered desirable in market-oriented systems. For example, Nizhny Novgorod subsidizes many enterprises which it owns, including heat and electrical supply, transport, water supply, hotels and laundry, local construction, public housing and garbage collection. The hotel and laundry sectors have not received public subsidies since 1992.⁷ All of these enterprises supply services that a market driven system cannot provide to public sector organizations such as schools and hospitals. The city appears to be trying to transfer these service providers, as well as enterprises with high losses (such as road maintenance), to the raions.

The squeeze on local and oblast budgets that emanates from the structure of the intergovernmental fiscal system in Russia seems to create disincentives for local governments to privatize their enterprises. For example, oblast (or LGU) owned enterprises can earn profits that accrue to the extra budgetary accounts. In addition, the tradeoff between incentives for privatization and revenue generation process suggests that enterprise sales may not generate much income—certainly not an amount equivalent to the present discounted value of the profitable enterprise's net profits.

When enterprises make losses one would expect that the preferred choice would be a quick sale, or drastic reorganization. In cases where the central government has transferred assets to local governments it has in effect shifted the subsidy burden downward, protecting the Central government finances. Local governments are facing major maintenance and subsidy burdens. However, if budgetary constraint prevails and the banking system is willing to make credit available, loss-making enterprises can continue to supply public services and employ local residents at a time when oblast and local government budgets may not be able to do so. Thus, the fiscal squeeze on local level

⁷ It is unclear whether these businesses are up to date on obligations to banks or have cleared arrears to other enterprises.

governments may make it advantageous to keep unprofitable enterprises alive if they can serve as levers to obtain extra credit or subsidies from the central government.

The same fiscal squeeze may encourage LGUs to shift more social assets and spending to local government owned enterprises. Saddling such enterprises with social assets and additional nonproductive spending will make them harder to privatize, since they will be less profitable and thus less attractive to buyers. However, divestiture of social assets will be difficult unless mechanisms exist for the public sector to assume the social assets which cannot be privatized. Thus, the behavior and incentives facing local and oblast governments are critical for the successful privatization of Russia's local economy.

1. Policies, Legislation, and Regulations Conducive to Private Sector Growth

Perhaps the most fundamental legislative provisions affecting private sector development are contained in Russia's Civil Code (January 1, 1995). The code establishes the fundamental principles of civil and commercial law. When the Civil Code is complete, Russia will have a comprehensive codification of economic laws and decrees which will clarify business rules. As a result, businesses will be able to better exercise their legal rights and comply with their responsibilities.

Laws and regulations which facilitate greater private sector involvement in the housing sector have also been passed and are beginning to affect the municipalities. The Law on Fundamentals of Housing Policy (December, 1992) established guidelines for general housing policy and provided guidelines for rent increases. A condominium law was passed in July 1995.

Procurement law is highly relevant to privatizing municipal services. Following removal of price controls in 1992, the national government adopted the law on procurement of goods and services for government needs. This law set forth the legal and economic rules on preparation, bidding, and execution of state contracts for all levels of government. It applies to contracts financed by both budgetary and extra budgetary sources. The December 1994 law on "the supply of products and goods to meet federal needs" limited application of the 1992 law to the federal level and restricted foreign competition.

As a result, municipal level procurement rules are often ignored (or unknown) while the law itself is neither clear nor transparent. Legal provisions foster distortion. Government agencies can apply an array of incentives (profit tax incentives, subsidies, soft loans) to encourage suppliers to sell to the government. The government is allowed to force public enterprises to meet federal needs without establishing prices and other conditions. Because tenders apparently are not published systematically or widely, awareness and competition are severely restricted, thus reducing potential savings. Privatization of municipal services will fail eventually if national enabling legislation on procurement is not enacted.

Some municipalities have tried contracting for public services, despite the opaque tendering process. The municipal authorities do not appear to have considered carefully establishing rules on conflict of interest in providing municipal services. Apparently only a few NGOs bid on municipal contracts. It is not clear whether the private sector NGOs can provide these services at a lower cost. In general, municipalities seem reluctant to contract out many municipal services because of the fear of increased public sector unemployment



2. Private Sector - Institutional Development

Several cities have either privatized parts of their housing maintenance organizations or are trying to do so. Initial results are quite positive. Private housing maintenance organizations are providing a higher level of service for the same or lower cost as government units, especially when operating in a competitive environment. The PADCO experiment was quite successful in privatizing housing maintenance services in Novosibirsk and Yekaterinburg. PADCO's housing programs led to the creation of condominium boards and maintenance organizations. This housing project should be self-sustaining upon grant expiration.⁸

An entrepreneurial small business class is integrating itself into the local economies. Small and medium size businesses are taking root, helped by loans through credit windows such as the Russia Small Business Fund (RSBF) of the European Bank for Reconstruction and Development and from the Small Business Loans Program (SLP), Micro Loans Program (MLP), and Small Enterprise Equity Fund (SEEF). Evidence exists that these programs were instrumental in facilitating small business development in Nizhny Novgorod and to a lesser extent in other cities visited, such as highly centralized Yekaterinburg. The local Yekaterinburg economy was anchored to large defense related industries. In order to stabilize the local economy, municipal officials and international donor providers have been pursuing large international businesses. Many technical assistance providers in Yekaterinburg focused on bigger local and foreign enterprises. For example, the American Business Center (ABC) assisted Coca Cola, RJR Nabisco, and Pepsi Cola.

In Novosibirsk, the quality of services and sustainability of the center is doubtful because the original contractor (Deloitte & Touche) pulled out. The development of small business in Irkutsk is still in its infancy. There has been minimal donor support of actions to encourage small businesses, little training, and minimal networking opportunities available for small business in that city.

⁸ The grant expires in October, 1997.

III. IDENTIFYING BEST PRACTICES

During its visits to the six cities covered in this report, the Team conducted a number of focus groups. The focus members were active in local civil society and private sector development. Exhibit 2 illustrates a number of municipal practices carried out in the cities visited. Appendices C through I provide a more detailed municipal report. Some general observations are that the most progressive cities appear to be those where the mayor and oblast governor had good working relationships. Nizhny Novgorod, Irkutsk and to a lesser extent, Novosibirsk, are cities which have some openness, public accountability and transparency in their local government process. One innovation in Novgorod is that the mayor addresses citizens concerns and questions via a telephone hotline. The mayors in Irkutsk and Novosibirsk invite some NGO members into the policy decision making process. Nevertheless, the Team believes that in general there is very little transparency in the budget and local legislative process. The Team found little evidence that citizens are aware of their roles and rights.

A. BEST PRACTICES OF LOCAL GOVERNMENT

Many municipalities have passed local city charters. These charters were supposed to explain the rights of each citizen within the LGU. Nevertheless, members of local communities had limited coping mechanisms to deal with restrictive federal policies. Such mechanisms included local governments spending more than budget limits allowed and accumulating arrears. Local governments also negotiated increased subsidies or higher VAT retention rates with the federal government, thus reducing revenues to the central government. LGUs also borrow from local banks or local enterprises and relied on local enterprises to finance infrastructure investments. Local governments deployed these mechanisms in response to misaligned expenditure requirements and revenue gaps, which will, in all likelihood, continue for some time.

The critical step that will help clarify budgetary roles is rapid privatization of enterprises. The de-linking of the state's public activities from market activities however is proceeding slowly because of fears about massive unemployment and the difficulty that local governments would have in taking over social responsibilities which the public sector enterprises currently provide. The desire to protect jobs has led to a type of *reverse privatization* with governments participating in joint ventures with private companies without having a clear conception of the limits of public sector responsibilities.

Municipalities have had limited success in reducing local expenditure budgets. In an experiment, Yekaterinburg contracted out maintenance service for 2,000 municipal housing units to private sector operators. The municipality is now analyzing whether the project can be expanded. Novosibirsk privatized maintenance organizations for a 3,000 unit apartment complex. The project itself was successful, but the loss of municipal jobs, responsibility and authority through privatization created considerable resistance to immediate expansion of the program. A lesson learned here is that any action which reduces employment will be hard to implement. Municipalities have more difficulty in applying user charges.

Local government leaders are very much aware that municipal enterprises should charge prices that reflect actual costs. The problem lies not only in their local customers willingness to pay, but in ability to pay. Some municipalities, including Novgorod and Nizhny Novgorod, have raised the rates modestly for municipal services.

Exhibit 2
Local Government : Achievement of Results

SECTOR	LEGISLATIVE	REGULATORY	INSTITUTIONAL
Political Environment			
	Yes, They did pass the laws or draft them at the center.	Yes, Irkutsk and Nizhny Novgorod passed city charters. However, municipal management and structure has not yet fully adjusted in issuing operating instructions and regulations.	Citizens are unaware of their rights and privileges.
	Implementing and enabling legislation uneven.	No mechanism to interpret and enforce laws.	Municipal employees are not aware, nor do they understand, nor have they incorporated changes in their behavior.
		Municipalities are not capable of implementing laws on land reform.	No accountability / transparency in the budgetary and legislative process.
Civil Society			
	Yes, laws were passed with respect to public associations, charitable and non-commercial organizations.	Yes, USAID has successfully assisted in the creation of a substantial number of NGOs.	150,000 NGOs have been created.
	Yes, They did pass the laws or draft them at the center.	NGOs are however too narrowly focused. Sustainability, and institution building is questionable.	NGOs and individual citizens actively participated in elections.
		NGOs are in Irkutsk, to a lesser extent Novosibirsk, beginning to be part of the decision making process.	NGOs largely incapable of solving collective action problems.
			Citizens are still largely unaware of their rights.
			Oblast/LGU legislative process are not conducive toward citizen participation.
Private Sector			
	Yes, Civil Code (1995) and Procurement Law (1994) were passed. This greatly assisted in the development of the private sector.	Mechanism to implement effective procurement law is still being developed.	Privatized many large enterprises and some municipal services.
		No universal understanding of ethical procurement practices.	Many enterprises still perform social functions. These functions have not been successfully taken over by the private sector.

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1. Gaps in Budget Procedures at the Local Levels

The Law on Budgetary Rights and other legislation granted oblast and raion legislatures considerable control over local municipal budgets. However, the lack of a strong legislative tradition has meant that oblast and local government councils are still defining their roles in regard to the central executive branch of government as well as the municipal administration. Local councils (Dumas) often have inadequate staff, receive insufficient information and are not brought in to the approval process for some spending and revenue decisions affecting the city, particularly decisions taken at the oblast level. When relations between mayor and oblast governor are good, and the mayor is an effective chair of city council, cooperation is enhanced.

Although the process is improving in some cities, notably Nizhny Novgorod and Novgorod, local Dumas generally do little to publicize budgets or hold budget hearings. As Russian oblasts, raions and cities face difficult fiscal adjustments, citizen understanding and support will be vital. The budget process ought to be a means for citizens to express their spending priorities and make suggestions for improved efficiency and effectiveness in program delivery. This is a critical step in the budget process necessary for reaping the benefits of decentralization, but "best practices" are still subject to experimentation.

2. Gaps in the Democratic Orientation of Municipal Reform

Local Control Political power seems more decentralized in European Russia, probably due to proximity to Europe and to the substantial exposure of municipal managers to Western donors and businesses. Strong centralized government remains in the Urals and its capital Yekaterinburg. Many former Soviet structures are continuing to operate, albeit with a different political agenda. Best practices probably consist of exposure to Western ideas, processes and personnel.

Inadequate Community Participation To date, modest advances in community participation have occurred under various municipal and citizen participation-oriented programs. The Team observed that public disclosure on budgets and local legislation varies geographically, stronger NGO development has occurred in Moscow and St. Petersburg, and NGO involvement was less developed in small and medium sized cities.

Minimal Relationships Between the Public and Private Sectors. If municipalities are to make progress on their own, they must bridge the gap between the public and the private sectors. The private business sector, albeit still nascent, has potential as an investor in projects, a manager of public services and a source of most local tax revenue. Nizhny Novgorod may be interesting to watch, as well as Yekaterinburg, which has stressed larger businesses. The more remote Siberian cities might also offer some interesting experiments.

B. LOCAL GOVERNMENT INTERACTION WITH THE LOCAL LEGISLATURE AND THE DUMA

In the cities that the Team visited, the local legislatures and Duma representatives were not displayed as having a prominent role in municipal government, despite the fact that they are locally elected officials. As a result, the Team did not have adequate, relevant information to analyze the role of the Duma and its working relationship with the local government. The Duma is involved in the legislative

process in many cities, but it has a minor role in the budget process. The mayor normally presents the budget to the Duma and the Duma votes it up or down. The Mayor's office is generally the primary power center in the LGU. In many cities the Mayor is elected to his post by the Duma. The majority of the Duma members often belong to the same party as the mayor.

The focus groups, described the local legislature (Duma) quite candidly. They stated that local Duma representatives are often former party officials. Until a new breed of Duma representative is elected, citizen representation at the Duma level will be insignificant, they said. One of the more interesting developments is that members of the Association of Business Women (NGO) are now holding elective positions in Novosibirsk. The focus groups predicted that eventually the new Duma members will mainly come from the private and NGO sectors.

C. CITIZEN, NGO AND BUSINESS RELATIONSHIPS WITH LOCAL GOVERNMENT UNITS

It seems fair to say that the public at large is as skeptical about municipal governments as it is about the central government. Much of the present cynicism and indifference toward government arises at the local level. Nearly all business leaders interviewed stated that they had little or nothing to do with local government. With rare exceptions, business leaders did not meet with the mayor or city department heads, did not participate in selecting investment priorities for the city, did not receive information from the municipal government and did not seek out opportunities for meetings.

While business leaders are interested in better relations with their local government, most of those interviewed expressed some apprehension about exchanging information with the city for fear of greater scrutiny by the tax service. Taxation laws and their enforcement are the greatest concerns of municipal governments, businesses and citizens. Small businesses interested in receiving information about the future expansion plans of the city felt that the city was not interested in revealing future plans and that the businesses were at risk for requesting this information because the tax authority might review their financial statements in search of tax violations. Since many Russian businesses under report income, there is a reluctance to work with local government authorities.

Best practices cases were hard to identify. There are limited local business organizations and limited business enthusiasm for creating business associations to promote small and medium size enterprises. Most focus group members were not satisfied with the quality of communal services provided by the city government. Public disclosure and access to budgets and local level legislation varies geographically. The relationship between the citizens and the municipal government was virtually non-existent. The focus group members were generally not familiar with their rights within the federal and local self-government laws. Very few focus group members knew how to operate effectively in a public hearing forum. The primary reason given for lack of citizen involvement was attributed to not having enough information regarding various NGO activities.

D. BEST PRACTICES OF LOCAL GOVERNMENT UNITS

A partial list of local government best practices follows. A summary table of the main points can be found in Exhibit 2. Appendices provides more detail on each municipality visited.

General LGU Political Environment

- According to the Union of Russian Cities, half of the medium/large cities have adopted the self government charter. The extent to which this has become made effective operationally and changed behavior varies greatly.
- Some oblast governments have not adopted the charter on self government, which would make local charters more effective.

General LGU Civil Society Environment

- NGOs are, at present, largely incapable of solving communal problems.
- Citizens and NGOs members are usually not familiar with their rights and obligations under the charters.
- Local legislative processes, at present, are not conducive toward citizen participation in legislative procedures.

General LGU Private Sector Environment

- Some municipal services are being privatized, such as housing maintenance.
- Large enterprises still provide social services.
- Local municipalities are beginning to encourage small business development.

1. Best Practices in Individual Cities

In Nizhny Novgorod, most best practices were in the public sector environment. The municipality is using a creative way of providing credit to small businesses, through conducting a competitive auction for the down payment of items such as equipment. The repayment for the equipment is followed by an interest free loan for two years. In another example, the local government encouraged privatization of municipal housing by adding a rental surcharge to municipally owned property. Because the rental rates on municipal property are on a prima facie basis higher than condominium rates, the finance director hoped that this would encourage local citizens to buy units.

In Yekaterinburg an innovation in the political environment is that the oblast government is using Russian consultants to assist in drafting new regional laws. If relations between the oblast and the municipality run relatively smoothly, this innovation offers opportunities for progress in implementing municipal level change. In the private sector environment, the local government changed some municipal government procedures to allow small business to purchase ground floor residential apartments to convert them to commercial use in specific areas. Since, the city wants to get local manufacturers together with local retailers and distributors, the municipality held several sectoral trade fairs for networking and doing business.

In Novgorod, some best practices include actions affecting the civil society environment. For example, the municipal administration invited 400 people to discuss the possible implementation of

a property tax. The Mayor of Novgorod went on television to explain property taxes and how the tax is to be implemented. Regarding the private sector environment, the Novgorod municipality established a central facility to deal with all transactions related to real estate including permits, licensing, tax payments, and property registration. The municipality has created an economic development department to market the municipality to foreign and domestic investors.

A practice in Vladimir, which affects the political environment, is that the municipal department of finance has created a more detailed accounting format to track its expenditures.

In Novosibirsk, the municipality eliminated some "nuisance" taxes imposed on small businesses. These taxes generated only modest revenue. The municipality has conducted numerous small business expositions to attract investment.

Irkutsk's city charter was one of the first approved in Russia. The city has been a leader in information exchange on problems and practices in municipal government networking through the Union of Towns and Cities and the Eastern Siberian Cities Association. Irkutsk created a municipal department to deal with external relations, including NGOs, and relationships with the Oblast level government. Regarding civil society environment, the Mayor of Irkutsk has taken the initiative to contact other mayors to learn about what they were doing for best practices. The mayor has already implemented one of the best practices including a telephone hot line to address citizen concerns. The municipal government has invited some NGOs for consultation with respect to social services issues. It is not clear whether the government discussed budget priorities with respect to social services. The fact that the Mayor is consulting social service NGOs represents a good first step. In the private sector, Irkutsk is one of the few cities visited that owns its own energy source and has surplus energy available for sale. In order to raise additional own-source municipal revenues, the municipally owned energy company plans to sell energy to China.

Although municipal governments in Irkutsk and other remote cities have not been particularly active or interested in the devolution of formal political power, they have come up with a number of "best practices." Perhaps the remoteness of these cities and lack of support from the center, as well as presence of key actors have contributed to the problem solving approach.

IV. RELEVANCE AND RESULTS OF USAID ASSISTANCE

How can USAID determine whether a multi-year program in municipal development was successful from the perspective of strengthening democratic institutions and practices? Progress should be examined on each of the objectives identified in Section II. To wit:

- More effective, responsive and accountable local government in selected cities (i.e. improved municipal management techniques, transparency in the decision making process);
- Increased, better informed citizens' participation in political and economic decision making (civic participation); and,
- Democratic systems that better support democratic processes and market reforms.

A. RESPONSE OF USAID TO PREVIOUS LGU PRIORITIES

USAID's technical assistance programs have provided a means of influencing the shape of economic and democratic reform in Russia at the oblast and local government level. While many aspects of best practices and key municipal changes are cited elsewhere in this report, one aspect reviewed below is the response of USAID to the priority needs of local government. Exhibit 3 identifies USAID current objectives and current and future relevance for technical assistance.

Relevance of USAID programs has two aspects. The first aspect is whether the assistance was relevant in alleviating substantive constraints to achieving cooperating country and USAID objectives. The second concerns whether the modality or activity delivery mechanisms for the inputs (and the inputs themselves) were appropriate under conditions prevailing in the country.

1. Political Environment

USAID resources concentrated on improving internal municipal communications, improving financial management, defining relationships between local governments and other entities, and by assisting in developing the supportive legal framework at the national level. Before 1995, the Mission emphasized developing working relationships, as rapidly and flexibly as possible, to meet locally identified needs for support at the local government level.

Because of Russia's rapidly changing political and economic environment, the pre-1995 USAID assistance was relatively short-term and interim in nature. For example, large hardware and software computer drops took place (Nizhny Novogorod); a real estate information system was developed (Nizhny Novgorod); and public hearings were promoted. Sometimes efforts seemed to have started up before completion of necessary analyses on country background conditions, particularly those involving critical assumptions needed for achievement of the planned objectives. U.S. assistance appears to have relied, in several cases, on supporting targets of opportunity as they emerged. Although many of these efforts were relevant, some had only limited impact in meeting critical needs.

Local government officials most commonly expressed a need for the following: (a) clear directives from the center, (b) well defined allocations of expenditure, revenue and authority, (c) greater transparency of the separation of authorities between federal and subnational governments and, (d)

a more efficient tax code and tax collection system. USAID has responded effectively to these priority needs. USAID has been actively developing and installing models of rational and transparent budgetary processes, mechanisms of revenue and expenditure allocation, and financial management systems. However, the current economic and political environment in Russia impedes the rapid dissemination and use of these models.

The Team felt that greater coordination was needed in the field with respect to certain municipal related projects. In Novgorod most of the real estate related programs should have been linked more closely. Local municipal leaders commented that often USAID-financed programs disbursed their resources rapidly and did not focus their assistance or link the grants, thus reducing impact. In addition, the Civic Initiatives Training Program should work closely with the Institutional Reform of the Informal Sector (IRIS) program in providing training on institutional development and information exchange.

The nature of USAID procurement processes often contributed to a reluctance by contractors to work together, since they might lose their competitive edge for the next round of contract awards for activities in Russia.

2. Civil Society

USAID resources were heavily concentrated on capacity building and helping citizens to organize into interest groups to form non-government or non-profit organizations. NDI/IRI⁹ attempted to reach the local population through various endeavors by assisting local citizens regarding voting and election issues, the creation of NGO support centers, various training of NGOs personnel in institution building, and fund raising. These programs were successful in their own right because they provided information, networking capability, and sector-support to similarly focused NGOs with a city or oblast. The USAID-sponsored NGO activities have provided an outlet to people for focussing their energies and generated employment.

USAID programs made modest contributions to building a new civil society. Many local Russian NGOs became dependent on USAID-sponsored grants and resources. USAID-sponsored programs attracted a new group of people (or NGOs) who quickly realized how the NGO sector works, and who became very clever in working the system to obtain resources or access to resources through training programs in Russia and in the U.S.

The Team's impression however, is that while USAID programs reached many people, few are seriously dedicated to the NGO philosophy. Once donor funding runs out, it will be extremely difficult for most of NGOs to continue their work. This is due to the fact that the majority are probably one-person organizations, focused on single issues and not on building new institutional capacity. Those which are larger are local in nature (few have branches within the region), and work primarily in the social sector. Until funding for that sector is once again available, the NGOs will perform social work on a volunteer basis, and they can anticipate only limited success.

Nevertheless, a considerable number of NGOs are working at the grass roots level, mobilizing human resources, and they are making some gains with respect to financial self-sufficiency. Local governments are experiencing an increase in NGO sector activity. Municipalities are already

⁹ IRI is the International Republican Institute.

allocating some funds to the NGO. USAID support the CEP, and the NGO support center in Novosibirsk, has proved to be an invaluable resource to the local NGOs.

3. Relationship to Private Sector Activities

Prior to the dissolution of the Soviet Union, Russia had little or no experience with market-oriented mechanisms, institutions and private enterprise. Lack of experience and the absence of an appropriate commercial, legal and regulatory framework has hampered private sector development throughout the country. USAID programs and activities (some of which are under the local government strategic objectives) helped accelerate private enterprise development and strengthened municipal service capabilities. The most notable of these include the PADCO activities discussed in the section on best practices (see III. Best Practices). These two themes are starting to converge.

USAID's assistance was relevant to the needs of the localities at the time that they emerged. Business centers aided international businesses in trying to engage in joint ventures. In Yekaterinburg, the business center advisors focused largely on local and foreign enterprises.

PADCO's experiments in privatizing housing maintenance were relevant to the needs of the local government in Novosibirsk and Yekaterinburg. The lack of necessary enabling legislation and prevailing local environment may limit further expansion of this activity in the near term. In Yekaterinburg, the lack of municipal legislation and budgetary transparency will restrict the medium-term effectiveness of this project.

USAID also responded to these local government needs with practical financial, accounting, marketing, and organization training programs. It is difficult to determine the degree to which trainers or the training material was effective. However, it is clear that the exchange of information on so many different levels was an extremely beneficial form of technical assistance, as under the MFM, IRIS, civil society and other programs.

B. THE RELEVANCE OF USAID ASSISTANCE APPROACHES TO CURRENT CONDITIONS

Much of USAID's assistance to Russia was relevant in terms of substance and form, although it relied perhaps, overly heavily at first on taking advantage of targets of opportunity in the rapidly changing environment. In some cases, the original form and substance of assistance remains relevant now. In others, while a need is still there, the situation has changed greatly during the last five years and the next generation of problems can now be perceived more clearly. This means that the mechanisms used to deliver inputs need adjustment and the outputs will contribute to meeting somewhat modified intermediate results indicators with different actors and participating organizations. Exhibit 3 lays out findings and conclusions on current relevance of programs.

The team found that assistance to local government remains a relevant area for USAID support at present, but modalities of assistance delivery need adjusting. Large isolated commodity drops are not adequately owned by the recipients cooperating country unless the demand for these inputs becomes sizable. Very short duration stand-alone consultancies of expatriates are not a relevant form of assistance, partially because of learning curve difficulties, effective assimilation of the product, and, in many areas, the generally high level of Russian technical skills.

Many of the local government officials informed the Team that current program relevance was (and continues to be) diminished by the fragmentation of USAID assistance. They felt that there was little integration or transfer of knowledge which occurred between projects, grants and activities. Local officials in Novgorod commented that the CFED, Bancroft and Chemonics activities did not appear to be coordinated.

The team reported that many USAID contractor staff were not aware of related USAID financed activities *in the same city*, or knowledgeable about related programs carried out by other donors. Municipal government personnel often had little knowledge of assistance activities outside of their own immediate sphere of responsibility.

1. Relevance of Programs Concerning Increasing Local Government Efficiency

In terms of financial planning and management techniques, the key constraints were in the “process” associated with the exchange of relevant information between public sector organizational units and between organizations and the public. In addition, local, relevant approaches require participatory planning and must involve a cross section of the appropriate local government offices.

Regarding the use of private service delivery, USAID’s assistance remains relevant. Cooperating country and local “ownership” of such programs, however, remain critical elements in whether the innovations will be sustainable and replicable. It will not be easy to develop norms and instill concepts of performance measures for municipal services, given generations of ingrained negative institutional behavior.

The parallel intermediate result of improving municipal infrastructure continues to be relevant, but USAID’s role should probably be restricted to planning, management, and information aspects of the processes, including mechanisms which facilitate the exchange of information and establish processes and rules. The parallel intermediate result included as part of a separate strategic objective on local government support of business development remains relevant.

2. Relevance of Current Activities which Improve LGU Focus on their Financial Responsibilities

U.S. expertise in this area is still very relevant and needed, but the role should be supportive and facilitate helping Russians through the process. Activities must be “locally owned,” which is particularly important in terms of procedures and processes used to implement and consolidate local government reforms, particularly in the area of municipality/oblast authorities, their relationship to the central government and the role and responsibilities of the State Tax Service.

Regarding the legal framework at the national level for local government, USAID assistance is still relevant, primarily in the area of facilitating implementation arrangements. There are discontinuities in some areas between the national framework, the oblast level government and the local government, particularly in regard to the degree of devolution of power. Assistance becomes irrelevant if the oblast blocks local level improvement. To remain relevant, USAID assistance to promote sound and transparent separation of authorities between the Federal and subnational governments should be tailored to the local situation and should be facilitative.



3. Open and Transparent Local Government

Regarding relevant assistance for access to information on LGU operations, increased emphasis is needed on building and instilling open information habits, since changes in behavior and attitudes remain critical. Local government employees and members of the public *in the same city* need to know what is going on. Less emphasis should be placed on hardware and election mechanics and more on the process and habit of information exchange and public responsibility.

In regard to the aim of encouraging more effective NGO advocacy, the team believes that while assistance is needed in this area, the emphasis should be placed on building NGO capacity, facilitating development of sustainability, and broadening NGOs so that they become more than single issue advocacy groups.

C. ACHIEVEMENT OF RESULTS

The Team's general impression from the city visits was that USAID has achieved a number of successes with its programs. The more successful programs were those which included *information dissemination* and, *networking and training of individuals* at the local and municipal levels.

The Team found that the longer-term programs with resident advisors were usually more successful than programs implemented by short-term consultants. This is because the learning curve on Russian institutions and issues often took a substantial portion of the short-term consultant's term of service, leaving much less time for productive work. Short-term volunteers who needed instruction on Russian institutions and culture usually were only modestly effective. In general, the Team found that programs and activities run by Russian-speaking professionals who were familiar with Russian politics, institutions and culture, were the most effective. Programs that focused on training and promotion of business enterprises in conjunction with multilateral lending organizations (i.e., EBRD) were particularly successful because they provided built-in linkages for generating income, increasing employment, and enhancing local business acumen.

The Team found that short-term assistance programs which did not include the participation of all levels of local government were generally less effective because the stakeholders were not able to extend the reach of the program beyond its original limits. In addition, stakeholders were often not in a position to influence program outcomes. In some cities, only the people implementing the program itself (i.e. zoning in Irkutsk) were aware that USAID had provided support.

In the past two years, structural changes in Russia's economic and political systems have occurred. The massive privatization program continues, but most of the work is completed. Exhibit 2 briefly illustrates the results achieved by USAID. Russia has passed legislation, much of which USAID regarded as crucial for achievement of its strategic objectives. The Duma passed the first two parts of a new Civil Code (1995) containing the fundamental principles of both civil and commercial law appropriate for a market economy. The Civil code also guarantees basic human rights for Russian citizens. Very few mechanisms for implementation, interpretation and enforcement of laws have been implemented.

Municipalities were given substantial technical assistance with respect to land reform (Nizhny Novgorod, Novgorod) but they cannot complete the process in the absence of enabling legislation.

Three of the cities visited had passed city charters (Irkutsk, Nizhny Novgorod, Novosibirsk) but many citizens remain unaware of the content of the charters and their rights. The Team felt that municipal employees were either unaware of or did not understand the meaning and potential effect of changes in local self-government laws or city charters. The municipal employees have not incorporated these changes in their behavior towards the local community. For example, the Team found it difficult in many instances to obtain a copy of the municipal budget. Further, even after the budget was translated, it was found to contain little useful information on local municipal revenues or expenditures (Nizhny Novgorod).

The explosive growth in NGOs means that the intermediate objectives of NGO creation has been achieved. USAID contributed to the process but much of the successful work there was carried out by others. As stated in Section II, there are approximately 150,000 NGOs currently in Russia. This is a significant improvement from earlier years. Russian citizens, however, mistrust many NGOs and their ability to produce desired policy and institutional changes of sufficiently large magnitude and scope. Many NGOs are too narrowly focused and often lack the capacity to solve collective action problems for large communities of beneficiaries. Given the scarcity of resources that narrowly based grass-roots NGOs command, they are rarely able to accomplish sustainable improvements on their own. Only in Irkutsk, and to a lesser extent Novosibirsk, was the Team able to observe NGO participation in the local government decision-making process. Citizens continue to be largely unaware of their rights.

As stated above and in Section II, enactment of the Civil Code (1994) and the Procurement Law (1994) has facilitated private sector development. The massive privatization program is continuing but largely concluded. Small private business is starting to take root in virtually every city that the Team visited. USAID's initial objectives in the separate private sector development strategic objective have largely been achieved (see Appendices C-I). At the municipal level, however, procurement rules for private sector provision of goods and services are often either not known or ignored. The procurement law itself lacks clarity and transparency which fosters distortions. For example, the law allows the government to force public enterprises to meet federal needs without mention of price or other conditions. And, because tenders do not appear to be widely published, information and competition is severely restricted. The privatization of municipal services, and the effective utilization of NGOs to take over these municipal services, is likely to fail without national enabling legislation on procurement and effective implementation of the procurement law at the local level.

D. INSTITUTIONALIZATION AND DISSEMINATION

The transition in Russia has brought about a broad range of non-existent needs and activities with no previously available organizations, institutions, rules and networks to handle and facilitate them. Examples include commercial banking, stock markets, insurance companies, and accounting and audit functions. Participants in these activities are natural stakeholders in building new institutional arrangements and they generally require assistance to participate in institution building.

While USAID programs have been effective in many areas, they should place renewed emphasis on NGO and institutional sustainability. Some examples of institutions and institutional issues follow:

- ***Deloitte - Touche Business Support Centers (BSC)***: The BSCs were established in many regions to assist local and foreign businesses. In many instances these centers worked very

effectively when they were under the direct control of the contractor. Under the current Russian management structure, however, the support centers seem to lack focus and strategic direction. Compounding the problem is the reluctance of Russian businesses, which had until recently been receiving some free services, to pay for additional services.

- ***American Business Centers (ABC)***: The ABCs are a joint USAID- Department of Commerce effort. The function of the American Business Centers is to provide logistic support to various businesses and to facilitate joint venture and other business activities. The various ABCs do not have uniform operating rules. For example, in Nizhny Novgorod the ABC was not allowed to provide services to Russian businesses while in Yekaterinburg the ABC was allowed to provide services to European and Russian businesses.
- ***Union of Russian Cities (URC)***: The URC has provided training to mayors and local government officials. The organization is very effective in disseminating information to local governments. In addition, the URC works closely with the Far Eastern Siberian Cities Association. It is evolving in importance at the local, oblast, and central government levels. It does not seem that USAID has been particularly effective in working with this organization to use the URC's comparative advantage to lobby for municipal legislative and budgetary reform. The URC appears to have the capacity to disseminate training and other materials relatively quickly.
- ***National League of Cities, National Association of Mayors, Far Eastern Siberian Cities Association***: These organizations are relatively small and the services that they offer are evolving. The Team was unable to obtain details as to how these organizations operate, their total membership base, and the programs that they provide. USAID training and information technical assistance may be effective in focusing on the four primary local government organization: URC, Far Eastern Cities Association, National League of Cities, and National Association of Mayors. In addition, these organizations might be effective as local government lobbying organizations.
- ***Conferences***: These forums offer an effective form of information dissemination, capacity and institution building. USAID has a real comparative advantage in operating conferences and workshop on the best practices in housing, legislative reform, and local and municipal government practices. The Russians interviewed by the Team felt that this approach, which facilitates the free flow of information, was one of the most useful forms of assistance in strengthening and institutionalizing best practices of political, economic and civil society reform.

V. OTHER DONOR WORK

Russia receives the largest share of European Union (EU) technical assistance and investment support aimed at the former USSR. EU has provided substantial assistance with the largest contributions coming from Germany and the United Kingdom (UK). France, Italy, the Netherlands, Finland, Sweden, and Denmark also have programs concentrating on Russia. The United States is the largest non-EU contributor of technical assistance. The EBRD and the World Bank have also undertaken a number of large-scale loan operations in Russia, covering many sectors, but implementation has sometimes encountered difficulties. The SOROS Foundation is also a grantor financing a variety of smaller programs throughout Russia. A detailed donor list by city is provided in the Appendix L.

A. EU POLICY AND TECHNICAL ASSISTANCE TO THE CONFEDERATION OF INDEPENDENT STATES (TACIS)

The principles of TACIS assistance are set out in its 1991, 1992 and 1993-95 Indicative Programs. TACIS assistance is based on the Partnership and Cooperation Agreement signed between the former European Community, its member states and Russia.¹⁰ The Partnership and Cooperation Agreement makes notable reference to a respect for democratic principles and human rights, as defined in the Helsinki Final Act and the Charter of Paris for New Europe. This principle underpins the internal and external policies of the EU and constitutes an essential element in the provision of EU assistance.

Since 1991, nearly 800 million ECU¹¹ of the TACIS budget has been earmarked for transferring know-how to Russia. The five sectors include enterprise support (privatization, conversion, financial services, and small and medium enterprises), human resources (training and education, public administration, social protection), food and agriculture, energy, transport and telecommunication. Approximately 70 percent of all technical services was allocated to enterprise support and human resources.

TACIS programs for the 1996-1999 period are expected to follow a well defined *sectoral strategy*. TACIS has budgeted ECU 660 million for technical assistance for the 1996-1999 period¹². TACIS strategy calls for concentrating technical assistance on a limited number of objectives with very strong emphasis on enterprise support (with a strong investment link) and human resource development (training, education, and public administration) with a continued emphasis on management training and a new emphasis on legal training. Due to the severe social problems associated with Russian decentralization policies and enterprise restructuring, social protection or safety net programs is receiving increasing attention in TACIS programs.

¹⁰ Article 5, Paragraph 1 of Council Regulation No. 1279/96, June 25, 1996, "Indicative Programme to Define the Objectives and Guidelines For Community Assistance to the Russian Federation (1996-1999)."

¹¹ One ECU is equivalent to approximately \$1.2. Since 1991, the EU has committed approximately \$880 million towards Russian technical assistance.

¹² The indicative budget allocation for TACIS assistance to Russia during the 1996-1999 is estimated at 0.6 billion ECU. This allocation is subject to revision.

Exhibit 3

Relevance of U.S. Assistance in Local Government

OBJECTIVE/RESULT	RELEVANCE WHEN PROJECT STARTED	RELEVANCE NOW	RELEVANCE FOR THE FUTURE
A Local Government Priorities In Increasing Efficiency			
1.Improved Internal Communications	Yes - US assistance was relevant to the problem. However, U.S. assistance was throwing resources at targets of opportunity.	Yes - US assistance is still relevant. No - The need is for a different form than that which is currently used. It should concentrate on the institutional relationships for the exchange of information in organizations.	Yes - However, assistance should take a different form. Fewer computer drops and make better use of local experts.
2. Improved Financial Planning and Management Techniques	Yes - US assistance was relevant to the problem. Hardware and software systems however, were given priority for accomplishing this objective.	Yes - US assistance is still relevant. No - The need is for a different form than that which is currently used. It should concentrate on the basics of capital and operating budgets and priority setting within budgets.	Yes - However, assistance should take a different form. The need is on priority setting, capital budgeting and making the budget transparent for local municipal managers and the general public.
3.Use of Private Service Delivery to Reduce Cost and Increase Quality	Yes - US assistance was relevant to the problem but there was little host country "ownership" of program.	Yes - US assistance is still relevant and very needed.	Yes - However, the need is for municipalities to engage in more effective and efficient procurement procedures.
4.Strengthen Municipal Service Capabilities	Yes - US assistance was relevant to the problem.	Yes - US assistance is still relevant.	Yes - However, the need is for municipalities to develop and understand municipal service performance measures.
Parallel I.R. 5.Improvement of Municipal Infrastructure	Yes - US assistance was relevant to the problem. US assistance was complementary to other donors (World Bank).	Yes - US assistance is still relevant in this area, but a greater effort is needed for the exchange of information to plan for more effective assistance.	Yes -US assistance is still relevant, but should stress exchange of information and establishing new processes and rules.
Parallel I.R. 6. Local Government Supportive of Business Development	Yes - US assistance was relevant to the problem. US assistance complementary to other donors (EBRD).	Yes - US assistance is still relevant, but there is a much greater need for assisting municipalities in marketing strategies to attract investments.	Yes -US assistance is still relevant, but stress should be placed on building marketing capacities for attracting investments.
7. Local Government s are Better Able to Focus on Their Areas of Responsibility			

Exhibit 3, cont.

OBJECTIVE/RESULT	RELEVANCE WHEN PROJECT STARTED	RELEVANCE NOW	RELEVANCE FOR THE FUTURE
1. By Defining the Relationship Between Local Governments and Other Entities	Yes - US assistance was relevant to the problem in facilitating role definition.	Yes - US assistance is still relevant and needed.	Yes -US assistance is still relevant.
2. By having Supportive Legal Framework at the National Level	Yes - US assistance was relevant to the problem.	Yes - US assistance is still relevant and needed.	Yes -US assistance is still relevant.
Parallel I.R. 3. Sound and Transparent Separation of Authorities Between Federal and Subnational Governments	Yes - US assistance provided lender a different strategic objective.	Yes - US assistance is still relevant and needed but must be tailored to the local situation.	Yes -US assistance is still relevant.
Parallel I.R. 4. More Transparent, Open Informed Process of Legislation	Yes - US assistance was relevant to the problem.	Yes - US assistance is still relevant and needed but must be tailored to the local situation.	Yes -US assistance is still relevant.
C. More Open and Transparent Local Government			
1. Easier Access to Information on LGU Operations	Yes US assistance was relevant to the problem. Little information on LGU operations.	Yes - US assistance still relevant in this field but should take a different form.	Yes - Building open information habits which become ingrained as behavior changes remains a critical element.
2. Institutionalized Procedures for Citizen Participation	Yes US assistance was relevant in this field.	Yes - US assistance still relevant, but should focus more on informing citizens and municipal government workers their rights and processes.	Yes - But must be tailored to a municipality and its local conditions.
Parallel I.R. 3. More Effective NGO Advocacy	Yes US assistance was relevant in this field.	Initial objective largely accomplished, but focus should be on institution building.	Yes - But must stress capacity building, sustainability, and broadening beyond a single issue.
Parallel I.R. 4. Free and Fair Elections Administered Nationally.	Yes US assistance was relevant in this field.	Task completed. It should be noted that mechanics are only a small part of the process.	Goal accomplished, however, the norms of the electoral process need to be encouraged.

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1. TACIS and Enterprise Support

In the cities visited by the Team, assistance has been provided to TACIS activities with emphasis on privatization, corporate restructuring, and small and medium enterprise (SME) development. The technical assistance was aimed at changing management structure and identifying investment needs, setting up business information centers for SMEs and supporting and stimulating small and medium size enterprises (SMEs) through small business funds.

In order to promote investment, TACIS has assisted both large enterprises and SMEs in writing pre-investment studies. The SME pre-investment studies are usually undertaken in conjunction with EBRD or World Bank loan assessment studies.

TACIS uses a slightly different approach than USAID technical assistance to meet local government needs. TACIS provides help for financial evaluations and investment profiles for infrastructure projects to be financed via the EBRD, World Bank, or possibly future Russian public investment. It appears that TACIS funding rarely supports development of more efficient local government financial management practices.

2. TACIS and Human Resources Assistance

Human Resources Support. TACIS provides considerable assistance for human resource development. Future aid will apparently continue to include significant training elements. Training and education support will probably concentrate on the reform of Russian education and training systems through policy advice and management and economics training.

Training Initiatives. TACIS has financed some training in the field of public administration and social protection programs and will continue this trend. With respect to social safety net programs, TACIS technical assistance focuses on policy and regulatory reform as it pertains to the Russian pension system, the development of a health insurance system, and in health services management. TACIS program officials are trying to work with NGOs in a bottom-up approach for tackling specific problems in the Russian welfare system.

City Twinning in Administration and Services. TACIS programs engage in providing some assistance in the legislative field. Russian municipalities and municipal managers were paired "or twinned" with European counterpart cities. This program enables Russian civil servants from local administrations to learn about decision-making and the management of public administration in Western Europe. Civil servants from various Russian cities are seconded to counterpart administrations in EU countries for training periods of up to six months. When the Russian administrators return from Europe, they are accompanied by a European expert who will spend up to six months working with them on practical application of techniques and experiences acquired during their European training.

TACIS Link into European NGOs (LIEN) Program. The LIEN program, devised by TACIS, aims to develop Russian NGOs. In general, European NGOs work with a Russian NGO counterpart in several areas such as providing job training skills for the unemployed, improving woman's health status through professional training, and developing sustainable social and health programs. There are currently 12 programs under the LIEN umbrella. Of these programs, five are in housing, five in the health sector, and two in agriculture.

3. TACIS Activity in the Regions

Between 1991 and 1995 TACIS has operated in 10 specific areas of regional concentration:

- From 1992: Moscow and its wider surroundings; St. Petersburg, Tyumen and Samara,
- From 1993: Urals and "Western" Siberia,
- From 1994, South West Russia and Kaliningrad, and
- From 1995, North-West Russia and Lake Baikal.

Approximately 30 percent of the TACIS budget financing goes to activities in the outlying areas.

B. OTHER DONOR PROGRAMS

Numerous other countries have contributed technical assistance to Russia. A detailed list of international donors can be found in Appendix L. The table below provides a snapshot of other donor country support in the cities that the Team visited.

A review of the consolidated donor list (appendix indicates that the majority of other donor sponsored projects were in: environmental services, management training, privatization and economic restructuring (i.e., agriculture, banking, energy, transportation), and social enterprises (i.e., health, police, education, other government services).

Table 3. International Donors By City (excluding EU)

NIZHNY NOVGOROD	YEKATERIN-BURG	NOVGOROD	VLADIMIR	NOVOSIBIRSK	IRKUTSK
Austria	Canada	Austria	Germany	Germany	Canada
Finland	Germany	Canada	Italy	Japan	Germany
Germany	Japan	Denmark	United Kingdom		Japan
Netherlands	Sweden	Finland			
Switzerland	United Kingdom	Germany			
United Kingdom		Norway			
		Sweden		OECD	United Nations
IFC-World Bank	IFC-World Bank	IFC-World Bank	IFC-World Bank	IFC-World Bank	IFC-World Bank
EBRD	EBRD	EBRD	EBRD	EBRD	EBRD

The Team was unable to meet with many of the representatives of these other donor sponsored programs, because of the logistic difficulties and the brevity of the municipal visits. The Team was also unable to draw conclusions regarding the strengths of these other donor sponsored programs. Furthermore, the Team also could not determine whether these other programs met the needs of local community. Local donor coordination mechanisms simply do not exist. The persons interviewed by the Team knew very little about other donor sponsored programs. U.S. field contract personnel did not know who represented these other donors in their city. The Team was not able to visit each donor's home office to obtain a detailed understanding of the projects. The Team believes, however, that the primary focus of other donor sponsored efforts centered on private industry development and restructuring, rather than local government reform and the more broader goals of civil society development.

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C. USAID COORDINATION WITH OTHER DONORS

Increased coordination is frequently proposed as a solution to project (program) implementation, sustainability, and capacity building problems. To say that a policy, program or project is uncoordinated means in a general sense that its elements are somehow incongruent, that they do not interact smoothly to produce desired results, and/or that the links among them create excessive friction and conflict. Coordination can be defined in terms of three types of linkage activities: information sharing; resource sharing; and joint action.

Information Sharing: USAID has had limited success in coordinating activities with other donor programs (i.e., TACIS, Soros, World Bank). This essentially involves communication: one agency letting the other know what it is doing. USAID has done this to some degree of success with the World Bank. The World Bank has inspired some USAID projects such as the housing project in Novgorod and the MFM project in Nizhny Novgorod. A number of years ago, the World Bank completed a needs assessment for these two cities. The disbursement of a World Bank loan to Novgorod was conditional on Novgorod undergoing certain reforms which USAID helped facilitate with technical assistance.

TACIS officials said they tend to work on a complementary basis with USAID programs to avoid duplication. For this reason, TACIS has not allocated any technical assistance activities to Nizhny Novgorod. TACIS officials have stated that they are willing to share information and their project lists with USAID. One of the primary areas of coordination with TACIS is in *project identification* in order to avoid overlap. TACIS also suggests sharing information on “*best practices*”.

Resource Sharing: Resources controlled by one organization are allocated to another for particular purposes. Examples here are loans, grants, contracts and/or secondment of personnel.

Joint Action: Two or more entities collaboratively undertaking some activity together, either sequentially, reciprocally, or simultaneously. Joint activities could include such things as planning, data gathering, service delivery, monitoring, and training.

In general, resource sharing calls for the least degree of adjustment and joint action the most, with information sharing falling somewhere in between. Working with large donor groups like TACIS will be very difficult in that the TACIS officials want to maintain a distinct European identity of their programs. Consequently co-financing of technical assistance projects is not probable. Linking more technical assistance with EBRD or World Bank credit facilities helps to avoid the need to establish assistance projects with distinct national identities. Many of the most effective programs/projects at the local level are ones that blend small credit assistance with VOCA, IESC, and other providers of technical assistance.

D. MOST INNOVATIVE OTHER DONOR PROGRAMS

One of the most effective forms of technical assistance is one that is tied to small and medium size loan facilities including the Small Business Loans Program (SLP), Micro Loans Program (MLP) and Small Enterprise Equity Fund (SEEF), which are part of the Russia Small Business Fund (RSBF) of the EBRD. The purpose of loan programs is to develop small business by increasing the range of products offered by the financial sector and improving business skills. During the initial two-step

pilot phase (1993-1995) the RSBF was highly successful. Officers of these programs indicated to the Team that loans were repaid in a timely fashion. Also, the RSBF loan officers stated that technical assistance from VOCA, IESC, the British Know-How Fund, and TACIS, greatly increased loan repayment rates and the near term success of the enterprise. TACIS officials indicated that they intend to tie more and more of their technical assistance to investment fund (debt or equity) activities.

E. USAID COMPARATIVE ADVANTAGE

USAID's comparative advantage lies in its ability to reach grass roots in Russia. While some NGO support has not been quite as sustainable as hoped, the activities reached a lot of people. Training programs provided through USAID contractors proved to be an excellent tool for information sharing, meeting foreign counterparts, teaching new skills (management, bookkeeping, fundraising, institution building), and networking. The availability of U.S. and local NGOs has proven to be an invaluable form of democracy building. Targeted training programs involving local officials, institutes of higher learning, and business development have done fairly well among the local Russian communities.

Over the last five years, USAID has accumulated a database of information and experience on best practices in Russia and the countries of Central and Eastern Europe which it can use to target specific programs and activities in the near term. Armed with that knowledge, resources can be focused geographically and by program. Regarding civil society, USAID should invest in the dissemination and exchange of information about legal reforms at the municipal level to civil servants, NGOs and to the general public. Assisting NGOs in disseminating information with respect to a citizens rights and responsibilities within Russian self-government law would facilitate greatly the institutionalization of democratic principles. USAID should begin to focus assistance on small and medium size cities where results may be demonstrated more effectively. USAID's comparative advantage includes the cross cultural experience that it could bring to Russia and in institution building.

There has been a steady progression of successful USAID assisted activities in Eastern and Central Europe that could be adapted for implementation in Russia and thereby reduce start-up and other costs. USAID should move away from the installation of hardware and software capability in many municipal programs and toward building capacity for more fundamental information management such as capital and operating budget analysis.

VI. CONCLUSIONS

This section presents conclusions on municipal government reform, transparency and accountability. It does not present recommendations as such, but suggests areas for USAID's consideration regarding the direction that local governance/democracy programs might take. The most persuasive basis for recommendations is empirical evidence, but existing evidence is not conclusive. There are several elements to reform in municipal finance management, in the structure of urban service delivery, and in civil society development, namely: (a) the clarification of functional responsibilities between levels of government; (b) the earmarking of revenue sources corresponding to functional responsibilities; and, (c) the introduction of systematic accountability encompassing both regulation by central government and incentives for responsiveness to local constituents. All should be accompanied by intensive activities to extend awareness and information exchange.

A. THE POLITICAL ECONOMY OF MUNICIPAL FINANCE MANAGEMENT

1. Linking Responsibility for Service Provision to Government Functions

A major finding concerned the considerable confusion of responsibilities for municipal service provision. Greater clarity in the division of functional responsibilities between levels of government appears to be an essential condition of any reform in the structure of municipal financial management and urban service delivery. It is essential to have clearer linkage between a unit of government and a specific service so that constituents are able to hold LGUs accountable and to eliminate the soft budget constraint implied by the otherwise open-ended nature of central government participation. A system of greater clarity is needed for allocating resources, as well as budgetary discretion that permits LGUs to perform their roles. This may require some assistance to facilitate the work of the national and regional governments to legislate more geographic specificity into their municipal organic laws, once crucial political decisions are made.

2. Revenue Reform

The Team found considerable evidence of difficulty in the allocation of revenues to appropriate levels of government for meeting expenditure requirements. Reforms in revenue allocation are needed for clear and workable divisions of functional responsibilities. The structure of local revenues (user charges, taxes, transfers and to a lesser extent loans) appropriate in a given context depends on the functions and responsibilities assigned to local government. Where the benefits of a service are largely confined to individual consumers, user charges are attractive for financing municipal services. Local taxes, in principle, are also an appropriate means of financing services whose benefits cannot be confined to individual consumers, but nevertheless do not extend beyond the municipal boundaries.

Any attempt to reform the structure of municipal financial management and urban service delivery must deal with the question of intergovernmental transfers. Transfers can play important positive roles in financing municipal services. This would permit central governments to induce local governments to undertake sectoral expenditures of national interest and to use local governments as agents of income redistribution policies. Reform should increase the effectiveness of transfers in achieving these sectoral and distributional objectives and should curtail the adverse effects of badly targeted or badly administered transfers. To alleviate adverse side effects of existing transfer

programs, the most important measure the Russian central government can undertake is to reduce the uncertainty that now accompanies intergovernmental financial flows.

With respect to municipal financial reform, it may be more beneficial to focus on simpler and potentially more achievable capital and operating budgeting, including reform of the arrangements which municipal governments use to obtain access for financing for capital investment. To an extent, improvements in allocation can be achieved by improving grant transfer programs, particularly where the preconditions for obtaining additional resources by borrowing do not exist. A case can also be made for replacing grant financing with loan (or bond) financing.

3. Meshing Processes for Service Delivery

While there is clearly no single way to organize urban service delivery, it is also clear that the various pieces of the intergovernmental relationship have to mesh. This has become increasingly evident in Russia and in other countries undergoing political decentralization. The political impetus behind decentralization has prompted the Russian central government to make some hasty political concessions. New regulatory processes between central, regional and local governments are slow and difficult. The process of making budgetary transfers from the central government to subsidiary levels of governmental should be transparent and predictable. Credible local political systems should be developed. Many problems associated with current decentralization efforts arise from the failure to match the pace of political decentralization with that of regulatory and organizational reform.

4. Local Decision Making and Decentralization Problems

Planning: Many local governments do not seem to be able to carry out planning beyond assembling wish lists of project activities. Constructing rational priorities (e.g. between sectors) or building an informational base for decision making are beyond current local municipal capabilities. By criticizing local planning efforts, the question should be asked, why should LGUs take planning requirements seriously if their authority is often hobbled by the lack of enabling legislation.

Local Revenue Mobilization: In general, local governments have only been moderately successful at local resource mobilization. The payoff is apparently higher in lobbying the oblast or federal government for increased resources than in trying to raise revenues locally. Limited resource availability may provide incentives to eliminate local waste and abuse.

5. Budget Audits and Evaluation

The Russian budget cycle and other operations rarely include auditing and performance review. No government institution has responsibility for reviewing and assessing budget outcomes, although performance evaluations can be tools for improving allocative efficiency in a way that incremental budgeting alone cannot ensure. Establishing performance evaluation units in budget or finance departments of LGUs could provide guidance on cost measurement and management improvements for operating units. They might assist agencies in devising plans for reducing expenditures, based on identification of core and non-core activities. Because the concept of evaluation is alien to current institutional processes and probably will be perceived as a threat, evaluation and review processes must be broad based, participatory and incorporated into the planning processes.

B. CIVIL SOCIETY

1. Civil Society Integration

Russian civil society remains fragmented and excessively preoccupied by narrow goals of addressing immediate concerns of participating individuals. While attention to local needs is an integral part of NGO processes, many societies have national associations and other networks that integrate social concerns and civic activists across the country. Russia does not yet have this form of activism. Such integration would be necessary for institutional reform at the national level. It would provide a way of upholding country-wide social, political and economic rights. Given large interregional disparities in civic participation and empowerment, pooling NGO resources throughout the country could be a necessary ingredient for strengthening national and local civic activities.

2. Policy Legitimization

Before implementation of any Russian federal or local policy reforms, key decision makers must view the proposed policy as legitimate. To acquire legitimacy, some individual group, or organization must assert that the proposed policy reform is necessary, vital, and must be accepted even though, it may cause some short term dislocation. This involves the emergence of a policy champion: a person or group at local or regional levels with credibility, political resources, and the willingness to risk political capital to support reform implementation. Grass roots level training is important in order to develop policy champions, in tandem with municipal finance management and the development of legislative practices. This can be facilitated through the Association of Russian Cities, Siberian and Far Eastern Cities Association, and local business and NGO associations.

3. Constituency Building and Sustainability

Since local support is frequently absent, an adequate constituency must be developed for reform. The reform also needs effective marketing and promotion. USAID's assistance to NGOs has only had modest impact over the past few years in developing stakeholders who will lend positive support to policy champions. Putting together a constituency at the outset is a difficult task. Since the impact of policy changes are mostly felt in the long run, a certain amount of faith is required of the constituents (NGOs). Certainly, the NGOs have limited financial resources over the near term to build the necessary constituency base and positive stakeholder relationships. NGOs must budget human, technical and financial resources to continue the current policy or implement new ones. The more sustainable NGOs will be those which are wider based and this can work in tandem with local government officials to develop the concepts of self-sufficiency.

C. RESULTS

USAID activities in the local government sector have begun to achieve a number of "process" objectives as well as outputs as a result of their interventions. The Team concluded, however, that adjustments were needed to reframe several intermediate results and their indicators in order to reflect changed conditions, achievements to date, and future levels of resources.

1. Planning Frameworks

The Team noticed that the strategic objective frameworks and their predecessors all had large leaps of causal logic from one level to another above the output level. Concern existed as to whether all necessary elements were there (including those provided by partners and the host country) in order to be sufficient to achieve the planned result or desired change. The issue of ownership and commitment to reform implementation was particularly important. The strategic objectives in local government and related areas seemed to be set at such a level that it was difficult to see the causal logic which would make the particular sub-objective remain within the manageable capability of USAID.

2. Activity Planning-Implementation Cycles

Russia's operating environment is in transition and the experimental nature of many of USAID's projects suggest that the planning horizons for activities should be shorter than the standard four to five years. Highly detailed long-term action plans tend to undermine flexibility and potential for adaptations to uncertain and changing conditions. Furthermore, shortened cycles would facilitate relations with contractors if they are not held to unrealistic time-frames. Planning and implementing in smaller increments could increase consensus and make it easier to agree on short-term programs, perhaps cast within a longer-term strategic framework.

3. Building Performance Capacity

The Team noted that USAID recognized the need for capacity building, including institutional development, in Russia. The Mission consistently underestimated the time needed for building capacity and translating it into performance, due to the length of time needed to institutionalize changes in behavioral patterns in implementing local government reforms. Building sustainable long-term capacity is a long-term endeavor, and one that is best accomplished gradually. The incremental nature of capacity and institution building should be built into the design of results frameworks.

4. Concentrate Assistance in Small to Medium Size Cities

Based on the perceived successes of USAID, it appears that donor efforts are more successful if directed towards selected medium and small-sized cities. Large municipalities such as Yekaterinburg have large entrenched bureaucracies with little interest in facilitating reform implementation. Smaller municipalities, such as Novgorod and Vladimir, appear to offer the greatest potential for success. Self-motivated cities should also be given priority for assistance (Irkutsk). Would competitive presentations by Russian cities requesting assistance serve as a vehicle for gauging demand?

D. RELEVANCE

1. Commodity Drops and other Assistance Delivery Mechanisms

USAID had implemented a number of interesting and yet non-replicable projects which included modes of assistance delivery which might not have been appropriate -- such as large computer system procurement -- when the recipients had not yet developed the capacity to make effective use of its end products. A more appropriate form of computer procurement may be a small number of PCs,

rather than an elaborate LAN network. In addition, Russia has the technical expertise to quickly develop experts who can modify software applications according to their needs. Future USAID funding availabilities may be tight for additional activities of this type, and development/adjustment of software should be performed by local talent to the greatest extent possible.

The Team found that a relevant forms of assistance was focusing on actions to facilitate the exchange of information between and within local government organizational units and between them and the citizenry on budget and other matters. Examples are changes in rules, benefits, obligations and service delivery mechanisms. Such two-way information exchanges will facilitate institutional changes and build habits of participation and communication which can break down ingrained habits of narrowly limiting communication. Donors can help create bridges and fora as well as facilitate the extension function for exchange of information.

2. Identification of Partners

It appeared to the Team that selection of both Russian municipalities and NGOs as partners for early projects at first involved pouncing on targets of opportunity as they presented themselves. This leads to the conclusion that more time should be devoted to selection of Russian partners. Potential partners should include *small business and accountancy associations, Unions of Towns and Cities, Far Eastern Siberian Cities Associations*. Concentrating assistance and training inputs at the association level would permit delivery of USAID's assistance to a large professional audience at modest cost. Training municipal managers at the association level will help the associations to grow in the future. Concentrating on outputs concerned with institutionalization of changed processes will benefit from the existence of ready-made fora for exchange of information and best practices.

In addition, in the adjustment process, it is in USAID's long-term interest to work with organizations that have a clearly defined need for stable, transparent intergovernmental relationships and fiscal practices. USAID's objectives at the LGU and association level should be to help empower local citizens in exercising budgetary control including: (a) assisting in the establishment of a stable revenue system and understandable and prioritized budgetary systems; and (b) allowing citizens to make educated choices as to what services can be relegate to the local level.

3. Other Donor Partners

The Team was very concerned about the lack of knowledge in the municipalities and among USAID contractors regarding other donors activities, particularly of donors who are potential partners in local democracy/governance activities. Joint programming is unlikely given donor agency concerns and assistance programming procedures, priorities and strategic objectives. However, activities should march in parallel with frequent exchange of information between donors and their local partners. USAID assistance probably should focus to a greater degree on collaboration and development of synergy with other external funding agencies (the World Bank and EBRD). Linking technical assistance to credit programs supported by donors has already been, in some cases, an effective and relevant form of collaboration and capacity building.

APPENDICES

APPENDIX A

Scope of Work

STATEMENT OF WORK

Local Government in Russia: A Sector Assessment and Recommendations for Next Steps

I. BACKGROUND

Local government¹ in Russia is at the heart of the democratic and economic reform process. Cities and towns are where people are closest to government, and where the citizen-government interaction is most intense. Cities also are the locus for much economic activity and investment. Although it is essential that national and regional governments establish an enabling framework for local democratic reform and locally based economic growth, it is the cities and towns themselves which must nourish an environment in which open and accountable governmental processes can grow and in which privately driven economic growth can flourish.

Under the Soviet system of government, municipal governments were responsible for providing a broad range of goods and services, all based on expenditure directives issued centrally by GOSPLAN. In addition, the role of local governments was both limited and complemented by central government-owned enterprises providing many of the social services required by their workers and others in the communities in which they were located, e.g. health, education, housing, etc. In accounting for expenditures of funds, municipal government budgets under the command economy system always balanced because the central government automatically made-up any revenue short-fall or expenditure overrun. Not surprisingly, municipal finance systems nurtured in this environment lack incentives for effective, cost sensitive program budgeting and monitoring.

Since the collapse of the Soviet Union, the role and functions of cities in Russia have been and are continually changing, particularly in terms of the powers, responsibilities and financing sources of local governments; and the environment of economic and political uncertainty. Some of the change results from national government decisions to decentralize and provide greater operational autonomy to lower levels of government. Other changes have resulted as ad hoc responses to local situations produced by the magnitude and nature of changes taking place, the fluctuations in central government revenue sharing, the hyper-inflation, the shedding by some enterprises of their social services provision role, the distribution to local governments of some central government assets and the flux produced by reform. In Russia, new municipal responsibilities include transportation subsidies, housing, health and social welfare payments, among others. The federal government and the cities are also introducing prices determined by market-based principals to reduce non-targeted, non-means-based subsidies. These changes are being undertaken against a backdrop of an increasingly democratic environment which requires

¹ Throughout the paper, local government should be understood to mean city or municipal government.

increasing accountability to the public and its elected representatives in legislatures.

USAID's work in local government, in the wake of the collapse of communism and attendant Soviet economic and political systems, is grounded in the belief that free markets and free societies go hand in hand, and that the Local Government projects are a crucial link in the U.S. Government's primary goal of promoting development of free enterprise in Russia. USAID's objective vis-a-vis local government is articulated in the Results Framework, under Strategic Objective 2.3.

SO 2.3: To create more effective, responsive and accountable local government.

USAID's local government activities support SO 2.3 by focussing on achieving the following intermediate results in selected cities:

- 2.3.1 Increased local government efficiency
- 2.3.2 Local government roles and responsibilities are well established
- 2.3.3 More open and transparent local government

To date, USAID's major project vehicles which address local government issues have been targeted primarily at the executive branch, with lower levels of support provided for programs with local Dumas and with citizen groups. The two principle local government projects supported by USAID/Moscow have been the Municipal Finance and Management (MFM) project, implemented by the Research Triangle Institute (RTI), and a set of activities focused on Political Processes, implemented by the National Democratic Institute (NDI). In addition, several other USAID projects have sectoral focus on local government, i.e. the Civic Initiatives Project, implemented by Save the Children Consortium; Small Business/Local Government (Deloitte and Touche); Land Reform (Chemomics, PADCO, Bankroft, Barents Group, CFED); Housing (PADCO, Urban Institute); and Eurasia Foundation. Finally, USAID's work on inter-governmental finance has implications for local governments.

USAID/Moscow's first local government project, the MFM project, was authorized in July, 1993 and was designed based on a World Bank Report on the State of Municipal Finance in Russia. At that time, the project was divided into three areas of work: Municipal Management Techniques; Revenue and Finance Improvement; and U.S. based and in-country training. Three pilot cities were identified for initial implementation: Moscow, Nizhni Novgorod, and Vladivostok. During the second year the project was expanded to include other activities such as: creating analytical budget tools and skills training, fiscal management training of financial



professionals, management information systems and transparency techniques, and targeted technical assistance and service delivery improvements. In July, 1995 the project was further expanded to three additional regional cities - Vladimir, Tver and Tomsk, where officials from each city participated in a series of seminars and were prepared to make specific financial management improvements. Additionally, Russian partner institutions have been identified. Institutionalization and dissemination of project training seminars and reform efforts have begun through collaborative work with the Union of Russian Cities² and the Association of Siberian and Far Eastern Cities³. The original MFM project was due to end on July 13, 1996; however, a six-month no-cost-extension has been secured and a contract amendment for eighteen months and \$1.6 million is being processed. These actions are allowing USAID/ Moscow to broaden the impact of the project and at the same time form a more collaborative effort between the MFM and PP Local Government projects.

Under the Political Processes project, NDI has been working with local governments primarily through the legislative branch on issues of responsiveness, transparency and accountability. Programs have concentrated on encouraging public participation in the creation and implementation of local policy; future assistance will focus primarily on turning the attention of officials outward, to the citizens who elected them. The project will also look at establishing firm foundations for democratic local government operations, such as city charters and local self-government legislation, as well as intergovernmental relations. Past activities have been focused on the cities of Ekaterinburg, Nizhni Novgorod and Samara. Current funding will allow NDI's local government work to continue through to June 1997.

Summative information on other USAID projects working on local government issues is included as an annex to this paper.

II. PURPOSE OF ASSESSMENT

While both the Municipal Finance and Management activity and the Political Process activity are

² The Union of Russian Cities is an organization of capital cities of oblasts and territories in Russia. It was established in 1991 by the 54 most prominent cities in Russia. The organization is comprised of Mayors and Council chairmen and is governed by a 15 person Board of Directors. The Union is divided into expert sections, including Budget and Finance; Privatization; Environment; Transportation; Housing and Land Market; Communal Services; and Health Care. It has elaborated a curriculum for training of local government officials in public administration techniques.

³ The Association of Siberian and Far Eastern Cities is similar in structure and purpose as that of the Union, however, it is regional in scope and does not have the national exposure that the Union does.

in their final phases, and in light of the considerable evolution in the issues affecting local governments in Russia, an assessment of the overall direction of the local government sector is being undertaken by USAID to provide insight to help define future project designs. An assessment at this time will also allow USAID to take a more systematic look at all of the activities in our portfolio related to local government. Finally, it will enable us to identify innovative local government programs of other organizations and donors.

The assessment will be focused on the following issues:

1. Status and Conditions of Local Government in Russia
2. "Best Practices" of local governments
3. Relevance of USAID Assistance in meeting Russian needs
4. Other Donors' Programs
5. Summary Conclusions

Intended users of the results of the assessment include:

1. AID Implementers (Project Managers and Contractors/Grantees)
2. AID Management (in USAID/Moscow and in USAID/Washington)
3. Host country clients

III. STATEMENT OF WORK

Contractor shall prepare a report that addresses all of the tasks listed below. Each of the issues described shall be analyzed, quantitatively and qualitatively, on a city-specific level. A representative sampling of cities will be identified with USAID following award of the delivery order. Possible cities include: Moscow, Nizhni Novgorod, Vladivostok, Vladimir, Tver, Tomsk, Ekaterinburg, Volgograd. The team will also be expected to draw conclusions for USAID's Russia projects as a whole from the city-by-city reviews.

Tasks

Task 1. Review of the Status and Conditions of Local Government in Russia

Identify key changes and developments in the legislative, regulatory and institutional environment which have occurred since the initiation of USAID assistance and which now present new opportunities or pose new constraints for local government. Conduct this analysis with respect to: political developments, developments in civil society, developments in the

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private sector, ie, following a matrix as presented below:

	<u>Environment</u>		
<u>Sector</u>	Legal	Regulatory	Institutional
Political environment			
Civil Society			
Private sector			

This assessment should include analysis of theoretical and actual level and type of authorities which have been devolved from national and oblast government to local government, and their capacity to utilize these authorities to more capably manage cities; new associations/institutions which have formed and the role they play or could play.

Task 2. Identify “best practices” of local governments in Russia under the following basic themes:

- in “city management”: budgeting, fiscal management, revenue generation provision of communal services;
- in interacting with the local legislature and Duma representatives;
- in soliciting and incorporating citizen input;
- in soliciting and incorporating input from the business community;

Task 3. Assess Relevance and Results of USAID assistance

Assess the relevance and responsiveness of AID projects in the local government sector, in terms of how they: 1) have responded to previous priorities of local governments and, 2) to the extent that these needs have evolved, assess whether USAID assistance has evolved to respond to the new needs of local governments. Particular attention should be paid to types of assistance used by USAID programs (technical assistance, training, equipment), and in identifying the type of situation in which various models for assistance (resident advisors, conferences association/institution building) have been most effective.

Results Achieved: Assess the results achieved in local government sector (fiscal and legislation analysis, transparency in the decision making process, civic participation and

improved management techniques).

Institutionalization and dissemination: Assess the progress that has been made in strengthening the capacity of identified partner institutions. Identify real measures of impact, adoption in the dissemination cities.

These assessments shall include both quantitative and qualitative review, and review project progress relative to stated objectives. Where appropriate, quantifiable measures of progress should be identified.

Task 4. Other Donor Work

Identify any innovative programs by other donors (Soros, IESC, Eurasia Foundation, TACIS, Sister Cities International, etc.) which are effectively meeting the self-identified needs of local governments/counterparts.

How well have USAID/Moscow's local government activities been coordinated with other donors' programs, especially on local government assistance? What seems to be USAID's comparative advantage?

Task 5. Provide Summary Conclusions

Based upon the above, prepare summary conclusions about the current needs and potential of the local government sector and where external assistance is still needed or useful.

Reports

The team shall prepare a draft report in English which summarizes the findings under the above tasks. A separate annex to the report shall include a summary of the results of the interviews and compilation of secondary data in written and tabular form. The report shall include the analysis of changes in the project setting; a section summarizing best practices of local governments; an assessment of how well the range of USAID activities are responding to needs of local governments, and identification of key other donor programs. The report shall address each city separately, but also include an overall summary/set of conclusions. A final report not to exceed 40 pages shall be due after discussion with AID, which shall include an Executive Summary of

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not more than two pages.

Level of Effort and Qualifications

The assessment team will be composed of six specialists, one of whom will function as team leader. Two team members will be Russian and four team members will be American. All team members will be hired by the contractor. It is expected that the 6-person team will conduct field work in 2 sub-teams (2 - US and 1 - Russian). Each team should have the ability to address the full range of issues required by the assessment. It is anticipated that the following skills will be contained on each 3 person sub-team.

1. Municipal Management/Public Administration
--Experience in local government management and public administration of transparent policy-making.
2. Budget and Finance
--Experience in formulating financial policies, financial management systems, and municipal government financial management.
--Understanding of computerized management information systems and financial management which requires transparency for public interface.
3. Training/Management and Organization
--Program development skills associated with government and/or public sector.
--Analytical skills to evaluate existing training capability of project-related institutions, identify requirements and potential for increasing capacity.
4. Citizen Participation
--Understanding of role of citizen participation in local government decision-making and of mechanisms to promote such participation.
5. **Business**/tax policy development
--Understanding and experience in small business advocacy at the local levels.
--Understanding of tax policy development and role of business in relation to local government.

IV. METHODOLOGY

In the US:

1. Contractor shall review background documents for key projects as identified by USAID/Moscow, including:

- project authorizations
- contract/grant agreements
- subcontract/sub-grant agreements
- trip reports
- quarterly and semi-annual reports
- other referential or historical documents which may be identified by USAID

2. Contractor shall conduct interviews and hold briefings with USAID, Research Triangle Institute (contractor), National Democratic Institute (grantee) staff and other U.S. contractor/grantee resume as identifies by USAID/Moscow. ENI/DG staff will schedule briefings with the evaluation team to ensure pre-field evaluation exchanges with USAID/W officials involved with the range of projects to be included in the evaluation. Approximately five working days will be needed in Washington, D.C. to review background materials and meet with USAID and contractor and grantee staff and to draft a schedule for field appointments.

In Russia

3. USAID/Moscow will provide country clearance for the team, brief the team, provide additional documentation not available in Washington, etc.

4. During field work, the Contractor shall conduct an extensive review of the work carried out by USAID in local government. This review will include meetings with members of the relevant contractors/grantees, USAID representatives, meetings with recipients and host country counterparts including City and Oblast government officials, private sector representatives, members of the civic community and meetings with a representative sample of training recipients.

5. It is expected that the 6-person team will conduct field work in 2 sub-teams (2 - US and 1 - Russian). Each team should have the ability to address the full range of issues required by the assessment.

6. The team will debrief USAID/Moscow before leaving Russia. A draft report will be due to USAID/Moscow one week after departure from Russia. USAID/Moscow will take one week to make comments on the report. The contractor will then have one week to finalize the report.

V. SCHEDULE

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- week 1: Briefings in Washington begin on/about Oct. 6, 1996;
- week 2: Briefings in Moscow with USAID, Contractors, Grantees, Local Government Officials;
- weeks 3 - 5 : Field work: interviews with Local Government recipients as well as Contractor and Grantee Counterparts; visits to 6 - 10 project cities (should be selected based on discussion with USAID/Moscow following the award of the contract): debrief in Moscow on way back to Washington;
- week 6: Draft report prepared, submitted to USAID;
- week 7: USAID reviews and comments on draft;
- week 8: Final report prepared, submitted to USAID by December 1, 1996.

VI. LOGISTICAL SUPPORT

All logistical support will be provided by the Contractor to include travel, transportation, secretarial and offices support, interpretation, report printing, and communication, as appropriate.

TASK 1	TASK 2	TASK 3	TASK 4	TASK 5
Review of the status and conditions of local government in Russia	Identify "best practices" of local governments in Russia under the following themes:	Assess relevance of USAID assistance	Other Donor Work	Summary Conclusions
Key changes and developments in: legislative; regulatory; and institutional environment. Since USAID funding.	In city management: budgeting, fiscal management, and revenue generation provision of communal services.	How did USAID respond to previous priorities of local governments?	Identify any innovative programs by other donors which arhich are meeting the self identified needs of local governments/counterparts, including:	What are the current needs and potential of the local government sector?
Political Developments	In interacting with local legislature and Duma representatives.	Assess whether USAID assistance has evolved to the new needs of local governments.	Soros; IESC; Eurasia Foundation; TACIS; Sisters Cities International ; Other.	Where is external assistance still needed or useful?
Developments in civil society	In soliciting and incorporating citizen input	Focus on type of assistance used by USAID program, namely; technical assistance, training, and equipment	How well have USAID Moscow's local government activities been coordinated with other donor's programs especially on local government assistance.	
Developments In Private Sector	In soliciting and incorporating input from the business community	Identify type of situation in which various models have been most effective: resident adviosr, confereaces, and association/institution building	What is USAID's comparative advantage?	
Analysis of theoretical and actual level and type of authorities which have devolved from national and oblast government to local government (including their capacity to utilize these authorities to more capably manage cities).		Results acheived in local government sector: fiscal, legislation analysis, transparency in decision making process, civic participation, and improved management techniques.		
New associations/institutions which have formed		Institutionalization and dissemination; assess progress made in strengthening the capacity of identified partner institutions		

TASK 1	TASK 2	TASK 3	TASK 4	TASK 5
Review of the status and conditions of local government in Russia	Identify "best practices" of local governments in Russia under the following themes:	Assess relevance of USAID assistance	Other Donor Work	Summary Conclusions
Discuss the roles that these new institutions play		Identify real measures of impact: adoption in the dissemination to cities		
		Use quantitative and qualitative review: project progress relative to stated objectives. Use quantifiable measures of progress where appropriate.		

APPENDIX B
Data Collection Protocol

Data Collection Protocol Question Pool

A number of strategic and tactical uncertainties emerge from even a brief review of the MFM and other programs involved in the decentralization experience. Many of them can be posed as empirical issues, to be examined in the course of the TMG team's planned assessment. These issues can then be grouped in terms of "strategic questions" (concerned with the overall approach of the project), "tactical questions" (relating more to immediate country-level and project considerations), and what might best be described as "results questions" (asking for example what happens as a consequence of a program and of decentralization efforts in general).

General Interview Questions (Nizhny Novgorod Only):

1. What do you think the MFM project is trying to accomplish here?
2. What did you expect would be the major benefits of the project for the city and for you as an individual?
3. Has the project met your expectations for the city and for you as an individual? Why or why not?
4. Have you been affected by the project in ways you did not expect?
5. What do you see as the major impact(s) of the project on the city?
6. What were the primary factors producing the impact?
7. Have there been any barriers to project impact(s) on the city? What were they and what effect did they have on the project?
8. In what ways could the project be (have been) more effective?
9. Are there lessons or reforms resulting from project activities in your city that can be applied to other cities?
10. Are there examples of innovations that you have learned from project activities in other MFM pilot cities?
11. What are some of the features of your municipality?
12. Have there been other international organizations that have assisted your LGU? If so which organization?
13. What kind of assistance was provided? What were the major benefits of this assistance?
14. Have there been any barriers to the other international organizations project impact(s)? What were they and what effect did they have on the project?

Strategic Issues:

Democratic prerequisite:

- ◆ Is a democratic transition at the national level a prerequisite for successful democratic decentralization at the local level?
- ◆ If so, does it make sense to support a "bottom-up approach" where the macro-level is still pre-democratic?

Casting the participatory net:

- ◆ What approaches seem more or less effective at widening participation in democratic decentralization?
- ◆ What differences, if any, are there among these groups in terms of frequency or effectiveness of inclusion?

Democratic decentralization pace.

- ◆ Should devolution be gradual, one step at a time, so as to build on established competence or is it better to proceed in larger increments (maybe even all at once) so that entrenched opposition cannot gather enough force to stop it?

National support and local empowerment.

- ◆ If decentralization per se does not prove effective in empowering the weak and marginal, how much does a strong resolve from the center help, e.g. in the form of enabling legislation, administrative regulation, monitoring, etc.?
- ◆ Is there some best balance between national and local powers and roles?

Small business as democratic help or hindrance.

- ◆ Small business can be viewed as a key actor in democratic decentralization, a useful partner, but could this get out of control, if local business joins landed and bureaucratic elites to form an oligopoly at local levels?
- ◆ Could local NGOs (representing other, non-business groups) be a counterpoint to local business in this regard?
- ◆ Should various programs strive for some balance between these two components (small business and non-business NGOs) as part of its effort to strengthen its third component (local governments)?

Small business as contractor to government.

- ◆ Small businesses have long served as contractors in infrastructure construction projects, but what is their potential to undertake contract work in other areas, such as providing services?

Social capital.

- ◆ Can donors hope to help build social capital in a reasonable time-frame, say a decade or less, or is this too unrealistic?
- ◆ If it is possible to build social capital in the context of donor-supported, time-bound activities, can democratic decentralization be seen as a suitable end in itself that would justify donor investment?

A middle tier.

- ◆ How important are the middle tiers of government in providing intermediate direction to local governments, facilitating economies of scale in administration, technical assistance, etc.?
- ◆ Which level(s) seem(s) best for strengthening democratic participation and accountability?

Tactical Issues:

Translating decentralization macro policy.

- ◆ How is it possible to ensure that democratic decentralization policies decided at the macro (central) level are translated into reality at the local level?

Which services to decentralize?

- ◆ Are some services more suitable for decentralization than others?
- ◆ Are some more effectively decentralized (privatized) than others, such that local governments would ensure their provision but would not itself produce them?

Civil society at the macro level.

- ◆ How useful are national associations in coordinating local governance activities, facilitating interchange between municipal units, or in lobbying the center in behalf of local bodies?

Local resource mobilization.

- ◆ Under what circumstances have local governments proven successful at raising their own revenues from local sources (e.g. taxes, fees, sales of services)?
- ◆ What have been the most effective mechanisms for doing so?
- ◆ What has been the incidence of taxation and fee charging?

Results Issues:

Benefit distribution.

- ◆ When does decentralization seem to favor local elites and when are the benefits more widespread throughout the social structure?
- ◆ In particular, under what circumstances do fewer or more benefits tend to go to various groups?

Regional inequities.

- ◆ Does decentralization contribute more to reducing regional inequities or to increasing them?

Focus Group Protocol

The Team is very interested in what the citizens of the various cities think about their city and their city government. This focus group is designed to provide an informal setting for a number of citizens to discuss the issues facing their city. The focus group will be convened for approximately 60 to 90 minutes. The discussion will center on the following issues:

- ◇ Citizen satisfaction with the communal services of the city.
- ◇ Citizen assessment of how they are treated by the city staff when they seek services from the city.
- ◇ Citizen awareness of the city budget.
- ◇ City assessment of municipal services such as water, heating, trolley, bus transportation.
- ◇ Citizen assessment of the trash collection service of the city.
- ◇ Citizen views as to the most serious communal service gaps.
- ◇ Citizens views as to what their priority service needs are.

APPENDIX C
Municipal City Overview

SECTOR	NIZHNY NOVGOROD	YEKATERINBURG	NOVGOROD	VLADIMIR	NOVOSIBIRSK	IRKUTSK
Political Environment						
Legislative	See Local Government Matrix Table	- Presidential Decree allowing governor creation of seven prefectures within the oblast.	Provided local small business tax incentives	See Local Government Matrix Table	See Local Government Matrix Table	See Local Govt. Matrix Table
Regulatory	-Continually changing laws, regulations, and taxes thereof make it difficult for local governments and citizens to know what the rules and regulations are that pertain to them. -Tax collection and enforcement is a major problem.	-No decentralization. -Prefectures would create alternative political structure. -Bypassing the current electoral process. -Continually changing laws, regulations, and taxes thereof make it difficult for local governments and citizens to know what the rules and regulations are that pertain to them. -Tax collection and enforcement is a major problem.	-Prepare own budget -Tax collection and enforcement is a major problem. -Continually changing laws, regulations, and taxes thereof make it difficult for local governments and citizens to know what the rules and regulations are that pertain to them.	-Tax collection and enforcement is a major problem. -Continually changing laws, regulations, and taxes thereof make it difficult for local governments and citizens to know what the rules and regulations are that pertain to them.	-Tax collection and enforcement is a major problem. -Continually changing laws, regulations, and taxes thereof make it difficult for local governments and citizens to know what the rules and regulations are that pertain to them.	-City self charter was one of the first to be approved in Russia. -No self govt. charter at the oblast level. -Prior to 1991, Rayons had own budget, now they don't. -City plans to form four regions instead of rayons. -Tax collection and enforcement is a major problem. -Continually changing laws, regulations, and taxes thereof make it difficult for local governments and citizens to know what the rules and regulations are that pertain to them.

SECTOR	NIZHNY NOVGOROD	YEKATERINBURG	NOVGOROD	VLADIMIR	NOVOSIBIRSK	IRKUTSK
Civil Society, cont.						
Institutional	<ul style="list-style-type: none"> -Cynicism towards local government. -Apathy towards new programs and initiatives. -Grass root linkages and NGO formation. -Associations of NGOs are evolving. -Local organizations and citizens receive little information on plans and accomplishments of LGU. -Small percentage of NGOs will be self sustaining. 	<ul style="list-style-type: none"> -No citizen participation in legislative design and discussion process at oblast and municipal levels. -Cynicism towards local government. -Apathy towards new programs and initiatives. -Difficulty in obtaining local funding for projects. -Small percentage of NGOs will be self sustaining. 	<ul style="list-style-type: none"> -No evidence of citizen input in the decision making process -Small percentage of NGOs will be self sustaining. 	<ul style="list-style-type: none"> -Small percentage of NGOs will be self sustaining. 	<ul style="list-style-type: none"> -Greater awareness of citizen rights and responsibilities. -Small percentage of NGOs will be self sustaining. -Local government is aware of NGO work. -Some NGOs assist government in implementation of social sector programs without funding. 	<ul style="list-style-type: none"> -Citizen participation is encourage at city Duma meetings. -NGOs just beginning to develop. -Small percentage of NGOs will be self sustaining.
Private Sector						
Legislative	Same as	Local Government	Matrix	Table		
Regulatory						

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SECTOR	NIZHNY NOVGOROD	YEKATERINBURG	NOVGOROD	VLADIMIR	NOVOSIBIRSK	IRKUTSK
Private Sector, cont.						
Institutional	-Leading privatization effort. -SME business class is developing. -Small lending program through EBRD to SMEs	-Direct flights from Frankfurt to attract international business. -Small lending program through EBRD to SMEs -Some restructuring of medium and large enterprises through TACIS.	-Some transparency on information on real estate transactions		-Direct flights from Frankfurt to attract international businesses. -A German Consular Office is stationed in the city.	-Little privatization -Mortgage lending project with Barents Group being developed. -Land sale of former state owned property completed.

APPENDIX D

Nizhny Novgorod

Russia (Europe)



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Nizhny Novgorod

I. GENERAL CITY OVERVIEW

Formerly known as Gorky, Nizhny Novgorod is located 500 kilometers east of Moscow, situated in the Volga-Vyatka Region of Central Russia at the juncture of the Volga and Oka Rivers. The Nizhny Novgorod region has a population of 3.7 million. The city has a population of 1.4 million making it the third largest Russian city. There are 46 rayons that make up the Nizhny Novgorod Oblast. Major industries in the area include, auto and truck parts and tools; vehicle manufacturing; aircraft production; shipbuilding; chemicals; electronics; and, textiles.

Nizhny Novgorod has one of the most sophisticated communications and radio electronics systems in Russia. The city has long been regarded as a major high technology and defense production center in Russia. The region and city have been proclaimed by many to be the model of Russian privatization and transformation to a market economy. The primary reason for the city's near term success was the gradual privatization effort and financial support created through funds and bank loans for young enterprises.

II. LOCAL CITY GOVERNMENT

The local city government is comprised of the Mayor, 3 Deputy-Mayors, and the City Duma. There are nine major municipal level departments consisting of:

The Mayor's Department;

- The Finance Department;
- Housing Maintenance and Utilities Department;
- The Economics Department;
- The Municipal Construction Department;
- The Transportation and Commerce Department;
- The Social Welfare Department;
- The Trade Department; and,
- The International Department.

In addition, there are a number of sundry committees established to address specific citizen issues (i.e. health care, educational, architectural, youth and recreation etc.).

There are eight rayons associated with Nizhny Novgorod including: Autozavodskiy; Kanavynskiy; Leninskij; Moskovskij; Hizegozodskij; Priokskij; Sovjetskij; and Sormovskij. The City Council is comprised of a Council Chair plus representatives of eight individual rayon representatives. Each rayon has a number of sub-district representatives based upon population and geographic size.

Among the many positive aspects related to the Nizhny municipal government are:

- There appears to be a good working relationship between the Mayor and the oblast Governor, and between the -oblast Governor and the Federation President.
- Substantial USAID assistance and other donor funds have been spent on programs in the city over the past four years.
- The city is considered a pilot experimental showcase for reforms to be used as a model for roll-out to the rest of Russia.
- The city was among the first to have privatized many state enterprises.
- Due to the concentration of military industrial operations in the oblast, there is a highly educated workforce.
- There is a substantial small and medium sized entrepreneur class emerging.

III. DONOR PROGRAMS

A number of donor programs have been introduced into the city over the past few years including those sponsored by USAID, the British Know-How Fund, The U.S. Department of Commerce, and The European Bank for Reconstruction and Development (EBRD). A detailed list of the various donor programs can be found in the attached appendix.

It appears that the most effective form of technical assistance is tied to small and medium size loans to enterprises. Nizhny Novgorod pioneered the Small Business Loans Program (SLP), Micro Loans Program (MLP), and Small Enterprise Equity Fund (SEEF) which are part of the Russia Small Business Fund (RSBF) of the European Bank for Reconstruction and Development. These loan programs are directed at developing small businesses in Russia by offering more financial options in order to increase their business activities and skills. During the initial two-step pilot phase (1993-1995) the RSBF was highly successful. Meetings with officers of these programs indicated that loans were repaid in a timely fashion. Also, the loan officers indicated that technical assistance provided by VOCA, IESC, and the British Know-How Fund greatly increased the chance of loan repayment and the near term success of the enterprise.

The British Know-How fund has been involved in Nizhny Novgorod for the past three years. Its primary focus is to assist enterprises in restructuring and to find investors for their Russian clients. The program has met with varying degrees of success because their focus is primarily, although not exclusively, on large enterprises. However, the Know-How fund consultants can point to a long list of clients that have received credit from either the Micro Loans Program (MLP) or the Small Business Loans Program (SLP).

The German consulting company International Project Consult GmbH (IPC) is responsible for implementing the MLP and the SLP in Russia. The IPC has designed and implemented a program for providing financial services to small business where Russian banks share the risk of providing financial services.

Technical assistance programs attached to some form of credit facility appear to be the most useful, if not sustainable, form of assistance. The credit facility addresses the most immediate need of Russian small and medium size business, and, in the larger sense, creates local economic stability.

IV. CONSTRAINTS TO DONOR PROGRAMS

The constraints to various donor program implementation include:

- Cynicism toward the local government.
- Apathy of the general population toward new programs and initiatives.
- Continually changing laws, regulations, taxes and the enforcement thereof.
- Strain on municipal and rayon budgets because of overall economic conditions in the Federation and the increased proportion of taxes going to the federation and oblast.
- Problems in collecting local taxes.
- Difficulty in obtaining local funding for projects after donor aid is phased out.
- Lack of close coordination of donor programs, especially when dealing outside of USAID funded projects.
- Difficulty of small business to leverage their capital/investment for increased borrowing (to expand).

V. PERCEIVED IMPACT OF USAID PROGRAMS

MFM and USAID Impact

The MFM program in Nizhny Novgorod focused on four main themes “*to improve the effectiveness, efficiency, accountability and transparency of municipal government*”. These goals were pursued through the use of long term advisors, training, technical assistance and application of information systems.

Strengthening Municipal Finance and Management Effectiveness

- Local department of finance awareness of western financial management practices.
- The quality and timeliness of financial and other information has improved with the introduction of computer hardware and software (excel, LGFS) systems.
- The city finance department is using computer spreadsheets for budget planning and preparation.
- As a result of the MFM involvement, municipal negotiations with the oblast are undertaken using computer analyses of budgets prepared by the city finance department.
- Little or no perceived impact outside the local government Department of Finance.
- Substantial training of local municipal officials (MFM) in western financial management practices with U.S. counterparts has created conditions for more effective accountability and transparency.



- The MFM computer hardware system donation was considered helpful by municipal officials.
- Municipal officials felt however, that the computer software system could have been developed by Russian programmers.
- Given the cost and complexity of the system modules, the AMS software system may have only limited applicability to other major Russian cities.

Instill Democratic Governance Through Increased Transparency, Accountability, Openness and Citizen Participation

- Municipal government has established a mayoral hot-line for addressing citizens concerns.
- The MFM/NDI collaboration exposed citizens to a public hearing concept.
- NDI has established grass roots linkages.
- Increased NGO formation.
- New associations of NGOs have sprouted, (i.e. National Home (Narodny Dom)).

Citizen Participation in local government

- Voters and local organizations receive little or limited information about the plans or accomplishments of local governments and the costs that have been incurred in carrying out this labor.
- This sense of public budget choices is still lacking.
- Declining central government transfers to local municipal governments are creating conditions for local municipal managers to search for alternative sources of revenue to finance local government services.
- There are faint signs that local municipalities, or local communities within the municipality, are beginning to make choices about how municipal resources will be spent.

Create the foundation for sustainability

- A small percentage of local NGOs are perceived to be self sustaining.
- There is little or no perceived impact of the MFM program objectives outside the local government Department of Finance.

VI. OTHER USAID PROGRAMS

- USAID has reached some grass roots businesses and NGOs through Eurasia and Opportunity International small loans and grants.
- USAID has created substantial exposure to Western business practices for many young, upcoming college graduates.
- USAID has trained a substantial number of people in Western accounting practices.

- Volunteer programs (VOCA, Peace Corp, IESC) have trained business managers in the areas of business plan development and general accounting principles enabling them to access financial markets.
- USAID has facilitated the training of a number of people in computer skills and applications.
- Notwithstanding, local government accountability and transparency practices are still limited.
- Peace Corps has created substantial entrepreneurial training at the local Institutes and at the local government.

VII. CONCLUSIONS AND RECOMMENDATIONS

Project Sustainability and Dissemination

- The prospect of the MFM project ending at the end of the year has created some concern among the department of finance officials.
 - Various department officials strongly felt that securing project gains made to date required continuation of the MFM program.
- Oblast government may be far more reform minded and outward looking than city administration.
- The State Tax Service (STS) is independent (autonomous) from the municipality. The municipality is however, dependent on revenues collected by the STS. The STS has no enforcement mechanism for collection of accounts in arrears. This represents the single largest constraint to municipal governments and donor programs.

Focus Group Activities

In Nizhny Novgorod, two focus groups were held. The first focus group consisted of a pensioner, student, unemployed musician, local computer consultant, and a construction trade firm representative. The second group consisted of representatives from NGOs and three representatives from small and large companies. The consolidated information from these groups include:



Focus Group 1 - Average Citizens

<i>NAME</i>	<i>OCCUPATION</i>	<i>AGE</i>
Natalia Funtikova	Student	21
Lidia S. Agrayeva	Pensioner	72
Alexey Shishikin	Musician	23
Ludmila Ermilova	Housewife	41
Vladimir Danilov	Computer Programmer	37
Alexey Bystrov	Businessman	27

- All members of the focus group voted in the city mayoral election.
- The consensus of the focus group was that the election of the city Duma was a progressive step for the city.
- The group felt that the local government unit (LGU) would not be very efficient over the next few years.
- The group was not very familiar with their rights within the federal and local self-government laws.
- No one knew for certain how to perform within a public hearing forum.
- No one had the vaguest idea of what was in the municipal budget or what the municipality was doing.
- The group was not satisfied with the quality of communal services provided by the city government.
- The most common complaints regarded housing including: roofing problems, poor water and heating system, and poor quality of electrical system.
- The relationship between the citizens and the municipal government was virtually non-existent.
- The only contact citizens have is with employees of the organizations responsible for their maintenance problems in their districts or micro-districts (ZHAK).
- The citizens focus group felt that municipal employees were not willing or cooperative in addressing their concerns.
- Citizens were not briefed as to municipal capital or infrastructure spending.
- The transportation system appeared to be the major issue. Buses functioned in an unpredictable manner, were often late, or did not come at all.
- No member of the group had any involvement with an NGO.
- The main reason given for a lack of citizen involvement was attributed to not having enough information regarding various NGO activities.
- The consensus opinion about NGOs among the focus group members was:
 - They did not have a cultural understanding of the nature of such groups.
 - They did not trust these groups to defend their rights.
 - They did not believe that it was possible in any way to influence the activities in municipal government - especially in terms of citizens participating and influencing spending in the municipal budget.
- The consensus opinion of the group was that Russian NGOs operated solely to satisfy the political motivations of their directors rather than the citizenry.

Focus Group 2 - Business People and NGOs

- Representatives of large companies (former state-owned enterprises) stated that there were no major problems with the oblast administration. A very good relationship existed between their enterprises and the oblast.
- All of the business persons present stated that the overall problem is not taxes per se, but the timely dissemination of related tax changes.
- Local government could be more helpful in creating a general information base regarding changes in the law, and information with respect to professional associations.
- Oblast and LGU representatives do not pay enough attention to the support and development of small business.
- Special incentive programs (i.e. taxes, rent, loans) are not working satisfactorily.
- Representatives of NGOs commented that government does not recognize their existence as non-profit organizations and offers no financial or other support.
- Money for supporting local NGOs is usually received from foreign donors (i.e. Eurasia Foundation).
- There are no tax benefits for assisting Russian NGOs.
- Contributions to NGOs are taxed as if they were in fact sold on a for profit basis.
- The League of Women Business Owners indicated that the activities of NDI were very helpful by providing seminars and pre-election involvement.

APPENDIX E

Novgorod

Russia (Europe)



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Novgorod

I. GENERAL CITY OVERVIEW

Located northwest of Moscow, with a population of approximately 270,000, Novgorod is among the oldest cities in Russia. Today it's mostly known for its history and some of the most diverse and beautiful architecture. Novgorod is considered among the most favorable regions for foreign investment because of its economically reform minded administration and its access to western markets.

II. LOCAL CITY GOVERNMENT

The local city government is comprised of the Head of Administration (Mayor), a number of Deputy-Mayors, and the City Duma made up of 8 members elected by the districts plus the mayor. The mayor was also chosen by the Duma to be its permanent chairman. Additionally, the Mayor was appointed Deputy Governor of the Oblast. All members of the Duma represent the same political party. There appears to be a congenial working relationship between members of the municipal government and the oblast where members of the municipal government and the oblast repeatedly said that they were all on the same team.

III. DONOR PROGRAMS

The primary donor active in the city are USAID's programs associated with the development of a real estate data base and information system (Chemonics), plus a pilot program focusing on the development of a zoning system (developed with the help of The Bancroft Group). This system together with the city's master plan should help it in future real estate development as well as form the basis for future real estate taxation. Ten condominium associations have been created. PADCO has been developing a mechanism for trying to finance the reconstruction of the city's heating system. Individual apartment block metering was installed on a limited basis.

World bank credits were also granted for transportation and housing. In addition, feasibility studies are underway for the possible financing of improvements to the water and sewerage system by the World Bank or EBRD.

IV. CONSTRAINTS TO DONOR PROGRAMS

- Legislation from the federal level to permit implementation of real estate tax reform (i.e. ad valorem taxes) has delayed the introduction of such a system.
- Lack of prior preparedness by Russian companies to properly understand the consulting process.
- A substantial amount of time was required to orient foreign consultants to the Russian business environment and the Russian accounting system.

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- The lack of preparedness by Russian companies and foreign advisors reportedly resulted in substantial time lost to diagnose the problems faced by the companies, reducing accomplishments.

V. PERCEIVED IMPACTS OF DONOR PROGRAMS

- Revenue generated through the creation of a real estate tax base will ultimately replace three forms of taxation: asset tax; land tax; and, property tax. The newly created real estate information system will facilitate the development of a residential and commercial realty market.
- The collaboration of local government officials with Western programs combined with the various donor sponsored training programs has helped local administration officials learn modern Western practices.

VI. CONCLUSIONS AND RECOMMENDATIONS

- Local government and oblast officials have demonstrated aggressive economic reform and apparently work together in a team-like fashion.
- Local government and the oblast have created a favorable environment to encourage economic development (including providing tax incentives).
- Information on real property transactions and ownership appears to operate in an open and transparent manner.
- Locally funded social programs appear to be taking a secondary role to economic development and infrastructure upgrading.
- There does not appear to be any evidence of concern for obtaining citizen input into municipal decision-making.

Major local government assistance priorities include:

- Economic development and the restructuring of large industrial companies, including attracting foreign investors. The World Bank and other international institutions are currently providing advice and assistance to help Novgorod market itself as one of the best places to invest in Russia.
- Continued technical assistance to further develop programs related to real estate reforms (including ad valorem property taxes).

Before technical assistance is provided to private companies by foreign (or Russian) consultants, it may be advisable for both parties to be better prepared in terms of:

- more realistic expectations of intended results;
- providing clarification for the Russian management on consultant's work methodology; and,
- provide more background material to foreign consultants on Russian business environment and accounting practices.

APPENDIX F

Novosibirsk

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Russia (Central)



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Novosibirsk

I. GENERAL CITY OVERVIEW

Novonikolayev was founded in 1893 when construction of the railway started across the Ob River linking it to the Trans-Siberian Railroad. Today, Novosibirsk is the largest city in Siberia with a population of 1.5 million, making it Russia's fifth largest city. Much of the city was built in Soviet style but the city skyline is interspersed with old one-story wooden houses with elaborate carvings. Various forms of transportation facilitate the long commutes, including the recently completed metro.

Novosibirsk is the geographical and commercial center of Western Siberia. It includes the highest levels of agricultural production, a specialized machine building sector, and proximity to a rich timber region. This makes the city an ideal hub for various businesses. During Soviet times defense production was the city's main activity. Some 2,000 large and medium type of enterprises are the backbone of the economy today. Some of the largest enterprises include Eleksib (capacitors, silver-zinc cell presses), Elsib (steam turbine generators, hydraulic turbine generators, high-capacity electric motors), TOO Iron (consumer goods), Novosibirsk aviation industrial amalgamation "Chikalov" -- AN-38s and aviation equipment, the Novosibirsk Chemical Concentrates Plant, the Novosibirsk Tin Combine (rolled tin), Novosibirsk Energo, Oplat (consumer goods), Sever (high-tech appliances for accurate mechanics, electronics, electrical equipment for tools), and Tyashstankogidropress (steel presses). Conversion has been slow and difficult. In 1995, the level of industrial production was at 71% of the Russian national average.

The city has close relationships with Germany which has opened a local consulate. Many German companies import food to Novosibirsk. German investors comprise 12% of current local joint ventures. American companies like Coca Cola, Pepsi, Philip Morris among others constitute 15% of local joint ventures. The largest local investor is China which accounts 17% of joint ventures in Novosibirsk.

Novosibirsk makes good use of its sister city relationships. Through Menian, China, many local joint ventures were established. The relationship between Novosibirsk and Sapporo, Japan culminated in the establishment of a Japanese cultural center, build with joint participation from both cities and was dedicated in August, 1996. The city has taken over the financing for maintaining the center and its activities. The sister city relationship with Minneapolis, St. Paul has been underutilized. According to city officials, agreements in principal have been made but no real interaction between the cities has occurred.

II. LOCAL CITY GOVERNMENT

Mayor Victor Aleksandrovich Tolokonskii heads the city with the assistance of two first deputies. The First Deputies are in charge of economics and city development, and social policy, respectively. The city administration is composed of 5 departments: health care, education and culture; energy, engineering and construction; transportation, communication and construction; committee on property management; and administration department. All department directors and heads of committees are also deputy mayors.

The city is composed of 10 administrative rayons: Dzerzhinskyj, Zelesnodoroznyj, Zayeltsovskyj, Kalininskyj, Kirovskyj, Leninskyj, Oktyaberskyj, Pervomayskyj, Sovietskyj, and, Tsentralnyj. Each rayon has its own administration. The rayon head of administration is also a deputy mayor. The rayon head of administration and deputy mayor are appointed by the mayor. Rayons do not have their own budgets.

The Duma, or city council (Gorodskoy Soviet) is composed of the mayor who ex-officio is head of the council, and 25 elected deputies, serving 4 years each. The election cycle is set by the city council. The city council involves itself only in legislative matters, not in the budget process of the city administration, other than in approving the final budget.

The city charter stipulates the rights of each citizen including:

- participation in city referendum(s);
- participation in meetings within their residential areas;
- participation in elections of city government;
- rights to participate in local government under the law;
- individual and group access to various entities and representatives of local government;
- rights to participate in legislative initiatives;
- right to attend open sessions of the city council; and,
- the right to participate in public hearings.

The mechanism of how the citizens can remove the mayor and/or any elected city official for vote-of-non-confidence is unclear at best in the city charter.

III. DONOR PROGRAMS

TACIS is sponsoring a number of projects in Western Siberia. Those include:

- Technical Centers for Medium (to large) Enterprises which are operational in Novosibirsk, Kemerovo and Barnaul. This project is in close cooperation with the EBRD West-Siberian Venture project started in January, 1996.

- In the agricultural sector, (1995-1998) a project for the development of an Agricultural Producer Marketing Group of Western Siberia, based in Novosibirsk.
- The Novosibirsk Energy Center was set up in September, 1995, with 3 phases of implementation: energy audits were conducted; training in energy and environmental techniques; and, the final phase will be assistance in the implementation of the results of the energy audits and the training programs.
- Technical Assistance for Addressing the Social Impact of Economic Restructuring and Privatization in Western Siberia. Direct beneficiaries of the project are regional and local administrations of 3 Oblasts in Western Siberia, and three pilot project, of which one in Novosibirsk region where consulting will be done on the state of social services, alternative employment opportunities, and will focus on population at risk to due economic restructuring in the region.
- Support to Employment Service of Western Siberia and Novosibirsk. The project goal is to alleviate the consequences of unemployment through employment generation action programs (i.e. training, conversion/transformation, strengthening of employment services, support for the unemployed).
- Regional Support to Non-Governmental Organizations in Western Siberia and either Eastern Siberia (Irkutsk region) or the Urals. The program began in January, 1996 for a period of 3 years. The first year's work is concentrated in the Novosibirsk center which will hold seminars, training, roundtables, an information library and a database of local NGOs.
- Novosibirsk Telecommunication Training Center in partnership with the Russian Siberian Academy of Sciences.

Other Donor Programs

- **The Soros Foundation** is supporting the academic/scientific sector through a Science and Cultural Foundation and an Internet Center.
- The **World Bank** is planning a Regional Infrastructure Support Project starting in November, 1996 for the next 6.5 years. There are 4 components to the project: education sector rehabilitation; health sector rehabilitation; water/sewer management; municipal management; financial systems; and, computerization. The Bank will work directly with the Ministry of Finance at the Oblast level and the 30 rayons of the Oblast. At least half of the projects will be implemented at the rayons and half in Novosibirsk. The city of Novosibirsk will be responsible for repayment of 50 percent of the loan, and the rayons will also be obligated to sign the repayment documents in proportion to the amount of loan used for the projects in their area. This type of project is a first for the World Bank. The work will be coordinated through a newly formed organization, the Siberian Foundation for Socio-Economic Projects.

IV. CONSTRAINTS TO DONOR PROGRAMS

The constraints to various donor programs implementation include:

- Apathy of the general population toward their local government;
- Changing laws, regulations, taxes and the enforcement thereof;
- Strain on municipal budget because of overall economic conditions at the federation level, with an increased proportion of taxes going to federation and Oblast levels;
- System of tax collection is inefficient. There a no mechanism for tax enforcement;
- Four levels of government operate at the maintenance level of the housing sector: the city housing committee, TREST at the city level, TREST at the rayon level and housing maintenance organization at the rayon level thus creating overlapping and inefficient housing maintenance responsibilities;
- Lack of coordination between donors and within AID programs;
- Personnel implementing AID programs lacks language skills and experience in Russian politics and culture;
- Local partners are not looking for alternative financing but depend on donor grants;
- No alternative funding once donor funding is phased out; and,
- Lack of sustainability after donor pull out

V. PERCEIVED IMPACT OF DONOR PROGRAMS

USAID projects include funding to the following organizations and programs: PADCO housing reform program, Citizens Democracy Corps (CDC), Business Development Center (Deloitte & Touche), Civic Initiatives Project: Siberian Center for the Support of NGOs, SAIC/ABC Center, Foundation for (legal) Assistance to Local Government, Center for the Support of Reform in the Housing Sector

USAID

Housing Reform Project Impact(s):

The housing reform project was established to introduce private business into the maintenance of the housing sector. The successes of the one year pilot project in Leninskyj rayon include:

- introduction of procurement practices at the municipal level;
- introduction of alternative type of maintenance and management structure;
- introduction of monitoring and control system of housing management and maintenance;
- introduction of competition and competitive bidding;
- introduction of contract management model;
- introduction of new financial mechanism -- management fees, management costs;
- orientation towards consumer satisfaction;
- new labor incentives (contracts, wages/new pay scales, motivation, quality work, performance etc.);

- improved management and maintenance service;
- increased quality and more efficient maintenance; and,
- direct contact between maintenance company and city administration (bypassing 2 levels of administration).

The project met with some success because it was expanded to include two additional rayons. In general, housing maintenance organizations are more easily formed in new housing projects. As a result, the PADCO housing project has been focusing on condominium associations. The Center for Support of Housing sector is now run by Russians. The fact that it is run by Russians is the legacy of the PADCO program. The project should prove to be self-sufficient after their grant expires in September, 1997.

NGO development

- First NGO conference was held in 1995 (some 700 NGOs are registered).
- Training on volunteerism, fundraising, working with the media, grant writing, reached a large number of the population.
- There is a greater awareness of citizen rights and responsibilities.
- Local government is aware of various NGO's work.
- Most NGOs support the social sector (health, disabilities, elderly) and assist government in implementation of programs (albeit with limited or no funding).
- There has been an attempt to form associations for lobbying purposes

Other Projects

- American Business Center supported by U.S. Commerce Dept., implemented by SAIC will be self-sufficient after grant expires, Jan. 1, 1997. The ABC was instrumental in forming an International Business Association.
- Exchange programs with Russian Siberian Academy of Sciences employs scientists and prevents brain drain. Also new disciplines are taught with the cooperation of American Universities such as Pittsburgh and Temple.
- Eurasia grants are supporting many initiatives in the NGO sector.
- Effective implementation of competitive procurement system.
- Deloitte & Touche business center effectively reached a number of small businesses and assisted in the development of a group mentality

VI. CONCLUSIONS AND RECOMMENDATIONS

Barriers to effective program implementation include:

- the lack of knowledge on how things are done in Russia by foreign advisors;
- the lack of knowledge on how the government (both local and Oblast) operated by foreign advisors;

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- the use of short-term consultants or trainers who have no “Russian awareness” substantially impeded the success of many programs;
- the foreign consultant learning curve take too long for short-term successful project implementation;
- there is an inappropriate match between young professionals implementing programs and older Russian officials;
- the city favors the expansion of the sister city relationship with Minneapolis - St. Paul;
- the city administration has mentioned the lack of U.S. follow through to any potential U.S. investment.
- Most American companies structured their deals in Moscow with the Ministry of Trade and then try and have their deals implemented by the local administration. Europeans do not adhere to that practice. Thus U.S. investors are looked upon less favorably.

Training programs were praised for being needed and an effective way for Russians to network and access information. Some training programs were hastily put together and apparently did not reach the right participants. In general, local training using Russian trainers who have undergone a trainer of trainer programs was highly recommended.

Some USAID projects had no name recognition, either for their lack of impact or short-term nature (the health project implemented by Abt Associates and the CDC office). Whereas virtually everyone interviewed has heard of the Civic Initiatives Project.

FOCUS GROUP

PARTICIPANTS	FIRM
Yelena Turetskaya	President, Association of National Groups
Larissa Aviorina	President, Association For Stable Development; Director, AID Funded Project “Your Home and its Environment”
Nellie Lopatina	President, Association for Siberian Rebirth
Natalia Dimidova	Director, Women’s Humanitarian Fund
Victor M. Shulnikov	Executive Director, The Organization for Rights of Shareholders
Galina Bazenova	Vice President, Woman’s Humanitarian Fund
Elena Menaylo	Psychologist

- Five NGOs participated in the focus group. With the exception of one, all had received grants form USAID or Eurasia during the last 2 years.
- One NGO has been funded for the last 2 years by USAID (Your Home and its environment with California ecological association) has difficulty sustaining itself and had to sell the model home they had done for their project because they could not pay the taxes.
- The only NGO that had not received any grants, was not asking for government support because she knew they had no money to give. She was looking to influence government

decisions on directions of projects and areas of support to fund programs focusing on children.

- The Organization for Rights of Shareholders, provides free services and advise to shareholders of stock companies. The NGO has received a grant (through Civic Initiatives Center) to teach shareholders how to work in a market economy.
- All of the participants were actively working in their sphere (mostly social and women's issues).
- One organization, which had little or no external funding, was using volunteers for its work.
- The focus group agreed that the municipal government is now aware of local NGOs and their activities.

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APPENDIX G

Irkutsk

Irkutsk

I. GENERAL CITY OVERVIEW

Located in the heart of Siberia, surrounded by the Taiga forests, Irkutsk was founded in 1651 by the Cossacks. Its culture is rich and varied, with clear traces of Asiatic influence from nearby China and Mongolia. In the 1700s expeditions went far north into the province across the Bering Strait into Alaska and California. Furs and ivory were traded through Irkutsk from all over eastern Siberia to Mongolia, Tibet and China in exchange for silk and tea. In the 19th century it was the exile center for the Decembrists. The city is often a stop over to Lake Baikal, the world's largest fresh water lake.

A city of 585,000 people, Irkutsk's administration is located around a town square in the old part of the city. The Angara river dam, divides the city in two. The city's 36 institutes and colleges make for a young population with an average age of 31.6 years. Little privatization has taken place where business is concerned. Most restaurants are located in the 5 local hotels. Western influence is mostly noticeable in the abundance of right hand drive Japanese cars. Foreign food imports are available but much more costly than in the neighboring city of Novosibirsk.

The city of Irkutsk holds 10 percent of the region's manufacturing base measured in terms of GDP. The city provides 46 percent of services for the region. Sixty percent of the city's manufacturing sector is concentrated on food processing, which supplies 80 percent of the jobs. the remaining 20 percent in various other types of manufacturing. Other types of manufacturing in the city is virtually at a standstill since 1995, and is at 64 percent of the 1992 manufacturing levels.

II. LOCAL CITY GOVERNMENT

The first free mayoral elections were held in March, 1994. The city self-government charter of Irkutsk was one of the first to be approved in Russia. It was first voted on by referendum in the city and approved by the city Duma on August 4, 1995. There is however, no self-government charter at the Oblast level. The election of the City Duma was held in 1996.

The city is governed by the city Duma, and the mayor. Mayor Boris Aleksandrovich Govorin heads the city administration and the city Duma. He is also president of the Association of Siberian and Far-Eastern Cities. The mayor is elected for 4 years. The city administration is composed of the mayor, the vice mayor, and deputy mayors. The Duma representatives consist of locally elected citizens. The municipal administration also consists of 5 rayons which had their own budgets prior to 1991, but since then no longer have separate budgets. The city plans to form 4 regions within the city and the heads of these 4 regions will be deputy-mayors.

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The city Duma is composed of the mayor and 15 elected deputies. The mayor is head of the Duma ex-officio. The city Duma decides on how city referendums will be held, including procedures for removal of the mayor.

The budget process works in the following manner:

The budget is formulated at the oblast level which then sends it down to the city government for input and review.

- The city government gives the budget to the city Duma for review, which then makes its recommendations and sends it back to the city administration.
- Upon approval by the city administration, the budget is sent back to the City Duma for approval through voting. At the same time the budget is published in the media.
- The city administration then sends the approved budget back to the oblast for their approval.
- As a rule, the city administration publishes quarterly reports of the budget in the media.

The movement toward self-government at the city level is progressing slowly. Within the city the Team witnessed several non-governmental organizations which are taking part in the local government process with the approval and interest of the city administration. The Soviet Stroyteli or Enterprise of Contractors/Builders formed an association. The Enterprise of Contractors takes part in the formulation of construction programs of the city, participates in the preparation of the city budget, and assists in organizing the procurement process for construction projects. Within this association, there is a procurement committee which reviews the tenders and allocates the final projects. To date they have undertaken 2 tender processes at the oblast level. Another NGO working at the city level, is the Nationalities Center which actively works to preserve the mix of cultures and religions indigenous to the area: Germans, Baltic nationalities, Ukrainians, Tartars and other resettled nationalities.

The absence of an Oblast charter of self-government is the largest factor holding back the development of self-government at the city level because the local government is not recognized as an independent entity at the oblast level. Further, the lack of a developed mechanism for the implementation and realization of municipal government is the second obstacle to active and real self-government.

III. DONOR PROGRAMS

Four USAID projects were implemented in the city:

A zoning project was approved at the request of the city and is being implemented by The Bancroft Group (17 April 1996-November, 1996). In November public hearings will be held about the zoning project and results will be published in the media.

- A real estate registration program implemented by PADCO (May, 1996-December, 1996). Computer equipment with software will be installed to open a Registration Office at the Bureau of Technical Inventory (BTI).

- A land sale of privatized (formerly state-owned) enterprise property (implemented by PADCO) was completed. Legislative projects were submitted for implementation and approval by the City Duma.

A project on mortgage lending with an Eastern Siberian Bank and The Barents Group (April, 96) is currently being developed.

The Irkutsk branch of the Siberian Center for NGO Support is being supported by a grant from the Novosibirsk center. It has just started operations in the city.

IV. CONSTRAINTS TO DONOR PROGRAMS

Lack of coordination of USAID programs;

Most Irkutsk programs were short-term (under 6 months) and were implemented by contractors who came for very short periods of time;

As a result, there was a lack of consistency and follow through in most projects;

Several projects disbursed substantial computer equipment without sufficient understanding of the local conditions and needs.

- Lack of preparation of local staff in implementation of new methodologies within the projects;

Lack of training after equipment delivery;

- Projects can be classified as limited technical assistance only; and,

No dissemination of information at the city level to broaden awareness of program at the administration level.

V. PERCEIVED IMPACT OF DONOR PROGRAMS

The successful implementation of some USAID projects in other cities has reached the mayor of Irkutsk through his association with the Association of Russian Cities and his presidency of the Siberian Association of Cities. His interest in those projects has been manifested in a direct request through the U.S. Ambassador to have certain projects implemented in the city of Irkutsk. Results of the various USAID projects are published in the press. The mayor plans to hold public hearings to discuss the various projects with the general public.

VI. CONCLUSIONS AND RECOMMENDATIONS

The mayor of Irkutsk believes that the federation law allowing the elections of governors was counterproductive to the development of self-government at the municipal level. Further, the mayor stated that there is little or no interest in promoting local self-government at the Federation level. The perceived lack of interest in political and economic decentralization at the Federal level is superimposed at the regional level. Other issues that were brought forward from the Teams discussions in Irkutsk, include:

The absence of implementing legislation with respect to self-government at the federal level, creates a situation where some governors and federation officials use the lack of clarity in the federal law as a way to discredit the potential advantages of local self-government.

Intergovernmental transfer payments, and the lack thereof, have created some strain between the Oblast governor and the mayor.

The mayor felt that if Oblast governors were appointed with a clear directive from the federal level to decentralize political institutions, the development of a local municipal government mandates would have been more transparent.

The mayor believes that the Association of Russian Cities and the Association of Siberian and Far Eastern Cities can be important vehicles for the promotion of self-government in the future.

Since the old forms of NGO participation in government (labor unions, trade unions) are no longer active, the city has observed a breakdown in the communication flow between the local citizens and the municipal administration.

- In order to mend this gap, the development of networks between NGOs, association of mayors (at the Oblast level), and association of businesses is becoming increasingly more important.

There are sound examples of self-government through individual initiatives and progressive minded civil servants.

Citizen participation is encouraged at the city Duma meetings.

- Local NGOs are just beginning to develop.

The local government is aggressive in raising its own-source revenues. About 10% of all municipal revenues is generated locally.

The city of Irkutsk is very interested in the implementation of two additional projects, one on municipal management (like MFN) and the other one on real estate taxation (based on CFED work in Novgorod).

The City Administration is interested in the introduction of modern management methods in local self government.

FOCUS GROUP

PARTICIPANTS	FIRM
Maria Safonova	President, Citizens Information Initiatives
Gulsum, Abdrachitova	Coordinator - MBF Legal
A. Luboslavsky	Irkutsk Charity Organization for the Protection of Rights and Freedom of Citizen
Pavel Bohorodskaya	Irkutsk Charity Organization for the Protection of Rights and Freedom of Citizen
Alexander Panov	Russian Charitable Fund
Olga Stolarevskaya	City Administration Representative, Children's and Family Department
Galina Chizova	Irkutsk Charitable Organization For the Disabled
Ana Petrovna Koleso	Vice-President
Georgy Nurullyn	Siberian Center for the Support of Civic Initiatives
Roman Sydortsov	LEX - Legal Non-Profit Firm
Anna Guzina	LEX - Legal Non-Profit Firm
Yelena Tschevozorova	LEX - Legal Non-Profit Firm

There are around 500 NGOs in the Oblast, 400 of which are in Irkutsk.

A council (association) of 20 NGOs was formed and actively meets on the 3rd Wednesday of each month.

A coordinator is the head of the council who heads the monthly meetings.

- The council also publishes a monthly bulletin which goes to 400 NGOs.
- The council organizes round tables with representatives of local government and NGOs.

The local NGOs generally focus on social programs, children and family, youth and politics, and subsidies to the disadvantaged.

USAID/Eurasia grant called "Rebirth of Siberia" assisted IREX in conducting seminars.

One long-term seminar spanned 28 hours and dealt with management, bookkeeping, computer training, and NGO law .

- Representatives from the city and Oblast social services departments were present at the seminars.

City representatives also work individually with NGOs.

The group felt that at the community level, self-government should be organized along the lines of school districts thereby facilitating a greater sense of local (community) participation.

- Local and oblast government agencies have a very good working relationship with local NGOs.
- The Russian Charitable Fund was organized to encompass support of charitable organizations.
- The Russian Charitable Fund (RCF) is financed through contributions from large private enterprises.
- The RCF use volunteers in all of their programs: gathering and distribution of clothing, social assistance programs, and food assistance.

For the first nine months of 1996, the RCF valued their assistance at 153 million rubles.

All of the participants mentioned the lack of methodology on the part of the municipal government which would guide citizen and NGO participation in local government.

APPENDIX H

Yekaterinburg

Yekaterinburg

I. GENERAL CITY OVERVIEW

With a population of more than 1.5 million people, Yekaterinburg is the capital of the Sverdlosk Region (Oblast) and the unofficial capital of the Urals Region. Yekaterinburg was a closed city until December 1991. It has tried to open itself to the outside world. Lufthansa, for example, flies twice a week directly to Yekaterinburg from Frankfurt. Major industries in the area include machine building and metal processing; metallurgy; oil and gas machinery and services; chemicals; construction equipment; electronics; and, forestry.

The region and city have taken a somewhat different road to developing an environment that is conducive to small and medium size enterprises (SME) lending than Nizhny Novgorod. With little resources, and limited success, the municipality has attempted to develop a credit union with limited success. Through extensive cooperation with the EBRD one of the major activities of the numerous private sector related USAID funded programs is to assist SMEs with sources of financing. Since December 1995, the EBRD's small lending program has disbursed 12 loans amounting to \$600,000.

II. REGIONAL AND LOCAL GOVERNMENT

The governor is the Supreme Executive Officer of the Sverdlovsk Region and holds executive power in the region. In 1995, Eduard Rossel was elected to a five-year term as oblast governor. Rossel is Russia's first elected governor and is the leader of "Transformation of the Urals," the most popular political movement in the Urals.

The local city government is comprised of the Mayor Arkady Chernetsky, 3 Deputy-Mayors, and the City Duma. Among the many notable aspects related to the Yekaterinburg municipal city government we see:

- Strained relationship between the Mayor and the oblast Governor.
- Apparently good relationship between the Governor and the President.
- The President has signed a decree allowing the Governor to create seven prefectures within the oblast.
- The Governor now has the implementing legislation and the power to create prefectures if he so desires.
- Prefectures, if implemented, would create an alternative political structure, bypassing the current democratically elected mandate.
- Yekaterinburg markets itself as the "Urals Region" alternative industrial investment site to Moscow.
- The international airport is an especially important issue in Yekaterinburg because it provides a direct link to the international markets bypassing Moscow.

Citizen Participation and the municipality

- The oblast and the municipal Duma have an opaque legislative creation process.
- The oblast and municipal legislative process does not invite local citizen participation in the legislative design and discussion process.
- A case in point, is the desire of the oblast Governor to create seven prefectures in the oblast without asking for citizen approval by referendum or any other democratic means.

III. DONOR PROGRAMS

The European Communities TACIS program is significantly involved in Yekaterinburg. Its primary objectives are:

Training;

- Twinning (or matching firms); and,
- Consultancy.

Some specific examples of TACIS technical assistance include:

- Development of a business expansion plan for a Yekaterinburg transportation company and supervision of negotiations with a European partner.
- Implementation of an energy saving program for a brewery.
- Facilitating contracts between local companies and investment banks.

The TACIS program is generally geared toward medium and large-sized companies with 100-500 employees. To meet its technical assistance goals, TACIS has established an Enterprise Support Center in Yekaterinburg. Local TACIS programs do not appear to be interested in utilizing or leveraging off of any USAID funded programs. The only areas of technical cooperation which they would be interested, is matching U.S. companies with the local companies currently undergoing restructuring.

IV. CONSTRAINTS TO DONOR PROGRAMS

The constraints to various donor program implementation include:

- Cynicism toward the local government.
- Apathy of the general population toward new programs and initiatives.
- No discussion of budgets other than some summary information provided to the public on a unilateral basis.
- Only in cases of serious conflict with the public do the local and oblast government reportedly listen to complaints of citizens.

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- Citizens have little or no influence on the decisions of their elected Duma deputies who are elected for four years.
- Citizens feel isolated from the local government unit (LGU).
- Local authorities have only a vague idea of what the citizens want or need.
- Local and oblast government are extremely centralized and controlling.
- It is difficult for donor programs to work under a controlling environment.
- Both oblast and municipal government appear to want to maintain strong control over their own districts.
- The existence of an opaque legislative process impedes the development of citizen participation in local government.
- Continually changing laws, regulations, taxes and the enforcement thereof make it difficult for both the local government and citizens to know what the rules and regulations are which pertain to them.
- Strain on municipal and rayon budgets because of generally poor regional and national economic conditions.
- Problems in collecting local taxes.
- Difficulty in obtaining local funding for projects after donor aid is phased out.
- Lack of close coordination of donor programs, especially when dealing outside of USAID funded projects.
- Oblast government may be far more reform minded and outward looking than city administration.

VI. PERCEIVED IMPACT OF DONOR PROGRAMS

- American Entrepreneurship Center (AEC) has been running approximately 40 seminars to teach individuals about business strategies.
- The numbers of entrepreneurs and small scale economic development is increasing.
- The American Entrepreneurship Center assisted in the creation of local trade fairs (dairy, bakery, etc.) to foster development of business relationships between small and mid-size local manufacturers and small local retail distribution outlets.
- The American Business Center is apparently valuable for fostering business development for larger scale companies.
- PADCO has created residential condominium associations, and strived to create private maintenance and management of housing projects.
- PADCO has enabled the city government to contract with private maintenance organization to take over the responsibilities for housing maintenance on a limited number of units.
- Some NGO organizations formerly benefiting from USAID direct funding are now moving toward grant application for funding through the Eurasia Foundation.
- There are substantial questions about the short and long-term sustainability of NGO's without continued foreign donor funding.

VII. CONCLUSIONS AND RECOMMENDATIONS

The Yekaterinburg local government unit (LGU) has experienced modest benefits from USAID programs and other donors. The oblast and local government unit (LGU) are still very centralized government structures where little attention is given to citizen involvement. A USAID contractor stated that the city should abandon its practice of pretending to maintain its residential services and to focus on redefining the role of the public sector. The USAID contractor further elaborated by illustrating that municipal departments focus too much on what they could not do rather than what the department or local government can do.

Project Sustainability and Dissemination

- USAID budget cutbacks have restricted the ability of some donor groups to follow-up on the impact of their programs.
- The American Entrepreneur Center (AEC) is highly regarded by local and oblast officials.
- AEC's survival may be difficult because of the potential inability to generate sufficient revenue from entrepreneurs who are used to receiving free services.
- The AEC indicated that they may reach an 80% cost recovery by April, 1997.

Future Potential Assistance

LGU and Oblast officials are interested in obtaining more information (or training) on:

1. intergovernmental relationships (including how responsibilities are allocated between federal, state, local);
2. municipal financial management computer information systems;
3. citizen involvement; and,
4. local economic development and reforms.

The implication is that economic development must come before political development.

Yekaterinburg Focus Group

PARTICIPANT NAME	OCCUPATION
Olga Borisova	Consultant - Computer Technology
Igor Trapeznikov	Consultant - Active Forms - Managerial Consulting
Tamara Koptekova	Marketing Consultant
Olga France	Small Business Association

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Focus Group Survey

- The focus groups survey revealed that local residents want to be consulted and heard.
- Local and oblast laws however, are kept secret until after they are passed.
- Municipal budgets are difficult for citizens to obtain.
- There is little or no transparency in municipal budgeting or any budget priority setting process.

The LGU needs to conduct social marketing in the city as a whole to explain the steps that the city is undertaking to improve the lives of its citizens (i.e. infrastructure development, housing maintenance).

- The small business community and LGU do not have a satisfactory relationship. However, there have been some positive changes over the past six months.
- Some joint projects between the LGU and small and medium size businesses were undertaken including seminars and various forms of management training.
- The problems between small business and the local government result from a lack of municipal funds.
- Even if officials have an interest in the projects, there are not enough financial resources to carry them out.

Other Focus Group Recommendations Include:

1. The municipality should formulate precise strategic goals and makes these goals understandable to the local citizens.
 2. The LGU should create mechanisms for implementing these goals.
 3. The LGU should clearly explain how they were going to implement the strategic objectives.
 4. The LGU should create a system of reporting on their activities to the citizens using the mass media (television, press).
 5. All members of the focus group felt that professional associations were useful. The benefits of membership included:
 - ⇒ information exchange;
 - ⇒ enhancement of their prestige;
 - ⇒ establishment of general business ethics;
 - ⇒ increased customer/contact base; and,
 - ⇒ training fellow association members.
 6. The primary problem associated with associations includes a lack of money.
 7. All of the associations that were doing well are financed by foreign donors.
86. The focus group felt that there is no general coordination of foreign activity of different organizations in Russia.

87. Donor organization representatives are changed frequently.

88. A lot of money is spent on the maintenance of donor offices and foreign experts and not much is spent locally.

89. The Russian participants to donor organization programs are not always informed about the strategic goals of the program.

90. There is a consistent problem of premature stoppage of many donor programs.

APPENDIX I

Vladimir

Vladimir

I. GENERAL CITY OVERVIEW

Vladimir is a city with a thousand-year history. It was formerly the seat of the Eastern Orthodox Church. Located about 100 miles east of Moscow with a population of over 300,000, Vladimir is an industrial city with a highly educated workforce. The city has two universities and numerous research institutes. Major manufacturing industries include tractors, automotive parts, electric motors, consumer goods, musical instruments, clothing, chemicals, telecommunications equipment, and food products. Railroads and highways easily connect Vladimir to Moscow and the industrial center of Nizhny Novgorod.

II. LOCAL GOVERNMENT

The local government is comprised of an elected mayor and Duma. The mayor and municipal Duma work harmoniously. However, there may be some strains between the municipal and the oblast government.

III. DONOR PROGRAMS

The major donor activity is the proposed RTI/MFM project. The project is awaiting the final approval for procurement and delivery of a hardware/software package. The city is a "roll-out" site of the MFM program developed in Vladivostok. The currently anticipated start-up date is January, 1997. The start-up was delayed due to the Russian presidential elections and changes in the management of the RTI project.

Other USAID projects in the city include:

- Chemonics: real estate data base and land registry program.
- Water treatment to develop potable water.
- Eurasia foundation grants for the Center for Business Development staffed by the Peace Corps, and the development of several small local NGOs addressing social programs.
- TACIS: management, consulting and restructuring of enterprises.
- German investment fund assisted in coordinating 22 German GTZ projects.

IV. CONSTRAINTS TO DONOR PROGRAMS

- The objectives of local officials are directed toward resolving their internal needs rather than meeting the needs of the citizens.
- Personality conflicts within some municipal government departments.
- Turnover of contractor personnel.

V. PERCEIVED IMPACT OF DONOR PROGRAMS

- MFM program will improve the transparency within the municipal government but not necessarily to the general public.
- The MFM program could increase the efficiency of the budgeting process and eliminate manual labor.
- The finance department will have improved capacity to control the budget of the rayons.
- The mayor will have a greater knowledge and control about day-to-day budget activity.
- Changing the mindset of government and business officials in the way they operate on the a day-to-day basis.
- Providing incremental doses of Western business practices.

VI. CONCLUSIONS AND RECOMMENDATIONS

- The city appears to be functioning in a reform minded manner.
- External transparency of government operations and budgets to the local constituency is not being achieved.
- Donor programs appear to be having some positive impact in the areas of social programs (Eurasia) and in the business management of some mid-sized companies (IESC).
- RTI-Vladivostok "roll-out" could have some favorable impacts in local government administration if it is implemented. However, the extent of the proposed hardware procurement should be carefully reviewed.

APPENDIX J

Local Government Assessment Presentation

Task 1	Review Status and Conditions of Local Government in Russia
Task 2	Identify Best Practices
Task 3	Relevance of USAID Programs
Task 4	Other Donors
Task 5	Summary Conclusions

<p style="text-align: center;">TASK 1 REVIEW STATUS OF LOCAL GOVERNMENT</p>

- FREE ELECTIONS OF MUNICIPAL OFFICIALS
- CENTRALIZED GOVERNMENT IN MOST CITIES VISITED
- DRAFT LAW ON THE FISCAL FUNDAMENTALS OF LOCAL SELF GOVERNMENT
- LOCAL AND OBLAST GOVERNMENTS STILL DEFINING THEIR ROLES
- ROLES BETWEEN PRIVATE AND PUBLIC SECTOR BLURRED
- LOCAL BORROWING INCREASING
- LITTLE TRANSPARENCY WITHIN GOVERNMENT ITSELF
- DEFICIENT TRANSPARENCY / ACCOUNTABILITY TO CITIZENS
- DISPARITIES BETWEEN RICH AND POOR REGIONS MORE PRONOUNCED
- INEFFECTIVE REVENUE / TAX COLLECTION MAJOR IMPEDIMENT TO MUNICIPAL DEVELOPMENT
- INCREASING NUMBER OF NGOS
- GREATEST NUMBERS OF NGOS LOCATED IN LARGE CITIES OF EUROPEAN RUSSIA
- RUSSIAN NGOS LARGELY INCAPABLE OF SOLVING COLLECTIVE ACTION PROBLEMS
- DOUBTFUL SUSTAINABILITY OF RUSSIAN NGOS

TASK 2 BEST PRACTICES

- SUCCESSFUL PROGRAMS ARE ONES IN
 - ⇒ INFORMATION DISSEMINATION
 - ⇒ NETWORKING AND TRAINING OF INDIVIDUALS AT LOCAL AND MUNICIPAL LEVELS
- PROGRAMS COMBINED WITH MULTILATERAL (EBRD/WORLD BANK) ARE GENERALLY SUCCESSFUL
- PROVISION OF SMALL CREDITS FACILITATED DEVELOPMENT OF SMALL BUSINESSES
- USAGE OF CONTRACTORS WITH RUSSIAN LANGUAGE AND CULTURAL AWARENESS MOST EFFECTIVE
- USAID PROGRAMS THAT USED LONG-TERM CONTRACTORS MOST PREFERRED
- SHORT-TERM TECHNICAL ASSISTANCE GENERALLY INEFFECTIVE - EXCEPT WHERE TECHNICAL ASSISTANCE PROVIDED BY SAME PERSONNEL ON REPEATED BASIS
- PROGRAMS WERE MOST EFFECTIVE WHERE CONSTRUCTIVE RELATIONSHIPS PREVAIL BETWEEN OBLAST AND MUNICIPAL OFFICIALS
- VOLUNTEER PROGRAMS PROVIDED BY IESC WERE PRAISED
- PEACE CORPS VOLUNTEERS EFFECTIVE
- EURASIA FOUNDATION PROVIDED EXTENSIVE SUPPORT TO NGO DEVELOPMENT THROUGH GRANTS

TASK 3

RELEVANCE OF USAID

- USAID PROGRAM SEWED THE SEEDS OF GRASS ROOTS DEVELOPMENT
- TRAINING HAS REACHED LARGE NUMBERS OF PEOPLE
- INTRODUCTION OF MODERN MANAGEMENT PRINCIPLES AND TECHNOLOGY INTO MUNICIPAL GOVERNMENTS
- NDI SUPPORTED FREE ELECTIONS
- USAID MODERATELY SUCCESSFUL IN BUILDING CIVIC SOCIETY
- STIMULATED WORKING RELATIONSHIPS BETWEEN MUNICIPAL AND OBLAST
- PROMOTED NEW RELATIONSHIPS BETWEEN THE LOCAL GOVERNMENT AND THE GRASS ROOT'S NGOS
- INADEQUATE USAID IMPACT AT THE RAYON LEVEL
- GREATLY ASSISTED IN THE INTRODUCTION OF VOLUNTEERISM

TASK 4 OTHER DONORS

- TACIS TECHNICAL ASSISTANCE PROGRAM
- BRITISH KNOW-HOW FUND
- GTZ - GERMAN DEVELOPMENT FUND
- WORLD BANK
- EBRD
- SOROS
- OTHER COUNTRIES (SWEDEN, DENMARK, ITALY)
- MINIMAL COORDINATION BETWEEN USAID PROGRAMS AND IMPLEMENTING CONTRACTORS
- LITTLE COORDINATION BETWEEN USAID AND OTHER INTERNATIONAL DONORS
- EFFECTIVE COOPERATION WITH EBRD SMALL CREDIT FACILITIES
- POTENTIAL COOPERATION WITH WORLD BANK INFRASTRUCTURE LENDING
- POTENTIAL COOPERATION COULD BE SEEN IN INFORMATION SHARING AND JOINT ACTION

<p>TASK 5 CONCLUSIONS / RECOMMENDATIONS</p>

CONCLUSION ON LOCAL MUNICIPAL ENVIRONMENT

- GREATER CLARITY IN THE DIVISION OF RESPONSIBILITY BETWEEN LEVELS OF GOVERNMENT IS NEEDED
- GREATER REFORM IN REVENUE ASSIGNMENTS AND INTERGOVERNMENTAL TRANSFERS IS NEEDED

POLITICAL DECENTRALIZATION MUST BE MATCHED BY ENABLING LEGISLATION

SIGNIFICANT APATHY TOWARD LOCAL GOVERNMENT

- NO AUDITING AND EVALUATION IN THE MUNICIPAL BUDGET CYCLE
- RUSSIAN CIVIL SOCIETY STILL LARGELY FRAGMENTED

ABSENCE OF LOCAL ACTIVISM

CONCLUSION ON USAID

PROVISION OF EQUIPMENT NOT EFFECTIVE AND IS NOT REPLICABLE
BUSINESS SKILLS TRAINING (MARKETING, MANAGEMENT) ONE OF THE MOST EFFECTIVE PROGRAMS

ASSISTANCE TO MEDIUM SIZED BUSINESSES HELPFUL BUT GIVEN THE CURRENT ENVIRONMENT MAY NOT HAVE BEEN SUFFICIENT TO TURNAROUND ENTERPRISES

SMALL BUSINESS CENTERS ARE A GOOD WAY TO NETWORK AND EXCHANGE INFORMATION

NGO SUSTAINABILITY AFTER DONOR PULL-OUT IS DOUBTFUL

MFM PROJECT MAY BE INTERNALLY (WITHIN MUNICIPAL GOVERNMENT) TRANSPARENT, EXTERNAL TRANSPARENCY (TO LOCAL CITIZENS) DOUBTFULL

NIZNI NOVGOROD - MFM - DOUBTFUL THAT IT WILL MOVE BEYOND 3 RAYONS

NO COHESION OF USAID PROJECTS AT MUNICIPAL LEVELS

- NO USAID/CONTRACTOR ADJUSTMENT(S) FOR LOCAL AND REGIONAL DIFFERENCES

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RECOMMENDATIONS

- USAID SHOULD FOCUS MORE ON CITY LEVEL AND NOT OBLAST LEVEL
 - CONCENTRATE DONOR ASSISTANCE TO SMALL AND MEDIUM SIZED CITIES
- MORE CAREFUL SELECTION OF RUSSIAN PARTNERS (CITIES, NGOS) FOR
FUTURE PROGRAM IMPLEMENTATION
- DESIGN (CITY) PROGRAM MODELS AFTER DETERMINING LOCAL NEEDS
- RUSSIAN PARTNERS SHOULD “COMPETITELY” BID FOR USAID TECHNICAL ASSISTANCE
 - RUSSIANS SHOULD BE ACTIVE STAKEHOLDERS IN PROGRAM DEVELOPMENT AND IMPLEMENTATION
 - USAID SHOULD ESTABLISH “CITY” DESKS TO ASSIST IN COORDINATION OF PROGRAMS
 - CONSTITUENCY BUILDING THROUGH WIDER BASED NGOS WHO CAN WORK IN TANDEM WITH LOCAL GOVERNMENT
 - SHORTEN PLANNING IMPLEMENTATION CYCLES ADDS FLEXIBILITY TO THE PROGRAM
- LIMIT TECHNICAL ASSISTANCE GOALS TO SMALLER MORE ACHIEVABLE
SUCCESSSES

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APPENDIX L

Donor List by City

DONORS: VLADIMIR & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
AID	<i>Privatization: Agri., enterprise & industry, financial sector</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Int'l Business & Technical Consultants (IBTCI) Boston Consulting McKinsey & Co. Russian Privatization Center (RPC) Barents Group Center for Financial Engineering in Development (CFED) Price Waterhouse Price Waterhouse Price Waterhouse Price Waterhouse Booz-Allen & Hamilton Abt Associates Bain Link Information Technology Int'l Information Technology Int'l Information Technology Int'l International Finance Corp. (IFC) IFC	 4/1/93 \$2,754,110 '93 \$6,439,819 10/29/93 \$8,611,597 '93 \$1,785,819 '93 \$1,753,000 \$16,490,893 '93 \$3,896,205 7/1/93 \$116,627.02 '93 \$4,063,055 '93 \$13,104,391 '92 \$1,184,311 '93 \$2,124,225 '93 \$1,805,624 '94 \$1,004,809 '93 \$4,400,000 10/1/93 \$369,117.40 2/1/94 \$169,139 8/1/94 \$59,716 '93 \$2,600,000 '92 \$6,112,000
Germany	<i>Government Services: Public Management</i>	n/a
Germany	<i>Enterprise & Industry</i>	n/a
Germany	<i>Government Services: Social Sector</i>	n/a
Germany	<i>Agriculture, Food, Forestry & Fishing</i>	n/a

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Germany	<i>Enterprise & Industry</i>	9/1/93-9/30/94 \$254,546
GERMANY	<i>Government Services: Public Management</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Agriculture, Food, Forestry & Fishing</i>	n/a
GERMANY	<i>Financial Sector: Banking</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Financial Sector</i>	n/a
GERMANY	<i>Energy: Gas & Oil</i>	n/a
GERMANY	<i>Financial Sector</i>	n/a
GERMANY	<i>Agriculture, Food, Forestry & Fishing</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
EU	<i>Transportation</i>	1/11/92-4/30-94 \$2,600,000
EU	<i>Energy</i>	11/1/92-4/30/94 \$364,000
EU	<i>Energy</i>	3/27/96- \$5,850,000
EU	<i>Energy, Enterprise & Industry</i>	9/1/95-1/27/97 \$2,600,000
EU	<i>Energy</i>	1/31/96-3/31/97 \$1,300,000
ITALY	<i>Agriculture, Food, Forestry & Fishing</i>	96 \$494,201

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GERMANY	<i>Government Services: Public Management</i>	1/1/93-12/31-93 \$179,487
GERMANY	<i>Privatization</i>	1/1/93-12/31-94 \$48,077
GERMANY	<i>Privatization</i>	1/1/93-12/31/94 \$160,256
GERMANY	<i>Government Services: Local Government Services</i>	1/1/93-12/31/93 \$140,064
GERMANY	<i>Education</i>	12/1/93-12/31/93 \$6,410
GERMANY	<i>Communications</i>	12/1/93-/31/94 \$382,655
GERMANY	<i>Agriculture, Food, Forestry & Fishing</i>	12/1/93-6/30/94 \$297,367
GERMANY	<i>Trade & Commerce</i>	8/1/93-2/28/94 \$308,642
SWEDEN	<i>Agriculture, Food, Forestry & Fishing</i>	1/1/92-12/31/92 \$3,378
GERMANY	<i>Social Sector: Housing</i>	7/1/92-12/31/92 \$400,520
GERMANY	<i>Trade & Commerce</i>	10/1/94-10/31/94 \$9,012
U.K.	<i>Education</i>	4/1/92-12/31/94 \$30,881

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DONORS: YEKATERINBURG & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
AID	<i>Health:</i> Save the Children AIHA AIHA World Learning Children's Health Center	92/95 \$2,000,000 6/1/92 \$7,242,500 2/1/94 \$4,000,000 6/1/92 \$8,000,000 6/1/92 \$1,500,000

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AID	<i>Privatization: Agri., enterprise & industry, financial sector</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Int'l Business & Technical Consultants (IBTCI) Boston Consulting Russian Privatization Center (RPC) Barents Group Center for Financial Engineering in Development (CFED) Price Waterhouse Price Waterhouse Price Waterhouse Price Waterhouse Booz-Allen & Hamilton Abt Associates Bain Link Information Technology Int'l Information Technology Int'l Infomration Technology Int'l International Finance Corp. (IFC) IFC	4/1/93 \$2,754,110 7/22/93 \$6,439,819 10/29/93 \$8,611,597 4/1/93 \$1,785.819.63 4/1/93 \$1,753,000 \$16,490,893 11/1/93 \$3,896,205 7/1/93 \$116,627.02 4/1/93 \$4,063,055 8/1/93 \$13,104,391 9/1/92 \$1,184,311 1/1/93 \$2,124,225 11/8/93 \$1,805,624 9/1/94 \$1,004,809 4/1/93 \$4,400,000 10/1/93 \$369,117.40 2/1/94 \$169,139 8/1/94 \$59,716 1/1/93 \$2,600,000 6/1/92 \$6,112,000
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AID	<i>Small & new business:</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu US Peace Corps Junior Achievement Int'l Opportunity International State University of NY U.S. West VA Tech Citizens Democracy Corps (CDC) Citizens Democracy Corps University of North Carolina at Chapel Hill American-Russian Center (ARC), Un. Of Alaska- Anchorage Center for Citizen Initiatives (CCI) Center for Citizen Initiatives Fund for Democracy International Executive Service Corps International Executive Service Corps Washington State University/Pullman	92-95 \$7,000,000 \$26,800,000 3/1/93 \$1,365,000 \$1,380,446 \$2,027,634 \$10,000,000 \$5,000,000 \$2,000,000 \$4,000,000 \$1,002,538 \$500,000 5/1/93 \$6,650,000 \$1,000,000 7/1/93 \$4,200,000 \$4,000,000 2/1/92 \$9,912,520 7/1/92 \$724,795 \$2,400,000
Canada	<i>Urals Management Training Project</i>	\$357,580
Germany	<i>Education & Enterprise & Industry</i>	n/a
EU	<i>Agriculture, Food, Forestry & Fishing</i>	4/30/93 \$2,537,099.50
EU	<i>Agriculture, Food, Forestry & Fishing T/A training</i>	8/6/92 \$387,218
EU	<i>Agriculture, Food, Forestry & Fishing T/A training</i>	9/20/93 \$1,649,479

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EU	Ariculture, Food, Forestry & Fishing	8/12/92 \$354,250
EU	Enterprise & Industry: Small & Medium Enterprises	8/26/94 \$4,771,545
EU	Health	93 \$5,850,000
EU	Transporation: Air Transport	93, \$910,000
EU	Energy: Enterprise & Industry	10/20/94 \$11,700,000
EU	Enterprise & Industry: privatization	2/1/95-7/31/96 \$3,640,000
EU	Government Services: Local Government Serices	1/1/95-12/31/96 \$3,250,000
EU	Government Servcies: Local Government Services	4/1/95-7/31/96 \$2,275,000
EU	Government Services: Local Government Services	3/1/95-8/31/97 \$3,250,000
EU	Energy	3/1/95-10/31/96 \$3,250,000
EU	Democratic Institution Building	1992, \$793,000
EU	Agriculture, Food, Forestry & Fishing: T/A	1/196-1/1/98 \$3,900,000
ISTC: US, EU	Environment & Health: T/A	6/1/94-6/1/97 \$616,000
ISTC: US, Japan, EU	Energy: T/A	12/1/94-12/1/97 \$1,100,000
ISTC: US, Japan, EU	Energy: Energy Safety, Nuclear Safety	12/1/94-12/1/97 \$960,000
ISTC: US, EU	Communications, Enterprise & Industry	10/1/94-10/1/97 \$922,000
ISTC: Japan	Energy: Energy Saftey, Nuclear Safety	-1/1/98 \$510,000

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ISTC: Japan	<i>Enterprise & Industry</i>	7/1/95-7/1/97 \$498,000
ISTC: US	T/A	\$300,000
Germnay	<i>Financial Sector, Trade & Commerce</i>	7/1/93-7/31/93 \$7,764
Council of Europe	<i>Democratic Institution Building</i>	2/1/94-12/31/94 n/a
UK	<i>Health</i>	3/1/92-5/31/92 \$3,750,000
Sweden	<i>Education</i>	7/1/94-6/30/95 \$60,032
Sweden	<i>Social Sector</i>	12/1/94-12/31/94 \$1,996
UK	<i>Enterprise & Industry</i>	2/10/93-12/31/94 \$30,418
UK	<i>Health</i>	5/1993-12/15/94 \$93,015
UK	<i>Enterprise & Industry</i>	3/12/94-12/31/94 \$308,814
UK	<i>Financial Sector</i>	10/28/94- \$441,373
UK	<i>Health</i>	1/1/94-5/1/94 \$38,878
UK	<i>Health</i>	3/13/95- \$2,007,293
UK	<i>Health: T/A</i>	2/1/95- \$463,221
UK	<i>Health: feasibility study</i>	2/9/95-5/30/95 \$7,720
UK	<i>Health: feasibility study</i>	2/23/95-6/1/95 \$7,720
UK	<i>Health: T/A</i>	4/1/95-1/1/96 \$254,725
USIS	<i>American Centers (6)</i>	1996, \$400,000

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DONORS: IRKUTSK & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
Canada	<i>Energy</i>	1/1/92-12/31/93 \$47,979
IBRD, Canada	<i>Environment , T/A</i>	1/193-2/31/94 \$1,664,092
EBRD	<i>Agriculture, Food, Forestry & Fishing</i>	9/24/95- \$50,827,616
EU	<i>Energy</i>	\$1,300,000
EU	<i>Energy</i>	3/20/96-10/31/96 \$3,380,000
EU	<i>Education, Government Services</i>	10/1/95-10/1/98 \$523,250
EU	<i>Enterprise & Industry</i>	1/196-7/1/97 \$2,340,000
EU	<i>Government Services</i>	1/1/96-1/1/98 \$2,600,000
EU	<i>Education, Government Services</i>	10/1/95-10/1/98 \$1,989,000
EU	<i>Agriculture, Food, Forestry & Fishing</i>	1/1/96-1/1/98 \$3,640,000
EU	<i>Energy</i>	1/1/96-4/1/97 \$1,300,000
EU	<i>Transportation</i>	1/1/96-7/1/96 \$650,000
EU	<i>Environment</i>	1/1/96-1/1/97 \$650,000
EU	<i>Government Services</i>	1/1/96-1/1/99 \$3,984,500
Japan	<i>Agriculture, Food, Forestry & Fishing</i>	3/1/93-6/1/93 \$19,843,661
Japan	<i>Health</i>	1/1/93-10/15/93 \$22,902,521

Japan	<i>Agriculture, Food, Forestry & Fishing</i>	3/1/94-4/1/94 \$27,433,692
Germany	<i>Agriculture, Food, Forestry & Fishing</i>	1/1/93-12/31/93 \$641,026
Germany	<i>Environment, T/A</i>	5/1/93-5/31/93 \$1,923
Germany	<i>Enterprise & Industry</i>	1/1/92-12/31/93 \$108,974
U.N.	<i>Enterprise & Industry</i>	1/1/94-12/31/95 \$147,750

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DONORS: NIZHNI NOVGOROD & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
AID	<i>Health:</i> Save the Children AIHA AIHA World Learning Children's Health Center	92/95 \$2,000,000 6/1/92 \$7,242,500 2/1/94 \$4,000,000 6/1/92 \$8,000,000 6/1/92 \$1,500,000
AID	<i>Privatization: Agri., enterprise & industry, financial sector</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Int'l Business & Technical Consultants (IBTCI) Boston Consulting McKinsey & Co. Russian Privatization Center (RPC) Barents Group Center for Financial Engineering in Development (CFED) Price Waterhouse Price Waterhouse Price Waterhouse Price Waterhouse Booz-Allen & Hamilton Abt Associates Bain Link Information Technology Int'l Information Technology Int'l Information Technology Int'l International Finance Corp. (IFC) IFC	4/1/93 \$2,754,110 7/22/93 \$6,439,819 10/29/93 \$8,611,597 4/1/93 \$1,785,819.63 4/1/93 \$1,753,000 \$16,490,893 11/1/93 \$3,896,205 7/1/93 \$116,627.02 4/1/93 \$4,063,055 8/1/93 \$13,104,391 9/1/92 \$1,184,311 1/1/93 \$2,124,225 11/8/93 \$1,805,624 9/1/94 \$1,004,809 4/1/93 \$4,400,000 10/1/93 \$369,117.40 2/1/94 \$169,139 8/1/94 \$59,716 1/1/93 \$2,600,000 6/1/92 \$6,112,000

AID	<i>Small & new business:</i> Deloitte Touche Tohmatsu \$7,000,000 Deloitte Touche Tohmatsu \$26,800,000 US Peace Corps 3/1/93 \$1,365,000 Junior Achievement Int'l \$1,380,446 Opportunity International \$2,027,634 State University of NY \$10,000,000 U.S. West \$5,000,000 VA Tech \$2,000,000 Citizens Democracy Corps (CDC) \$4,000,000 Citizens Democracy Corps \$1,002,538 University of North Carolina at Chapel Hill \$500,000 American-Russian Center (ARC), Un. Of Alaska-Anchorage 5/1/93 \$6,650,000 Center for Citizen Initiatives (CCI) \$1,000,000 Center for Citizen Initiatives Fund for Democracy 7/1/93 \$4,200,000 International Executive Service Corps \$4,000,000 International Executive Service Corps 2/1/92 \$9,912,520 International Executive Service Corps 7/1/92 \$724,795 Washington State University/Pullman \$2,400,000	92-95 \$7,000,000 \$26,800,000 3/1/93 \$1,365,000 \$1,380,446 \$2,027,634 \$10,000,000 \$5,000,000 \$2,000,000 \$4,000,000 \$1,002,538 \$500,000 5/1/93 \$6,650,000 \$1,000,000 7/1/93 \$4,200,000 \$4,000,000 2/1/92 \$9,912,520 7/1/92 \$724,795 \$2,400,000
Switzerland Federal Dept. For Foreign Economic Affairs	<i>Improving basic instruments of finance sector: audit & acct</i>	\$1,043,796
Germany Federal Ministry of Research and Technology	<i>Enterprise and Industry: R&D</i>	n/a
Germany Federal Ministry of Finance	<i>Financial sector: banking</i>	n/a
Germany Federal Ministry of Education & Science	<i>Education</i>	n/a

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EBRD	<i>Enterprise & Industry: Small & Medium Enterprises - Banking</i>	3/4/94 \$1,045,200 2/8/94 \$522,600 2/8/94 \$1,567,800 7/20/94 \$209,300 \$1,045,200
EBRD	<i>Enterprise & Industry: Transportation</i>	12/7/95 \$39,717,600
European Union	<i>Transportation: air</i>	92 \$1,365,000
Netherlands	<i>Enterprise & Industry: social sector</i>	3/1/96 \$29,954
Netherlands	<i>Agriculture, food, forestry & fishing - farming, livestock</i>	96 \$599,089
Int'l Science & Technology Center (ISTC)/US-EU	<i>Communications Electronics of Organic Materials</i>	6/1/94 \$685,000
ISTC (US-Finland)	<i>Environment Ocean Nuclear Data Base</i>	4/1/95 \$90,000
ISTC - Japan	<i>Energy Fast Soluble Reactors</i>	9/1/75 \$750,000
ISTC-US/EU	<i>Enterprise & Industry Water Soluble Crystals</i>	\$522,000
ISTC-US/EU	<i>t/a Modular Helium Reactor</i>	\$450,000
ISTC-EU	<i>t/a Plutonium Utilization in Nuclear Reactors</i>	\$450,000
ISTC-EU	<i>t/a Heavy Gas Discharge X-Ray Source</i>	\$300,000
ISTC-EU	<i>t/a High Temperature Gas Turbine for NPP</i>	\$340,000

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ISTC-US/EU	<i>t/a</i> Sintering of Ceramics by HF-Radiation	\$261,500
ISTC-EU	<i>t/a</i> Economics of Plutonium Burn	\$580,000
Germany	<i>Privatization/Private Sector Development</i>	1/92-12/94 \$157,051
Germany	<i>Economic Restructuring</i>	1/93-12/94 \$1,234,600
Germany	<i>Enterprise & Industry</i>	11/1/92-11/30/92 \$32,051
Austria	<i>Health: Trade & Commerce</i>	1/92-12/93 n/a
UK	<i>t/a</i>	1/90-8/92 \$308,814
UK	<i>Education</i>	4/92-12/94 \$30,881
UK	<i>Agriculture</i>	4/92-12/94 \$29,532
UK	<i>Enterprise & Industry</i>	4/93-23/94 \$45,473
UK	<i>Agriculture</i>	2/93-12/94 \$31,005
UK	<i>Financial Sector</i> IFC Capital Markets NN	8/93-12/94 \$1,389,664
UK	<i>Privatization/Private Sector Development</i>	11/93-12/94 \$6,485,099
UK	<i>Privatization/Private Sector Development</i> local privatization Centre	10/94- \$1,219,816
UK	<i>Privatization/Private Sector Development</i> IFC Enterprise training	4/94-4/95 \$494,103
UK	<i>Financial Sector: banking</i> NN Banking Institute Training Programme	12/94-5/95 \$154,407
UK	<i>Government Services: Police</i>	4/95-6/95 \$4,015

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UK	<i>Financial Sector: NN Mortgage & Savings Project</i>	5/95- \$131,246
UK	<i>t/a IFC Capital Markets</i>	10/94 - \$1,930,089
UK	<i>Privatization: enterprise zones in NN</i>	11/95- \$117,349
UK	<i>Energy</i>	10/95- \$100,365
UK	<i>Enterprise & Industry: small & medium enterprises</i>	4/94- \$30,032
UK	<i>Enterprise & Industry: small & medium enterprises</i>	1/94-1/95 \$30,881
UK	<i>Privatization, private sector development</i>	11/95- \$339,696
UK	<i>Environment</i>	9/94-6/95 \$29,044
US Information Service	<i>"American Centers", various sectors</i>	10/94-9/96 \$400,000

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DONORS: NOVGOROD & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
AID	<i>Health, Pharmaceuticals, etc:</i> International Business & Technical Technical Consultants (IBTCI) Bristol-Myers Squibb Searle MIR Pharmaceutical U.S. Pharmacopeial Convention USDOC USDOC Arthur Andersen & Co, Management Science for Health (MSH) MSH Merck & Co. Partners for Int'l Education & Training (PIET) USTDA US-HHS	92-95 \$2,996,152 \$300,000 \$6,052,994 \$299,790 1/1/95 \$1,124,000 5/1/92 \$110,240 7/1/93 \$304,700 9/1/92 \$628,038 4/1/95 \$2,374,264 9/1/92 \$1,552,585 9/1/92 \$694,532 9/1/93 \$237,627 9/1/93 \$1,000,000 9/1/92 \$1,818,000

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AID	<i>Privatization: Agri., enterprise & industry, financial sector</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Int'l Business & Technical Consultants (IBTCI) Boston Consulting McKinsey & Co. Russian Privatization Center (RPC) Barents Group Center for Financial Engineering in Development (CFED) Price Waterhouse Price Waterhouse Price Waterhouse Price Waterhouse Booz-Allen & Hamilton Abt Associates Bain Link Information Technology Int'l Information Technology Int'l Information Technology Int'l International Finance Corp. (IFC) IFC	 4/1/93 \$2,754,110 7/22/93 \$6,439,819 10/29/93 \$8,611,597 4/1/93 \$1,785,819 4/1/93 \$1,753,000 \$16,490,893 11/1/93 \$3,896,205 7/1/93 \$116,627.02 4/1/93 \$4,063,055 8/1/93 \$13,104,391 9/1/92 \$1,184,311 1/1/93 \$2,124,225 11/8/93 \$1,805,624 9/1/94 \$1,004,809 4/1/93 \$4,400,000 10/1/93 \$369,117.40 2/1/94 \$169,139 8/1/94 \$59,716 1/1/93 \$2,600,000 6/1/92 \$6,112,000
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AID	<i>Small & new business:</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu US Peace Corps Junior Achievement Int'l Opportunity International State University of NY U.S. West VA Tech Citizens Democracy Corps (CDC) Citizens Democracy Corps University of North Carolina at Chapel Hill American-Russian Center (ARC), Un. Of Alaska-Anchorage Center for Citizen Initiatives (CCI) Center for Citizen Initiatives Fund for Democracy International Executive Service Corps International Executive Service Corps Washington State University/Pullman	92-95 \$7,000,000 \$26,800,000 3/1/93 \$1,365,000 \$1,380,446 \$2,027,634 \$10,000,000 \$5,000,000 \$2,000,000 \$4,000,000 \$1,002,538 \$500,000 5/1/93 \$6,650,000 \$1,000,000 7/1/93 \$4,200,000 \$4,000,000 2/1/92 \$9,912,520 7/1/92 \$724,795 \$2,400,000
Canada	<i>Energy</i>	\$47,979
EBRD	<i>Financial Sector: Banking & Industrial Investment Banks</i>	95- \$51,363,000
EBRD	<i>Agriculture, Food, Forestry & Fishing</i>	95- \$150,644,168
EU-TACIS	<i>Agriculture, Food, Forestry & Fishing</i>	9/1/93-9/30/94 \$1,040,000
EU-TACIS	<i>Energy</i>	7/1/93-9/30/94 \$383,500
EU-TACIS	<i>Energy</i>	3/30/96-10/30/97 \$1,300,000

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FINLAND	<i>Social Sector: housing</i>	1/1/95-12/31/96 \$37,102
NORWAY	<i>Agriculture, Food, Forestry & Fishing, Health</i>	1/1/91-12/31/93 \$83,066
NORWAY	<i>Communications</i>	1/1/92-12/31/94 \$298,560
NORWAY	<i>Education</i>	1/1/93-12/31/94 \$119,836
NORWAY	<i>Communications</i>	1/1/93-12/31/93 \$28,197
NORWAY	<i>Health</i>	1/1/93-12/31/94 \$54,279
DENMARK	<i>Environment</i>	8/1/93-12/31/93 \$831,379
NORWAY	<i>Enterprise & Industry</i>	1/1/93-12/31/94 \$70,492
NORWAY	<i>Enterprise & Industry: tourism</i>	1/1/93-12/31/94 \$16,918
NORWAY	<i>Communications</i>	1/1/93-12/31/94 \$704,920
NORWAY	<i>Communications</i>	1/1/93-12/31/94 \$14,803
NORWAY	<i>Transportation, Environment</i>	1/1/94-12/31/94 \$70,492
AUSTRIA	<i>Health</i>	4/1/92-4/30/92 \$418,200
SWEDEN	<i>Social Sector</i>	1/1/90-12/31/93 \$1,088,064
SWEDEN	<i>Agriculture, Food, Forestry & Fishing</i>	1/1/92-12/31-92 \$3,378
GERMANY	<i>Privatization</i>	9/1/92-12/31/92 \$5,355,516

DENMARK	<i>Health</i>	1/1/92-12/31/92 \$3,100,000
SWEDEN	<i>Enterprise & Industry</i>	10/1/94-12/31/94 \$157,567
SWEDEN	<i>Agriculture: Land Development & Management</i>	9/1/93-12/31/94 \$427,783
SWEDEN	<i>Enterprise & Industry</i>	1/1/95-10/31/95 \$77,001
SWEDEN	<i>Agriculture: Land Development & Management</i>	1/1/96- \$511,670

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DONORS: NOVOSIBIRSK & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
AID	<i>Health:</i> Save the Children AIHA AIHA World Learning Children's Health Center	92/95 \$2,000,000 6/1/92 \$7,242,500 2/1/94 \$4,000,000 6/1/92 \$8,000,000 6/1/92 \$1,500,000
AID	<i>Privatization: Agri., enterprise & industry, financial sector</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Int'l Business & Technical Consultants (IBTCI) Boston Consulting McKinsey & Co. Russian Privatization Center (RPC) Barents Group Center for Financial Engineering in Development (CFED) Price Waterhouse Price Waterhouse Price Waterhouse Price Waterhouse Booz-Allen & Hamilton Abt Associates Bain Link Information Technology Int'l Information Technology Int'l Information Technology Int'l International Finance Corp. (IFC) IFC	4/1/93 \$2,754,110 7/22/93 \$6,439,819 10/29/93 \$8,611,597 4/1/93 \$1,785,819.63 4/1/93 \$1,753,000 \$16,490,893 11/1/93 \$3,896,205 7/1/93 \$116,627.02 4/1/93 \$4,063,055 8/1/93 \$13,104,391 9/1/92 \$1,184,311 1/1/93 \$2,124,225 11/8/93 \$1,805,624 9/1/94 \$1,004,809 4/1/93 \$4,400,000 10/1/93 \$369,117.40 2/1/94 \$169,139 8/1/94 \$59,716 1/1/93 \$2,600,000 6/1/92 \$6,112,000

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AID	<i>Small & new business:</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu US Peace Corps Junior Achievement Int'l Opportunity International State University of NY U.S. West VA Tech Citizens Democracy Corps (CDC) Citizens Democracy Corps University of North Carolina at Chapel Hill American-Russian Center (ARC), Un. Of Alaska-Anchorage Center for Citizen Initiatives (CCI) Center for Citizen Initiatives Fund for Democracy International Executive Service Corps International Executive Service Corps Washington State University/Pullman	92-95 \$7,000,000 \$26,800,000 3/1/93 \$1,365,000 \$1,380,446 \$2,027,634 \$10,000,000 \$5,000,000 \$2,000,000 \$4,000,000 \$1,002,538 \$500,000 5/1/93 \$6,650,000 \$1,000,000 7/1/93 \$4,200,000 \$4,000,000 2/1/92 \$9,912,520 7/1/92 \$724,795 \$2,400,000
Germany	<i>Train-the-trainer/Food production/distri./mktg</i>	\$116,617
Germany	<i>Trainee program Novosibirsk</i>	\$9,642
Germany	<i>Government services: Public Management</i>	n/a
Germany	<i>T/a</i>	n/a
EBRD	<i>Transportation: Air Transport</i>	2/9/96 \$15,248,664
TACIS	<i>Communications, Education</i>	\$92, \$910,000
TACIS	<i>Enterprise & Industry: Small & Medium Enterprises</i>	11/1/94 \$4,550,000
TACIS	<i>Health</i>	93, \$6,500,000

TACIS	<i>Transportation: Air Transport</i>	93, \$910,000
TACIS	<i>Energy: Enterprise & Industry</i>	15/2/95 \$9,100,000
TACIS	<i>Government Services: labour & Manpower</i>	10/31/94, \$3,250,000
TACIS	<i>Government Services: Local Government Services, Social Sector: Social Security</i>	5/26/95 \$1,100,905
TACIS	<i>Government Services: Local Government Services</i>	2/1/95 \$3,142,899
TACIS	<i>Agriculture, Food, Forestry & Fishing: Food Distribution & Marketing</i>	1/5/95 \$3,900,000
TACIS	<i>Energy</i>	8/21/95, \$2,726,283
TACIS	<i>Democratic Institution Building</i>	12/21/95, \$793,000
ISTC	<i>Energy: Energy Safety, Nuclear Safety</i>	10/1/94 \$815,000
ISTC	<i>Energy</i>	11/1/94 \$186,000
ISTC	<i>Environment: t/a</i>	11/1/94 \$499,000
Japan	<i>Health: Medical Equip. & Supplies, Pharmaceuticals</i>	6/1/93 \$22,902,521
OECD	<i>Agriculture, Food, Forestry & Fishing, Health</i>	1/1/91-12/31/93 \$83,066
OECD	<i>Communications: Media</i>	1/1/94 n/a
OECD	<i>T/A</i>	3/1/93-12/31/93 \$16,364

DONORS: VLADIMIR & OBLAST

DONOR	SECTOR/CONTRACTOR	IMPLEMENTATION DATE & AMOUNT
AID	<i>Privatization: Agri., enterprise & industry, financial sector</i> Deloitte Touche Tohmatsu Deloitte Touche Tohmatsu Int'l Business & Technical Consultants (IBTCI) Boston Consulting McKinsey & Co. Russian Privatization Center (RPC) Barents Group Center for Financial Engineering in Development (CFED) Price Waterhouse Price Waterhouse Price Waterhouse Price Waterhouse Booz-Allen & Hamilton Abt Associates Bain Link Information Technology Int'l Information Technology Int'l Information Technology Int'l International Finance Corp. (IFC) IFC	4/1/93 \$2,754,110 '93 \$6,439,819 10/29/93 \$8,611,597 '93 \$1,785,819 '93 \$1,753,000 \$16,490,893 '93 \$3,896,205 7/1/93 \$116,627.02 '93 \$4,063,055 '93 \$13,104,391 '92 \$1,184,311 '93 \$2,124,225 '93 \$1,805,624 '94 \$1,004,809 '93 \$4,400,000 10/1/93 \$369,117.40 2/1/94 \$169,139 8/1/94 \$59,716 '93 \$2,600,000 '92 \$6,112,000
Germany	<i>Government Services: Public Management</i>	n/a
Germany	<i>Enterprise & Industry</i>	n/a
Germany	<i>Government Services: Social Sector</i>	n/a
Germany	<i>Agriculture, Food, Forestry & Fishing</i>	n/a

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Germany	<i>Enterprise & Industry</i>	9/1/93-9/30/94 \$254,546
GERMANY	<i>Government Services: Public Management</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Agriculture, Food, Forestry & Fishing</i>	n/a
GERMANY	<i>Financial Sector: Banking</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
GERMANY	<i>Financial Sector</i>	n/a
GERMANY	<i>Energy: Gas & Oil</i>	n/a
GERMANY	<i>Financial Sector</i>	n/a
GERMANY	<i>Agriculture, Food, Forestry & Fishing</i>	n/a
GERMANY	<i>Enterprise & Industry</i>	n/a
EU	<i>Transportation</i>	1/11/92-4/30-94 \$2,600,000
EU	<i>Energy</i>	11/1/92-4/30/94 \$364,000
EU	<i>Energy</i>	3/27/96- \$5,850,000
EU	<i>Energy, Enterprise & Industry</i>	9/1/95-1/27/97 \$2,600,000
EU	<i>Energy</i>	1/31/96-3/31/97 \$1,300,000
ITALY	<i>Agriculture, Food, Forestry & Fishing</i>	96 \$494,201

GERMANY	<i>Government Services: Public Management</i>	1/1/93-12/31-93 \$179,487
GERMANY	<i>Privatization</i>	1/1/93-12/31-94 \$48,077
GERMANY	<i>Privatization</i>	1/1/93-12/31/94 \$160,256
GERMANY	<i>Government Services: Local Government Services</i>	1/1/93-12/31/93 \$140,064
GERMANY	<i>Education</i>	12/1/93-12/31/93 \$6,410
GERMANY	<i>Communications</i>	12/1/93-/31/94 \$382,655
GERMANY	<i>Agriculture, Food, Forestry & Fishing</i>	12/1/93-6/30/94 \$297,367
GERMANY	<i>Trade & Commerce</i>	8/1/93-2/28/94 \$308,642
SWEDEN	<i>Agriculture, Food, Forestry & Fishing</i>	1/1/92-12/31/92 \$3,378
GERMANY	<i>Social Sector: Housing</i>	7/1/92-12/31/92 \$400,520
GERMANY	<i>Trade & Commerce</i>	10/1/94-10/31/94 \$9,012
U.K.	<i>Education</i>	4/1/92-12/31/94 \$30,881

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