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TASK ORDER FOUR

FINAL REPORT

Annex 1 - Part 1

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ASSISTANCE TO GKI DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES

Contract # CCN-0005-C-00-3118
Task Order #4-0038-IBTCI

REPORT ON PHASE 1

Submitted to:
Russian Privatization Center
Moscow
and
United States Agency for International Development

Submitted by:
International Business and Technical Consultants Inc.
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Boston Consulting Group

March 22, 1994

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES

CONTRACT # CCN-0005-C-00-3118: TASK ORDER #4-0038-01 IBTCI

We are pleased to enclose your copies of the report on Phase 1 of the above task order in English and Russian. It is comprised of the Report and an annex. The annex has three parts: (A) interview notes; (B) background notes of individual specialists; and (C) relevant Russian legal documents in English. We regret that due to the limited time, we could not cover pharmaceutical equipment manufacturers in this report. They will be covered in Phase 2, should you so desire.

We wish to thank the Russian Privatization Center and USAID for guiding our work under this task order and look forward to receiving your comments on the report and its enclosures.

Thank you,

Sincerely,

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SECTION I

1.1 Objective of Phase 1

The objective of Phase 1 is to support the GKI with resources and expertise to allow it to draft legislation on privatization of the health-care industry.

1.2 Introduction

Phase 1 covered provision of expertise to GKI to discuss, brainstorm, and produce notes on three areas: (a) Hospitals and clinics; (b) Pharmaceutical and medical equipment manufacturers; and (c) Pharmaceutical wholesale and retail enterprises. This report covers the synthesis of the major recommendations for the three areas and a legal and regulatory framework within which privatization should take place.

This report also covers the findings and recommendations resulting from interviews carried out in five regions with hospitals, clinics, manufacturing plants, wholesalers, pharmacies, and health administrators.

The health-care sector requires unique consideration. Societal interests and principles of efficient financing must be combined to provide universal access to a basic package of care. The provision of care should be privatized or denationalized in order to promote quality care and service. Privatization strategies for Russia should thus accommodate (a) the different types of care and technology; (b) the nature of health-care financing; and (c) a variety of local circumstances.

Moreover, privatization legislation must encompass a regulatory framework that will (a) protect the consumers from private monopolies at any level; and (b) protect the financial viability of investors operating in a highly uncertain economic environment.

Although this report necessarily focuses on the deficiencies of the current health care system, it is important not to overlook Russia's core strengths in this field. Russia undoubtedly has the potential to create a sustainable, high-quality

health-care industry that can satisfy the needs of the Russian people. Russia's population is large enough to support an internationally competitive health-care industry. The population is well educated and includes a strong scientific community. Within a system that provides appropriate incentives, the future of the Russian health-care industry can be bright.

SECTION II
HOSPITALS AND POLYCLINICS

Although often fraught with dire predictions about social implications of changes, the health-care sector - specifically hospitals and polyclinics - does not require ownership and management by the government. Experiences in many other countries indicate that privatization or denationalization of these facilities encompasses a wide range of possibilities. In this section, we explore the financial and "business" implications of denationalizing hospitals and polyclinics, and in a later section we explore the legal frameworks under which such changes might occur.

We strongly believe that the aspirations of the present Russian system -- promoting health through quality care, efficiently provided, and on a universal basis responsive to clients' needs and desires -- are goals that can be achieved through privatization.

2.1 Benefits of Privatization

Successfully carried out, privatization or denationalization of hospitals and polyclinics would have these effects:

-- Preservation and enhancement of universal access and improvement in the quality of health-care provided to all Russian citizens by making them more equal customers in a private sector system, thereby providing for greater equality.

-- Enhancement of patient satisfaction by providing a greater range of health-care service providers to patients.

-- Decentralized, autonomous management and competing health-care institutions promoting: better health standards by eliminating the widespread inefficiencies in the provision of medical care; and greater responsiveness to clients needs and desires.

-- Budgetary discipline among providers that will insure their economic viability.

2.2 How to Privatize

2.21 ***Ensure a Clear Regulatory Framework.*** Recent legislation, described in detail in Section IV, provides extensive guidelines for Russia's privatization program. The Presidential Decree of 24 December, 1993 is perhaps the most specifically relevant to the health-care sector. With the exception of certain advanced medical training centers, scientific research institutes, orphanages, nurseries, and homes for the elderly, it allows the privatization of hospitals and polyclinics.

2.22 ***Privatization Options and Methods.*** We believe that the health-care delivery system requires unique consideration because of its vital social importance. In forming the following recommendations for privatizing and denationalizing hospitals and polyclinics, we were cognizant of the uniqueness of the health-care sector and of the Russian experience. (More detailed legal analysis on options and methods is contained in Section IV of this paper.)

We believe that straightforward private ownership should be encouraged and supported. Despite the emotional implications often associated with health-care, it is a service fully capable of being supplied by privately-owned firms. Privatization can result in better care, lower costs to patients, and enhanced patient satisfaction.

In addition to for-profit hospitals, we believe that privately controlled, non-profit or "charitable" hospitals should also be encouraged and supported. These could be "owned" by civic charities, labor unions, religious orders, fraternal societies, academic institutions, and similar organizations. In this regard, Russia could consider creating Self-Governing Hospital Trusts (SGHT) through denationalization of state hospitals, as the United Kingdom, Israel, and the Scandinavian countries have recently done. Through this process, hospitals become "public trusts" which are not-for-profit organizations. This status essentially removes the management of the institution from the government.

Such hospital trusts run on variable income from the sale of services rather than on fixed budgets based on inputs. Because money moves with the patients, SGHTs must focus their energies on the quality of their medical care and patient

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satisfaction if they are to remain viable. Under this system, control over the allocation of health-care funding of hospitals shifts from bureaucrats and hospital consultants to those who purchase the services in the community.

We strongly recommend that any hospitals or polyclinics that remain under government ownership contract out the management of the enterprise, property, and equipment to the private sector. Furthermore, for all hospitals owned by not-for-profit organizations, or retained by the municipal or state government, we recommend that services be contracted-out to private organizations. This would minimize inefficiency and keep costs down, thus benefiting the customers. There has been world-wide success with privatizing hospital management, food services, laundry and linen services, equipment supply and maintenance, and specialized medical services such as radiologists, anesthesiologists, and medical laboratory services.

2.3 Impediments

There is no question that the following impediments to a well functioning, cost-effective, high-quality system of medical care provision can best be resolved in the context of privatization. Among the most visible impediments are these:

2.31 ***Inhospitable Economic Environment.*** Hospitals and polyclinics in the Russian Federation suffer from the same economic problems as other institutions struggling to emerge from state ownership. They suffer from financial, logistical, and managerial difficulties, all of which impair the delivery of health care services and increase inefficiency and costs. Financial viability and debt problems are also major inhibiting factors as hospitals and polyclinics in Russia have not been operating on a commercial basis.

2.32 ***Insufficient Funding.*** Overall health expenditures as a percentage of GDP appear to be very low, around 3 percent, compared to 8 percent or more in most western countries.

2.33 ***Antiquated Equipment and Methodology.*** Lack of modern equipment, and medicine is another major problem faced by hospitals and clinics in Russia. Most hospitals and clinics are ill equipped, use antiquated practices (i.e. manual

blood counting), and do not receive required medicines on time. There are reports of major surgery conducted without anesthesia. A large proportion of doctors, nurses, administrators, and technicians in hospitals and clinics need to update their education and training to learn how to apply more effective medical protocols and health care management techniques. Within these constraints, there are many good and dedicated professionals. Standard measures of efficiency and effectiveness, such as average length of hospital stays suggest that Russian medical protocols are substandard. Health-care in Russia seems to focus on treatment, rather than prevention.

2.34 ***Substandard Conditions.*** Hygiene standards are a major problem in most hospitals and clinics. Additionally, the long hospital stays (24 days on average) create an environment in which general infections spread rapidly. Russian hospitals, especially maternity wards, suffer from a much higher degree of secondary infections than most western medical institutions. The levels of health as measured by certain key variables such as life expectancy and infant mortality are below western norms.

2.4 Considerations for Optimal Privatization

In our judgment, adoption of the following measures would provide a practical and workable framework as well as incentives needed to attract investment in a progressively privatized health-care delivery system.

2.41 ***Maintain Strong Focus on Improved Health-Care.*** The increased efficiencies of a privatized health-care system will result in financial savings that must be devoted to improving the quality of health-care for all citizens. Given that health-care statistics, life expectancy, and other health-care indicators are moving in the wrong direction, GKI and other proponents of privatization must make clear that the primary goal of the privatization effort is improved health-care for the population. This is both a humanitarian and political imperative. Effort should be made to coordinate foreign aid programs targeted on health-care with the privatization effort in order to maintain the primacy of this focus.

2.42 ***Establish Compensation Mechanisms.*** In most situations the government sets the fees and compensation mechanisms for institutions operating under public finance. Consequently, as medical institutions become private they need to be assured that compensation mechanisms will protect their economic viability and fair return on their investment. Such mechanisms and structures are not yet in place, although stipulated in the Decree issued on October 11, 1993.

2.43 ***Provide Equal Access to Patients.*** Private and denationalized institutions need to be guaranteed the same access to patients and resources as public institutions. In the current system, private institutions have no access to publicly financed patients. This may be a serious matter especially during the period of transition when authorities with vested interests may try to discriminate against private entities.

2.44 ***Demonopolize.*** The monopolies that dominate the Russian health scene need to be broken up. Replacing state monopolies with private monopolies should absolutely not be the result of any privatization program.

Large polyclinics (i.e. those with 200 employees) should be and can be broken up (on the same premises) into smaller, more specialized, privately-owned units, including those that provide administrative and technical support to care providers. These large polyclinics should become private medical centers, a common and efficient concept for delivery of community care in other developed countries.

2.45 ***Offer Incentives to Potential Investors.*** The Russian government should conduct a proactive and extremely thorough search for investors in the health-care industry. This search should include, but not be limited to, leading hospital chains, franchisers, and other respected investors, both local and foreign. Russia has some special, high reputation hospitals which could be privatized by sale to for-profit institutions. The government should consider suitable tax credits and equitable state funding for services provided by private and public hospitals and polyclinics.

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2.46 ***Develop Training and Expertise.*** Substantial training and support will be required to upgrade the Russian health-care sector to modern medical techniques and the demands and methods of operating in a private sector environment. We recommend that a comprehensive management and medical training program be established as an integral and complementary element of the privatization process.

Ensuring the continuity of services as the health-care industry becomes privatized is vital. In areas where a single hospital or clinic is the sole provider of services, it is particularly important to undertake intensive preparation for the transition to private ownership(s). This preparation must include efforts to identify steps that must be taken to create an economically viable and well managed facility and to carry out those steps as part of the privatization strategy for that hospital or polyclinic. Contracting out the management services would be a useful transitional phase for those enterprises whose economic viability is doubtful.

2.47 ***Address the Special Issues of Rural Areas.*** Privatization should proceed in ways that do not disadvantage rural areas even more than their present status. By the same token, however, we believe that the special problems of remote and impoverished oblasts need not distort the privatization operation as a whole. The privatization process should proceed nationally, with the special needs of these areas addressed financially and medically as part of the Russian society's overall safety net.

We recommend that the fee structures for health-care services under the voluntary and compulsory insurance systems allow for substantial regional variations. The use of such market-based mechanisms will allow for financial incentives for doctors and health care providers to provide equal medical care to rural or remote regions in Russia, thus avoiding undesirable disparities in the quality of care and services. The U.S. private medical insurance industry makes widespread use of geographically determined "customary and reasonable" fees in paying health-care providers.

2.48 ***Develop the Role of Insurers.*** Special attention needs to be given to insurers in the health-sector and their relationship with providers. Insurers should be encouraged to act as catalysts for change. As the main purchasers of care,

instead of the state, these institutions can constitute the "front line" in reducing the role of the state in the management and provision of care.

2.5 Territorial Medical Associations

In the late 1980's, a small number of "Territorial Medical Associations" (TMA) were established to manage and provide treatment and preventative care in different geographic regions. This experiment took place in three areas: the city of Saint Petersburg, Kemerovskaya Oblast and Samarskaya Oblast. Other cities have been subsequently encouraged to experiment on their own because of ongoing changes in the Russian administration and economy. Financing under the TMA mechanism is marked by a transition from budgeting by line inputs to financing by standard definition of needs. Moreover, the TMA's have the option of obtaining additional sources of revenue through the sale of services to the population at large and to enterprises.

The concept behind the TMA model is closely related to the concept underlying Health Maintenance Organizations (HMO) in the United States. The HMO is essentially a private corporation (whether for-profit or not-for-profit) that becomes a "budget holder" and assumes the responsibility to provide care for an enrolled population. The TMA mechanism in Russia postulated radical changes aimed at decentralizing the management of medical-care institutions, and increasing their efficiency and responsiveness to consumers. A TMA may be comprised of polyclinics (for adults, children, stomatological diseases, and so on), women's consultation stations, dispensaries, hospitals, maternity hospitals, children's sanitoria, emergency care stations, and other services. The structure of each particular TMA is defined by local circumstances.

Polyclinics have also played a leading role in the TMA's. Polyclinic-based TMAs are primarily budgeted according to a capitation formula based the demographic characteristics of the registered population. These polyclinics have become "budget holders": they are allocated funds for medical services provided based on the sale of such services, rather than on fixed budgets based on inputs. Thus, consumer choice rather than bureaucratic decisions dictates the allocation of financial resources in the primary health-care sector. As a consequence, inpatient care at hospitals has declined, but overall medical services have increased. Despite

flaws which need to be rectified, the TMA experiment has been institutionally and politically bold, and conceptually innovative by international standards.

2.6 Financing of Hospitals and Clinics

Under the emerging insurance system, the government's role in financing health care will remain large. The compulsory mechanism, planned along the lines of the German and Dutch "Sick Funds," appears to be conceptually consistent with many major western models, and aims first and foremost to mobilize more resources for the health-care sector. When completely implemented, the insurance system can fundamentally change the structure of health service organization, management, and delivery consistent with most OECD nations. Ultimately, there will be gains in the quality of care and service. The funding mechanism is essentially a transparent "earmarked" tax on payrolls, reserved specifically for health expenditures. The central institutional feature is the creation of separate, social compulsory insurance funds at the national and territorial levels. The funds are to be established as independent, non-commercial finance and credit institutions. The national fund has the function of achieving cross-regional equity objectives.

However, the new mechanisms are not yet functioning fully in many regions. It will take some time before the insurance funds are fully in place, and the system has adjusted to the introduction of insurance. Legislation allows the insurance funds to purchase services from independent providers of care, or to actually own care facilities, thus becoming "Health Maintenance Organization-type institutions. Voluntary insurance programs under the new legal framework are also developing, and provide coverage over and above the compulsory program. Under the health insurance statute, the issue of insurance company ownership is open. Therefore, enabling legislation for privatization should address the various ownership possibilities including for-profit and not-for-profit (mutual) health insurance organizations.

We have not attempted to address the full subject of health insurance here. However, in the context of privatization, the key issue is whether the insurance funds can function effectively as separate purchasers of health care. Their financial viability, therefore, is a critically important element of successful

financing of increased health-care expenditures. Under the German and Dutch systems, for example, the Sick Funds are tightly regulated by their respective governments precisely out of concern for financial solvency. Obviously, operating in conditions of high inflation, as Russia is currently experiencing, dramatically underlines the importance of the financial viability of the insurance funds.

SECTION III
PHARMACEUTICAL SECTOR

The dismal state of pharmaceutical production and distribution in Russia is due mainly to the failure of central economic planning. Paradoxically, an already difficult situation was made at least temporarily worse by the breakup of the Soviet Union and its COMECON trading partners. Under the prior political arrangements, the pharmaceutical system was planned supra-nationally across Eastern Europe. The breakup left Russia critically short of vital production facilities.

Many of the relevant issues apply to both pharmaceutical manufacturing and distribution. Where appropriate, we address these issues as they apply to the entire pharmaceutical industry. However, issues specific to the certain sectors suggest that manufacturing and distribution be addressed independently.

This section highlights the benefits of a privatized pharmaceutical industry; outlines serious impediments to Russia's ability to meet its pharmaceutical needs in a reliable and cost effective manner; and offers considerations for legislation and other administrative and policy measures that could help achieve a maximally effective pharmaceutical supply system.[1]

3.1 Benefits of Privatization

Successfully carried out, privatization at all levels of the drug supply and distribution system would have these effects:

-- Competitive forces would help promote the unobstructed flow of needed pharmaceuticals.

-- Greater attention would be focused on the costs of production and distribution. The result should be significant gains in labor productivity.

-- Emphasis would be placed on building a strong domestic industry and market for well-accepted, mainly generic, drugs and with time, on creating an export market for drugs resulting from Russian research. The latter would require close adherence to internationally accepted research, clinical and manufacturing standards, yielding an obvious economic benefit, but even more importantly, a clear benefit to the public health.

-- Most important, a competitive, cost-efficient pharmaceutical sector would not only lower the cost of drugs and progressively lower the need for government subsidies, it would widen the availability of drugs, thus lessening the demand for more intensive and expensive forms of medical intervention.

3.2 How to Privatize

3.21 ***Ensure a Clear Supporting Legal Framework.*** Recent legislation, described in detail in Section IV, provides extensive guidance for Russia's privatization program. The Presidential Decree of 24 December 1993 is perhaps the most specifically relevant to the pharmaceutical sector. With the exception of those who produce or sell narcotics, it allows the privatization of pharmaceutical producers, wholesalers, and retail pharmacies. What would help to advance the aims of the new legislation are clear provisions to protect against the expropriation of privatized enterprises by the Government, protection against discrimination against foreign interests, and provisions to allow the expatriation of earnings and the free sale of property within Russia. It should also be made clear that private interests are not barred from majority or complete ownership of a privatized firm.

3.22 ***Privatization Options and Methods.*** We believe that considerations surrounding the pharmaceutical industry at all levels -- manufacturing, wholesale distribution, and retail -- are sufficiently analogous to other industries being privatized that options and methods previously utilized can be applied here as well. Obviously, the enabling legislation itself must take into account the particulars of pharmaceutical as opposed to other industries. More detailed legal analysis on options and methods is contained in Section IV of this report.

PHARMACEUTICAL MANUFACTURING

3.3 Impediments

There is no question that the following impediments to a well functioning, cost-effective pharmaceutical manufacturing sector can best be resolved in the context of privatization. Among the most visible impediments in the manufacturing sector are these:

3.31 ***Inadequate Manufacturing Base.*** Historically, as noted, the Soviet Union relied upon its former COMECON partners to supply the bulk of its final dosage form pharmaceutical needs. It was unprepared for the effects of COMECON's dissolution. With the collapse of communism, the rather well-developed pharmaceutical supply systems of Eastern Europe turned increasingly to the West for trading partners, who they judged to be better financed and more reliable than Russia and its sister republics.

3.32 ***Obsolete Plants.*** No new plant has been built in Russia in over fifteen years; some actually date from the turn of the century. These plants are vastly inefficient. They also pose some significant risks to the consumers of their inconsistent and often impure products and to surrounding populations, which are threatened by existing and continuing environmental destruction. Some western manufacturers who have observed the state of these facilities believe that the best hope for internal production is to start anew.

3.33 ***Antiquated and Excessively Complex Product Ranges.*** In a given therapeutic category, leading Russian products are often generations behind leading western products. Western companies are often unwilling to provide newer licenses, both for economic and quality control reasons. Some Russian companies produce as many as 150-200 products, creating complexity and increasing costs and the risks of contamination.

3.34 ***Inefficient Organizational Structures.*** The ratio of indirect to direct production employees is far too high. At the same time, marketing departments remain nonexistent or ineffective.

3.35 ***Inadequate Quality Controls.*** Only rarely does a Russian manufacturing facility operate in conformance with internationally recognized Good Manufacturing Practices (GMP). This not only constitutes a danger to public health, but effectively precludes the possibility of building a successful drug export market. With similar consequences, drug quality standards are suboptimal and not uniformly applied. Adopting GMP and updated quality standards will provide to privatized firms the obvious benefits of expanded market opportunities.

In contrast, the approval system for new drugs, which tended to be insular and inflexible, is changing dramatically. On February 15, 1994, the Russian Ministry of Public Health and the U.S. Food and Drug Administration reached final agreement on a plan to permit the marketing of products in Russia that have received approval by the FDA. It is possible that similar agreements will be reached with major European regulatory authorities.

3.36 ***Persistent Foreign Debt.*** A potentially serious deterrent to foreign cooperation and investment in Russian pharmaceutical production is the persistent outstanding debt owed by the Russians for supplies purchased abroad. While the payment of these long-standing obligations is not a prerequisite for privatization, positive action would vastly enhance the confidence of potential partners in investing in or collaborating in the privatization of Russian medical-sector enterprises.

3.37 ***Debt Among Enterprises.*** Management of existing debt at all levels of the system, and developing the mechanics to avoid a similar situation in the future, is an important concern in privatization.

3.38 ***Inhospitable Economic and Policy Environment.*** Structural problems are multiplied by the difficult economic and policy environment in which drug producers must conduct business. High levels of receivables, rampant inflation, and the unavailability of credit are problems which, while not specific to this sector, nonetheless affect it tremendously.

3.39 ***Emerging Legal Structure.*** There is perhaps no greater deterrent to privatization and foreign investment than the lack of a consistent legal structure to undergird the formation of private enterprise. Legislation described in Section IV, demonstrates Russia's determination to address these concerns.

3.4 Considerations for Optimal Privatization

In our judgment, adoption of the following measures would provide a practical and workable framework as well as incentives needed to attract investment in a progressively privatized pharmaceutical production system.

3.41 ***Ensure the Protection of Intellectual Property.*** The law on Foreign Investments in the RSFSR guarantees to foreign-owned enterprises at least the same rights of intellectual property as apply to Russian citizens and enterprises. While no additional legislation appears necessary, it would be helpful to provide more detailed elaboration of patent, trademark and copyright protection.

3.42 ***Offer Incentives to Potential Investors.*** The Government should conduct a proactive and extremely thorough search for investors in the pharmaceutical sector. This search should include, but not be limited to, leading international research-based manufacturers, generic manufacturers, and other respected investors, both domestic and foreign. The Government should consider suitable tax credits, guaranteed purchase agreements, assistance in locating suitable property, and indemnification against environmental risks.

3.43 ***Develop Training and Expertise.*** Although some factory directors are prepared to take on the role of a private entrepreneur or manager, these skills and attitudes need to be nurtured and developed. Substantial training and support will be needed for manufacturers to adapt to private sector methods and demands.

3.44 ***Avoid Long Term Tariffs.*** The imposition of tariffs to protect local production could result in lower quality, higher cost products and should be avoided.

3.45 ***Integrate Quality Improvements.*** Consistent with our recommendations in Section 2.41 about health-care quality improvements as an integral and complementary element of the privatization program, we recommend that health-care sector aid from foreign assistance agencies be used to provide higher quality and more modern pharmaceuticals to Russian citizens. This will meet both the medical needs of the population and the needs of the privatization program as it enters into this politically sensitive field.

Additional Policy Changes

While not needed to accomplish privatization, important changes are needed to create an environment in which privatization can flourish in the pharmaceutical sector and which are critical to the long term success of the industry generally.

3.46 ***Establish and Enforce Production and Quality Standards.*** Considering the obsolescence of Russia's manufacturing and distribution base, the prospect of achieving compliance with internationally recognized Good Manufacturing Practices (GMP), Good Laboratory Practices (GLP), and Good Clinical Practices (GCP), at least in the short term, is not great. Nevertheless, if Russia's pharmaceutical sector is to achieve international recognition and ultimately develop a profitable export market for drugs emerging from research within the Republic it must begin to incorporate these guidelines among its regulatory requirements and encourage, if not initially require, conformance.

3.47 ***Remove Needless Barriers to the Introduction of New Therapeutic Agents.*** As noted earlier, the Russian Ministry of Public Health has formed an agreement with the U.S. Food and Drug Administration to facilitate the marketing in Russia of U.S. approved drugs. Similar arrangements should be made with the regulatory agencies of other countries in whom the Ministry has confidence. At the same time, it is important to build on the strength of Russia's internal regulatory capabilities, particularly to evaluate new therapies developed within the country. The Government is working with a number of international organizations toward that goal.

3.48 ***Provide Incentives for the Production of Essential Drugs.*** To lower the humanitarian and economic costs of ineffective treatment, the government should come to agreement on a list of essential drugs based on the list promulgated by the World Health Organization, and use the list to provide incentives for existing and newly privatized operations to meet pressing needs.

3.49 ***Review and Update Drugs Approved for Marketing.*** At the same time, it would be useful to conduct a review of drugs for which evidence of safety and effectiveness was never required, and remove from the market those lacking such evidence. It may be possible to invoke the experience of countries which have already conducted such reviews and reduce the time and expense needed to conduct an independent study.

PHARMACEUTICAL DISTRIBUTION

3.5 Impediments

There is no question that the following impediments to a well functioning, cost-effective pharmaceutical distribution system can best be resolved in the context of privatization. Among the most visible impediments in the distribution sector are these:

3.51 ***Monopolistic Control of Wholesale Distribution.*** The drug distribution system of Russia includes approximately 80 wholesale operations which historically have had monopoly control of drug supply within their defined region. These "synthetic" monopolies have been reinforced by difficulties local pharmacies face in purchasing drugs directly from producers or importers. This economic inefficiency is reflected in wholesale markups of 10-15 percent, and in some areas (i.e. Irkutsk and Vladivostok) as high as 35 percent, contrasted with typical western markups of 5-8 percent. These regional monopolies are starting to erode, however, particularly around Moscow. There is no rule barring formation of wholesale operations and, indeed, new wholesale operations are being organized, some by foreign interests. The Moscow area is by far witnessing the most lively competition among wholesalers.

3.52 ***Inefficient Distribution Methods.*** Recognizing the need to handle large numbers of small units, advanced drug distribution systems typically include product coding and automated methods of inventory, stocking, and financial control. Understandably, these are generally lacking in Russia, contributing further to regional shortages, stock loss, delayed delivery, reduced turnover, and high costs. Transportation is another serious distribution problem. Because of the unreliability of delivery service, including pilferage, consignees typically feel constrained to take possession of drug purchases directly from distributors. Equally serious are difficulties in making payment for purchased pharmaceuticals, circumstances requiring bank-to-bank transfers which can take from days to weeks to accomplish. Communication problems with wholesalers are also cited by drug producers.

3.53 ***Economically Insecure Retail Distribution.*** While retail pharmacies are not numerous in relation to the Russian population (1 for each 9200 inhabitants in Russia versus 1 per 5000 in the United Kingdom and 1 per 2600 in France), they are only beginning to supply so-called "front-end" consumer products, such as cosmetics and convenience items, that compose a substantial proportion of pharmacy sales in most nations and contribute significantly to their profitability. The constraint on earnings resulting from this lack of product diversity is compounded by economically inefficient reimbursement methods. Currently, retail drugs are priced at a 50 percent markup on manufacturers' prices, reduced by a 10-15 percent (or as high as 35%) markup on manufacturers' prices for wholesale distribution. Given the 50% cap on distribution margins, coupled with wholesaler inefficiencies, pharmacies' profits are close to zero.[2]

3.54 ***Inhospitable Economic and Policy Environment.*** As with the manufacturing sector, these structural problems are multiplied by the difficult economic and policy environment in which drug distributors must conduct business. High levels of receivables, rampant inflation, and the unavailability of credit are problems which, while not specific to this sector, nonetheless affect it tremendously.

3.55 ***Emerging Legal Structure.*** As in the manufacturing sector, there is perhaps no greater deterrent to privatization and foreign investment than the lack

of a consistent legal structure to undergird the formation of private enterprise. Recent legislation described later in this paper demonstrate the Russian government's determination to address these concerns

3.6 Considerations for Optimal Privatization

In our judgment, adoption of the following measures would provide a practical and workable framework as well as incentives needed to attract investment in a progressively privatized pharmaceutical distribution system.

3.61 ***Develop a Competitive Distribution System.*** Some officials of western firms based in Russia cite the distribution system as perhaps the single most pervasive block to an effective pharmaceutical sector. While in some areas regional monopolies still control the distribution of pharmaceuticals, new competition is emerging in more heavily populated areas. We believe the Government should encourage further competition and investment in this vital area, requiring as a condition of license that the wholesaler carry a full line of needed therapeutic agents, at least those included on what should emerge as a meaningful essential drugs list.

While it might prove difficult because of firm local control, it is also worthwhile to consider the possibility of bundling geographically dispersed wholesalers with the aim of creating privatized national wholesale corporations. Administering or managing such a transition could prove difficult. Having as few restrictions as possible, i.e. freely granting wholesale licenses, is a way to achieve a competitive and efficient distribution system. It will in any case probably be faster, especially if foreign distribution groups are invited to apply for licenses.

The issue of wholesale markups also needs to be considered. While this may not be critical in some heavily populated areas such as Moscow, where margins may be no greater than in the West, it is an issue in less densely populated areas.

3.62 ***Reform Retail Pharmacy Operations.*** Retail pharmacies ought not be given the continuing incentive to dispense high cost products where less expensive alternatives are available. Reimbursement on the basis of a uniform negotiated dispensing fee would reduce that incentive. Like wholesale operations, retail pharmacies, singly or in groups, should be attractive for privatization. In some countries ownership of pharmacies is limited to pharmacists. Such a restriction, even though it would offer some protection to individual privatized pharmacies, would simply inhibit beneficial competition. In any event, it is likely that individual pharmacies would predominate for some time before the possible emergence of western-style chain operations.

3.63 ***Develop Training and Expertise.*** Although some pharmacy directors and warehouse managers are prepared to take on the role of a private entrepreneur or manager, these skills and attitudes need to be nurtured and developed. Substantial training and support will be needed to private sector methods and demands.

3.7 Financing of the Pharmaceutical Industry

The current price control system needs to be changed. Producers are now allowed a 30 % markup over costs, but manufacturers are not permitted to include all real costs, (i.e. the interest paid on borrowed credit and some labor costs.) In addition the costs of raw materials must often be paid in advance, whereas payments for finished products arrive much later. Given present inflation levels, profitability is problematic at best. Even beyond inflation, a cost-plus pricing system sends all the wrong signals to current and potential investors. There is no incentive to improve efficiency because costs can simply be passed on to consumers. Moreover, the 30 % cap limits the amount of profit available for reinvestment in an industry in dire need of restructuring. We recommend eliminating the margin cap, and allowing market forces to set appropriate producer prices.

Wholesalers and retails have similar limits to what they can mark up, although survey information tends to indicate that adherence to the wholesaler and retailer price caps varies markedly from region to region. Economically, these

artificial price controls have the same adverse business consequences at the wholesale and retail levels as do the markup caps in manufacturing.

Paying for pharmaceuticals at the consumer level remains a major issue. Under the new health insurance legislation, pharmaceuticals are not expressly covered, although they are not excluded. In drafting new legislation, we recommend that consideration be given to covering pharmaceuticals from both the compulsory and voluntary health insurance funds, thus increasing the likelihood that adequate financial resources would be available.

It would be most efficient to make reimbursements at the consumer level, perhaps differentially based on the therapeutic importance of specific classes of drugs, and eliminate subsidies at the manufacturers' level, the latter simply protecting production inefficiencies. Given the experience in western countries, we believe the distortions introduced by complete reimbursement of medical costs through insurance companies can and should be avoided. It would be important to encourage competition by not limiting reimbursement to domestically produced drugs. These changes will provide more market-oriented financial systems, and will be a substantial incentive in attracting foreign investment at all levels.

Tariffs on pharmaceuticals are another important financing issue. At present, Russia appears to be duplicating Poland's ill-advised policy of allowing tariff-free imports of finished forms, while imposing tariffs on imported active substances. Not only does such a policy fail to protect local producers, it actively discriminates against them. Tariffs on active substance imports -- as well as tariffs on production equipment -- should be eliminated. By the same token, requirements for the domestic production of "strategic" drugs (however defined; itself a highly problematic question) should be held to an absolute minimum. Such production would undoubtedly have to subsidized by the government, thus absorbing scarce resources, and further distorting market pricing patterns.

SECTION IV
LEGAL FRAMEWORK

4.1 Legislative Foundation

A number of overlapping pieces of legislation and Presidential Decrees already exist to provide legal guidance for the Russian Federation's privatization program. The most important here are:

-- Law of the "RSFSR on Privatization of State and Municipal Enterprises in the RSFSR," dated 3 July 1991; as amended by the Law of the Russian Federation on "Amendments and Additions to the Law of the RSFSR on Privatization of State and Municipal Enterprises in the RSFSR," dated 5 June 1992;

-- State Program of Privatization of State and Municipal Enterprises in the Russian Federation, adopted by the Supreme Soviet of the Russian Federation on 11 June 1992, as subsequently amended;

--Law of the RSFSR on "Foreign Investments in the RSFSR," No. 1534, dated 4 July 1991; and

--Decree of the President of the Russian Federation on the State Program of Privatization of State and Municipal Enterprises in the Russian Federation, No. 2284, of 24 December 1993.

The most directly pertinent here is the last, hereinafter referred to as the "Presidential Decree on Privatization of 1993" (or, the "Decree"). This Decree provides that by 1 March 1994, the Council of Ministers of the Government of the Russian Federation (hereinafter, the "Council of Ministers") prepare draft laws of the Russian Federation "On the Privatization of Public Health Institutions and Pharmaceutical Institutions and Enterprises." (Decree, Preamble, Sec. 2, Para. 5). The Decree also provides that by 25 January 1994, the Council of Ministers shall prepare "appropriate changes" to current Russian Federation tax legislation. (Decree, Preamble, Sec. 2, Para. 9) Section 2 of the Decree specifies deadlines for

several other changes in the authorities set out above, many of which have already not been provided by the deadlines set in the Decree.

Consistent with the Decree, the State Program on Privatization of State and Municipal Enterprises in the Russian Federation (hereinafter, referred to as the "State Program")seeks, inter alia:

> -- to form a broad strategy of private owners as an economic basis for market relations;...
>
> -- to complete privatization of the majority of the objects of 'small privatization' and, on the basis of this, to accelerate the development of the commerce and service spheres;
>
> -- to complete, for the most part, privatization of large and medium-scale enterprises of industry and constructions;... and
>
> -- "Public health institutions and enterprises, and also pharmaceutical institutions, pending the passage of a law or other legislative aspects of the Russian Federation, shall be privatized by a special procedure established by the Government of the Russian Federation." (Decree, Title I, Paras. 5,8,9, and 21)

The Presidential Decree on Privatization of 1993 provides four broad classifications of Federal "Objects and Enterprises Based on the Possibility of Privatization Thereof." (Decree, Title II) These are: (1) enterprises prohibited from privatization (Decree, Title II, Sec. 1); (2) enterprises permitted to be privatized only by a decision of the Government of the Russian Federation (Decree, Title II, Sec. 2); (3) enterprises permitted to be privatized only by a decision of the GKI of Russia,[3] taking into account the opinions of sectoral ministries and departments (Decree, Title II, Sec. 3); and (4) enterprises permitted to be privatized by state and municipal governments and other local governments. (Decree, Title II, Sec. 4)

In the health-care sector, a summary of how these institutions break down is as follows:

-- hospitals: to be privatized by procedures established by the Government of the Russian Federation;

-- university health care facilities and hospitals: to be privatized by procedures established by the Government of the Russian Federation, although certain advanced medical training centers are prohibited from privatization;

-- polyclinics: to be privatized by procedures established by the Government of the Russian Federation;

-- scientific research institutes: prohibited from privatization;

-- orphanages, nurseries, homes for the elderly: prohibited from privatization;

-- medical equipment manufacturers: permitted to be privatized, except for certain enterprises involved in the production of prosthetics;

-- pharmaceutical producers: permitted to be privatized, except for manufactures producing narcotic drugs legally, and which process crops bearing narcotic substances;

-- pharmaceutical and medical supply wholesalers: permitted to be privatized except those wholesalers which distribute narcotic substances, and only by decision of the Government of the Russian Federation;

-- distributors and wholesalers: permitted to be privatized only by decision of the Government of the Russian Federation; and

-- pharmacies: to be privatized by procedures established by the Government of the Russian Federation.

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The Law of the Russian Federation on Health Insurance of the Citizens of the Russian Federation of 1991, as amended in 1993, could also play a major role in a privatized health-care system. The insurance program is in two forms: compulsory and voluntary. "Compulsory health insurance is part of the state social insurance, and provides equal abilities for all citizens . . . in obtaining medical . . . care, which is funded through compulsory medical insurance funds. . . . Voluntary health insurance is carried out on the basis of Programs of Voluntary Health Insurance, and provides the population with any medical and other services not covered. . .. " by compulsory insurance. (Chapter 1, Article 1)

Interestingly, the statute explicitly states, however, that "health insurance companies are not part of the health care system. (Chapter 3, Article 14) The Chapter further states explicitly that Government bodies supervising the health care system and medical facilities cannot set up health insurance companies." (Id.) Paradoxically, however, such government bodies may own shares of health insurance companies not exceeding ten percent of their capital funds. (Id.) The statute makes no explicit reference to the handling of pharmaceutical products.

Both the compulsory and voluntary stages of health insurance are in their infancy, and much remains to be seen about how they will actually operate, and at what cost.

4.2 The Process of Privatization

Within these broad outlines, obviously several models are available, and we shall consider those appropriate for the different kinds and sizes of health-care enterprises. Nonetheless, although the process of privatization in Russia is still in its early stages, a pattern for that implementing process has emerged. We believe that adhering to that process in the health-care sector will facilitate the rapid and efficient privatization of health-care organizations at both the national and local levels.

4.21 The first step is the valuation of assets to be privatized, pursuant to Addendum No. 2 to GKI's Provisional Regulations of 1992 on that subject, as they may be amended. Valuation is important both for determining an enterprise's initial price for sale, but also to determine the level of authorized capitalization of

the joint-stock company. This step requires a full inventory of fixed assets, intangible assets (such as rights to intellectual property, and long-term investments) and financial assets. Liabilities -- depreciation, accounts payable, and long-term loans are then deducted to obtain the net asset value. The pertinent standing commission on privatization would then issue a certificate of valuation, and the management of the state or municipal enterprise being privatized would be required to preserve the assets of the entity pending the actual transfer of ownership.

The asset preservation feature is especially important to potential foreign investors when sensitive intellectual property rights may be at risk during a transition. Moreover, the issue of inflation between the time of valuation and the time of the potential sale -- not addressed in the GKI regulations and presently a serious problem --must be resolved. New legal standards on the inflation issue must be developed, perhaps using dollars or an international basket of currencies, because the financial uncertainties which otherwise exist will certainly deter foreign trade or investment.

4.22 The second step is developing applications for privatization, pursuant to Addendum No 1 to the GKI's Provisional Regulations of 1992, as they may be amended. Such applications are to be filed with the district or city Committee for the Management of State Property, and the GKI's local agency where the enterprise is located. The local GKI's would be required to accept or reject any application, passing those accepted on the local commission on privatization. The commission, in turn, would draw up an operational plan to accomplish privatization, and return it to the GKI. Since this procedure could be somewhat cumbersome, strict adherence to tight time lines in processing applications is essential. Otherwise, both the transaction costs and "political" concerns of applicants would rise, and the applicants might withdraw to seek greater efficiency, certainty and profits.

4.23 The third step is the bidding and sales process, to determine who will actually own the privatized enterprise, once sold. The bidding process is open to entities and persons who have submitted the approved applications described above, and there are some advantages created in certain circumstances for the

existing work forces of state and municipally owned enterprises. Technically, the sales process involves "auctions" and two types of "tenders."

The procedural and substantive distinctions between these methods may have considerable importance in privatizing the health-care industry. Much depends, however, on the underlying policy motivating the extent and pace of privatization decisions, as the following discussion demonstrates.

The standard "auction" involves a transaction under which the property sold simply goes to the highest bidder in an open bidding process. By contrast, following the "commercial tender" procedure (conducted pursuant to Addendum No. 4 to the GKI's 1992 provisional regulations), requires that the buyer must be the highest Russian or foreign bidder, who is required to pay a bid deposit of ten percent of the estimated total price, and meet certain other procedural requirements. Finally, there is the "investment tender," under which a bidding commission in effect represents the seller and evaluates the bids on more than financial considerations. Addendum No. 5 to the GKI's regulations provides that additional "suitability" factors such as employment guarantees, investment commitments, social provisions or other considerations may be among the issues raised during an investment tender.

"Auctions" and "commercial tenders" are fundamentally the same in concept. Auctions are typically most suitable for small enterprises -- retail outlets such as pharmacies, polyclinics and medical practices, and are also usually the fastest and least-complicated way to consummate a transaction. Commercial tenders can also be suitable for small enterprises, but they are also appropriate to spin off medium-sized enterprises such as some pharmaceutical wholesalers. Investment tenders tend to be appropriate vehicles for the disposition of the largest industries because of the greater likelihood of obtaining so-called "strategic partners," and because the government is entitled to impose conditions which may be deemed necessary for economic or social reasons. Nonetheless, we would recommend no hard-and-fast rules for privatization transactions in the health-care industry, but rather utilizing the various sales methods appropriate on a case-by-case basis.

4.24 The fourth step is the transformation into joint-stock status of state and municipally owned enterprises, pursuant to Addendum No. 3 of the GKI's 1992 provisional regulations, as they may be amended. The relevant Committee for the Management of State Property would create the privatized company pursuant to the approved privatization plan, and file a registration request and articles of incorporation with the local body in charge of official representation. Upon registration, the state or municipal enterprise shall be considered a joint-stock company and the assets transferred to the new company's books. The new company will be the legal successor of the earlier enterprise, with all of its rights and liabilities.

4.25 Finally, consideration should be given to privatization funds created by the employees of state and municipally owned enterprises, pursuant to Addendum No. 6 to the GKI's 1992 provisional regulations, as they may be amended. These funds provide a method for employees to build up assets by which they could ultimately be used for the employees to bid for equity interests when their employers are privatized. There are certain restrictions to contributions to privatization funds to avoid diverting the assets of the firm (or proceeds from the sale of assets) into the funds.

4.3 Legal Considerations for Optimal Privatization

To accomplish privatization in the health-care sector, a number of different models may be considered. As earlier sections of this Report have indicated, the varying conditions of the sectors involving the provision of medical care and pharmaceuticals may well indicate alternative ownership solutions. We consider issues of subsidies and price controls in the next section, recognizing fully that these issues often overlap. We also understand the traditional health-and-safety regulatory framework that surrounds every health-care system worldwide, as discussed above. Nonetheless, we believe that, in any market-driven system, the legal issues surrounding private ownership are fundamental, and we therefore address them first.

4.31 ***Pharmaceutical Manufacturing.*** In the field of pharmaceutical manufacturing, we see no reason why straightforward ownership by entirely privately-owned joint-stock companies is not justified. This model has been fully

satisfactory in the United States and other OECD countries, and there is no economic, political or legal reason to believe that it cannot succeed in a privatized Russian economy as well. Private ownership by partnerships or even individuals is also possible, assuming adequate economic resources to make the purchase at the time of privatization or thereafter.

Assuming full opportunity for foreign investment in this sector, moreover, we see no monopolization problems that cannot be handled by generally applicable antitrust standards. Pharmaceutical manufacturing appears to be particularly attractive for securing "strategic partners" worldwide, who will have significant economic interests in restructuring the firms to make them more competitive and cost-efficient.

4.32 ***Pharmaceutical Wholesaling.*** Pharmaceutical wholesaling can also be handled by the same private ownership mechanisms. Here, however, we see greater potential antitrust problems if privatization is not carefully handled. Because of the existing structure of regionally-restricted distribution facilities, usually through "pharmaciyas" on an oblast-by-oblast basis, a simple transfer of the assets of existing enterprises to privately-owned companies could result in a series of sub-national wholesale monopolies. This result would be completely unacceptable. Obviously, privatization and demonopolization should go hand in hand, and we therefore recommend that options other than simple privatization of the approximately 80 pharmaceutical distributorships be required. For example, the enabling legislation for privatization could require that several wholesalers in different areas be privatized as a group. Such an approach could lead to eight-to-ten nation-wide wholesalers. Another demonopolized alternative would be a series of subnational wholesalers, which would be geographically competitive.

Conceptually, either model appears acceptable. It is critical beyond dispute, however, that whichever model is chosen, there must be no territorial restrictions or limitations on privatized wholesalers to compete. Otherwise, geographical monopsonies/monopolies at the wholesale level could frustrate the entire privatization program. We believe that market forces will ultimately determine the optimal structure of the Russian pharmaceutical wholesaling structure, so the important starting point is to prevent private monopolization (nationally or locally) at the opening stages.

4.33 ***Pharmaceutical Retailing.*** At the level of pharmaceutical retailing, we believe again that entire privatization is appropriate. There is simply no justification for continued governmental involvement in any retailing business, and pharmaceuticals are no exception. Nonetheless, in order to enhance the viability of retail pharmacies, we believe that enabling legislation should make clear that "pharmacies," however denominated, are also entirely free to sell non-pharmaceutical products. Such a possibility for diversity of sales would mitigate against sharp swings in pharmaceutical availability and prices, and also provide useful incomes for pharmacy owners. Similarly, while we believe that those actually charged with dispensing pharmaceutical products should be licensed to do so by appropriate authorities, we see no reason that ownership of pharmacies should be subject to any medical licensing requirements. Ownership should be open to anyone with sufficient purchasing power, willing to abide by a commitment to deal only in lawful pharmaceuticals, through licensed dispensers.

We recognize that there are some remote and rural areas where the present or even future availability of pharmaceuticals is limited. These same areas undoubtedly suffer from shortages of other critical commodities, and their particular needs may need special attention in the enabling legislation. We do not believe, however, that these relatively few problems should skew the privatization policy of the entire sector of retail pharmaceuticals. We also recognize that there will be unemployment caused by the necessary restructuring in the pharmaceutical industry, and we believe that attending to this misfortune should be the burden of society as a whole rather than the industry itself.

4.34 ***Hospitals.*** The privatization of hospitals is somewhat more complex. Even in most OECD countries, there has been a long tradition of government ownership of hospital facilities, whether at the national or local level. Nonetheless, there is also an extensive record of hospital ownership by not-for-profit institutions and conceptually analogous entities, and an increasing and impressive record -- especially in the United States -- of hospital ownership by for-profit companies. Hospitals require unique considerations that have equal importance in both the economic and legal realms, consequently we reiterate here in detail the privatization approaches found in Section II.

We recommend, therefore, a range of options for "privatizing" hospitals and related facilities. First, we believe that straightforward private ownership be permitted by the enabling legislation. Despite the emotional implications often associated with health care, it is a service fully capable of being supplied by privately-owned firms, often at a lower cost to consumers. Moreover, for-profit hospitals owned by chains have an impressive record in the United States of achieving economies of scale, which "singly-owned" hospitals would find impossible to achieve.

Second, we believe that legislation to create a not-for-profit, "charitable" hospital model should also be created. These could be "owned" by civic charities, labor unions, religious orders, fraternal societies, academic institutions, and similar organizations. Examples of implementing legislation for such ownership forms are widespread, and easily adopted to the Russian environment.

Other analogous legal forms, such as the quasi-nongovernmental "Self-Governing National Trust" ("SGNT") model in the United Kingdom and the legal structures and experiences for hospitals in Israel and Scandinavia are also available. In all of these cases, as with for-profit hospitals, the operation depends on fees for services, with no governmental budget to rely upon. The Russian Territorial Medical Associations mentioned above are similar to these international models.

Third, we understand the likelihood that municipal-level ownership of hospitals will remain highly prevalent in the near future. Accordingly, we recommend that the legal form of municipal corporations be expanded or created to include medical facilities. We further recommend that the officers and boards of directors of municipal hospital corporations be shielded from political influences, and that they be permitted to function on as economically viable basis as possible. Where the pertinent municipal government chooses to provide medical services as a local charity, we recommend that these services be implemented on a contractual basis between the hospital and the municipality, with all services fully reimbursed.

For all hospitals owned by not-for-profit organizations, municipalities, or retained by the government, we strongly recommend that the enabling legislation

permit the contracting-out of services to private organizations. Such contracting out would minimize inefficiency, and permit a more business-like atmosphere to enhance the provision of care and keep costs down, thus benefiting consumers. There has been world-wide success, for example, with privatizing hospital management, frequently using firms which themselves own private hospitals. Similarly, food services, laundry and linen services, equipment supply, and specialized medical services such as radiologists, anesthesiologists and X-ray technicians can be supplied by private firms to not-for profit and government-owned hospitals.

Moreover, it is also critical that implementing legislation not discriminate among hospitals because of their type of ownership. Non-governmental hospitals should have the same access to patients, physicians and medical resources as governmental facilities. Any other treatment would create a non-level playing field, and deprive health-care consumers of the treatment and financial benefits of competition.

4.35 ***Polyclinics.*** Polyclinics produce fewer conceptual legal and economic problems for privatization. Based on the experience of virtually all OECD countries, the private provision of primary health care should be the fundamental basis of national health services for most citizens. The model of "professional corporations" (even for sole practitioners) provides a basis for limited liability (except for medical malpractice claims and the like) that should afford sufficient economic protection for physicians and their assistants. Obviously, the traditional partnership model also remains available, so that, under either legal formulation, the physicians of polyclinics could remain associated together or pursue their separate practices as they saw fit.

4.4 Legal Prerequisites to Privatization

Perhaps the most pervasive economic aspect of the Russian health-care system -- other than government ownership -- is the complex system of cost controls and financial subsidies which pervade the entire system. Indeed, it is nearly impossible to obtain adequate information on the extent of subsidies, and the price controls are as often ignored in the breach as they are observed.

In the pharmaceutical industry, for example, wholesalers and retailers are presently limited in the markups they are allowed, meaning that at both levels they fail to achieve profitability, thus requiring governmental (usually municipal) subsidies. Polyclinics are actually forbidden even to charge for services, although that restriction has already begun to erode in practice. These same polyclinics, however, receive below-market rental rates for their facilities. The result is an economic and legal morass that unquestionably impairs the delivery of effective health-care services.

This system of subsidies and cost controls infects both the entire pharmaceutical industry and the structure of hospitals and polyclinics. There is no question that eliminating this system will cause disruptions, inconveniences and temporary shortages. Obviously, this is true for every sector of the economy, as are the problems of inflation and the unavailability of credit. Nonetheless, we believe that both the system of price controls and financial subsidies should be eliminated immediately upon privatization, or as soon as possible thereafter, if not before. Otherwise, it will simply not be possible to benefit fully from the privatization program.

4.5 Protecting Intellectual Property

As noted above, the business and financial implications of protecting intellectual property rights are critical both to a growing domestic Russian economy and to foreign investment. It is simply not credible to believe that pharmaceutical manufacturers, for example, which typically invest extremely large amounts of financial and human resources in research and development, and require years to reap a return on their investments will risk losing these investments in an economy which does not respect and enforce the concept and rights of intellectual property.

The Law of the RSFSR on "Foreign Investments in the RSFSR," No. 1534, dated 7 April 1991, noted above (hereinafter, "Foreign Investments Law") appears to recognize the importance of intellectual property rights. For example, the Law provides explicitly that "foreign investments" include "intellectual values" as well as other materials placed in Russia to derive profits or income. Foreign

Investments Law, Article 2) Moreover, Article 32 of the Foreign Investments Law states that:

> "The protection and execution of rights to the intellectual property of enterprises with foreign investments shall be guaranteed in accordance with the legislation in force on RSFSR territory. Enterprises with foreign investments shall conclude with their employees contracts in regard to the rights to objects of intellectual property created in keeping with the assignments confirmed by the enterprises' documents."

Finally, the Foreign Investments Law also provides generally that "In cases of nationalization or requisition, the foreign investor shall be paid prompt, adequate and effective compensation." (Chapter II, Article 7, Sec. 1)

Thus, at least in theory, the rights of foreign investors to protection of intellectual property rights is at least as great as that of Russians themselves. Legally, therefore, there does not seem to be additional authority required, although more elaborate statutory explication of patent, trademark and copyright protections would obviously be desirable. The intellectual property laws of almost any OECD country could serve as a model.

The real issue for the GKI and the government of the Russian Federation as a whole, is the political question of the enforceability of intellectual property rights. More than simply the legal form of protection is required, perhaps more for pharmaceutical products than any other major commercial commodity. Enforcement is essential. Accordingly, any steps toward privatization in the health-care sector must not only acknowledge the importance of private property rights, but permit mechanisms for their aggressive enforcement as well.

SECTION V
THE ROLE OF PUBLIC EDUCATION

A public education campaign is required to ensure success of the privatization of the health-care industry. Although a successfully privatized health-care system will ultimately provide higher quality care at a lower cost to the country, this is not readily apparent to all Russian people. Russia's socialist experience has left a residual fear and misunderstanding of privatization. The fear and misunderstanding become more powerful when the industry being privatized provides life saving services to one's family. Enhancing the public's knowledge about the transition programs is essential.

Moving toward non-government institutions, the possible use of "trusts" and other elements of the privatization program may be perceived as threatening to various constituencies. A primary objective of the campaign would be to build public support for changes by increasing knowledge about the process and by educating the public about how the increased availability of privatized medical care will result in a better quality of care in Russia. This campaign will provide a vital foundation for privatization of health-sector enterprises by creating the public support and understanding that must accompany the transformation of these industries.

Another reason why a public education campaign is needed is that there are public misperceptions that privatization and other activities leading to a market economy have left the Russian people worse off than the previous system while also threatening vested interests. Opponents of privatization claim that privatization threatens the social and economic fabric of the nation. Because of the sensitivity of health-care, public support for privatization of the health industry has significant political implications and must be garnered before programs are implemented

A public education campaign, then, must address several fundamental concerns of the Russian people. The campaign should:

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a) Provide information about the activities being undertaken to assure the public that privatization will result in less-costly and better-quality coverage and increased availability of drugs;

b) Build confidence among various key constituencies about the efficacy of the privatization program, to ensure that the changes are perceived as successful and in the interests of the Russian people;

c) Build grassroots support for the privatization efforts;

d) Educate the public about the provisions in the program that guarantee a basic health-care package for all citizens;

e) Serve as a catalyst for institution-building activities within the various disciplines to ensure economies of scale and cost effectiveness.

We envision that each element of the health program will involve a public education component, coordinated from Moscow, but decentralized to have the greatest local impact. The efforts would be part of the overall pilot program and roll-out to test various methodologies and to ensure replicability and sustainability in the future.

Elements of the public education program include:

a) National public polling and use of focus groups to ensure that specific concerns of the general public are addressed in the development and execution of the program;

b) Journalist briefings to ensure in depth positive reporting of the efforts underway;

c) "Bottom up" approach to build local, grassroots support for health care reform, and explain how even poorer areas would benefit from private companies;

d) Creation of a Steering Committee made up of leaders in each of the subindustries to ensure that industry concerns are addressed;

e) Initiation of an Investor Program to provide support and information and attract investment;

f) Establish connections between U.S. health-care institutions and Russian counterparts to exchange technology and experiences;

g) Sponsorship of conferences and seminars at which the benefits of health-care privatization are examined for those directly involved in the process;

The program would be two-pronged: 1) A nation-wide effort to provide information and education in the health-care sector; and 2) A program focused on each privatization activity in the respective fields.

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SECTION VI
CONCLUSION

The foregoing report has defined some of the critical issues surrounding the privatization of the pharmaceutical and hospital sectors (as well as associated services) of the Russian economy. We have identified the positive and negative elements of the present Russian system; considered the impediments to, and benefits of, privatization; provided extensive legal suggestions for the privatization process; and suggested the elements of a public awareness campaign to explain the implications of changes in this vital and sensitive sector.

We believe that the suggestions provided in this report will be operationally helpful as AID and the government of Russia struggle with the complex issues involved in privatization. In particular, we believe that privatization alone cannot completely ameliorate the health-care sector; other changes are necessary as well, in fields as diverse as tax law, financing and health-insurance structures, and other matters.

Nonetheless, we believe that the interest of the government of Russia in pursuing a privatization program in the health-care sector is worthwhile, despite the attendant difficulties. We hope that this report will be of material assistance in that effort.

1 Detailed information on these subjects, including methods of privatization, can be found in Annex B. Notes from interviews with health and pharmaceutical officials Annex A.

2 While current law sets the consumer price at 50 percent above manufacturer's price, retail prices 300 percent above that of the manufacturer's level have been observed.

3 GKI is the "State Committee of the Russian Federation for the Management of State Property. Its authorities were established in Article 4 of the 1991 Privatization Law. The GKI is responsible for ensuring "that a uniform state policy of privacy is maintained. . . ." (Article 4, Sec. 2), and has overall responsibility for drafting the State Program for Privatization.

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ANNEX B

ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES
FINAL REPORT ON PHASE 1

BACKGROUND NOTES

INTRODUCTION

As part of the Phase 1 study, IBTCI and BCG produced notes on three areas: (a) Hospitals and Clinics; (b) Pharmaceutical Manufacturers; and (c) Pharmaceutical Wholesale and Retail Enterprises. The following sections contain the background notes on these three areas.

Section 1: Hospitals and Clinics

Section 2: Pharmaceutical Manufacturing

Section 3: Pharmaceutical Wholesale and Retail Enterprises

ANNEX C

ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES
FINAL REPORT ON PHASE 1

SUPPORTING LEGAL DOCUMENTS

INTRODUCTION

Much of the Final Report on Phase 1 focuses on the legal framework of privatization. The following section provides relevant Russian legal documents for reference.

Section 1: Law of the "RSFSR on Privatization of State and Municipal Enterprises in the RSFSR," dated 3 July, 1991; as amended by the Law of the Russian Federation on "Amendments and Additions to the Law of the RSFSR," dated 5 June, 1992.

Section 2: State Program of Privatization of State and Municipal Enterprises in the Russian Federation, adopted by the Supreme Soviet of the Russian Federation on 11 June 1992, as subsequently amended.

Section 3: Law of the RSFSR on "Foreign Investments in the RSFSR," No. 1534, dated 4 July, 1991.

Section 4: Decree of the President of the Russian Federation on the State Program of Privatization of State and Municipal Enterprises in the Russian Federation, No. 2284, of 24 December, 1993.

Section 5: The Law of the Russian Federation on Health Insurance of the citizens of the Russian Federation.

Section 6: Basic Provisions of the Ordinance of the Council of Ministers, Government of the Russian Federation "On Measures for Enforcing RF Law "On Amendments and Additions to the RSFSR Law "On Medical Insurance of the Citizens in the RSFSR" (Dated October 11, 1993 No.1018)

ПРЕДЛОЖЕНИЯ ГОСКОМИМУЩЕСТВУ ПО РАЗРАБОТКЕ ЗАКОНОПРОЕКТА О ПРИВАТИЗАЦИИ ФАРМАЦЕВТИЧЕСКИХ И ЗДРАВООХРАНИТЕЛЬНЫХ ОРГАНИЗАЦИЙ И ПРЕДПРИЯТИЙ

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Заключение

ЧАСТЬ 1

1.1 Цели первого этапа

Целью работы на первом этапе является оказание поддержки Госкомимуществу специалистами для проведения экспертизы с целью составления проекта законодательного акта о приватизации в области здравоохранения.

1.2 Вступление

На первом этапе работы в Госкомимущество были представлены результаты экспертизы для обсуждения, мозгового штурма и составления трех докладов по темам: а) Больницы и клиники; б) Производство фармацевтических препаратов и медицинского оборудования; в) Предприятия оптовой и розничной торговли фармацевтическими препаратами. Данный отчет представляет синтез основных рекомендаций по этим трем темам и по законодательной базе приватизации.

Этот отчет также содержит выводы и рекомендации, составленные на базе опросов, проведенных в больницах, поликлиниках, на производственных предприятиях, в организациях оптовой торговли, в аптеках и руководящих органах здравоохранения пяти регионов России.

Область здравоохранение требует особого рассмотрения. Общественные интересы и принципы эффективного финансирования должны быть объединены с целью обеспечения единого подхода к здравоохранению. Система должна быть приватизирована и денационализирована для обеспечения качества медицинских услуг. Таким образом, стратегические направления приватизации в России должны предусмотреть: а) различные виды медицинских услуг и технологий; б) основы финансирования здравоохранения; в) разнообразные местные условия.

Более того, законодательство по приватизации должно создать регулирующую базу , которая а) защитит потребителя от частных монополий любого уровня; и б) защитит финансовые ресурсы инвесторов, действующих в условиях высокой экономической нестабильности.

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Хотя в данном отчете, безусловно, отмечаются недостатки существующей системы здравоохранения, очень важно учесть сильные стороны российского здравоохранения. Вне сомнения, Россия имеет потенциал для создания сильной, высококачественной индустрии медицинского обслуживания, которая может удовлетворить нужды россиян. Население России достаточно велико, чтобы создать конкурентноспособную систему здравоохранения. Имеется высокий уровень образования и сильный научный потенциал. В рамках системы, которая создаст должные стимулы, будущее российской системы здравоохранения может быть блестящим.

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ЧАСТЬ 11

БОЛЬНИЦЫ И ПОЛИКЛИНИКИ

Несмотря на часто звучащие предсказания об ужасных социальных последствиях изменений в секторе здравоохранения, ни данная сфера, в целом, ни больницы и поликлиники, в частности, не нуждаются в управлении со стороны государства. Опыт многих стран показывает, что приватизация и денационализация медицинских учреждений предусматривает широкий спектр возможностей. В этой части отчета мы рассмотрим финансовые и "деловые" аспекты денационализации больниц и поликлиник, а в следующей части рассмотрим юридическую базу, на основе которой могут проводиться изменения.

Мы полностью уверены, что стремления нынешней российской системы - предоставление качественных, эффективных медицинских услуг, соответствующих нуждам и запросам клиентов, - могут быть реализованы через приватизацию.

2.1 Преимущества Приватизации

Успешно проведенная программа приватизации будет иметь следующие результаты:

-- Общедоступные, более качественные медицинские услуги, предоставляемые всем российским гражданам на равных условиях в частном секторе системы здравоохранения;

-- Более полное удовлетворение запросов пациентов через увеличение числа учреждений, предоставляющих медицинские услуги;

-- Децентрализованное, автономное управление и конкурирующие лечебные учреждения, обеспечивающие: более высокие стандарты медицинских услуг через устранение широко распространенной неэффективности здравоохранения; и большее соответствие нуждам клиентов;

-- Согласованность бюджетов лечебных учреждений, что обеспечит их экономическую жизнеспособность.

2.2 Пути Приватизации

2.21 *Обеспечить четкую нормативную базу.* Недавно принятый законодательный акт, описанный подробно в Части IУ, предусматривает разносторонние направления российской приватизационной программы. Президентский Указ от 24 декабря 1993 года имеет, возможно, наиболее близкое отношение к здравоохранению. Он позволяет приватизировать лечебные учреждения, больницы, клиники, за исключением отдельных развитых медицинских учебных центров, научно-исследовательских институтов, детских домов, домов малютки и домов престарелых.

2.22 *Варианты и методы приватизации.* Мы считаем, что система здравоохранения требует особого подхода из-за ее социальной важности. При составлении следующих рекомендаций по приватизации и денационализации мы учитывали особенности этой сферы и российский опыт. (Более подробный юридический анализ вариантов и методов содержится в Части IУ данного отчета).

Мы считаем, что необходимо поддерживать проведение прямой приватизации. Несмотря на эмоциональное восприятие сферы здравоохранения, оно является той областью, где все услуги могут предоставляться частными фирмами. Приватизация может привести к повышению качества услуг, снижению затрат потребителей и к более полному удовлетворению потребностей пациентов.

Мы думаем, что необходимо поддерживать также идею создания частных, некоммерческих или "благотворительных" больниц. Они могут находиться в ведении благотворительных обществ, профсоюзов, религиозных общин, академических институтов и других подобных организаций. В этой связи, российские организации могут рассмотреть возможность создания Больничных Самоуправляемых Трастов (БСТ) при денационализации государственных больниц, как это было сделано недавно в Великобритании, Израиле и Скандинавских странах. В ходе этого процесса больницы становятся "общественными трастами", которые являются некоммерческими организациями. Такой статус, безусловно, выводит лечебные учреждения из-под контроля правительства.

Подобные больничные трасты действуют на основе доходов от продажи услуг, а не фиксированных бюджетных дотаций. Так как деньги поступают только вместе с пациентами, чтобы действовать успешно, БСТ должны сконцентрировать свои усилия на качестве медицинских услуг и на удовлетворении потребностей пациента. В соответствии с этой системой, контроль над распределением средств на больницы переходит от бюрократов и консультантов в руки покупателей услуг, т.е. пациентов.

Мы настоятельно рекомендуем, чтобы больницы или клиники, оставшиеся под эгидой правительства, доверяли управление учреждением, имуществом и оборудованием специалистам частного сектора в соответствии с системой контрактов. Мы советуем всем больницам, находящимся в ведении некоммерческих организаций, муниципалитетов или правительства, заключать контракты с частными фирмами на предоставление услуг . Это снизит неэффективность и расходы, что послужит выгоде клиентов. Во всем мире существует успешный опыт подобных контрактов на услуги по управлению больницами, снабжению их продуктами питания, стирке, поставке и наладке оборудования, на специализированные медицинские услуги радиологов, анестезиологиов, медицинских лабораторий.

2.3 Препятствия к Приватизации

Нет сомнений, что нижеперечисленные препятствия к созданию эффективной, высококачественной системы здравоохранения могут быть устранены в процессе приватизации. Среди наиболее явных препятствий можно перечислить следующие:

2.31 *Неблагоприятная экономическая ситуация.* Больницы и поликлиники Российской Федерации страдают от тех же экономических проблем, что и другие учреждения, пытающиеся освободиться от контроля государства. Они страдают от финансовых, материальных и управленческих трудностей, которые сказываются на качестве медицинских услуг и приводят к неэффективности и лишним затратам. Проблемы финансового выживания и долгов также являются основными сдерживающими факторами, так как больницы и клиники в России действовали не на коммерческой основе.

2.32 *Недостаточное финансирование.* Доля затрат на здравоохранение очень мала и составляет всего около 3% от объема валового национального продукта, тогда как в большинстве западных стран она составляет 8 и более процентов.

2.33 *Устаревшее оборудование и методология.* Недостаток современного оборудования и лекарственных препаратов является еще одной проблемой, с которой сталкиваются больницы и клиники в России. Большинство лечебных учреждений оборудованы очень плохо, используют устаревшие методики (например, анализ крови вручную), не получают вовремя необходимых лекарств. Есть свидетельства о хирургических операциях, проводимых без анестезии. Большинство врачей, медицинских работников, администраторов нуждаются в обновлении своих знаний о более эффективных методах лечения и управления. В таких условиях работают большинство квалифицированных и

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преданных делу специалистов. Стандартные методы определения эффективности здравоохранения, такие как средняя продолжительность пребывания в больнице, требуют обновления медицинских протоколов в России. Здравоохранение в России нацелено на лечение, а не на профилактику заболеваний.

2.34 *Нестандартные Условия.* Гигиенические и санитарные нормы являются главной проблемой в большинстве больниц и клиник. К тому же, длительное пребывание в больницах (в среднем, 24 дня) создает условия для быстрого распространения общих инфекций. Российские больницы, особенно родильные дома, страдают от повторных инфекций в большей степени, чем большинство западных лечебных учреждений. Показатели здоровья, измеряемые основными факторами, такими как продолжительность жизни и детская смертность, ниже западных норм.

2.4 Оптимальное проведение приватизации

По нашему мнению, проведение ниже перечисленных мер обеспечит практическую и действенную базу, а также стимулы для инвестирования в прогрессивную приватизированную систему здравоохранения.

2.41 *Поддержание пристального внимания на проблемах здравоохранения.* Повышение эффективности приватизированной системы здравоохранения приведет к экономии финансовых средств, которые должны быть потрачены на повышение качества медицинских услуг для всех граждан. При анализе статистических данных, продолжительности жизни и других показателей, которые ухудшаются, ГКИ и другие сторонники приватизации должны уяснить, что первоочередной задачей усилий по приватизации является улучшение системы здравоохранения. Это является как общечеловеческим, так и политическим императивом. Необходимы усилия по координации иностранной помощи в здравоохранении с программой приватизации, чтобы достичь единства целей.

2.42 *Создание механизма компенсирования.* В большинстве случаев правительство устанавливает ставки и компенсационные механизмы для учреждений, деятельность которых финансируется государством. Соответственно, при приватизации медицинских учреждений необходимо создать компенсационные механизмы для защиты их платежеспособности и обеспечения справедливых доходов от инвестиций.

Подобные механизмы и структуры пока не созданы, хотя и предусмотрены в Указе от 11 октября 1993 года.

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2.43 *Обеспечение равного доступа к клиентуре.* Необходимо гарантировать равный доступ к пациентам и ресурсам как для частных денационализированных учреждений, так и для учреждений, финансируемых государством. В существующих условиях частные учреждения не имеют доступа к пациентам, лечение которых финансируется государством. Это может стать серьезным препятствием в переходный период, когда должностные лица, преследующие собственные имущественные интересы, будут пытаться дескриминировать частные предприятия.

2.44 *Демонополизация.* Монополии, доминирующие в сфере российского здравоохранения, должны быть разрушены. Результатом приватизационной программы, ни в коем случае, не должна стать замена государственных монополий на частные.

Крупные поликлиники (например, где работает около 200 человек) должны и могут быть разделены (на тех же площадях) на более мелкие, специализированные частные отделения, включая те, которые призваны обеспечивать административную и техническую поддержку медицинскому персоналу. Подобные крупные поликлиники должны стать частными медицинскими центрами, что является распространенной и эффективной моделью в области здравоохранения в других развитых странах.

2.45 *Создание стимулов для потенциальных инвесторов.* Российское правительство должно осуществлять активный и чрезвычайно тщательный поиск инвесторов для отрасли здравоохранения. Этот поиск должен включать ведущие сети лечебных учреждений, франшизы и других надежных как местных, так и зарубежных инвесторов, но не ограничиваться этим. В России существуют некоторые специализированные больницы с высокой репутацией, которые могут быть приватизированы коммерческими учреждениями. Правительство должно разработать приемлемые налоговые льготы и справедливое государственное финансирование услуг, предоставляемых частными и общественными больницами и поликлиниками.

2.46 *Развитие обучения и опыта.* Для обновления российского сектора здравоохранения в соответствии с современными медицинскими технологиями и потребностями, а также методами работы в условиях частной собственности, необходимо организовать соответствующие обучение и поддержку. Мы рекомендуем внедрить общую программу обучения теории и практике управления в качестве составного, вспомогательного элемента процесса приватизации.

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Жизненно важно гарантировать преемственность предоставления услуг при приватизации отрасли. В тех районах, где больница или поликлиника являются единственным учреждением, предоставляющим медицинские услуги, чрезвычайно важно провести предварительную интенсивную подготовку перехода к частной собственности. Данная подготовка должна включать определение этапов работы по созданию экономически эффективного и правильно управляемого учреждения, а также проведение этой работы, как части стратегии приватизации соответствующей больницы или поликлиники. Заключение договоров на услуги по организации управления могло бы стать полезным шагом для учреждений с сомнительным экономическим положением.

2.46 *Учет специфических условий сельскохозяйственных регионов.* Приватизация должна проводиться таким образом, чтобы не создать дополнительных проблем для сельскохозяйственных районов. В этой связи, однако, мы надеемся, что специфические проблемы, свойственные для удаленных и менее обеспеченных областей, не исказят приватизационный процесс, как таковой. Приватизация должна осуществляться на общегосударственном уровне, а специфические потребности подобных регионов должны рассматриваться с финансовой и медицинской точек зрения как часть общего благосостояния российского общества.

Мы рекомендуем варьировать структуру ставок на медицинские услуги в рамках систем обязательного и добровольного медицинского страхования в зависимости от регионов. Использование подобных рыночных механизмов создаст финансовые стимулы для врачей и другого медицинского персонала для обеспечения качественного лечения населения отдаленных и менее обеспеченных районов России, и, таким образом, позволит избежать нежелательной дифференциации качества медицинского обслуживания. В системе частного медицинского страхования США широко используются "стандартные и разумные" расценки, определяемые по географическому принципу.

2.48 *Развитие роли страхователей.* Особое внимание в здравоохранении должно быть уделено страхователям и их взаимоотношениям с медицинскими учреждениями. Являясь главными покупателями услуг вместо государства, страхователи могут стать "передовой силой" в снижении роли государства по управлению и обеспечению медицинскими услугами.

2.5 Территориальные Медицинские Ассоциации

В конце 1980-х годов, в целях контроля за предоставлением медицинских услуг и профилактики заболеваний в различных регионах, был создан ряд "Территориальных Медицинских Ассоциаций" (ТМА). Этот эксперимент проходил в трех регионах: Санкт-Петербурге, Самарской и Кемеровской областях. В другим областях были созданы стимулы для самостоятельного проведения эксперимента в связи с изменениями административного и экономического устройства России. Механизм ТМА характеризуется переходом от целевого бюджетного финансирования в зависимости от постатейного прогнозирования затрат к финансированию на основе нормативов компенсирования. Более того, у ТМА есть возможность получения дополнительных источников дохода за счет продажи услуг населению и предприятиям.

Концепция модели ТМА тесно связана с концепцией, лежащей в основе Организаций Здравоохранения в Соединенных Штатах. Это - частная корпорация (коммерческая или некоммерческая), которая становится "держателем бюджета" и обязуется предоставлять медицинские услуги вовлеченному населению. В России функционирование ТМА требует радикальных изменений по децентрализации управления медицинскими учреждениями и повышения их эффективности и способности реагировать на нужды потребителей. ТМА может включать поликлиники (для взрослых, детей, стоматологические кабинеты и т.д.), женские консультации, диспансеры, больницы, родильные дома, санатории для детей, станции скорой помощи и другие службы. Структура каждой отдельной ТМА определяется местными условиями.

Ведущую роль в ТМА играли также поликлиники. ТМА, объединяющие поликлиники, обычно финансируются в соответствии с формулой, рассчитанной на основе демографических характеристик зарегистрированного населения. Эти поликлиника становятся "держателями бюджета": они распределяют фонды в соответствии с реально оказанными услугами, а не на основе фиксированных бюджетов, формируемых в соответствии с постатейным прогнозированием затрат. Таким образом, распределение финансовых ресурсов в секторе здравоохранения диктуется выбором потребителей, а не бюрократическими решениями. В результате, количество стационарных пациентов в больницах сократилось, а число оказанных медицинских услуг возросло. Несмотря на ошибки, которые надо исправлять, эксперимент с ТМА был смелым как с политической, так и с организационной точек зрения, и концептуально новым по международным стандартам.

2.6 Финансирование больниц и поликлиник

В соответствии с существующей системой страхования, роль правительства в финансировании здравоохранения останется значительной. Механизм обязательного страхования, разработанный на основе германских и голландских "страховых фондов", концептуально согласуется с основными западными моделями, и, в первую очередь, направлен на мобилизацию ресурсов для здравоохранения. В результате окончательного внедрения система страхования может изменить основные структуры управления, организации и предоставления медицинских услуг в соответствии с моделями, существующими в большинстве стран-членов ОЭСР. В конечном итоге, улучшится качество медицинского обслуживания. Механизм образования фонда, предусмотренного специально для покрытия затрат на здравоохранение, основан на четко определенном налоге на фонд заработной платы. Главной отличительной чертой системы является создание отдельных фондов обязательного социального страхования на национальном и территориальном уровнях. Предполагается создание фондов по принципу независимых, некоммерческих образований для кредитования и финансирования. Функцией национального фонда является обеспечение равного качества медицинского обслуживания на уровне регионов.

Однако, во многих регионах новые механизмы не функционируют в полную силу. Для того, чтобы страховые фонды работали в соответствии с назначением, а система приспособилась к введению медицинского страхования, потребуется время. В соответствии с законодательством, страховым фондам разрешено оплачивать услуги независимых лечебных заведений, или владеть собственными, таким образом, они становятся образованиями по типу "Организации здравоохранения". На базе законодательства, также развиваются программы добровольного страхования, которые обеспечивают финансирование сверх программы обязательного страхования. В законодательном акте о страховании вопрос владения страховой компанией остается открытым. Таким образом, в разрабатываемом законодательстве о приватизации внимание должно акцентироваться на различных возможных вариантах собственности, включая коммерческие и некоммерческие медицинские страховые организации.

Мы не пытались осветить на этих страницах все аспекты мединского страхования. Однако, в контексте приватизации главным является вопрос о том, могут ли страховые фонды эффективно функционировать в качестве независимых покупателей медицинских услуг. Их финансовая жизнеспособность является чрезвычайно важным элементом успешного финансирования возросших затрат в здравоохранении. Например, согласно системе, существующей в Германии и Голландии, страховые фонды тщательно регулируются правительствами с целью обеспечения их платежеспособности. Очевидно, деятельность в условиях высокой инфляции, которая имеет место в настоящее время в России, требует обеспечения платежеспособности страховых фондов.

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ЧАСТЬ III

ФАРМАЦЕВТИЧЕСКАЯ ОТРАСЛЬ

Производство и распределение фармацевтической продукции в России находится в плачевном состоянии, в основном, из-за распада экономической системы централизованного планирования. Парадоксально, что ухудшение без того трудной ситуации произошло в связи с крушением Советского Союза и торговых связей между партнерами по СЭВ. В рамках прежних политических соглашений, фармацевтическая система планировалась на наднациональном уровне для всей Восточной Европы, что явилось причиной нехватки в России жизненно важных средств производства.

Многие из рассматриваемых аспектов относятся как к сфере производства, так и к распределению фармацевтических препаратов. Где возможно, мы рассматриваем данные вопросы, так как они правомерны для всей фармацевтической отрасли. Однако, проблемы, характерные для отдельных секторов предполагают, что производство и распределение должны рассматриваться независимо.

В данном разделе освещаются преимущества приватизированной фармацевтической промышленности; рассматриваются серьезные препятствия, с которыми сталкивается Россия при удовлетворении потребностей в надежных и доступных по цене фармацевтических препаратах; а также предлагаются для рассмотрения соображения по законодательству и другие административные и политические меры, которые могли бы способствовать достижению максимально эффективной системы снабжения медикаментами.[1]

3.1 Преимущества приватизации

Успешно проведенная приватизация на всех этапах снабжения и распределения медикаментов, может иметь следующие результаты:

-- Конкуренция будет способствовать беспрепятственному продвижению потока требуемых лекарственных препаратов.

-- Большее внимание будет уделено затратам на производство и распределение. В результате существенно повысится производительность труда.

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-- Акцент должен ставиться на создание сильного международного рынка приемлемых лекарств, в основном непатентованных медикаментов, а со временем, на создание экспортного рынка для препаратов, разработанных в результате российских исследований. Последнее потребует строгого соблюдения международных правил исследований, клинических и производственных стандартов, что повлечет за собой очевидные экономические преимущества, и, что еще более важно, явную пользу для здравоохранения.

-- Наиболее важно то, что конкурентная система распределения медикаментов, основанная на эффективности затрат, позволит не только снизить стоимость лекарственных средств и, соответственно, потребность в правительственных субсидиях, но и, расширяя доступность лекарств, сократит спрос на более сильные и дорогие формы лечения.

3.2 Пути приватизации

3.21 *Обеспечить четкую нормативную базу приватизации.* Последнее законодательство, детально описанное в Части IY , создает широкие возможности для проведения приватизации в России. Возможно, наибольшее отношение к фармацевтическому сектору имеет Президентский Указ от 24 декабря 1993 года. В соответствии с Указом, разрешена приватизация в сфере производства, оптовой и розничной торговли фармацевтическими препаратами, за исключением объектов, занимающихся производством и продажей наркотических веществ. Четкие меры по защите от экспроприации приватизированных предприятий правительством и от дискриминации интересов иностранного бизнеса, а также положения, позволяющие экспатриацию доходов и свободную продажу собственности в России могли бы способствовать достижению целей нового законодательства. Также должно быть четко обозначено, что частным предпринимателям разрешается владеть полностью или большей частью приватизированной фирмы.

3.22 *Варианты и методы приватизации.* Мы считаем, что соображения о развитии фармацевтической отрасли на всех уровнях -- производство, оптовая и розничная торговля -- в значительной степени сходны с суждениями о других приватизируемых отраслях, и ранее использованные варианты и методы применимы и в данном случае. Очевидно, что в новых законодательных актах должны быть учтены особенности фармацевтической отрасли по сравнению с другими. Более детальный юридический анализ вариантов и методов содержится в соответствующей части данного отчета.

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ПРОИЗВОДСТВО ФАРМАЦЕВТИЧЕСКИХ ПРЕПАРАТОВ

3.3 Препятствия к приватизации

Бесспорно, препятствия, стоящие на пути к нормально функционирующей, эффективной фармацевтической системе, могут быть наилучшим образом преодолены в условиях приватизации. Среди наиболее очевидных препятствий в сфере производства можно выделить следующие:

3.31 *Неадекватная производственная база.* Как уже упоминалось, при поставках большей части необходимых медикаментов Советский Союз, исторически, опирался на бывших партнеров по СЭВ и не был подготовлен к последствиям распада системы. Более того, с крушением коммунизма достаточно хорошо развитые системы поставок фармацевтических препаратов Восточной Европы были переориентированы на западных торговых партнеров, которые считаются более надежными и состоятельными с финансовой точки зрения, нежели Россия и бывшие советские республики.

3.32 *Устаревшие заводы.* За последние 15 лет в России не было построено ни одного нового завода, а некоторые из существующих были основаны в начале века. Эти заводы не только чрезвычайно неэффективны, но и представляют значительную опасность как для потребителей, которые покупают их продукцию низкого качества и часто с примесями, так и для населения, живущего вблизи заводов, которому угрожает продолжающееся загрязнение окружающей среды. Некоторые западные производители, исследовавшие состояние этих заводов считают, что лучшим вариантом для производства было бы начать все сначала.

3.33 *Устаревшая комплексная номенклатура продукции.* В рамках медикаментов общего назначения, ведущие российские фармацевтические препараты на несколько поколений отстают от западных. Западные компании часто не желают предоставлять новые лицензии, как по экономическим соображениям, так и по причинам качества. Некоторые российские компании производят до 150-200 различных медикаментов, что, ввиду сложности, повышает затраты, а также риск загрязнения.

3.34 *Неэффективные организационные структуры.* Соотношение вспомогательного производственного персонала к основному слишком высоко. В то же время, маркетинговые отделы, по-прежнему, либо не существуют, либо неэффективны.

3.35 *Неадекватный контроль качества.* В редких случаях российские производственные мощности действуют в соответствии с признанными международными Стандартами Производства Товаров (GMPs). Это не только представляет опасность для общественной системы здравоохранения, но и, в значительной мере, препятствует успешному созданию экспортного рынка медикаментов. Стандарты качества для медикаментов ниже оптимальных и применяются не единообразно , что влечет аналогичные последствия. Принятие GMPs и современных стандартов качества принесет приватизированным фирмам очевидные преимущества с точки зрения расширения рынков.

С другой стороны, регистрации новых лекарственных препаратов, которая была замкнутой и негибкой, чрезвычайно меняется. 15 февраля 1994 года Министерство Здравоохранения России и FDA (США) достигли окончательного соглашения о разрешении в России маркетинга продукции, получившей одобрение FDA. Возможно, что аналогичные договоренности будут достигнуты с основными уполномоченными европейским организациями.

3.36 *Постоянная внешняя задолженность.* Постоянная громадная задолженность России зарубежным поставщикам является серьезным отпугивающим фактором для иностранных партнеров и инвесторов в фармацевтическом производстве. Хотя оплата по этим долгосрочным обязательствам не является предварительным условием приватизации, позитивные действия в этой связи могли бы значительно повысить уверенность потенциальных партнеров при капиталовложениях в приватизацию российских производственных медицинских предприятий.

3.37 *Задолженность предприятий.* Важной проблемой приватизации является урегулирование существующей задолженности на всех уровнях системы и разработка механизма с тем, чтобы избежать подобной ситуации в будущем.

3.38 *Неблагоприятная экономическая и политическая обстановка.* Структурные проблемы усиливаются трудностями в экономической и политической обстановке, в которой производителям медикаментов приходится работать. Такие проблемы, как высокая задолженность, безудержная инфляция, недоступность кредита, хотя и не являются специфическими для данного сектора экономики, однако оказывают на него существенное влияние.

3.39 *Юридическая основа.* Возможно нет более устрашающего препятствия для приватизации и иностранных инвестиций, чем недостаток последовательной законодательной базы, регулирующей формирование частных предприятий. Последнее законодательство, упоминаемое далее в данном докладе, демонстрирует решительность российского правительства урегулировать эти проблемы.

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3.4 Оптимальное проведение приватизации

По нашему мнению, принятие нижеследующих мер обеспечит практическую и работающую схему, а также стимулы для привлечения инвестиций в постепенно приватизируемую систему производства и распределения фармацевтических препаратов.

3.41 *Гарантировать защиту интеллектуальной собственности.* Закон об "Иностранных инвестициях в РСФСР" гарантирует иностранным владельцам предприятий, по-крайней мере, те же права на интеллектуальную собственность, что и для российских граждан и предприятий. Несмотря на то, что нет необходимости в дополнительном законодательстве, было бы полезно разработать более детально аспекты защиты патентов, торговых марок и авторских прав.

3.42 *Создать стимулы для потенциальных инвесторов.* Правительству следует осуществлять чрезвычайно активный и тщательный поиск инвесторов в фармацевтический сектор. Этот поиск должен включать (но не ограничиваться), лидирующих мировых производителей, ведущих исследования, производителей непатентованных препаратов и других надежных ннвесторов, как местных, так и зарубежных. Правительство должно предусмотреть соответствующие налоговые льготы, гарантированные закупочные контракты, содействие в размещении собственности и механизмы защиты от рисков.

3.43 *Обучение и опыт.* Немотря на то, что некоторые директоры заводов готовы взять на себя роль частных предпринимателей или менеджеров, соответствующие навыки и отношения надо прививать и развивать. Чтобы адаптироваться к методам и потребностям частного сектора, производителям потребуется существенная подготовка и поддержка.

3.44 *Аннулировать долгосрочные тарифы.* Стоит исключить тарифы, защищающие местное производства, так как их результатом может стать низкое качество и высокая стоимость продукции.

3.45 *Улучшение качества фармацевтической продукции.* В полном соответствии с нашими рекомендациями в параграфе 2.41 о повышении качества услуг здравоохранения, как о неотъемлемом элементе программы приватизации, мы считаем, что необходимо использовать помощь иностранных специалистов для обеспечения российских граждан более качественными и современными фармацевтическими препаратами. Это будет соответствовать как медицинским нуждам населения, так и требованиям приватизационной программы, проводимой в этой столь чувствительной области.

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Дополнительные изменения политики

Следующие изменения важны для создания благоприятной обстановки в целях успеха приватизации в фармацевтической промышленности, а также для долгосрочного преуспевания отрасли в целом.

3.46 *Принять и внедрить стандарты на продукцию и качество.* Принимая во внимание устаревшие основы производства и распределения в России, перспектива достижения признанных международных стандартов производства, клинических и лабораторных исследований (GMP, GLP, GCP) в короткие сроки нереальна. Тем не менее, для достижения международного признания и, в конечном счете, развития прибыльного экспортного рынка лекарственных средств, разработанных в результате отечественных исследований, надо начинать внедрение в российскую фармацевтическую отрасль указанных стандартов наряду с другими требованиями контроля и стремиться к ним, если не изначально требовать.

3.47 *Устранить ненужные барьеры при внедрении новых терапевтических препаратов.* Как отмечалось ранее, Министерство здравоохранения России подписало соглашение с FDA (США) об облегчении в России маркетинга медикаментов, одобренных в США. Аналогичные мероприятия должны быть проведены с ведущими агентствами других стран, которым доверяет Министерство. В то же время, важно усилить внутренние российские средства контроля, особенно по оценке новых лекарственных средств, разработанных в стране. Вместе с рядом международных организаций правительство работает в этом направлении.

3.48 *Создать стимулы для производства основных медикаментов.* Для снижения трудовых и экономических затрат на неэффективное лечение, правительство должно согласовать перечень основных лекарственных средств на основе списка, опубликованного Всемирной Организацией Здравоохранения, и использовать данный перечень для создания стимулов для существующих и новых приватизированных производителей производить основные лекарственные препараты.

3.49 *Пересмотреть и обновить список медикаментов, одобренных для маркетинга.* В то же время, было бы полезно пересмотреть номенклатуру медикаментов, к которым никогда не предъявлялись претензии по эффективности и безопасности и удалить с рынка те, которым недостает этих признаков. При этом возможно использовать опыт других стран, которые уже провели подобный обзор и, таким образом, сократить время и затраты на осуществление независимого исследования.

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РАСПРЕДЕЛЕНИЕ ФАРМАЦЕВТИЧЕСКИХ ПРЕПАРАТОВ

3.5 Препятствия к приватизации

Бесспорно, препятствия, стоящие на пути к нормально функционирующей, эффективной фармацевтической системе, могут быть наилучшим образом преодолены в условиях приватизации. Среди наиболее очевидных препятствий в сфере производства можно выделить следующие:

3.51 *Монопольный контроль в системе оптового распределения.* Система распределения медикаментов в России включает около 80 оптовых подразделений, которые исторически монопольно контролировали распределение лекарственных средств в рамках определенных регионов. Эта "синтетическая" монополия усиливалась благодаря трудностям, с которыми сталкиваются аптеки при закупке медикаментов напрямую у производителей или импортеров. Экономическая неэффективность отражена в ценовых надбавках в оптовой торговле, которые составляют 10-15%, а в некоторых случаях (например, Иркутск, Владивосток) - 35%, в то время как на Западе этот показатель составляет 5-8%. Однако, наметилась тенденция разрушения подобных региональных монополий, особенно вблизи Москвы. Правил, препятствующих формированию предприятий оптовой торговли не существует, и реально были организованы новые оптовые структуры, некоторые из которых - с иностранным участием. Наибольшая конкуренция среди оптовиков в настоящее время наблюдается в Московской области.

3.52 *Неэффективные методы распределения.* В связи с необходимостью контроля большего числа малых подразделений, в ведущих системах распределения медикаментов обычно используются кодирование и автоматические методы инвентаризации, складирования и финансового контроля. Понятно, в России их не достаёт, что усугубляет региональные дефициты, потери при складировании, отсрочки в поставках, сокращение товарооборота и высокие издержки. Транспортировка - еще одна серьезная проблема. Из-за ненадежности службы доставки, включая мелкие кражи, получатели обычно сдержанно относятся к закупкам лекарственных препаратов напрямую от поставщиков. Равнозначны по серьезности трудности,возникающие при оплате закупленных медикаментов, когда осуществление банковских переводов занимает от нескольких дней до нескольких недель. Производители также сталкиваются с проблемами системы связи с оптовыми продавцами.

3.53 *Экономически ненадежная розничная сеть.* В то время, как по отношению к численности населения России количество аптек невелико (1 аптека на 9200 человек в России, тогда как в Великобритании 1 на 500 человек, а во Франции 1 на 2600), они только начинают предлагать, так называемые, "сопутствующие" потребительские товары, например, косметику и средства ухода, которые составляют значительную часть продаж аптек в большинстве стран и являются постоянным источником их прибыли. Ограничение в доходах, являющееся результатом недостаточной товарной диверсификации, может быть, в определенной степени, компенсировано за счет экономически неэффективных методов возмещения. В настоящее время, розничная цена на медикаменты на 50% превышает цены производителей, из которых 10-15% (или до 35%) составляет наценка оптовой сети. Указанная 50-процентная наценка сети распределения в сочетании с неэффективностью производителя сводит прибыли аптек к нулю.[2]

3.54 *Неблагоприятная экономическая и политическая обстановка.* Как и в сфере производства, структурные проблемы усиливаются трудностями в экономической и политической обстановке, в которой продавцам медикаментов приходится работать. Такие проблемы, как высокая задолженность, безудержная инфляция, недоступность кредита, хотя и не являются специфическими для данного сектора экономики, однако оказывают на него существенное влияние.

3.55 *Юридическая основа.* Как и в сфере производства, возможно нет более устрашающего препятствия для приватизации и иностранных инвестиций, чем недостаток последовательной законодательной базы, регулирующей формирование частных предприятий. Последнее законодательство, упоминаемое далее в данном докладе, демонстрирует решительность российского правительства решить эти задачи.

3.6 Оптимальное проведение приватизации

По нашему мнению, принятие нижеследующих мер обеспечит практическую и рабочую схему, а также стимулы для привлечения инвестиций в постепенно приватизируемую систему производства и распределения фармацевтических препаратов.

3.61 *Разработать конкурентную систему распределения.* Некоторые официальные представители западных компаний в России рассматривают систему распределения как, по-видимому, самый всеобъемлющий блок на пути к эффективной фармацевтической отрасли. Хотя в некоторых районах региональные монополии до сих пор контролируют распределение фармацевтических препаратов, в наиболее густонаселенных районах появляется конкуренция. Мы считаем, что правительство должно поощрять дальнейшее развитие конкуренции в этой жизненно важной сфере, требуя в качестве

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условия предоставления лицензии, чтобы оптовый торговец обеспечивал полной номенклатурой необходимых основных препаратов, по-крайней мере, теми, которые должны быть включены в основной список медикаментов общего действия.

Также стоит рассмотреть возможность объединения географически разбросанных оптовых торговцев с целью создания приватизированных национальных оптовых корпорации, несмотря на то, что это может оказаться сложным из-за местного контроля компаний. Управление процессом слияния может представлять трудность. Для создания эффективной и конкурентноспособной системы распределения должно быть как можно меньше ограничений, например, бесплатное предоставление лицензий на оптовую торговлю. При любых обстоятельствах, этот процесс будет идти быстрее, особенно если иностранным поставщикам будет разрешено обращаться за лицензиями.

Необходимо также рассмотреть вопрос, касающийся наценок оптовых торговцев. Несмотря на то, что в таких густо населенных городах как Москва, где возможные наценки не выше, чем в западных странах, эта проблема существует в менее густонаселенных областях.

3.62 *Реформировать аптечную деятельность.* Не следует создавать стимулы аптекам для распространения дорогостоящих препаратов, если существуют менее дорогие варианты. Компенсации на основе единообразных оговариваемых ставок позволят избавиться от этого искушения. Аптеки, как и оптовые предприятия, отдельно или группами, должны быть привлекательными объектами для приватизации. В некоторых странах только фармацевтам разрешено владение аптеками. Подобное ограничение, даже если оно обеспечит некоторую защиту индивидуально приватизируемым аптекам, элементарно подавит успешную конкуренцию. В любом случае, желательно, чтобы в течние некоторого времени до внедрения сетей западного типа преобладали индивидуальные аптеки.

3.63 *Развивать обучение и опыт.* Несмотря на то, что некоторые директоры аптек и заведующие складами готовы взять на себя роль частных предпринимателей или менеджеров, соответствующие навыки и отношения надо прививать и развивать. Чтобы адаптироваться к методам и потребностям частного сектора, потребуется существенная подготовка и поддержка.

ФИНАНСИРОВАНИЕ ПРОИЗВОДСТВА И РАСПРЕДЕЛЕНИЯ ФАРМАЦЕВТИЧЕСКИХ ПРЕПАРАТОВ ПОСЛЕ ПРИВАТИЗАЦИИ

Существующая система ценообразования нуждается в изменении. Сейчас производителям разрешена 30% надбавка к затратам, но производителям не разрешено включать в затраты процент за кредит и некоторые трудовые затраты, кроме того, платежи за сырье часто осуществляются на основе предоплаты, в то время, как платежи за готовую продукцию поступают значительно позднее. Учитывая уровень инфляции в настоящее время, получение прибыли проблематично. Даже при отсутствии инфляции система ценообразования, основанная на надбавках к цене, создает неверные стимулы для существующих и потенциальных инвесторов. Стимулы для улучшения эффективности отсутствуют, так как затраты могут быть переложены на плечи потребителей. Более того, 30-процентная надбавка ограничивает сумму прибыли, доступной для реинвестирования в отрасль при жесткой потребности в реконструкции. Мы рекомендуем упразднить предельную надбавку к себестоимости и позволить рыночным силам регулировать цены.

Для розничных и оптовых торговцев установлены аналогичные предельные надбавки к цене; как показывают опросы, отношение к оптовым и розничным наценкам значительно варьируется в зависимости от региона. С экономической точки зрения, этот искусственный ценовой контроль имеет те же последствия для оптовой и розничной торговли, что и надбавки в промышленности.

Главной проблемой остается цена, которую платит за фармацевтические препараты покупатель. В соответствии с новым законодательством о страховой медицине, производится незначительное компенсирование стоимости фармацевтических препаратов. При создании законопроекта, мы рекомендуем рассмотреть вопрос о компенсации за лекарственные средства из фондов как обязательного, так и добровольного медицинского страхования, что увеличит возможность получения достаточных финансовых ресурсов.

Наиболее эффективно осуществлять компенсации потребителю, возможно дифференцированно, в зависимости от медикаментов общего или специального назначения, и прекратить субсидирование производителей, защищающее неэффективность производства. Учитывая опыт западных стран, мы надеемся, что искажения, вызванные полной компенсацией затрат на медицинское обслуживание, можно и нужно избежать. Очень важно способствовать развитию конкуренции, не ограничивая компенсации медикаментами местного производства. Подобные изменения обеспечат создание рыночно-ориентированной финансовой системы, и станут существенным стимулом для привлечения иностранных инвестиций на всех уровнях фармацевтической отрасли.

Тарифы на фармацевтические препараты - еще один важный финансовый аспект. В настоящее время, Россия повторяет печальный опыт Польши, разрешая свободный от тарифов ввоз готовых форм и устанавливая тарифы на импортируемые активные субстанции. Подобная политика не только не защищает местных производителей, но и активно дискриминирует их. Тарифы на активные субстанции -- как и тарифы на производственное оборудование -- должны быть отменены. По той же причине, требования к местному производству "стратегических" медикаментов (их определение само по себе проблематично) должны быть сведены к минимальным. Бесспорно, это производство должно будет получать субсидии правительства, таким образом поглощая скудные ресурсы, и еще более извращая модели рыночного ценообразования.

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ЧАСТЬ VI

ПОДГОТОВКА ЮРИДИЧЕСКОЙ БАЗЫ ПРИВАТИЗАЦИИ

4.1 Создание юридической базы

В настоящее время существует ряд законодательных актов и Указов Президента, которые создают юридическую базу для Программы приватизации в Российской Федерации. Наиболее важными из этих законодательных актов являются:

- Закон РСФСР "О приватизации государственных и муниципальных предприятий в РСФСР" от 3 июля 1991 года, дополненный Законом Российской Федерации "Об изменениях и дополнениях к Закону РСФСР о приватизации государственных и муниципальных предприятий в РСФСР" от 5 июня 1992 года;

- Государственная программа приватизации государственных и муниципальных предприятий в Российской Федерации, принятая Верховным Советом Российской Федерации 11 июня 1992 года, впоследствии измененная;

- Закон РСФСР "Об иностранных инвестициях в РСФСР" № 1534 от 4 июля 1991 года, а также

- Указ Президента Российской Федерации о Государственной программе приватизации государственных и муниципальных предприятий в Российской Федерации, № 2284 от 24 декабря 1993 года.

Наиболее важным документом здесь является последний, именуемый в дальнейшем "Президентский Указ о приватизации 1993 года" (или "Указ"). Этот Указ обеспечивает подготовку Советом Министров - Правительством Российской Федерации (в дальнейшем - "Совет Министров") к 1 марта 1994 года законопроектов "О приватизации здравоохранительных и фармацевтических организаций и предприятий" (Указ, Преамбула , ч.2, п.5). Указ также предусматривает , что к 25 января 1994 г. Совет Министров должен подготовить "соответствующие изменения" к существующему налоговому законодательству (Указ, Преамбула, ч.2, п.9). Часть 2 Указа определяет сроки некоторых других изменений в законодательных актах, упомянутых выше, многие из которых не указывали сроков, содержащихся в тексте Указа.

В соответствии с Указом, Государственная программа приватизации государственных и муниципальных предприятий в Российской Федерации (здесь и далее именуемая "Государственная программа") призвана, между прочим:

- сформировать широкую стратегию частных собственников как экономическую основу для рыночных отношений;...

- завершить приватизацию большей части объектов "малой приватизации" и, на основе этого, ускорить развитие сфер коммерции и услуг;

- завершить, в основном, приватизацию больших и средних предприятий промышленности и строительства, а также

- Организации и предприятия здравоохранения, а также организации фармацевтической промышленности , после утверждения закона или других юридических актов Российской Федерации, должны приватизироваться в соответствии со специальной процедурой, установленной Правительством Российской Федерации (Указ, Раздел 1, пп. 5,8,9,21).

Президентский Указ о приватизации от 1993 года подразделяет федеральные объекты и предприятия на четыре широкие категории в зависимости от возможности приватизации (Указ, Часть 2). Различаются следующие категории: 1) предприятия, приватизация которых запрещена (Указ, Часть 2, п.1); 2) предприятия, разрешенные к приватизации только по решению Правительства Российской Федерации (Указ, Часть 2, п.2); 3) предприятия, разрешенные к приватизации только по решению ГКИ России,[3] принимая во внимание мнение отраслевых министерств и ведомств (Указ, Часть 2, п. 3); и 4) предприятия, разрешенные к приватизации по решению государственных , муниципальных и других административных органов. (Указ, Часть 2, п. 4)

В области здравоохранения эти категории подразделяются следующим образом:

- больницы: подлежат приватизации в соответствии с процедурами, установленными Правительством Российской Федерации;
- центры здравоохранения и больницы при университетах: подлежат приватизации в соответствии с процедурами, установленными Правительством Российской Федерации, хотя некоторые ведущие учебные медицинские центры запрещены к приватизации;

- поликлиники: подлежат приватизации в соответствии с процедурой, установленной Правительством Российской Федерации;

- научно-исследовательские институты: запрещены к приватизации;

- дома сирот, дома малютки, дома престарелых: запрещены к приватизации;

- предприятия, производящие медицинское оборудование: разрешены к приватизации, исключая некоторые предприятия, производящие протезы;

- предприятия фармацевтической промышленности: разрешены к приватизации, за исключением предприятий, производящих наркотические препараты и перерабатывающих наркотикосодержащие вещества;

- организации, занимающиеся оптовыми поставками фармпрепаратов и медицинского оборудования: разрешены к приватизации, исключая оптовых поставщиков наркотических веществ, и только по решению Правительства Российской Федерации;

- организации оптовой торговли: разрешены к приватизации только по решению Правительствва Российской Федерации; а также

- аптеки: могут быть приватизированы в соответствии с процедурой, установленной Правительством Российской Федерации.

Закон Российской Федерации "О медицинском страховании граждан в РСФСР" от 1991 года, и измененный в 1993 году, также может сыграть заметную роль в организации приватизированной системы здравоохранения. Программа страхования предусматривает две формы: обязательное и добровольное страхование. Обязательное медицинское страхование является частью государственного социального страхования , и обеспечивает равные возможности всем гражданам на получение медицинского обслуживания, что обеспечивается средствами, получаемыми от обязательного медицинского страхования. Добровольное медицинское страхование (в противоположность обязательному) осуществляется на основе программ добровольного медицинского страхования и обеспечивает гражданам получение дополнительных медицинских и иных услуг сверх установленных программами обязательного медицинского страхования (Раздел 1, статья 1).

Знаменательно, что данный законодательный акт четко определяет, однако, что "страховые медицинские организации не входят в систему здравоохранения" (Раздел 3, статья 14). В данном разделе далее определяется, что "Органы управления здравоохранением и медицинские учреждения не имеют права быть учредителями страховых медицинских организаций" (Там же). Парадокс , однако , состоит в том, что подобные государственные органы могут владеть акциями страховых медицинских организаций, но доля их акций не должна превышать десять процентов общего пакета акций страховой медицинской организации (Там же). Данный законодательный акт не содержит упоминаний о фармацевтических препаратах.

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Как обязательное, так и добровольное медицинское страхование находятся лишь на начальной стадии развития, и остается лишь наблюдать, как они будут развиваться, при каких затратах.

4.2 Процесс приватизации

Среди этого широкого спектра, безусловно, могут быть выбраны несколько моделей и мы рассмотрим их применительно к предприятиям здравоохранения различных типов и размеров. Несмотря на то, что процесс приватизации в России находится лишь на ранней стадии, модель процесса уже сформировалась. Мы уверены, что проведение этого процесса в здравоохранении будет способствовать быстрой и эффективной приватизации организаций здравоохранения как на национальном, так и на региональном уровнях.

4.2 Первым шагом является оценка активов для приватизации, в соответствии с Приложением № 2 к Временному Положению, выпущенному ГКИ в 1992 году по этому вопросу. Подобная оценка важна как для определения начальной цены предприятия при продаже, так и для определения уровня уставной капитализации акционерного предприятия. Этот этап требует полной инвентаризации основных фондов, неосязаемых активов (таких, как права интеллектуальной собственности и долгосрочные инвестиции), а также финансовых средств. Пассивы - уценка, оплачиваемые счета, долгосрочные займы - затем вычитаются, чтобы определить остаточную стоимость фондов. Соответствующая постоянная комиссия по приватизации впоследствии выдаст сертификат оценки имущества , и руководство государственного или муниципального приватизируемого предприятия должно будет сохранять активы предприятия до его реального перехода в другой вид собственности.

Фактор сохранности активов является особенно важным для потенциальных иностранных инвесторов , так как во время передачи предприятия существует риск нарушения прав интеллектуальной собственности. Более того, проблема инфляции, продолжающейся в период между оценкой и продажей - не учтена в инструкциях ГКИ и в настоящее время является действительно серьезной проблемой - должна быть решена. Следует разработать новые законные механизмы, учитывающие инфляцию , возможно с использованием долларового исчисления или международной корзины валют, так как объективно существует финансовая неопределенность , безусловно будет отпугивать иностранную торговлю и инвестиции.

4.22 Вторым шагом является разработка заявок на приватизацию в соответствии с Приложением № 1 к Временному Положению ГКИ на 1992 год. Эти заявки должны быть регистрироваться в районном или городском Комитете по управлению государственной собственностью, а также в отделении Госкомимущества того региона, где находится данное предприятие. Местное отделение ГКИ примет или отвергнет заявку и затем передаст принятые заявки в местную комиссию по приватизации. В свою очередь, комиссия должна разработать оперативный план завершения приватизации и вернуть его в ГКИ. Так как эта процедура может быть достаточно громоздкой, важно строго следовать жесткому графику обработки заявок. В противном случае изменится как стоимость сделки, так и "политические" заботы заявителя, который может отозвать свою заявку в поисках большей эффективности, надежности и прибыли.

4.3 Третьим шагом является процесс аукциона и продажи, который определит, кто же станет действительным владельцем предприятия. В аукционе могут участвовать как предприятия, так и частные лица, подавшие утвержденные заявки, которые упоминались выше. В некоторых случаях работникам государственных и муниципальных предприятий предоставляются определенные преимущества. Технически, процесс продажи включает в себя аукционы и два вида тендеров.

Процедурные и существенные различия между этими методами могут иметь очень важное значение в приватизации организаций здравоохранения. Однако, многое зависит от политических мотивов, уровня и скорости принятия решений о приватизации, как показывают дальнейшие объяснения.

Стандартный "аукцион" является сделкой, по которой собственность переходит во владение покупателя, предложившего большую цену в открытом торге. Тогда как, процедура "коммерческого тендера" (в соответствии с Поправкой № 4 к Временному Положению ГКИ на 1992 год) предполагает , что владельцем должен стать российский или иностранный покупатель, предложивший большую цену, внесший взнос в размере 10 % от установленной цены и отвечающий ряду других процедурных требований. Кроме того, существует "инвестиционный тендер", согласно которому действующая комиссия по продаже от имени продавца рассматривает не только финансовые аспекты, но и другие условия продажи. Приложение № 5 к Положению ГКИ определяет, что дополнительные соответствующие факторы, такие как гарантии сохранения рабочих мест, инвестиционные обязательства, социальные гарантии или другие существенные факторы, могут учитываться при инвестиционном тендере.

Аукционы и коммерческие тендеры, в принципе аналогичны. Аукционы более применимы для малых предприятий - предприятий розничных услуг, таких как аптеки, поликлиники и частная медицинская практика - и являются самым быстрым и простым способом заключения сделки. Коммерческие тендеры подходят как для малых предприятий, так и для средних предприятий, таких как некоторые оптовые организации фармацевтической промышленности. Инвестиционные тендеры чаще применяются для более крупных организаций из-за их намерения получить, так называемых, "стратегических партнеров", и потому, что правительство призвано создавать такие условия, которые могут показаться необходимыми по экономическим или социальным причинам. Например, профилирование больниц или поликлиник может стать необходимым условием при проведении тендера. Тем не менее, мы не рекомендуем применять жесткие правила для приватизационных сделок в области здравоохранения; использование достаточно распространенных разнообразных методов продажи, опробованных на практике, предпочтительнее.

4.24 Четвертым шагом является акционирование государственных и муниципальных предприятий, в соответствии с Приложением № 3 к Временному Положению ГКИ на 1992 год. Комитет по управлению государственным имуществом должен создать приватизированную компанию, в соответствии с утвержденным планом приватизации, и зарегистрировать заявку и устав в местной организации, ответственной за официальное представление заявок. После регистрации государственное или муниципальное предприятие будет считаться акционерным, и активы будут переведены на счета этого вновь созданного предприятия. Новое предприятие будет законным преемником прежнего со всеми вытекающими правами и обязанностями.

4.25 И, наконец, особое внимание должно быть уделено приватизационным фондам, созданным работниками государственных и муниципальных предприятий, в соответствии с Приложением № 6 к Временному Положению ГКИ на 1992 год. Эти фонды предоставляют работникам возможность создать активы, которые могут быть использованы ими при выкупе предприятия в случае приватизации на общественных началах. Существуют определенные ограничения для вкладов в приватизационные фонды, чтобы избежать превращения активов фирмы (или доходов от продажи активов) в фонды.

4.3 Юридический аспект оптимального проведения приватизации

Для проведения приватизации в области здравоохранения необходимо рассмотреть несколько различных моделей. Как отмечалось в прежних разделах данного доклада, изменяющиеся условия в области предоставления медицинских услуг и фармацевтических препаратов сами подсказывают альтернативные решения приватизации. В следующем разделе мы рассмотрим

вопросы субсидий и контроля над ценами, признавая, что эти вопросы частично перекрывают друг друга. Мы также понимаем, что традиционная нормативная база существует в системах здравоохранения во всем мире, как отмечалось выше. Тем не менее, мы уверены, что в любой рыночной системе юридические проблемы частной собственности являются основополагающими, и мы обращаемся к ним в первую очередь.

4.31 Мы не видим причин для запрещения подлинно частных, акционерных предприятий в области фармацевтического производства. Эта модель полностью оправдала себя в Соединенных Штатах Америки и других странах ОЭСР, и нет никаких экономических, политических или юридических причин для того, чтобы она не оправдала себя при приватизации в России. Принимая во внимание соответствующие экономические ресурсы для покупки собственности во время проведения приватизации или позже, возможно также говорить о частном совместном или индивидуальном владении собственностью.

Более того, принимая во внимание возможности иностранных инвестиций в этой области, мы не видим проблем, связанных с монополизацией, которые не могут быть решены с помощью повсеместно применяемых антитрастовых мер. Фармацевтическое производство является наиболее привлекательной областью для "стратегических партнеров", которые могут предоставить иностранные технологии и экспертизу, а также будут значительно заинтересованы в реорганизации соответствующих фирм, чтобы сделать их более конкурентноспособными и прибыльными.

4.32 Организации оптовой торговли фармацевтическими препаратами также могут управляться в соответствии с теми же механизмами частной собственности. Однако, здесь мы можем иметь большие проблемы с антитрастовыми механизмами, если приватизация будет проводиться неосторожно. Из-за существующей сейчас структуры регионального распределения, обычно через отделения "Фармации", работающие на межобластной основе, простая передача активов существующих предприятий частным компаниям может закончиться созданием ряда субнациональных оптовых монополий. Такой результат абсолютно неприемлем. Очевидно, что приватизация и демонополизация должны идти рука об руку, и мы советуем использовать не обычную приватизацию, а другие варианты для приблизительно 80 фармацевтических распределительных организаций. Например, соответствующий закон о приватизации может предусматривать, чтобы несколько оптовых организаций в различных регионах были приватизированы как единая группа. Такой подход может привести к созданию 8 - 10 национальных оптовых организаций. Еще один способ демонополизации может заключаться в создании ряда субнациональных оптовых организаций, которые будут конкурировать на географической основе.

С точки зрения концепции, обе модели приемлемы. Однако, ясно, что какая бы модель ни была выбрана, не должно быть никаких территориальных запретов или ограничений на конкуренцию частных оптовых организаций. В противном случае, географические монопсонии/монополии по оптовой торговле могут сорвать всю программу приватизации. Мы уверены, что рыночные силы, безусловно, определят оптимальную структуру российской фармацевтической оптовой системы, поэтому важно в самом начале предотвратить частную монополизацию (национальную или региональную).

4.33 Опять же, мы уверены, что в области фармацевтической розничной торговли также возможна полная приватизация. Нет никаких оснований для продолжающегося вмешательства правительства в розничную торговлю, и торговля фармпрепаратами не является исключением. Тем не менее, мы уверены, что для повышения жизнеспособности аптек, законодательство должно разрешить аптекам, как бы они не назывались, торговать не только фармацевтической продукцией. Подобная возможность расширения ассортимента позволит смягчить жесткое влияние изменений в поступлениях и ценах фармацевтических товаров, и, кроме того, обеспечит дополнительный доход владельцам аптеки. Одновременно, мы считаем, что поскольку лица, занимающиеся торговлей фармацевтическими препаратами, должны получить лицензию компетентных органов, нет необходимости получать специальную медицинскую лицензию. Владение аптекой должно быть разрешено каждому, обладающему необходимой покупательной способностью и готовому подчиняться необходимым требованиям распространять только легальные фармацевтические препараты через лицензированные структуры.

Мы признаем, что существуют некоторые отдаленные и сельские районы, где ограничены не только настоящие, но и будущие поставки лекарств. Эти же районы, безусловно, страдают и от нехватки других необходимых товаров, и нужды этих районов, возможно, должны получить особое отражение в законе. Однако, мы не считаем, что эти относительно немногочисленные проблемы должны исказить общую политику приватизации в целом секторе розничной торговли фармацевтическими препаратами. Мы также признаем , что необходимая реорганизация в фармацевтической промышленности повлечет за собой безработицу, и мы считаем, что этой проблеме общество, в целом, должно уделить больше внимания, чем промышленность.

4.34 Приватизация больниц представляется делом более сложным. Даже в большинстве стран ОЭСР существует давняя традиция правительственного контроля деятельности больниц, как на национальном, так и на региональном уровне. Тем не менее, имеется также и значительный опыт управления больницами со стороны некоммерческих и по сути подобных объединений, а также увеличивающийся и внушительный список - особенно в Соединенных Штатах - коммерческих компаний, владеющих больницами. Больницы необходимо рассмотреть отдельно как с экономической, так и с юридической

точек зрения, поэтому мы еще раз повторим варианты их приватизации, описанные в Части II.

Мы рекомендуем рассмотреть несколько вариантов приватизации больниц и подобных учреждений. Во-первых, мы уверены, что частная собственность будет разрешена соответствующим законодательством. Несмотря на эмоциональные возражения, обычно связанные с областью здравоохранения, медицинские услуги вполне могут предоставляться частными фирмами, зачастую - по более низким ценам. Более того, коммерческие больницы, являющиеся частью сети, в Соединенных Штатах Америки достигают внушительных результатов благодаря эффекту экономии за счет масштабов, в отличии от больниц, находящихся во владении одного лица.

Во-вторых, мы считаем, что должен быть создан законодательный акт, предусматривающий организацию некоммерческих, "благотворительных" больниц. Они могут находиться под контролем благотворительных обществ, профсоюзов, религиозных общин, академических институтов и других подобных организаций. Существует множество примеров законов, предусматривающих такую форму владения, и они могут быть легко применимы к российским условиям.

Другой аналогичной законной формой являются полуправительственные самоуправляемые национальные трастовые компании, существующие в Великобритании, а также больничные структуры в Израиле и Скандинавских странах. Во всех этих случаях, как и в коммерческих больницах, деятельность лечебного заведения зависит от стоимости услуг, а не от субсидий из государственного бюджета. Упомянутые выше российские Территориальные Медицинские Ассоциации действуют в соответствии с этими международными моделями

В-третьих, мы осознаем всю вероятность того, что в ближайшем будущем будут преобладать муниципальные больницы. В соответствии с этим, мы рекомендуем создать законную форму муниципальных корпораций, которые включат в себя и медицинские учреждения. В дальнейшем мы рекомендуем оградить сотрудников и членов советов директоров муниципальных корпораций от политического влияния и разрешить им действовать в условиях максимальной экономической свободы. Если соответствующие муниципальные администрации примут решение о предоставлении медицинских услуг на благотворительной основе, мы рекомендуем внедрить систему контрактов между больницей и муниципалитетом, с перечислением всех видов предоставляемых услуг, затраты на которые будут компенсироваться.

Мы настоятельно советуем включить в законодательство упоминание о том, что все больницы, находящиеся во владении некоммерческих организаций, муниципалитетов или субсидируемые национальным правительством, имели право заключать контракты с частными фирмами на предоставление услуг.

Такая система контрактов сведет к минимуму неэффективность лечебных учреждений и позволит создать коммерческие условия для предоставления услуг и снизить их стоимость, что послужит выгоде потребителей. Например, во всем мире успешно действуют лечебные учреждения, управление которыми осуществляется специалистами компаний, владеющих частными больницами. Точно также услуги по поставкам продуктов питания, стирке белья, поставке оборудования и услуги медицинских специалистов, таких как радиолог, анестезиолог, рентгенолог, могут предоставляться некоммерческим правительственным больницам частными фирмами.

Более того, также важно, чтобы законодательство предусматривало равенство лечебных учреждений, вне зависимости от вида собственности. Неправительственным больницам должен предоставляться такой же доступ к пациентам и медицинскому персоналу, как и правительственным . Любое другое отношение создаст неравные условия и лишит пациентов возможности выбора услуг и цен на конкурентной основе.

4.35 Поликлиники создают меньше юридических и экономических проблем при приватизации. Основываясь на опыте почти всех стран ОЭСР, можно сказать, что частные услуги первичного здравоохранения должны стать основой национальной системы здравоохранения для большинства граждан. Структура "профессиональных корпораций" (даже только для врачей) создаст основу для ограничения их ответственности (кроме случаев обвинений во врачебной халатности), что должно создать значительную защиту экономических интересов врачей и их ассистентов. Безусловно, традиционные объединения также приемлемы, и, не зависимо от формулировки закона, врачебный персонал поликлиник может создавать объединения или вести отдельную практику, по своему желанию.

4.4 Подготовка юридической базы приватизации

Возможно, самым существенным аспектом российской системы здравоохранения , помимо государственного контроля, является сложная система финансовых субсидий и контроля над затратами, что пронизывает всю систему. На самом деле, почти невозможно получить точную информацию о размерах субсидий, а меры ценового контроля игнорируются в нарушение закона также часто, как и соблюдаются.

Например, в области фармацевтики оптовые и розничные торговцы ограничены в размерах наценок, а это означает, что и те, и другие не могут сделать свои предприятия прибыльными, что, в свою очередь, ведет к потребности в правительственных (обычно - муниципальных)субсидиях. Поликлиникам, запрещено даже предоставлять платные услуги, хотя это ограничение на практике уже нарушается. Однако, те же самые поликлиники платят более низкие суммы, по сравнению с рыночными, за аренду своих производственных помещений. Результатом всего этого является экономическое и юридическое болото, которое, безусловно, мешает создать эффективную систему здравоохранения.

Существующая система субсидий и контроля над ценами пронизывает как фармацевтическую промышленность, так и структуру лечебных учреждений, больниц и поликлиник. Безусловно, что дальнейшее развитие этой системы приведет к нарушениям, неудобствам и дефициту. Это, наравне с проблемами инфляции и отсутствием кредитов, актуально для любой отрасли экономики . Тем не менее, мы уверены, что от системы контроля над ценами, как и от системы финансовых субсидий необходимо отказаться как можно быстрее в ходе приватизации, если не раньше. В противном случае, просто невозможно извлечь полную выгоду из программы приватизации.

4.5 Защита интеллектуальной собственности

Как отмечалось выше, деловой и финансовый аспект защиты интеллектуальной собственности важен как для развивающейся внутренней экономики России, так и для иностранных инвесторов. Просто невозможно поверить, что производители фармацевтической продукции, например, те, которые по традиции используют значительные финансовые и трудовые ресурсы для проведения исследований и развития и которым нужны годы, чтобы получить прибыль на эти вложенные средства, будут рисковать инвестициями в области экономики, где не уважаются, а подавляются концепция и права интеллектуальной собстввенности.

Закон РСФСР "Об иностранных инвестициях в РСФСР" № 1534 от 7 апреля 1991 года, упоминавшийся выше (далее "Закон об иностранных инвестициях"), признает важность прав интеллектуальной собственности. Например, Закон четко утверждает, что "иностранные инвестиции" включают в себя "интеллектуальные ценности", также как и другие материалы, размещаемые в России с целью получения прибылей или доходов. (Закон об иностранных инвестициях, Статья 2). Более того, Статья 32 Закона об иностранных инвестициях утверждает:

"Охрана и осуществление прав на интеллектуальную собственность предприятий с иностранными инвестициями обеспечиваются в соответствии с действующим на территории РСФСР законодательством.

Предприятия с иностранными инвестициями заключают со своими работниками договоры в отношении прав на объекты интеллектуальной собственности, создаваемые в соответствии с заданиями, подтвержденными документацией предприятия".

И, наконец, Закон "Об иностранных инвестициях" также указывает, что "в случаях национализации или реквизиции иностранному инвестору выплачивается быстрая, адекватная и эффективная компенсация". (Часть 2, Статья 7, п.1)

Отсюда следует, хотя бы в теории, что права иностранных инвесторов на защиту интеллектуальной собственности, по крайней мере, совпадают с правами российских граждан. С точки зрения закона, не требуется создания никаких дополнительных инстанций, хотя есть необходимость в разработке более совершенных форм защиты патентов, торговых марок и авторских прав. Образцом может послужить закон об интеллектуальной собственности любой из стран ОЭСР.

Действительной заботой ГКИ и Правительства Российской Федерации, в целом, является политический вопрос введения прав интеллектуальной собственности. Требуется более чем простая форма защиты, возможно, в первую очередь, это важнее для фармацевтической продукции, чем для других основных коммерческих потребительских товаров. Потребность принять меры существенна. В соответствии с этим, любые шаги по приватизации в секторе здравоохранения должны признать не только важность прав по защите собственности, но обеспечить механизмы для ее активного проведения.

ЧАСТЬ У

РОЛЬ ОБЩЕСТВЕННОГО ПРОСВЕЩЕНИЯ

Для обеспечения успеха приватизации в сфере здравоохранения требуется проведение кампании по просвещению населения. Несмотря на то, что успешно приватизированная система здравоохранения, в конечном итоге, предоставит более качественные услуги при меньших затратах государства, этот результат не вполне очевиден для российских людей. Опыт социалистической России посеял страх и непонимание приватизации. Страх и непонимание усиливаются, когда приватизированная отрасль предоставляет семьям услуги по сохранению жизни. Таким образом, необходимо разъяснять людям сущность перехода.

Создание негосударственных организаций, возможное использование "трастов" и других элементов программы приватизации может восприниматься как угроза существующим устоям. Первостепенной задачей кампании является получение общественной поддержки реформ, путем информации и просвещения населения о процессах приватизации и о том, как повышение доступности медицинских услуг повлияет на улучшение качества здравоохранения в России. Эта кампания обеспечит основу для приватизации медицинских учреждений, так как создаст общественную поддержку и понимание, что необходимо для перестройки отрасли.

Другой причиной необходимости общественного просвещения является ошибочное мнение население о том, что приватизация и другие мероприятия, способствующие развитию рыночной экономики, ухудшили положение российских граждан по сравнению с предшествующей системой, угрожая принадлежащим по праву имущественным правам. Противники приватизации заявляют, что она угрожает социальному и экономическому устройству страны. Из-за "чувствительности" отрасли общественная поддержка приватизации в здравоохранении имеет важное политическое значение и должна быть завоевана до начала внедрения программ.

Кампания по просвещению общественности, таким образом, должна затрагивать основные интересы граждан России. Кампания призвана:

а) Предоставить информацию о том, что мероприятия, предпринимаемые в целях приватизации, приведут к снабжению более дешевыми, качественными и доступными лекарственными препаратами;

б) Укрепить уверенность различных групп населения в действенности программы приватизации, гарантировать что предпринимаемые усилия увенчаются успехом и осуществляются для блага российского народа;

в) Создать поддержку приватизационным мероприятиям;

г) Информировать общественность о программных мерах, гарантирующих набор основных медицинских услуг для всех граждан;

д) Служить катализатором деятельности по созданию в различных сферах организаций, призванных гарантировать экономию за счет масштабов производства и эффективности затрат;

Мы полагаем, что каждый элемент программы здравоохранения будет включать компонент общественного просвещения, координируемого из Москвы, но децентрализованного, чтобы обеспечить больший эффект на местах. Мероприятия в этой связи станут частью общей пилотной программы и распространения опыта с целью проверки различных методик и гарантий преемственности и непрерывности процессов в будущем.

Элементы программы просвещения общественности включают:

а) Всенародный референдум и привлечение целевых групп (представителей различных слоев населения) с тем, чтобы гарантировать, что при разработке и внедрении программы учитываются специфические потребности всего населения;

б) Журналистские брифинги для обеспечения позитивного освещения проводимых мероприятий;

в) Проведение разъяснительной работы на всех уровнях для создания базисной поддержки реформ в здравоохранении на местах и объяснения преимуществ приватизации даже для наименее развитых регионов страны;

г) Создание Управляющего Комитета из числа руководителей каждой подотрасли с тем, чтобы гарантировать, что учитываются интересы всей отрасли;

д) Внедрение программы инвестирования для обеспечения поддержки и информирования, а также привлечения инвестиций;

е) Установление связей между учреждениями здравоохранения США и российскими партнерами для обмена технологиями и опытом;

ж) Спонсирование конференций и семинаров, где проверяются преимущества приватизации в здравоохранении для тех, кто напрямую вовлечен в процесс;

Программа должна будет состоять из двух частей:

1) Общенациональные мероприятия по обеспечению информацией и просвещению в сфере здравоохранения;

2) Программа, акцентирующая внимание на каждом приватизационном мероприятии в соответствующих областях.

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ЧАСТЬ У1

ЗАКЛЮЧЕНИЕ

Данный отчет определил некоторые важные моменты в приватизации фармацевтической промышленности и лечебных учреждений (также как и сопутствующих областей российской экономики). Мы подчеркнули положительные и отрицательные стороны существующей российской системы; рассмотрели препятствия и предпосылки к приватизации; внесли детальные предложения по приватизационному законодательству; а также предложили элементы кампании, которая разъяснит населению необходимость изменений в этой жизненно важной сфере.

Мы надеемся, что предложения, выдвинутые в данном отчете будут полезны, так как Агенство Международного Развития и Правительство России встречаются со многими проблемами в процессе приватизации. Также мы считаем, что в секторе здравоохранения необходимо не только проведение приватизации, но и проведение изменений в вопросах налогового законодательства, в структурах финансирования и медицинского страхования.

Тем не менее, мы считаем, что интерес Правительства России к проведению программы приватизации в области здравоохранения является устойчивым, несмотря на трудности. Мы надеемся, что данный отчет окажет существенную помощь в этих усилиях.

[1] Полную информацию по данным вопросам, включая методы приватизации, можно найти в Приложении В. Заметки о встречах с должностными лицами в области здравоохранения и фармацевтики, содержатся в Приложении А.

[2] Несмотря на то, что текущее законодательство устанавливает потребительскую цену на 50% выше цены производителя, зафиксированы случаи когда розничные цены превышали цену производителя на 300%.

[3] ГКИ - Государственный Комитет Российской Федерации по управлению имуществом. Его полномочия были установлены в Статье 4 Закона о приватизации от 1991 года, приведенного ниже. ГКИ отвечает за проведение единой государственной политики в области приватизации (Статья 4, ч.2), и составление проекта Государственной программы приватизации.

ANNEX A

ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES
FINAL REPORT ON PHASE 1

SUMMARY OF FINDINGS FROM INTERVIEWS

INTRODUCTION

As part of the Phase 1 study, IBTCI undertook interviews in five cities that were approved by GKI and USAID: Irkutsk, Vladivostok, Novgorod, Tver, and Ekaterinburg. In the following sections, we provide a summary of the impressions gathered in each city followed by the interview notes. The notes are being provided without editorial improvements.

Section 1: Irkutsk

Section 2: Vladivostok

Section 3: Novgorod

Section 4: Tver

Section 5: Ekaterinburg

Section 6: Additional Interviews

SECTION 1: IRKUTSK
SECTION 2: VLADIVOSTOK

IBTCI interviewed representatives of the City and Regional Health Administrations, Oblast Pharmaceutical Committee, Krai Pharmaciya, hospitals, polyclinics, pharmacies, a medical academy, and a pharmaceutical manufacturer.

The emphasis of the interviews was on the qualitative and quantitative aspects of the health-care systems and pharmaceutical industries in Irkutsk and Vladivostok. Specific questions were asked regarding the relationships among the enterprises and institutions of the health-care sector and the general perception of privatization. The interview notes provide details of the findings.

SUMMARY OF FINDINGS

The following discusses the most important findings relevant to privatization of the health-care sector:

A serious lack of money is the single most significant problem affecting every element of the health-care sector.

The current pricing structure for pharmaceutical products is one of the most serious obstacles to financial independence and privatization of enterprises involved in pharmaceutical manufacturing, wholesale, and retail.

The financial independence and privatization of medical providers is hindered primarily by:
1) the current system of finance
2) legal restrictions

A supporting legal framework is an essential prerequisite to initiating privatization.

Public opinion about privatization is based largely on misunderstanding and ignorance, and often is predisposed against privatizing the health-care sector.

<u>Pharmaceutical Issues</u>

Price Structure:

The entire cost structure for the pharmaceutical industry is based upon the manufacturers "costs." In calculating their "costs," manufacturers may not include a number of overhead costs, specifically wages more than four times minimum salary, and interest on credit. Manufacturers are allowed to price their pharmaceutical products at no more than 30% above their "costs." In Vladivostok, manufacturers

generally take advantage of the whole markup, whereas in Irkutsk, sources reported markups as low as 8%.

The post-manufacturing price of pharmaceutical products is limited by law to a 50% increase above the manufacturers selling price. Wholesalers are allowed 70% (35 points) of the markup. Retail enterprises are allowed the additional 30% (15 points) of the markup. The Pharmaceutical Committee in Irkutsk typically takes 35 points of the 50% markup, leaving only 15 points for the retailers. In Vladivostok, the Pharmaciya takes 30 points when selling to pharmacies. When pharmacies do buy from the other small wholesalers, they typically split the markup in half.

According to officials and enterprise directors, the price limits preclude pharmacies, wholesalers, and manufacturers from meeting their total costs, thus making them dependent on government subsidies.

Potential Impediments to Privatization:

In the Irkutsk Oblast and Primorski Krai, pharmaceuticals are supplied to pharmacies, polyclinics, and hospitals by a single, central wholesaler. The Pharmaciya in Vladivostok and the Pharmaceutical Committee in Irkutsk maintain the contacts and relations with Russian pharmaceutical manufactures and foreign pharmaceutical companies. Very few enterprises procure pharmaceutical products on their own. This arrangement has produced a synthetic monopoly in the wholesale sector for each region. In Vladivostok a couple of independent wholesalers have developed recently. They buy their supply from the Pharmaciya and represent no serious competition.

In some provincial areas of the Oblast/Krai only one pharmacy serves significantly large areas. Consequently, no competition would exist initially at the retail level.

Many pharmacies engage in on sight, small-scale production or compounding of some pharmaceutical products. These substances are not only sold from the pharmacy, but also often sent to clinics and hospitals. Some officials, especially within the Irkutsk Oblast Pharmaceutical Committee, are adamantly opposed to privatizing these manufacturing pharmacies.

Interestingly, the Chairman of the Pharmaceutical Committee in Irkutsk claimed that only pharmacies that manufacture can be profitable; whereas the Director of Pharmacy #2 in Vladivostok claimed that only pharmacies that strictly engage in retail can be profitable. (Their justification is mentioned in the notes on their respective interviews.)

Medical Service Provider Issues

System of Finance:

Hospitals and clinics are generally financed through insurance fund(s) and state subsidies. All enterprises in Russia contribute 3.6% of their wage/salary fund to an insurance fund. As a system of finance, the insurance fund system is quite new and not yet fully implemented. Almost every medical enterprise interviewed claimed that the amount of financing from the insurance fund was insufficient to operate the enterprise. In some enterprises, insurance fund contribution does not even completely pay for employee salaries.

Legal Restrictions:

Many medical institutions (i.e. polyclinics) are forbidden by law to charge for services to patients. State subsidies and insurance fund contributions are inadequate, and barely cover employee salaries and medicinal purchases. (The city does usually provide facilities and utilities to the enterprises). If the enterprises need new or additional equipment, repairs, or other items, they must find financing themselves or go without.

In Irkutsk sub-leasing by medical institutions of their facilities is not permitted. Some officials and directors believe sub-leasing of excess facilities could be a valuable source of needed revenue. (Despite its illegality, some institutions are sub-leasing now out of "necessity".)

Legal Framework

As the above conditions indicate, successfully privatizing the health care sector will require a supporting legal framework. A process does exist through which enterprises can be privatized. However, it will also be vitally important to create enabling legislation and to educate the public (even local officials) about privatization.

The interview notes detail the specific suggestions of those interviewed. Some provided us with documents that include specific suggestions for the legal framework. In particular, see the attachments to the interview notes of Galina Matula, Chairman of the Irkutsk Oblast Pharmaceutical Committee and Dr. Sergei Kolenikov, President of the Irkutsk Branch of the Russian Academy of Medical Sciences.

Public Opinion

We continually encountered at least initial hostility to the idea of privatization in both Irkutsk and Vladivostok. More often than not, however, the hostility was based on ignorance and misunderstanding of what privatization really is or of Russia's privatization laws. The interviews conducted strongly suggest that only with a concentrated, genuine effort at public education can privatization be successfully implemented.

PERSONS MET/IRKUTSK

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March 1, 1994
Irkutsk, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contacts: Sergei Innokentevich Dubrovin, Deputy Head of Irkutsk Administration on Social Questions

Larissa Menshikova, Dr. of Medical Sciences, Irkutsk Medical Institute

NOTES

General:

The Committee on Social Questions has 5 departments: Health; Social Security; Education; Culture; and Physical Culture. Developing and implementing reforms of the health care system is one of the primary tasks of the Health Department.

About 40 medical institutions in Irkutsk report to the city Health Care Department. There are 20 clinics, organized by rayon. None of these are private. There exists only one pharmaceutical manufacturer in the Oblast. It is located about 80 kilometers from Irkutsk.

Financing:

Medical institutions are financed directly from the city budget, not by reimbursement. Some large enterprises either finance or contract with medical facilities to provide treatment for the enterprise's employees (i.e. Academy of Sciences and railroad and aviation enterprises).

Insurance Plan:

The city of Irkutsk is in the process of creating a new finance and insurance system for the health care system. Using the German and Dutch systems as their model, Irkutsk is endeavoring to preserve universal access, while augmenting quality, and maintaining reasonable costs. Under the new arrangement, financial responsibility is to be shared by the city and state governments, enterprises, and an insurance fund.

Irkutsk is presently in the process of implementing their new system, consequently, the new arrangements apply to some, but not yet all medical facilities.

Under the new plan:

All enterprises are obligated to contribute 3.6% of their wage fund to finance the health care system. Enterprise contributions will be surrendered to either the insurance fund or directly to the city.

The newly formed insurance fund will be responsible for enforcing quality control and efficiency.

Each citizen will be given an insurance certificate allowing them access to treatment at the medical center of their choice. It is intended that by allowing people to choose their provider, the poor quality clinics will be compelled to improve or lose patronage.

Pharmaceutical:

The city is currently attempting to establish contractual agreements with pharmaceutical importers. The city imports from Great Britain, India, Germany, and Switzerland. Some international pharmaceutical manufacturers have established warehouses in Russia, and one British manufacturer has been investigating the possibility of building a manufacturing plant here.

As importing pharmaceuticals is expensive, Irkutsk would like to augment their manufacturing capabilities. The nearby factory produces a limited number of drug types. They believe manufacturing can be more cost effective than importing, depending on the availability of raw materials.

The Oblast Pharmaceutical Committee assumes responsibility for procuring pharmaceuticals. Medical facilities place orders with the city or Oblast pharmaceutical committee for specific drugs they require. Some very large medical institutions or large commercial enterprises (bank, insurance companies) do, however, obtain drugs independently.

A license is required to purchase pharmaceuticals. Oblast and State government approval is necessary to obtain a license.

Perspective:

The objective of reforming the health care system is achieving a high level of service through a balanced process. Important lessons can be learned by studying the experiences and systems of other countries. For privatization to be successful and helpful, there needs to exist a supporting legislative foundation that includes all aspects of the health care system. Privatization should take place in several stages: 1) prepare a draft legislative basis; 2) engage in pilot programs to test theories; 3) amend draft legislation according to the findings of the pilot program 4) initiate legislation and implement privatization.

Many chief doctors are quite interested in establishing private clinics. Likewise, many polyclinics are supportive of privatized pharmacies.

All problems concerning the health care system stem from the lack of money. Additional subsidies and a larger contribution from the insurance fund are necessary. That skilled doctors do not have access to the money to buy adequate equipment and supplies poses a much more significant problem than incompetent doctors.

March 1, 1994
Irkutsk, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Victor Z. Pyankov, Director of the Irkutsk Branch of Inter-sectoral Research and Technology Complex, "Eye Microsurgery"

NOTES

General:

The Irkutsk Center for Eye Microsurgery (the Center) is one of the twelve centers of the Inter-Sectoral Research and Technology Complex created by the Soviet Union in Decree # 486 in 1986. Svyatoslav Nikolaevich Fyodorov is responsible for conceiving and developing the network. The twelve centers, all built between 1986 and 1990, are located throughout Russia.

Construction of the Irkutsk branch was completed in 1989 by the Finnish company, Polar. Construction costs, which were funded entirely by the central government, totaled $100 million. There are 250 beds in the complex. The Center employs 250 people: 40 doctors; 80 nurses; and the remainder are support staff. The Center serves a several thousand kilometer area which contains approximately 10 million people. In 1990 the Center conducted 20,000 surgical operations. In 1993 the Center conducted 10,000 surgical operations. The center provides almost all kinds of eye surgery, except emergency services.

Financing:

Prior to 1993 the Center was financed by the central government. The Ministry of Health (of the Soviet Union and then of the Russian Federation) financed the Center through municipal and Oblast budgets.

Since January, 1993 The Center has been essentially financially independent. Patients are required to pay for services. The Ministry of Health in Moscow calculates and determines prices for all medical services. They use prices in international hospitals as a "basis" for their prices. The Center is allowed 10% flexibility in their pricing of services to unprotected persons. The Ministry of Health compensates the Irkutsk Center an additional 20-30% of the set prices due to costs intrinsic to the Irkutsk region (i.e. the high cost of transporting equipment and supplies).

At the end of March, 1993, The Ministry of Health authorized the Center to receive from the state health budget, reimbursement for services provided to "protected" individuals (pensioners, children, and veterans of World War II). Food and living accommodations during the hospital stay, however, are not covered for "protected" persons. To receive reimbursement for services to "protected" persons, the Center sends an invoice to Moscow detailing the services performed. There is no significant financial loss due to inflation incurred by the Center between the time of services and the time of reimbursement.

The Center is subject to standard local, federal, and insurance fund taxes. As all other enterprises, the Center is obligated to pay 3.6% of its wage fund to a health care insurance fund (3.4% to the local fund; .2% to the central government).

The Center offers hotel accommodations to tourists as an extra source of revenue.

Pricing:

Each surgical operation has an "internal price." This is the amount a doctor is actually paid for successfully performing a particular operation. Most Russian hospitals pay their doctors a "minimum salary" that is irrespective of quantity or quality of work performed. The Center's Department of Treatment Control is responsible for assuring quality control of surgical operations. If a doctor's work is substandard or incompetent, the Department of Treatment Control can withhold the doctor's salary for that operation. The "internal price" and quality control methods used by the Center serve as important incentives for doctors to perform more surgeries at higher quality.

Pharmaceuticals:

The Center procures the majority of their pharmaceuticals from the Oblast level wholesaler. However, many drugs, including some very important types are imported from abroad. Russian pharmaceuticals are of adequate quality and are less expensive than imports. The Center tries to buy Russian manufactured drugs as often as possible. Only those drugs vitally needed and not domestically available are imported. Many of the Center's imports come from the former Yugoslavia.

Medical Equipment:

The majority of medical equipment is imported, mainly from the U.S. and some from Italy.

International Contact:

The Center maintains strong international medical contacts. The Center has professional contacts in the U.S., China, Spain, and Germany. In particular, doctors from the Center have trained in Los Angeles and maintain contacts in Oregon. The Center is preparing to host 6 visiting specialists from the U.S. Their international contacts have enabled them to employ methodology not yet used in Moscow.

Perspective:

Subsidies are essential in keeping many hospitals open. Keeping hospitals open is imperative to social welfare.

Relative to typical Russian hospitals, the Center provides services of distinctly better quality. The facilities are well-maintained and clean. The equipment is in good condition and quite advanced and new.

The Center has provided access to the inhabitants of Eastern Siberia to medical services previously only available in Moscow.

Incentive programs such as the "internal price" system used by the Center should be implemented in hospitals country-wide.

As compared to the approximate 10% of national income that the U.S. spends on health care, Russia spends a mere 3-4%. Health care deserves higher financial priority.

March 2, 1994
Irkutsk, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Sergei Ivanovich Kolesnikov, M.D., President of the Eastern-Siberian Scientific Center of the Russian Academy of Medical Sciences

NOTES

The Eastern-Siberian Scientific Center of the Russian Academy of Medical Sciences is a state sponsored medical teaching and research facility. The federal government provides 50% of the Centers financing. The other 50% of the financing comes from the local government, agreements with enterprises to provide health care programs, sponsorship by wealthy individuals, and revenue from a vodka factory.

The Center actively works to establish independent, self-financed medical enterprises. The Center maintains some amount of equity in many of these enterprises. The enterprises are involved in a variety of endeavors: small scale medical equipment manufacturing, bio-feedback equipment; pharmaceutical production; blood products production; anti inflammatory, antibacterial products production from pine tree elements.

Perspective:

Privatization is not the highest priority or necessarily the best remedy for the Russian health care sector. There is no certainty that privatization would be effective now. In any case. regulation of the health care industry is vital.

Local governments should first establish the health care sector as a priority. The attention of local officials is now focused primarily on imports as a solution to health industry supply problems. Their attention should be directed toward developing local medical-related enterprises. Federal and local governments should make initial investments in the health sector in order to promote the development of small enterprises. A tax structure favorable to health related industries is also essential to promote investment.

(See attachment for additional commentary.)

Information provided by Dr. Sergei Ivanovich Kolesnikov, President, Eastern-Siberian Scientific Center of the Russian Academy of Medical Sciences, Irkutsk, Russia.

Translated From the Concept of Production Forces Development of Irkutsk Oblast, 1993-2005 (Volume 1, "Development of Health Care Sector", 74-78):

"There are 4 major sources of finance for the health care system:

1) federal budget; 2) Oblast budget;
3) local budget; 4) insurance companies.

At the moment the most important source of finance is not clear. In the current situation the forecast of requirements for the 1993 is as follows: no less then 50 billion rubles (as per prices of January 1993) or US $ 120 M plus export resources equal to US $ 15-20 M.

The transfer to insurance medicine should be under tough control of the administration. Oblast administration and the Committee on Health Care should develop methods to control the activities of insurance medical companies. Their function should be to support the budget as far as financing of activities of medical system, renovation of medical institutions and treatment-diagnostic equipment is concerned, but not to transfer the money into commercial sphere. Special attention should be paid to agricultural districts, because established insurance companies are not motivated to work there.

Some of proposed measures for reorganization of existing management system in the health care sector:

1) To establish Experts Council on Health Care reporting to Head or Deputy Head of Oblast Administration, as advisory-planning department with authority to analyze documents on medical sphere, as well as assist to control activities of health care organizations, to discuss finance aspects etc.

2) To establish Health Care Fund with innovation-investment fund for medical science and education.

3) To use all 4 sources of finance.

4) To establish tough tax control under the activities of new insurance companies. To pay special attention to the development of insurance companies activities in the agricultural districts.

5) To spend money received from taxes of medical and scientific associations and joint stock companies for the development of medical science and education.

6) Expenditures for scientific research should be no less then 2% of total amounts for the health care system.

7) To provide financial support from Oblast budget for the personnel of institutes and high schools clinics.

8) To liquidate the existing system of double medical help - to simplify division of city hospitals into Oblast, city, rayon hospitals."

March 2, 1994
Irkutsk, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Galina Timofevna Matula, Chairman of the Irkutsk Region Administration Committee for Pharmaceutical Activities and Medicines Production

Natalia Alexevna Litinova, Deputy Director, "Panatseya" pharmacy

NOTES

General:

The Pharmaceutical Committee serves as the Oblast wholesaler for pharmaceutical products. The Committee has responsibility to select (in coordination with The Committee on Health Care), procure, and distribute pharmaceutical products. The Committee also assumes a quasi-regulatory role over pharmacies.

Of the 260 pharmacies in the Oblast, about 50% produce at least some of their products. This accounts for 33% of all pharmaceuticals used in the Oblast. These manufacturing pharmacies supply some pharmaceuticals to hospitals and clinics. In the city of Irkutsk there are 2 such manufacturing pharmacies.

The Committee is aware that such small scale production is quite inefficient. They are working towards augmenting the manufacturing capacity in some of the larger pharmacies, while eliminating production in smaller ones. The Committee believes it to be more cost effective to manufacture than to import, though trade will always be necessary.

Manufacturing pharmacies typically employ 30 people. Typically 10 of the 30 are "Pharmacists," which have special technical education and are responsible for technical preparations and packaging. Typically 15 of the 30 are "Previsa," which have higher, more specialized education and are responsible for ensuring chemical and prescription control. The remaining staff is support/service personnel responsible for sanitation among other things. A standard manufacturing pharmacy operates for two eight-hour shifts per day. During each shift, five "Pharmacists" are on duty.

Retail pharmacies employ 6-10 people, one "Previsa," who is the director, and the rest "Pharmacists." Retail pharmacies operate 8am-8pm. Within the city, there are always three or four pharmacies that remain open through the night.

Finance:

Pharmacies are financed directly through the municipal budget. Only one pharmacy in the entire Oblast is profitable. The profitable pharmacy is one of the two manufacturing pharmacies in Irkutsk.

The Pharmaceutical Committee is funded by the Oblast budget.

Pricing:

Retail prices for pharmaceuticals are limited to 50% of the manufacturers price. Wholesalers (the Pharmaciya) are allowed 35 points (70%) of the mark up. Retail enterprises are allowed the remaining 15 points (30%).

Manufacturing pharmacies charge 8% above their "costs" in selling their products to hospitals, clinics, and other pharmacies. Some labor costs are not allowed to be considered as part of total "costs."

Non-profitability is considered virtually inevitable for pharmacies, unless they manufacture.

Supply Issues:

The Committee works with 380 Russia/CIS pharmaceutical suppliers and 40 foreign companies in procuring their pharmaceutical products. In principle they are permitted to obtain products from any source, though a license is required to import. All pharmaceutical products for the Oblast are delivered to a central, state-owned warehouse. From here, they are delivered throughout the Oblast. This warehouse is the source for virtually all pharmaceutical products/material used in the Oblast.

Before the break up of the Soviet Union, the Committee obtained 65% of all pharmaceuticals from within the USSR. Now, only 43% of pharmaceuticals come from within Russia and 57% are imported (from Ukraine, the Baltics, Hungary, Switzerland, Austria, England, India, the former Yugoslavia, and the U.S. Upjohn and Johnson and Johnson are two particular suppliers.)

The Committee must obtain a license from the Ministry of Health in order to establish supply contracts with foreign companies.

The Committee obtains 10% of its pharmaceuticals through the Ministry of Health.

Insulin and anesthetic are almost impossible to find from domestic sources.

Privatization Issues:

The Irkutsk Pharmaceutical Committee is presently endeavoring to develop a privatization program. The Committee is first gathering information and trying to identify potential problems. Only after thorough diagnosis will they begin implementation.

Before privatization can be initiated, a supporting legal framework is essential: (Complete suggestions attached.)

Pharmacies that manufacture on-site should not be subject to privatization.

-They will not be able to maintain equipment and facilities if privatized.

-Hospital and clinics depend on them for pharmaceutical supply.
-The Presidential Decree declares them ineligible for privatization. (We found no such stipulation in the Decree.)

The systems of pricing and cost calculation must be reformed, though some price control is necessary.

Anticipated problems with privatization:

-Arrangement of pharmacies by rayon is not conducive to competition.
-In many large, rural areas only one pharmacy exists and deliveries come once per year.
-Manufacturing is largely monopoly controlled.
-Pharmacies will be unable to procure pharmaceuticals on their own.

Proposals of the Committee on Pharmaceutical Activities and Medicines Manufacturing (Oblcompharmatsiya), Irkutsk

To conduct privatization process in the sphere of pharmacies and pharmaceutical enterprises it's necessary:

1) To adopt Law of the Russian Federation "About Pharmaceuticals";

2) To establish common order of price formation on pharmaceuticals and medical production for manufacturer and seller and to determine common limit for retail prices for all kinds of pharmaceuticals and medical products.

3) To adopt Law of Russian Federation "About the Activities of Private Pharmacies and Pharmaceutical Enterprises", where the following items should be reflected:

3.1. Standards for minimum premises and technological equipment;

3.2. The manager should be specialist with pharmaceutical education and experience of work no less then 5 years;

3.3. Obligatory range of goods (minimum) - availability of pharmaceuticals and medical products and obligatory quantity of stored goods (in days).

3.4. Criminal or other responsibility for violations;

3.5. Range of goods, besides pharmaceuticals, which are subject to sale in private pharmacies;

3.6.Range of goods, which should be sold under doctor's prescription and without it;

3.7. Supply under free of charge prescriptions on the basis of agreements with clinics, hospitals cash-desks etc.;

3.8. Obligatory usage of cash-desks.

4) To adopt Law of the Russian Federation "About Privatization of Pharmacies and Pharmaceutical Enterprises", where the following items should be reflected:

4.1. To forbid privatization of manufacturing pharmacies (because it's subject of vital importance and should be under government control);

4.2. To forbid privatization of pharmacy if it's the only pharmacy in the region;

4.3. To forbid privatization of wholesale pharmaceutical enterprises and warehouses, if there is monopoly on local (regional) market;

5) To conduct privatization on the basis of competition and to provide priority right for the employees of the pharmacies. The obligatory term of the competition is obligation of participants to keep profile and number of proposed services. These obligations should be reflected in contest programs and fixed in selling-buying contracts, the responsibilities of the party in case of violation (breach of contracts and transfer of pharmacies back into government or municipal property) should be mentioned as well.

We consider reasonable for the purposes of effective government (municipal) control of the fulfillment of the contest terms not to include premises where the pharmacies are located as part of property of pharmacies, but to provide the right of long-term lease for them.

Head of the Committee G.T. Matula

March 2, 1994
Irkutsk, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contacts: Dr. Galina Vasilievna Urchenko, Chief Doctor, Irkutsk City Polyclinic for Children

Dr. Yuri Anatolievich Alexandrov, Deputy Chief Doctor, Irkutsk City Polyclinic for Children

NOTES

General:

The Polyclinic provides outpatient services and physical training to 70,000 children from about 20 different areas. The clinic staff numbers 125: 20 children's doctors; 17 specialists in different fields; and the rest are nurses, technicians, and support staff. The Polyclinic also cooperates with local medical institutions in training medical students.

Financing:

The Polyclinic is financed through the municipal budget. For the last three months, they have only received subsidies for salaries and medicine. The Polyclinic has no budget for equipment, research, facility/equipment repair, or other costs. The insurance plan is not expected to provide adequate financing for the Polyclinic. (It is not yet in effect for this clinic.)

To accommodate for their lack of financing, the Polyclinic sub-leases some of their excess space to other enterprises (i.e. children's clothing store). However, government enterprises are technically forbidden to sub-lease their property in Irkutsk. In order to subvert the sub-leasing restrictions, the Polyclinic does not charge money for the sub-leased space. Instead, the subleasing enterprises provide certain services to the Polyclinic (i.e. equipment repair).

Perspective:

Inadequate financing and legal restraints pose the most significant problems facing the Polyclinic. Dr. Urchenko strongly felt that because of existing laws and the unwillingness officials to change, she is greatly hindered in performing her job. She felt that if the clinic could charge for services, they could provide more services of much higher quality at a price that people could still afford.

PERSONS MET/VLADIVOSTOK

By:
Brandon Bennett/Ekaterina Pashina
IBTCI

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March 4, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Inna Aleksandrovna Khalchenko, Deputy Chief, Primorski Territory, Regional Authorities Health Department

NOTES

General:

The Primorski Krai Health Department oversees all regional and city Health Departments. The Health Department works to develop health services and organizations in the Krai. The Krai Health Development is responsible for overseeing the insurance fund system.

The Primorski Krai contains 309,000 people, 200,000 of which are in Vladivostok. The Krai contains 11 cities and 24 rayons. Each city has its own Health Department office. Each rayon has one central hospital. In total there are 500 health-related institutions in the Krai and 200 in Vladivostok. The Krai Health Department oversees most medical institutions in the Krai, though some report to the city. Some trade associations (i.e. the Fisherman's Association) sponsor semi-independent hospitals for their members and members' families. Pharmacies report to the municipal government.

Insurance Fund:

The Primorski Krai is in the process of initiating the new health insurance system. The insurance system creates two sources of finance for medical enterprises: the Krai budget; and the obligatory medical insurance fund, to which all enterprises contribute 3.6% of their wage fund. In principle, medical treatment will remain free of charge to the public. "Special services," however might require some payment.

Each medical institute must establish an agreement with an insurance fund, arranging for payment for services provided to the public. The insurance fund is responsible for quality control of services provided at the medical facility. The insurance fund has the authority to impose penalties for substandard work. In turn, the salaries of the doctors can be affected. The insurance fund system should fund almost all work and services at the medical facilities and 70% of all money spent in the health care system.

A special Krai fund will finance special services or special institutions, and a special department for emergency service to outlying regions. The Krai funds 10% of the medical institutions and 30% of all money spent in the health care system. The city administration reimburses hospitals and clinics for services provided to "protected" persons.

Perspective:

In general, Krai officials are opposed to privatization. There is no legislative basis to support a privatization program. Hospitals could not survive if privatized. There is one central hospital per region, serving between 30-60,000 people. Since privatization is so uncertain, hospitals are too important to be subject to privatization. Dentists, clinics, and pharmacies could be considered for privatization.

March 4, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Tatiana Vladimirovna Petrakovskaya, Deputy Chief Doctor, Primorski Krai Clinical Hospital

NOTES

General:

This hospital is the largest in the Krai, containing: 21 buildings (14 for hospital/clinic services and 4 for administration purposes); 20 diagnostic departments; 16 clinical departments; 1,110 beds. The hospital operates a polyclinic that serves 600 visitors a day. The hospital has a special childbirth ward that has a capacity of 90. The hospital also offers family and marriage counseling.

Insurance Fund:

The insurance fund system commenced on December 1, 1993. This hospital has signed an agreement with the Krai insurance fund for reimbursement for services. This financing is based upon the quality and quantity of services performed. Monetary standards exist for specific treatments, services, and diseases.

Note: As should be obvious from the brevity of the above notes, Tatiana Vladimirovna was in no mood to talk.

March 4, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contacts: Dr. Victor Aleksandrovich Barntinov, Vice Chief Doctor of Surgery, Primorski Regional Clinical Hospital

Dr. Igor Mikailovich Rolschikov, Professor and Chairman of Hospital Surgery, Primorski Regional Clinical Hospital

NOTES

General:

The hospital employs 62 total surgeons of differing specialties. The hospital has a large role in training medical students. In terms of technical equipment, this hospital lags 15 years behind western hospitals. The hospital maintains only superficial contact with foreign doctors.

The hospital was unsatisfied with items donated by USAID: equipment dated from 1945; expired pharmaceuticals.

Financing:

Since December, 1993, the hospital has been financed through the insurance fund system and state subsidies. State subsidies are inadequate. Patients pay out of pocket for "extra" services (i.e. private, semi-private room, better food).

Insurance System:

Presently only one insurance fund serves the area. Several competing, independent funds would be ideal. A better system would allow people to select among funds.

Pharmaceuticals:

The hospital has the authority to obtain drugs from any source, including foreign importers. The Krai Pharmacia supplies 85% of the hospital's pharmaceuticals. Transportation of pharmaceutical products poses significant costs and problems. Imports are very expensive.

Privatization:

Without laws there can be no progress. They cannot implement privatization because there are no applicable laws in place.

Privatization is not useful because just having people pay for services is not useful. The system of state finance as before is more appropriate for the health sector. People should not pay for medical services; they cannot afford it. People should pay only for "extra comforts:" private room, cosmetics, very expensive treatment methods.

A German company operates a privatized hospital in the area.

Perspective:

The lack of space is the largest problem facing the hospital. In general, things are "not so bad." A better overall economy might help things though. Russians have gotten used to problems; they like problems. When something is broken, Russians have to discuss at length whether what is broken will be fixed, or just used as is. In the West, they would just fix it without discussion.

March 4, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Dr. Nadezhda Gregorevna Vasileva, Deputy Head Doctor of the Polyclinic Department, Primorski Regional Clinical Hospital

NOTES

General:

The polyclinic employs high quality professionals in 35 fields: 45 doctors; 40 nurses; 8 receptionists; 20 support staff. The polyclinic provides diagnostic and referral service and issues prescriptions for medicine. Most of the polyclinic's supplies are obtained through the hospital.

Insurance/Finance:

The poor economy makes it impossible to develop an insurance system. The polyclinic is financed entirely through the insurance fund system. However, there is not enough financing to adequately pay employee salaries. The polyclinic has no money for new equipment or new facilities, with which they could improve and expand services.

Privatization:

Privatization would be the death of the health-care system. The system before was better. It is in the interest of the patient that the polyclinic provide good help, not just cheap help. Privatization would especially not work for this polyclinic because they serve a poor agricultural region; no one could pay for services.

Perspective:

The polyclinic's most significant needs are:

- higher employee salary
- better equipment
- a new clinic
- apartments for the employees

March 4, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Antonina Petrovna Aleksashkina, Head Doctor, The Fishermen's Hospital, Far Eastern Basin

NOTES

General:

The Fishermen's Hospital serves 62,000 fishermen in the entire Krai, 123,000 of which are in Vladivostok. The hospital's staff numbers 1,400: 145 doctors on board fishing vessels; 240 doctors per shift in the hospital. Per shift, 1,200 people are provided some type of service. The hospital has 17 divisions: 11 for medical services; and 6 for their Medical Institute Training Program.

The hospital maintains professional contacts with medical institutions and doctors in Japan, Germany, and Hungary.

The average cost to the hospital of 15 days inpatient treatment is 300,000 Rubles. A visit with a doctor for diagnosis and consultation is typically 15,000 Rubles. The minimum Russian monthly salary is 16,000 Rubles.

Problems:

A lack of money is the hospital's biggest problem. One must have personal contacts to find money, there is no system to provide it. The hospital cannot continue to rely upon the Fishermen's Association as a source of financing because its future is uncertain.

Equipment is in need of repair, but no qualified repair services are available. The facilities are in need of renovation and repair, but the hospital does not have enough money to do so.

Compared to Western institutions, their facilities and equipment is not impressive. Overcrowding is a particular problem. However, in the Krai, they have one of the highest ratings of quality for services and equipment. They have agreements with foreign embassies to provide treatment to expatriates.

Pharmaceutical:

The Pharmaciya provides 80% of the hospital's pharmaceutical products. Increasingly, the hospital is contracting directly with companies for pharmaceuticals and medical equipment. This is cumbersome, as the hospital has no department specifically designed for this purpose. The hospital buys from Japan, France, Germany, Austria, and the U.S., and General Electric and Semens in particular.

Importing is quite expensive, but because certain products are often not available domestically, they are forced to do so.

Imports account for 70% of the hospital's medical equipment.

Privatization:

Hospitals should be the property of the State. To change to privatization is to injure the health-care system. Privatization would interfere with the relationships between institutions. People do not have the ability to pay for medical services.

The insurance fund will not provide financing to private medical institutions.

Russia should learn from the insurance systems in other countries. In principle, an insurance system could work, but it needs to be developed. The economy and social conditions really must change first. Enterprises are the only source of money to the insurance fund, but they do not have the economic capacity to provide enough financing for the entire health industry.

March 5, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Vladimir Anatolavich Sampetov, Deputy General Director, Primorski State Enterprise "Pharmaciya"

Irina Vladimirovna Narkhova, Deputy Head, Sales Department, Primorski State Enterprise

NOTES

General:

In the Krai there are 230 pharmacies, 40 of which are in Vladivostok.

Distribution:

Pharmaciya supplies imported and domestically produced pharmaceutical products to pharmacies, clinics, and hospitals by contract. Pharmaciya obtains drugs from 500 manufacturers in 18 countries (France, Germany, England, Italy, Japan, Austria, Poland, Korea, Australia, the former Yugoslavia, and the U.S.) Pharmaciya prefers to buy from domestic producers as much as possible. Domestic drugs are cheaper than imports, and to import can be bureaucratically complicated (license and permission required).

Pharmaciya delivers their products to the retail enterprises. Deliveries are typically made once or twice per month by trucks that are not loaded to capacity.

Pharmaciya is obligated to supply pharmaceuticals to hospitals and clinics even when these institutions cannot pay. Pharmaciya is owed 2 billion Rubles and is 2 billion Rubles in debt.

Some small commercial enterprises have obtained a license from Pharmaciya to distribute drugs. There are so few of these enterprises moving so little volume, that they pose no competition to Pharmaciya. They account for .001% of the market. Some of the small wholesalers have begun to bring in very cheap and poor quality drugs from India.

Retail:

The pharmaceutical products with the most commercial value tend to be those not of vital importance (i.e. cremes, imported aspirin, vitamins). Profitability also depends on the age group of the typical purchaser of a particular drug. Elderly purchasers are frequently poor and on state pension and therefore without significant disposable income.

Pharmaciya sells 3500 types of pharmaceutical products. Pharmaciya sells about 4 million bundles of penicillin and 3-400,000 bundles of hyper tonics per year.

Manufacturing:

The Partizansky Region pharmaceutical factory lies about 300 kilometers from Vladivostok. The plant manufactures about 40 very basic products, used mainly by clinics (i.e. eyedrops, cremes, aspirins, allergy medicines). The plant facilities are under utilized. The plant has been unable to develop any complex chemical processes.

About 30 pharmacies engage in on site small-scale manufacturing.

Pricing:

Manufacturers sell their products at 30% above costs. Pharmaciya, as wholesaler, takes 25 points of the 50% post manufacturer markup, and the retail pharmacies take the remaining 25 points.

To cover Pharmacy's costs, the post-manufacturer price limit would need to be raised to at least 130% (if the manufacturer's price remained fixed).

Finance:

Pharmaciya is not profitable. Its operations are funded by the Krai budget and sales of products. Revenue from sales does not even cover transportation costs. Before 1984, Pharmaciya was profitable because "prices were settled correctly." Things should return as they were before. Costs are about 150% of revenue.

Most pharmacies are funded by the government of the city in which they reside. Pharmaciya controls/finances four drugstores directly.

Some pharmacies have their own bank accounts.

Insurance Plan:

The eventual role of the insurance plan in the pharmaceutical industry is difficult to foresee.

Perspective:

The 50% markup limit needs to be changed/increased.
State subsidies should go directly to people rather than enterprises.
Average Russians are not be able pay more for pharmaceuticals.
If privatized, drug stores would sell only profitable items, neglecting important drugs.

March 5, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Zoya Ivanovna Svetlova, Director, Municipal Enterprise "Pharmacy Number 2"

NOTE

Finance:

Revenue covers only 30% of costs. The pharmacy is financed from the municipal budget.

The majority of manufacturing drug stores operate at a loss. Only the cost of materials and packaging is permitted to be included in total cost. Labor cost must be absorbed by the pharmacy. Retail pharmacies can be profitable because they do not need much equipment or facilities.

Cosmetics and perfumes are becoming a larger part of product line because they are profitable. Producing bread and sub-leasing extra space supplement sales.

Credit can be obtained for 5-6 months at 150% interest.

This pharmacy is valued at 1 billion Rubles.

Retail:

Director and Deputies analyze demand based on what the public buys and what hospitals and clinics require. Effort is made to buy the best and most useful products.

A total of 300 varieties of pharmaceuticals are sold in the pharmacy. January sales were 50 million Rubles; February sales were 65 million Rubles. Clinics produce 10% of total sales; the general public produces 90%.

The most profitable drugs include: heart disease medicine; asthma medicine; cold and flu medicine. These are profitable because they sell in high volume.

Wholesale:

Not all necessary products are available at all times from Pharmaciya. Finding alternate wholesalers is difficult and expensive. Pharmaciya is useful because it has the contacts necessary to obtain drugs. Pharmaciya supplies 50% of their pharmaceuticals.

Foreign pharmaceutical companies do not have warehouses in Russia and therefore depending on a regular foreign supply through a contract is not reasonable.

Manufacturers require prepayment on purchases.

Manufacturing:

Internal manufacturing accounts for 1-3% of pharmaceuticals sold.
Russian manufactured drugs are of adequate quality but in short supply.
Foreign produced drugs are generally of better quality.
Russian vitamin production is seriously lacking.

Pricing:

Pharmaciya takes 30 points of the 50% post-manufacturer markup; the pharmacy takes the remaining 20 points. The private enterprises from whom they purchase drugs take 25 points of the 50 % and the pharmacy takes the other 25 points.

The price of pharmaceuticals should be based upon: manufacturers price, cost of transportation, and a reasonable profit margin.

Problems:

Foremost problem is lack of money.
The distance to Moscow poses problems of communication and transportation.

Privatization:

Municipal government is drafting privatization law but it cannot be implemented until next year according to the Presidential Decree on Privatization.

Privatization would be useful because it would create competition among pharmacies.

If pharmacies are privatized, the city could retain several to provide pharmaceuticals to protected persons.

Privatization should not be like collectivization. There is great need to plan and implement a program gradually.

Perspective:

Even at higher prices, most Russians could comfortably pay more for pharmaceuticals.
A new price structure should be created that takes into account real costs.
Fewer pharmacies should manufacture products.
Pharmacies should diversify their product line to include more non-drug type items.

March 4, 1994
Vladivostok, Russia

Interviewers: Brandon Bennett
Ekaterina Pashina

Contact: Tatiana Ivanovna Balloola, General Director, Vladivostok Pharmaceutical Factory

NOTES

General:

The factories premises were built 20 years ago. The current equipment dates from the same time.

There is a technical distinction between a factory and a plant. Factories produce all "vital drugs." Some factories produce as many as 100 different products. There are 20 factories in all of Russia. Plants produce a variety of antibiotics and general pharmaceutical products and are involved in chemical production.

Although the last three years have been difficult, the factory has not released a single worker.

Production:

Efficiency could definitely be increased with new equipment. Some of the manufacturing standards employed by the factory are more strict than France and Great Britain.

Sales:

The factory sells significant volume to the Krai Pharmacia. The factory has only a few direct contacts with clinics and hospitals. The factory has autonomy in product line selection.

Privatization:

In the privatization program of 1992, pharmaceutical manufacturers are eligible for privatization with the permission of the Ministry of Health.

Since the State initiated the process of privatization they should help to make it work. The interest of employees should be reflected in any privatization plan. The employees know best how shares should be distributed. Open auctions are very dangerous because the buyer and his intentions are unknown. The GKI methods for privatizing are harmful to employees.

Only 2 of the 20 factories in Russia are privatization. This factory chose privatization. It is now a joint-stock company with certification from the Ministry of Health and GKI. The factory requested authority to privatize in September of 1992. Permission was granted one year later. The employees decided themselves to privatize.

The companies shares are split 51% to the employees and 40% to the Primorski Krai Property Committee. The employees do not want the 49% of the shares held by the Krai to be auctioned off.

Distribution:

The factory has authority to contact foreign companies in order to get supplies.

Pricing:

In March of 1992 the Ministry of Finance placed a 30% above cost ceiling on the price of pharmaceuticals. The price limit precludes profitability.

If there is a price limit, then the State should subsidize the factory. If there is a free price, then there is no need for subsidies. The limit would need to increase to 80% in order to cover costs.

Financing:

Credit is not a plausible source of finance. Credit is available on the terms of 5-6 months at 240% interest.

The factory cannot produce continually. Raw materials are not available. To operate for the next six months, the factory needs 1.5 billion Rubles.

An association of the fish industry is planning to finance production of DNK, a product that reduces the amount of heavy metals in the body. The association will supply money to purchase the machinery necessary to produce DNK. The factory will produce and sell DNK, and give 50% to the fish industry association. There is no price limit for this product because it is considered to be a food addition, not a pharmaceutical product.

Perspective:

The Ministry of Health is inexperienced and ignorant of the problems and processes of medical factories.

Why doesn't GKI come and ask questions themselves.

SECTION 3: NOVGOROD

IBTCI visited the representatives of the Pharmaceutical Committee at the Oblast level, Committee of Health Protection of Population for the Novgorod Region of the Russian Federation, two hospitals, a polyclinic, and two pharmciyas.

The emphasis of the interviews was on the qualitative and quantitative aspects for the Novgorod Oblast. Specific questions were asked regarding the perceived need and possible effect of privatization. The interview notes provide details of the findings.

Salient Features of the Health Care Sector in Novgorod

- Novgorod Oblast consists of a very scattered population, numbering only 730,000.
- In the entire oblast, there are 100 polyclinics and hospitals, four wholesalers and about 78 pharmacies, 495 pharmaceutical outposts (points)and pharmaceutical kiosks and a small pharmaceutical manufacturer.
- One of the biggest problem is that the population is scattered across the entire oblast in very rural and remote villages. There are 21 different regions in the oblast, the City of Novgorod being the largest one. Consequently, distribution of drugs is difficult. Villages are being supplied minimal care and prescription for medicines by a "feldher", a local medical assistant.
- Medical facilities and hospital equipment are antiquated.
- The financing of the health care system through municipal, oblast and federal budgets meets minimal needs.
- The sector has had experience of working with foreign pharmaceutical manufacturers, especially Pfizer.
- Most of the professionals have technical qualifications.
- Although the people who will receive compulsory medical insurance under the new insurance law will be able to receive health care, prescriptions and medications, those not covered will face major hardships if the State does not finance their health care and medication.
- The Oblast has been facing financing difficulties. It had to cut back pharmacies by 25% by turning them into pharmaceutical points or outposts. The volume of work and the number of workers were also cut back.

- The pharmacies in Novgorod are in very bad financial shape and they have begun to receive subsidies. As against the mark up of 50%, actual prices charged are much higher and even then the pharmacies are not profitable. Taxes are also a major burden on pharmacies.

Novgorod's Views on Privatization

- For the purpose of privatization, Novgorod Oblast differs from other oblasts in terms of its low and scattered population.

- Under privatization, there must be means by which the general population is still supplied with necessary medical care, and medications.

- The governmental pharmaceutical system should not be entirely dismantled till privatization has succeeded.

- There is a need for a strong legal framework before embarking on privatization that will protect the rights and privileges of the care receivers; the relationship with the oblast, city, and federal government health organizations; and relationship with insurance companies; and payment for universal care.

- Novgorod felt that privatization is feasible in the case of smaller pharmacies and specialized polyclinics. A dental clinic in the Novgorod was recommended for privatization.

- In the case of pharmacies, privatization will need to surmount the present dismal profitability of most of the pharmacies due to limitations on prices. Costs far outweigh revenues at present.

- Pharmaceutical enterprises should not be sold by public auctions since the owners may not be qualified or even willing to continue to carry on the same business.

CONTACTS IN NOVGOROD

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NOVGOROD NOTES

John R. Rook
IBTCI
Moscow

Date: 3/3/94
Time: 9:00am

Meeting: Dom Sovyetov, Novgorod Oblast Administration Building, Committee on Public Health.
Present: Valeriy Alekseeevich Medik, President of the Committee
Address: Pobeda Square, Novgorod, telephone: 92-297, 92-582
Interviewer: John R. Rook

General Information

Met with Valeriy Alekseevich Medik who is the Head Administrator for the Oblast Health Department of Novgorod. Novgorod Oblast contains a very small scattered population, numbering only 730,000.

In the entire oblasst ther are more than 100 polyclinics and hospitals, and about 80 pharmacies.

There are several pharmaceutical distributors in the area, one of which is the state enterprise, Pharmaciya and there are already a couple of private ones. There is no pharmaceutical manufacturer on the territory of the oblast, except for what is produced in the pharmacies that contain small production facilities.

There are no special projects underway at the present time in Novgorod. When asked if any are planned for the future, he said that due to a lack of funding, this would be very difficult.

Major problems facing the health care industry in Novgorod

1. One of the biggest problems is the fact that the population is scattered across the entire oblast in very rural and remote villages. There are 21 different Oblast Regions, the city of Novgorod being the largest one.

2. The Oblast has problems with pharmaceuticals distribution and with access to care especially in these remote areas. Many of these remote villages have what is called a "feldsher," which is a local medical assistant who is able to provide minimal care and prescribe medicine.

3. aging condition of medical facilities and hospital equipment.

4. financing the health care system through municipal, oblast and federal budgets.

Privatization

When asked about the possibility of privatization, Mr. Medik did not speak very highly of it. He said that there is not a strong enough legal framework. In terms of a legal framework, he is talking about a specific law about a private system of health care, which will address the rights and priveledges of the care receivers, the relationship with the oblast, city, and federal governement health organizations, and a relationship with insurance companies and how to pay for these services.

As for specific health care institutions to privatize, Mr. Medik said that it would be possible for certain ones, namely stomotological clinics, certain preventative medicine facilities, and general health care facilities which supply services of massages and cosmetological surgery.

Mr. Medik's office is not involved in any privatization projects as of yet and did not seem very hopeful that there would be any at all. He added that privatization would do more harm than good to the provision of health care services to the people of Novgorod. Any repercussions from a failed privatization project would be felt by the population. Such a project could not take place in the rural areas of the oblast especially for this same reason.

NOVGOROD NOTES

John R. Rook
IBTCI
Moscow

Date: 3/3/94
Time: 11:00am

Meeting: Pharmaceuticals Committee
Address: Dom Sovyetov, Pobeda Square, Novgorod
Present: Tatiana Aleksandrovna Denisovna, President of the Pharmaceuticals Committee, and President of the Licensing Committee, Nadezhda Vasilyevna Fyodorovna, Deputy Head of the Pharmaceuticals Committee.
Interviewer: John R. Rook

General Information

The Pharmaceuticals Committee manages and regulates all of the city pharmacies, and handles the financing. The financing comes from the oblast budget, which is decided regionally and not in Moscow. The committee also handles the licensing of pharmacies and any other enterprises involved in pharmaceuticals. The also monitor and relicense these enterprises and the quality of the medications.

The committee has been formed about 1/2 a year ago. The pharmaceuticals are distributed by the wholesalers and the Pharmaciya. These organizations must also receive licensing from the committee.

There are 22 employees that work at the Committee. 11 of these employees are laboratory technicians who run the quality control department for pharmaceuticals. There are 11 trained pharmacists and provizors, and 3 employees who are economists, accountants and 5 people that handle the licensing and acreditation procedures.

Ms. Denisova informed me that there is such a large problem with the supply of pharmaceuticals in Russia because alot of the manufacturers were located in the Baltic States, Ukraine and these plants were lost after the breakup of the Soviet Union. There is a heavy chemical industry in Siberia, in Omsk, Novosibirsk, and Tyumen, and also a raw materials plant in Uzbekistan. There is talk of building a pharmaceuticals plant in Siberia that would produce anti-cancer drugs. She also added, that for the most part, Russia has no narcotic drug production facilities and has to import all of them.

Special considerations about the Novgorod oblast are that it is sparcely populated and the population outside of the city, is mostly involved in agricultural production, that many towns in the oblast are rural villages which have 1 pharmacy, which is actually a pharmaceutical outpost with no production capabilities.

Education of Pharmacists/Provizors

The standard educational path for a **pharmacist** is the following: They normally finish 8 years of schooling , then enter a pharmaceuticals institute for 3

years in preparation to enter either a medical institute or a pharmaceutical institute.

For a provizor, they finish 11 years of school, take examinations, enter a pharmaceuticals institute, namely the Leningrad Chemistry and Pharmaceuticals Institute for 5 years. There they also take courses in preparation to run a pharmacy.

Finances

Ms. Denisova informed me that over the past year, the pharmaceuticals committee had to cut back on certain pharmacies. There was a 25% cutback of pharmacies and this was done by turning them into **pharmaceutical points or outposts.** The volume of work and the number of workers were cut back.

Due to the inflationary rate, the amount and cost the expenses are growing, especially the cost of transportation. The pharmacies in Novgorod are in very bad shape and they have begun to receive subsidies. In the larger oblast, Ms. Denisova said that pharmacies have remained property of the federal government.

Wholesalers in Novgorod

In the entire oblast, there are 4 different wholesalers. These are:

1. Joint stock company, **"Rosfarm"**

2. **Novax,** a company(tovareshtvo) with limited responsibility

3. state enterprise, **Pharmaciya**

4. **Kolmovo**, also a tovareshtvo with limited responsibility.
   telephone: 2-34-86

I was also informed that there is a customs station in Novgorod and all goods must go through this after they are received.

There is a small pharmaceuticals manufacturer which is called ECO Sfera. This is a smaller, wholesaling, and manufacturing facility. The address is as follows: Aleksei Rostislavovich Nosov, Head Technologist
ul. Medeleeva, 3-9
tel 81600-2-65-93, or 2-33-39

"Vilar" is a scientific-research institute which has become a tovareshtvo with limited responsibilities. The term Vilar stands for the abbreviation in Russian, All-Russian Institute of Medicine. This is located in Moscow and there was a contract which was just concluded about building a "zonal station" in Novgorod. The purpose of this would be to research new medicines/pharmaceuticals, refining and manufacturing.

Privatization
Some considerations during privatization are:
1. Ensuring that the general population is still supplied with necessary medications/pharmaceuticals after certain enterprises have been privatized.

2. There needs to be strick quality control and sanitary standards for storing and production.

3. The government pharmceutical system should not be entirely dismantled, meaning that the Fed should have some budgetary and regulatory powers.

4. That strick licensing processes need to be kept, especially if private individuals are allowed to manufacture, or wholesale or retail in dangerous pharmaceuticals.

Statistics
There are a total of 78 pharmacies located in the Novgorod oblast.

There are 495 pharmaceutical outposts(points) and pharmaceutical kiosks

As of 1993, there were 905 people employed in the pharmaceuticals industry.

There are 3 pharmacies located on the premises of hospitals, 1 of which is in the oblast children's hospital. There are a total of 7 independent pharmacies which are on the premises of the hospitals, but act as seperate legal entities. The other ones mentioned above actually are on the hospital budgets.

Work with other firms
The Pharmaceuticals committee plans on some kind of a joint venture with an Indian Company which will produce certain substances in Novgorod. They would also build the factory in Novgorod.

Law about Medical Insurance
Ms. Denisova said that people who will be receiving compulsory medical insurance under the new insurance law will be able to have prescriptions and hospital medications paid for. Her concern was for the people who are home bound and are not in care facilities. Ms. Denisova thinks that the law does not address these people's needs.

NOVGOROD NOTES

John R. Rook
IBTCI
Moscow

Date: 3/3/94
Time: 2:00pm

Meeting: Oblast Hospital
Address: Kolmovo--6, Novgorod
Present: Leonid Vasilyevich Zverkov, Head Physician, Irina Anatolyevna Semyonova, Deputy Head Physician, Sergei Georgievich Peshekhonov, Deputy Head Physician
Interviewer: John R. Rook

Professional and Support Staff

The total number of doctors in the hospital are 157, with a small majority of them being women. As for other professional staff members, there are no pharmacists, 436 nurse practitioners and nurses, 28 laboratory technicians, and 6 biomedical engineers. There is a dental and oral surgery department. The physicians have completed preparatory schools for medical and scientific careers and after that, a medical institute.

Dr. Zverkov assured me that the specilists are highly qualified, and they do receive current medical journals and publications about medical research.

Hospital

The hospital is in operating condition, but the overall cosmetic and physical appearance of the hospital is not very good. The building itself is 10 storeys, and was constructed at the end of the 1960's, beginning of the 1970's. There are major repairs underway at the present time in 6 of the hospitals wings. The emergency power system is in working order. The total number of hospital beds are 925. The interior of the hospital was clean for the most part, and some of the walls were in need of painting.

The oblast hospital primary care facility which is able to handle all types of illnesses and patients. One of the specialties is surgery. In general, oblast hospitals are comprehensive care facilities where many patients are referred to for further diagnosis and acute care.

Dr. Zverkov informed me about some of the other existing health care facilities which exist in Novgorod and the entire oblast. The oblast hospital is the main hospital for the city of Novgorod. There are also hospitals located in seperate raions or regions, and these are called "Central Regional Hospital," and they offer general therapeutic care, diagnostic and less specialized medical care. There are other smaller hospitals and polyclinics which are staffed by internists and general physicians.

The hospital does not have a maternity ward. This is done at the city "Rod Dom," which literally stands for "birth house." This is also a care facility for new-born babies, offers gynecological services and pre/post natal counseling.

Most of the ambulatory care is provided at city polyclinics, which will refer and transport patients to hospitals on an as needed basis.

The average number of admittances daily are about 25-30.

Equipment and Supplies

It was not possible to obtain a list of all the hospital equipment. Dr. Zverkov said that the equipment is operational for the most part, but some of it is approaching the amortization rate. He added that the hospital tends to purchase equipment which is made on the territory of the Russian Federation. This is done since so much foreign equipment is very expensive, and costly to obtain repair parts. The hospital does have equipment made by Philips, a Japanese firm called Aloka, and a bronchioschope made by Olympus. There a parts wholesaler which provides the service of delivering replacement parts and repair. It's called "Medtechnica."

Privatization

Dr. Zverkov suggested that what would be possible to privatize would be smaller pharmacies and certain specialized polyclinics. What needs to be addressed in particular is financial future of the privatized institution and the geographic location. Again, one of the largest problems facing the the Novgorod oblast is the provision of services and their accessibiltiy to the public. This is due to the sparce population throughout the oblast.

It was suggested that a dental clinic in the city of Novgorod be privatized.

It was also stated that another important issue facing privatization is that the system of services, which is distributed amongst health care facilities, i.e. the more specialized ones, will be disrupted. Since several hospitals do have dental facilities and oral surgery departments, they could compensate for any failed attempt to privatize.

One way that services could be guaranteed would be by the introduction of some kind of privatization legislation. This legislation would guarantee that privatized polyclinics would still offer the same services as before, and also for the possibility of adding other medical services. This way, it was suggested by Dr. Zverkov, the system of medical care services in the oblast will not be upset.

Ms. Semyonova added that she had heard of 2 small hospitals that had privatization programs going on with an American Health care firm. Unforturnately, she was not able to elaborate on this.

Referral Relationships

The oblast hospital is connected with some of the major institutes that are located in St. Petersburg. If the oblast hospital needs to make a referral to one of these more advanced medical research institutes/centers, patients are transported to St. Petersburg which located closer than Moscow. Some of the Institutes are the Cardiological and Trauma Centers of St. Petersburg.

NOVGOROD NOTES

John R. Rook
IBTCI
Moscow

Date: 3/4/94
Time: 9:00am

Meeting: Novgorod Pharmaciya, Russian Federation Regional State Enterprise
Address: Ul. Bolshaya Sankt Peterburgskaya, No. 14, Novgorod
Present: Margarita Nikanorovna Kim, Director of the Pharmaciya
telephone: 7-30-40, 2-63-67
Interviewer: John R. Rook

The Novgorod Pharmaciya is the regional pharmaceutical wholesaler for the Novgorod oblast. It supplies pharmaceuticals to pharmacies, optical stores, pharmaceutical kiosks and "points." It supplies hospitals with medicines, and not medical equipment. This is another wholesaler. This is not the only existing wholesaler that exists in Novgorod. I was told that there are 2 other wholesalers that are private and one of which is already operating and another is still in the licensing process.

There is one local pharmacy that does not answer to the Pharmaciya and Pharmaceuticals Committee. More specifically, the Railway has its own pharmacy and health facility in Novgorod, as in other major cities where the railroad has significant stations.

Before the Pharmaciya was set up, the management of the pharmaceuticals enterprises was based in what was known as the Pharmaceuticals Bureau of the Oblast Executive Committee. This was before the reorganization took place. More about this below. This is the current organizational system.

<u>Organizational Structure of the Novgorod Pharmaceutical System</u>

I. Pharmaceuticals Committee:

1. **Oblast Manufacturing Enterprise , "Optika"**
2. **Oblast State Enterprise, "Novgorod Pharmacy"**
   - **a. pharmaceutical kiosks**
3. **Regional (City/Municipal) Enterprises, "Pharmaciya"**
   - **a. pharmaceutical kiosk**
   - **b. pharmaceutical points of I and II groups**
   - **c. pharmacies of the region/city**
     1. **pharmaceutical kiosks**
     2. **pharmaceutical points of the I,II groups**
4. **Municipal Pharmacy**
   - **a. pharmaceutical kiosks**
   - **b. pharmaceutical points of the I, II groups**

Group I are pharmaceutical outposts at polyclinics
Group II are pharmaceutical outposts which include branches, and obstetrics pharmaceutical outposts.

II. Adminstration of the Oblast

III. Committee on Public Health Care

1. **Oblast Hospital**
   a. **pharmacy (hospital budget)**
2. **Childrens Oblast Hospital**
   a. **pharmacy (hospital budget)**

3. **Central Regional Hospital of Borovichi**
   a. **pharmacy (hospital budget)**

4. **Central Regional Hospital of Valdai**
   a. **pharmacy (hospital budget)**

All of the pharmacies at the above hospitals answer to the Pharmaceuticals Committee.

In the entire Novgorod Oblast, the number of pharmacies was 105, but due to the fact that all of them are experiencing financial difficulties. only 78 are presently operating.

42 of these pharmacies are licensed to sell narcotic drugs.

There are 32 pharmaceutical kiosks that are located at polyclinics of Group I and 434 of Group II.

The pharmaciya has a bank account in Geneva and also a hard currency account.

Ms. Kim suggested that I visit pharmacy number 54 which is the property of the Municipality.

Other Private Wholesalers

Besides the Novgorod Pharmaciya, there are two other regional wholesalers. One of them is called Kolmovo, and this has not been licensed yet, and the other one is called Novax, which will be licensed soon. Ms. Kim informed me that they are operating. However, by law, only the Pharmaciya is allowed to supply narcotic drugs. There is a decree for licensing which was drafted after the reorganization took place.

In comparison with the other private wholesalers in the region, the Pharmaciya deals with the following pharmaceuticals/medications:

1. in general, all hospital pharmaceuticals
2. narcotic drugs
3. toxic substances
4. strong-affecting drugs
5. vaccines

There are 7 regions in the Novgorod Oblast where there are only 1 pharmacy. An example of this would be in the Kholm Region.

It was pointed out by Ms. Kim that pharmacies in Russia differ from those in the West. The only difference that she cited was that alot of the medications are further processed on the premises. Some Russian pharmacies have production facilities in the back, where they are able to mix substances, such as eye drops.

Pharmacies survive by being financed by the local budget and by selling other items for personal use such as soap, shampoo, etc. The pharmacy is not able to raise the prices due to price controls and this causes major financial problems.

Privatization

Ms. Kim pointed out that if she was to privatize a pharmacy or a pharmaceutical wholesaler, one of the first things she would do is stop carrying narcotic drugs. These, she feels, are costly to transport, store, and purchase.

For privatization of any health-care-related enterprises or pharmaceutical, the following has to be considered:

1. that Novgorod Oblast differs from other oblasts in terms of its low population levels;

2. there are regions which have only one pharmacy;

3. that the expenses of many of the pharmacies far outweigh the profits, and this has caused them to all fall in financial ruin;

4. that due to the limitations on pricing, which was introduced by a 1970 decree.

5. that a pharmaceutical enterprise should not be sold by public auction since any non-pharmiceutically affiliated person could by the store and turn it into whatever. Ms. Kim added that if she purchased the pharmacy herself, she would carry more non-pharmaceutical products to make up for the lack of profitability of the medications.

6. for privatized producers, wholesalers, and retailers must be controlled by government regulations.

Hospital("pribolnichniye") pharmacies and Near-Hospital ("mezhbolnichniye") Pharmacies, and Small Wholesale Pharmacies

I was told that the **pribolnicniye pharmacies** were taken out of the federal budget and attached to the hospital budget. This, I was told, is actually a burden on the budget of the hospital.

The **mezhbolnichniye** pharmacies, (there is one in Novgorod), are part of the municipal pharmaceutical enterprise, and the one in Novgorod prepares medications for 22 different health organizations and polyclinics that do not have a pharmacy or pharmaceutical kiosk on the premises. Many of the meds that are prepared are narcotic-type drugs.

The **Small wholesale pharmacies("melkooptovaya apteka")** is a type of servicing organization which supplies/services kindergartens and factories/ plants.

Reorganizations

1. **The pharmaceutical management organization** was turned into a manufacturing association(union).
The unions(known in Russian as "obyedineniya") were liquidated by Yeltsin and the pharmaceutical system was distributed amongst the Municipal and Federal powers.

2. Then, the form of property changed and then pharmaceutical enterprises began to answer to the municipality only.

3. The next step, Ms. Kim feels is toward privatization in the reorganization, especially into private wholesale businesses.

Work with Foreign Firms

1. **Pfizer** The pharmaciya of Novgorod has had a relationship with the Pfizer Company for already a year. They are still in the process of monitoring the firm before they purchase any pharmaceuticals. Ms. Kim will be attending the Pfizer conference for Russian pharmaceutical wholesalers(35 total) on the 20th of March in London and Brussels.

2. **Eli Lilly** The pharmaciya has already had 2 contracts with Lilly and there seems to have been some tension at the beginning, but Ms. Kim said that the company had corrected its problems and they are satisfied. Antibiotics, diabetic/insulin and anti-cancer agents. Lilly guarantees the delivery and quality of its pharmaceuticals and that is very important to the Pharmaciya.

3. **Merck, Sharpe and Dohme** Ms. Kim had only good things to say about Merck. They have only had one contract/order, which was for heart medications mainly, with Merck.

4. **Schering-Plough** The pharmaciya has had a bad experience with this company, and most likely will not be purchasing pharmaceuticals from them any more. When asked what happened, Ms. Kim said that the Pharmaciya fronted the money for pharmaceuticals and the delivery took over a month.

Ms. Kim said that the British pharmaceutical firms allow the purchase of pharmaceuticals through credit. She also said that this is something that American firms do not do. However, to prevent any problems the pharmaciya has begun to pay only 25% of the total price of the drugs purchased and then when the rest are received, the remainder amount is payed off. This is somewhat of a cover for them.

NOVGOROD NOTES

John R. Rook
IBTCI
Moscow

Date: 3/4/94
Time: 11::00am

Meeting: Municipal Pharmacy Number 54
Address: Ul. Leningradskaya, 4, Novgorod, tel. 7-31-44, 7-30-04
Present: Nadezhda Nikolaevna Khutoryanskaya, Director of the Pharmacy
Interviewer: John R. Rook

This is the central municipal pharmacy, which is affiliated with the Pharmaciya. It is run by Nadzhda N. Khutoryanskaya, who has worked there for 20 years. She finished the Leningrad Chemistry and Pharmaceuticals Institute. The Pharmacy is located on the first floor of the building where the Pharmaciya is also located. The actual pharmacy used to be a warehouse and this was turned into a pharmacy. It is owned by the municipality.

There are 4 different sections/departments to the pharmacy. They are:

1. prescription with preparation
2. over-the-counter
3. prescription without preparation
4. herbal/medicinal tea hall

The pharmacy is open the following hours:

8am-9pm Mon-Friday
9am-8pm Saturday
9am-8pm Sunday

The pharmacy is located in a central location with other commercial businesses. It is not open 24 hours, but it is affiliated with a pharmaceutical kiosk which is, and the meds are delivered by an ambulance. One of the director's concerns was that of crime. This is due to the fact that crime has risen drastically, and the narcotic drugs are a target of theft.

There are a total of 32 workers in the pharmacy of which the breakdown is:

director
2 deputy directors
3 provizors
pharmacists
6 sanatation workers
accountant who also works for the Pharmaciya

The management staff has attended higher qualifications lectures in Leningrad and on management, and this occurs 1x in 5 years. The director informed me that there are enough employees to operate the pharmacy properly. Ms. Khutoryanskaya is also responsible for staffing decisions, and the accounting department handles paychecks.

Since the pharmacy is located so close to the pharmaciya, they are able to obtain up-to-date journals and professional literature, through an agreement with the pharmaciya.

Finances and costs

The yearly rental costs for the pharmacy is $1,500,000 rubles. This is considered to be very high. The pharmacy also pays for heat, electricity, and telephone. The rent and utility expenses for the pharmacy are very high and make up 25% of the total expenses for the pharmacy. The retailer is not profitable and this is mostly due to the price fixing. The director said that they would need to raise the priwce of the pharmaceuticals up to 90% to break even. They have begun to receive subsidies.

Wages **185 million rubles/year**
Rental **1.5 million rubles/year**
Purchase of Inventory: 250 million rubles for March
300 million rubles for April
Transportation: Pharmacy has an agreement with the oblast/warehouse.

The last time the pharmacy made a profit was in 1991, and this has not occurred since, due to the price fixing

The **total sales** for the pharmacy amount to over a billion rubles/year.

Taxes are also a burden on the pharmacy. There is .5% tax for which goes to a social insurance fund, 13% revenue tax, 1% for the police of the city, 3% for road repair.

Ms. Khutoryanskaya also mentioned that a large cost is also involved with paying intermediaries.

The pharmacy is also able to borrow money from the GosBank. The most recent loan that was taken was for 4,5 million rubles at an interest rate of 200%/year.

Warehouse

There is one large pharmaceuticals warehouse for the entire oblast and it is manned by 6 workers. Pharmacy number 54 usually takes a 17-20 day supply of drugs for sale, and they are delivered approximately 2x/month. Narcotic drugs are taken for 3-5 days and are delivered more frequently. The pharmacies have refrigerators which can store these.

SECTION 4: TVER

IBTCI visited the representatives of the Oblast administration (Committee on Economics and Prognosis, Anti-Monopoly Committee, Health Administration, Property Committee, and the Department of Pharmaceutical Supply), hospitals, polyclinics, pharmciyas and pharmacies and a manufacturer.

The emphasis of the interviews was on the qualitative and quantitative aspects of Tver Oblast on health care and pharmaceutical industry, especially relating to its level status. Specific questions were asked regarding the perceived need and effect of privatization. The interview notes provide details of the findings.

Salient Features of the Health Care Sector in Tver

- 22 different medical institutions and 6 medical preparatory schools in different regions report to the Oblast Health Administration. There are 42 hospital beds, 40 doctors and 200 pharmacies per 1,000 people, and 1 hospital for 15,000 people in the oblast.
- In Tver City, there are 8 hospitals, hospitals for railroad workers, and 18 pharmacies.
- The major problems facing the Health Care industry and Tver Oblast hospitals are:
  - Antiquated and shortage of equipment; it is stated that in Tver city there are only two working theormographs.
  - Very weak base for financing health care industry.
  - Buildings are in bad shape. It was stated that some of the hospitals contain wooden stoves for heating.
  - Destruction of the system of preventive medicine, known as "systema profilaktiky". As a result, the general health of the population has worsened.
  - Financial condition of the manufacturers, pharmaciya and pharmacies is very bad.
- In the case of the pharmaceutical manufacturer visited by us:
  - The plant produced 80 different products.
  - There is no system of GMP and the plant would have to be rebuilt and new equipment installed to meet these standards.

- There are no sterilization facilities on the premises, but the plant is said to follow a thoroughprocess of washing and drying to the appropriate temperature.

- The financial condition of the manufacturer is very poor due to five fold increase in cost of raw materials and production. Before the inflation, the plant was working on 30% profitability.

- The major problems of the plant are:

  - The plant and equipment is 15/17 years old and no replacement has taken place.

  - The plan produces "pharmaceutical for the poor", which have lower margins.

- Based on the visit to a hospital, we found that:

  - The Hospital # 6 is a very large facility which provides all types of medical services to Tver. For gynecological services, the city has "birth houses".

  - The hospital has 600 beds, 9 affiliated polyclinics and 8 medical diagnostic facilities.

  - The hospital is affiliated to the local medical school.

  - The problems faced by the hospital included:

    - Most of the building seemed in need of major renovation. However, minor renovations are taking place.

    - Most of the equipment has reached the stage of amortization.

    - The hospital reported that it received nearly half of its total financing from the services provided.

- In the case of the pharmaciyas visited by us, the following observations were made:

  - The Tver State Enterprise is a wholesale administrative organ which distributes drugs to local pharmacies, handles licensing for pharmacies, and coordinates five of its own pharmacies.

  - A new sterilization facility is under construction, which will also produce sterilized medications.

  - The demand for medicines has decreased as hospitals and pharmacies are low on funds. Instead of buying in bulk,

they are only taking that which they need.

- The pharmaciya has a business relationship with Pfizer Pharmaceutical Company.

- We also visited two pharmacies and found:

  - The two pharmacies visited, #1 and # 200 are efficiently organized. #1 is the oldest pharmacy in the city of Tver. It is the only pharmacy in the city that employs a trained pharmacist.

  - The management of pharmacies all had degrees in pharmaceutical and are provizors.

  - They used referral service with other city pharmacies in case of not availability of medicines.

  - Pharmacy # 200 has very high volume with about 100/150 customers/hour.

  - Until January 1993, the pharmacies were in rough financial shape. Due to the freeing up of prices, the pharmacy was able to turn itself in to a profitable business.

  - The taxes on profit amount to 35%. Other taxes amount to 45% and these include taxes for local roads, education, police etc. Due to heavy taxes, pharmacy is left with only 20% of profits to pay for rent and utilities etc.

- Medical Insurance is being implemented in Tver, with the experiment being carried out in the Firovski Region. We were told that medical insurance funds would not be sufficient or even a reliable source of funds. The reasons are:

  - inflation rate,

  - the 3.6% of the wage salary funds of businesses is not enough. Even this, the industrial and business sector may not be able to contribute completely due to their poor financial condition; some of them are almost bankrupt.

<u>Tver's Views on Privatization</u>

- The oblast officials provided the following views on privatization:

  - They were strongly apposed to privatization of major hospitals and polyclinics as they would lose government funding after going private. They felt that privatization would, at this time, harm the quality and

delivery of services in the city of Tver.

- In term of privatization of the local pharmaceutical manufacturer, the administration official felt that it was in a very bad financial shape and close to bankruptcy even under the government ownership. They felt that the plant will have to be restructured and new equipment purchased to make it run efficiently.

- The officials advised us that there were no private pharmacies in Tver, but there are two private pharmaceutical kiosks.

- Based on the visit to the hospital, we found the following position as to privatization.

  - Privatization will lead to loss of all government funding, and thus the hospital will fall into financial ruin. They will also lose certain privileges such as financing cost of utilities and funding the health care of invalids and veterans.

  - If privatization was to fail, health care services would not be available to a large part of the population in different regions.

  - The quality of the health care would decline significantly due to lack of government regulations.

  - The ambulatory services in the city or polyclinics could also suffer, if privatized, placing greater burden on city hospitals.

- A visit to the local manufacturer disclosed that it is at present still the property of the Government of the Russian Federation. The director had, however, filed a request for privatization last year which was turned down by the local Property Committee. The director felt that the inflationary increase in prices of raw materials has made the plant financially much weaker in the intervening period. Privatization was still feasible if:

  - The Federal Government guaranteed that it will continue to finance manufacture of pharmaceuticals at reasonable prices for low-income citizens.

  - That as a result of privatization, pharmaceutical factories and enterprises that are in financial trouble will not be closed as otherwise the necessary medicines will not be available in Tver.

  - If the plant is privatized, the manufacture of medicines is not stopped by the new owner/s and replaced by introduction of other profitable products.

- Analogous products would not be allowed to be imported if they are being produced by pharmaceutical manufacturers in the Russian Republic.

- In the case of pharmaciya and retail distribution, we found the following situation:

  - Only one or two pharmaceutical kiosks have been privatized in Tver till date.

  - In the case of Pharmacy # 200 visited by us, the management of the pharmacy had devised a plan for privatization. Three different varieties of privatization were considered and the one chosen would have involved privatization with stock privileges. Protection of the employees was one of the conditions of privatization. It was stated that if the pharmacy was put up for public action, the worker's collective would not be able to make a competitive bid on the purchase price. The privatization program, as described above, has not yet been submitted to the Municipal Property Fund. The management of the pharmacy has another concern on its privatization: as this pharmacy supplies medicines to a major city hospital, any failure in privatization could result in many number of patients to suffer.

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Ul. Seliznova, No. 34
Tver, Russian Federation
telephone: 6-14-80

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/10/94
Time: 11:30am

Meeting: at the Oblast Administration Building, Tver, Russian Federation
Present: Vladimir Ivanovich Podyachev, Deputy Head of the Tver Oblast Administration and former member of the Small Soviet of the City Soviet of People's Deputies, Tatiana Anatolyevna Timonina, the Director of the Pharmaceutical Supply
Interviewer: John R. Rook

Mr. Podyachev is the second in command in the oblast administration and is involved with social issues affecting the people of the Tver Oblast. To this includes such areas as sports and recreation, health-care, or public welfare, amongst others. Regarding public welfare, this involves health institutions, pharmacies, such as the pharmaciya and sanatoria/rest facilities. Mr. Podyachev has a working relationship with the Oblast Health Administration, and his oversight on health related issues is sometimes chiefly bureaucratic, as so I was told.

Regarding privatization:

Mr. Podyachev began speaking about privatization more generally and then I asked him specifically about which clinics have been privatized. He named the 4 different types of property that presently exists in Tver: Oblast, municipal, federal and private. An example of local government or federal property is the Tver Pharmaceuticals Factory. Other things that have been privatized are:

1. a stomatological clinic
2. some doctors have opened up their own private clinics which means that they are practicing in their home, and doing general examinations and if more tests are needed, then they make referrals. Some of these physicians also lease some spaces for their practices.

Mr. Podyachev said that his office is also working on a licensing procedure, or some procedure for registering these private physicians. When asked about the qualifications of these physicians, Mr. Podyachev said that they are fully qualified, but they just do not possess this new type of license to practice privately.

For his recommendation on privatization, Mr. Podyachev suggested that a hospital or a polyclinic would be better to privatize in Tver than in one of the other 36 regions of the oblast. This is so because many of the separate oblast regions have only what is called **medical points** (meditsinskiye punkty). The reason for not privatizing these was said to be that if problems occurred during or after the privatization, then the quality or provision of services would be harmed, thus affecting the people of the region. What must be further added is that access to these services is not very good, especially for those people

living in the more remote villages. To ease this problem somewhat, certain hospitals send out teams of doctors to these areas from time to time for even better access to services. This, however, does not fully remedy the problem of access to services completely. For some of the more populated regions of the Tver Oblast, Mr. Podyachev seems to think that privatization can go on there since a lot of the people are involved in farming and sell their produce in the city of Tver or at local markets, thus meaning they would have a financial base to pay for certain services.

As far as **privatization of pharmacies** are concerned, Mr. Podyachev said that 2 or 3 will definitely be privatized in the city, and they have already submitted requests for privatization to the City Property Committee. Again, it was reiterated by Mr. Podyachev that these pharmacies should be medium to small size and do not service a large number of customers. The pharmacies that are to be privatized and sold should not be put of for open auction, so as to secure the jobs of the employees. This would mean that the workers of the pharmacy would form a worker's collective and turn it into a joint-stock company.

In terms of production for the local pharmaceutical factory, Mr. Podyachev added that the Tver Oblast has a good supply of what is called "trava" or herbs which are used in the production of certain pharmaceuticals. This would obviously not cause any extra costs for importing or transporting herbs/grasses since they are grown and cultivated in the same region.

Medical Insurance

Mr. Podyachev spoke next about the transition to compulsive medical insurance. I learned that this program was just being implemented in Tver and there is a sort of experiment going on in the Firovski Region of the city. He also said that the system and the players are just beginning to develop in the city and it includes a regional insurance company known as ACKO. The financial system has not been worked out and the insurance fund is partly financed by the municipal and oblast budgets. From local enterprises, 3.6% from the wage fund goes to the fund for compulsory medical insurance. This insurance fund, he said, goes directly to the health-care institutions, as a form of payment. What has not yet been worked out entirely also is the rights of the clients, i.e. the insured.

What was also stressed during our meeting was the fact that two major processes are going on in the health-care field: 1. the privatization of the medical industry, and 2. the introduction of compulsory medical insurance.

I also learned that the acting director of the Insurance Fund along with other members of the insurance commission traveled to the United States, to Burlington, Vermont(University of Vermont Medical Center) to learn about the American system of financing for health-care, medical insurance, and set up of the medical industry. This was a 6 member team that also

included a representative of the ACKO Insurance Company.

Health Care Issues

Mr. Podyachev stressed also the "destruction," as he stated, of the **system of preventative medicine**, know as **"systema profilaktiky."** He said that this began about 1986 or 1987 and that because of this, the general health of the population has worsened. Another direct result of this is that the rate of infection has increased substantially. Another part of the system of preventative medicine is what Mr. Podyachev called a "cult of good health," which does not exist in Russia at present. He plans on working more on this issue in the near future, and felt that health education would also play a key role in preventing illness.Furthermore, Mr. Podyachev is concentrating his efforts on **nutrition** and **nutrition programs for pregnant women and mothers.** There is a system of consultation for pregnant mothers and pre-natal care, but he said that the agency is not being very well managed.

The ideal health-care system would include the following:

Preventative Medicine -------- **Health-care** ---------- **Rehabilitation**

Rehabilitation facilities are also in poor financial condition.

Ecological Problems

This is another large problem area for the oblast. Mr. Podyachev stated that the cost of cleaning up the environment and maintaining treatment plants cannot be placed on enterprises and industry alone. He stressed that they are in bad shape financially now and any added costs would push them more toward ruin. This could possible have an ill effect on the health of the surrounding population at some point, if it has not already.

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TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/1/94
Time: 9:30 am

Meeting: Tver State Enterprise, Pharmaciya
Address: Ul. Vokzalnaya, No. 3 Tver
Present: Valyeriy Petrovich Fyodorov, Deputy Head of the Administration and President of the Property Committee, Tamara Fyodorovna Lashkevich, General Manager of the Pharmaciya, Tatiana Anatolyevna Timonina, Director of the Pharmaceutical Supply Division, Tatiana Mikhailovna Avgul, Director of Economic and Finances, and Aleksei Viktorovich Krivonos, Member of the Chamber of Commerce and Industry.
Interviewer: John R. Rook

The Tver State Enterprise, known as the Pharmaciya is a wholesaler/ adminsitrative organ which distributes drugs to local pharmacies, handles licensing for pharmacies, and coordinates 5 of its own pharmacies. Four of the pharmacies are located in the city of Tver and there is one rural pharmacy. The pharmaciya also manages a warehouse facility which is located in Tver also.

In the entire Tver oblast, there are 200 pharmacies. Of the 4 pharmaciya pharmacies, the 3 of them are located on hospital grounds and 1 is affiliated with hospital No. 6.

The Pharmaciya system is a recent organizational structure whose functions used to be controlled by the Federal Government. Ms. Lashkevich said that under this centralized system, medicine was much cheaper, and the connections between pharmaceutical manufacturers, wholesalers, and retailers was much stronger.

Work with Western Firms
The pharmaciya has a business relationship with the Pfizer Pharmaceuticals Company. Ms. Lashkevich and Ms. Timonina have been invited to attend a 6-day conference in London and Brussels along with 33 other pharmaceutical personnel from the Russian Federation. The pharmaciya has purchased antibiotics, some heart medications, and Ben Gay from Pfizer. The purpose of the conference is to acquaint the Russian representatives with marketing strategies, with new medications and with the general structure of the company.

Privatization
I learned from the Pharmaciya that the only pharmaceutical enterprise which has been privatized in the Tver Oblast are 2 pharmaceutical kiosks. These are smaller type retail facilities that you would find in a polyclinic, even in a hospital, and that has no production capabilities.

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Finances and Expenses

The rents for all of the Pharmaciya-affiliated buildings total 15% of the profits, and the wages that are paid out total 25% of the profits.

****PLEASE SEE THE TVER NOTE DATED 3/10/94 AT THE PHARMACIYA FOR MORE GENERAL INFORMATION****

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/10/94
Time: 10:00am

Meeting: Tver State Enterprise, Pharmaciya
Address: Ul. Vokzalnaya, No. 3,
Present: Tatiana Mikhailovna Avgul, Director of Economic and Financial Affairs, Tatiana Anatolyevna Timonina, Director of Pharmaceutical Supply
Interviewer: John R. Rook

Pharmaciya Warehouse/storage facility

The total area of the facility is 6,000 square meters, and is located in a 3-storey building. There is a new korpus or building which is under construction at the present time. This will be a sterilization facility, which will also produce sterilized medications. The total number of individual warehouses (sklady) numbers 6. Each one is supervised and manned by warehouse personnel, and inventories are handled separately by each one.

Total **number of workers at the facility** are 110. Of this number the following is the personnel breakdown:

Director/Manager of the Warehouse
Deputy manager
Packagers
Drivers
Stock Workers
Pharmacists
Security personnel
Provizor

The separate warehouse that houses narcotic drugs are manned only by the provizors. The provizor is a pharmacist who has more training in management and in directing pharmacies and pharmaceutical enterprises.

The present **volume** of the warehouses numbers 4 billion rubles worth. Ms. Avgul said that the medications have a 100% turnover rate. However, it was also stated that demand for medications has decreased, and this was mainly due to the fact that hospitals and pharmacies are low on funds for purchasing. Instead of purchasing in bulk they are only taking that which they need.

The **new sterilization facility**, or what they call as a mini-factory, will be used to produce sterilized solutions. When asked where these were produced before the construction of the new mini-factory began, I was told that 20 % of the volume of sterilized solutions was/is produced at the city pharmacies, and the other 80% is purchased. The advantages to having this new sterilization facility built would be that the quality of the solutions will improve and even more specifically, the stability/shelf life of the solution will increase. The Pharmaciya received 200 billion rubles from the oblast budget to build the new facility, 25 million from the federal budget, and 30 million from the

municipal budget.

Pharmaciya

The Pharmaciya controls 5 oblast pharmacies, 4 of which are located in the city and 1 is rurally located. The 4 pharmacies in the city of Tver are mostly "mezhbolnichniye"(near hospitals) and "pribolnichniye"(located on hospital premises). The regional(i.e. of the 36 oblast regions) pharmacies belong to the municipalities of the regions in which they are located. In Tver, there are a total of 13 municipally-owned pharmacies. and 18 total located in the city.

Pharmaciya Personnel

Ms. Avgul informed me that in January 1992, the workforce for the Pharmaciya, the warehouse, and the 5 pharmacies was decreased by 36%, meaning that about 60 people lost their positions. During April-June 1993, the workforce was reduced another 15%

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/10/94
Time: 10:30am

Meeting: Pharmacy Number 200, general informational interview.
Address: Prospekt Chaikovskogo, No. 31 , 3-66-69
Present: Raisa Maksimovna Lantsova, Managing Director of the Pharmacy, Tatiana Anatolyevna Timonina, Manager of Pharmaceutical Supply.
Interviewer: John R. Rook

General Information

This pharmacy is located not too far from the Pharmaciya's warehouse, and is located near several large apartment complexes. This pharmacy is very high volume with about 100-150 customers/hour . The hours of the pharmacy are as follows:

8am-8pm, Monday through Friday
10am-6pm, Saturday and Sunday

Ms. Lantsova has been with the pharmacy for about 25 years and she finished the Leningrad Pharmaceutical and Chemical Institute. Four years ago she returned to the institute to advance her qualifications and she was there for 3 months for courses.

This store is one of the 5 pharmacies that is owned by the Pharmaciya, and is currently preparing for re-licensing. This is a process which is repeated every 3 years.

Personnel

There are 63 total workers in the pharmacy, and that includes a professional staff of the following:

30 pharmacists
10 provizors
23 other workers comprised of clerks, maintenance personnel sanitary workers, accountant, economist

The workers have formed a collective and have already developed a plan to privatize.

The pharmacy itself is quite large and after the interview I was given a tour of the premises. On the first and main floor, the is the main selling floor, which is divided into 3 different departments: orders with prescription; over-the-counter department; and a prescription department which requires preparing mixing/preparing the order. The back of the pharmacy contains the administrative offices and the production facilities. The basement is for storage facilities. The entire square metrage of the pharmacy is 1,500 thousand square meters.

Production Facilities

Pharmacy No. 200 prepares and supplies the Regional City Hospital No. 6,

(which has 600 beds), with the following medicines:

500 Sterilized preparations

300-400 units of eye drops, which are produced for 14 different types of eye medications.

This is considered a major production facility.

Ms. Lantsova said that the production equipment in the pharmacy is nearing the end of its amortization life span, which is 8 years.

Financial Profile

Until January 1993, the pharmacy was in rough financial shape. Due to the freeing up of prices, the pharmacy was able to turn itself into a profitable business which has a monthly profit of about 10 million rubles. The profit taxes that are taken off amount to 35%. Other taxes amount to 45% and these include taxes for local roads, education, police, etc. In the very end, there is only 20% of the original profit which is left, and of this, the pharmacy must pay its rent and utilities.

A monthly rental payment for the pharmacy is 1 million rubles and this includes heat and hot water. The other utilities are seperate.

Privatization

As stated above, the management of the pharmacy devised a plan for privatization. They considered three different varieties of privatization and the one that was chosen would involve privatization with stock priveledges. Some of the considerations that were made involved, for one thing, protection of the employees and their positions.

It was stated that if the pharmacy was put up for public auction, the workers' collective would not be able to make a competitive bid on the purchase price. Ms. Lantsova interjected that the neighboring grocery store was recently privatized and sold at the following price: 2,000,700,000 rubles.

The privatization program which was developed for the Pharmacy was not as of yet submitted to the Municipal Property Fund, and that means that it was not included in the 1994 Report on Proposed Privatizations. In fact, there are no privatization proposals for pharmaceutical enterprises in this document for 1994.

Again, the personnel seems very concerned not only about its jobs, but also about the prospect of the pharmacy being purchased by non-pharmceuticals-related individuals who would turnit into another type of business.

Another issue here is the fact that the pharmacy supplies a major city hospital with important medications and Ms. Lantsova believes that this production and, in turn, the patients, will suffer.

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 2/28/94
Time: 3:00pm

Meeting with Health Administrator
Place: Tver Oblast Health Administration
Present: Aleksei Mikhailovich Molokaev, Deputy Director of the Oblast Health Department, Anatoliy Vasilyevich Kosarev, Head of the Department (phone: 3-04-82, 1-10-14)
Interviewer: John R. Rook

Make-up of department

The **Oblast Health Administration** has three officials: one acting head, and two deputy directors. The Health department is one department of several Oblast administrative departments such as the Departments of Culture and Social Welfare. The health department consists of a total of 28 workers, which include administrators, economists, accountants, and other personnel. The officials who were present at this meeting possess medical degrees. Some of the duties of the health administration include: hearing complaints of city and oblast dwellers about medical services; maintaining a certain quality and level of services on the part of health care providers such as hospitals and polyclinics; financial and budgetary matters for the oblast.

There are 22 different medical institutions which answer to the Oblast Health Administration and 6 different medical preparatory schools dispersed throughout the oblast.

Privatization

I was informed that there at present, no private pharmacies, but there is a private **pharmaceutical kiosk.** This is a much smaller version of a pharmacy and is not able to carry major drugs and narcotics. This kiosk had to receive a license from the Department of Pharmaceutical Supply.

When asked about the privatization of the local pharmaceuticals manufacturer, the administrators responded that it's in very bad financial shape, and they were not sure if it was still in operation. They said that it would have to be restructured and new equipment would have to be purchased to make it run more efficiently.

The oblast officials were vehemently opposed to privatization of major hospitals and polyclinics namely for funding reasons, and the fact that they would lose government funds after going private. They think that privatization would, at this time, harm the quality and delivery of services in the city of Tver.

Privatization might have been possible about 10 years ago, in terms of the level of financial stability of the hospitals and polyclinics. However, this has to improve before any privatization projects are to begin. This is the opinion of the Health care officials.

City Information

The city of Tver is split up into the following regions with the correpsonding populations:

1. Zavolzhskiy region: 129,000 people
2. Moskovskiy region: 132,000 people
3. Proletarskiy region: 121,000 people
4. Central Region: 67,000 people
5. Sakharskiy Region 40,000 people

The total population of the city is approximately 500,000 and 1,700,000 for the entire oblast. There is only one pharmaceuticals manufacturer in the oblast, and some of the medications are produced on the premises of certain pharmacies

Statistical and Hospital Information

There are 8 city hospitals and most are centrally located in each of the regions for good accessibility to services. There is also hospital for workers on the railroad(the October Railroad) The railroad workers go to this hospital, and to any other railway hospital, in different cities. They are usually located near the railroad, in major cities. City hospitals and inhabitants of Tver can seek medical services at this hospital, and if the hospital beds are needed by other regions in the city, that is possible too. What is different, is the source of financing for Railroad hospital, which receives its funding from the Railroad company and the federal government.

There are 2 specialized psychiatric hospitals with a total number of beds numbering at 600, an oblast polyclinic which is open to the entire oblast, an oblast children's hospital with 410 beds, and a health/treatment center (dispanser) for tuberculosis.

The largest city hospitals are the 1st and the 6th, and more money goes to these than to the other 6. It was also said that the staff/doctors at these hospitals are much better, and they tend to attract the best doctors, even away from the other hospitals

There are more than 200 pharmacies in the Tver Oblast Region, and 18 located in the city.

There are 40 doctors for every 1,000 people, and 42 hospital beds for every 10,000 people.

There is 1 hospital for every 15,000 people in the city.

The number of cases of tuberculosis and oncological problems are lower, in comparison to the rest of Russia.

Regulatory Framework

The Department of Pharmaceutical Supply, the Municipal Health

Department, and the Pharmaceuticals Committee are regulation organs for the pharmaceuticals industry.

There is an oblast commission which is responsible for the licensing of physicians and other health care professionals. The Oblast Health Administration is in charge of audits and of inspection for health facilities.

The Oblast Health Adminsitration also works with Mr. Vladimir I. Podyachev, who is in charge of the Oblast Department of Social Welfare, on deciding relevant financial and program issues.

Health Care Sector Targets

Targets for this area would be the following: improving the nutrition of pregnant women and mothers, financing a system of preventative medicine, promoting the health education seminars, maintaining and financing rehabilitation programs.

Major Problems facing the Health Care Industry and Tver Oblast

1. Shortage of diagnostic equipment or the need to replace aging, existing equipment. It was stated that in the city there are only two working tormographs;

2. Very weak financial base for financing health care industry;

3. Buildings are in bad shape. It was stated that some of the hospitals contain wooden stoves for heating;

4. Infectious diseases such as diptheria and disentary and the number of infections is increasing;

5. The birth rate is lower by the death rate by 1.5%.

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/10/94
Time: 10:45am

Tour: Pharmaciya Warehouse Facility
Address: Ul. Komentarnaya, No. 77, phone 3-37-78
Present During Tour: Tatiana Anatolyevna Timonina, Manager of Pharmaceutical Supply
Interviewer: John R. Rook

PLEASE SEE TVER NOTES, 3/10/94 AT 10:00AM FOR MORE DETAILS REGARDING THE WAREHOUSE FACILITY

The tour of the Pharmaciya Warehouse was of very short duration, about 15 minutes total. The facility is located in the industrial section of the city and is situated in a 3-storey building. There are bars on the first floor windows so as to prevent break-ins, and security is at the entrance to the building. I asked Tatiana if they have a problem with break-ins or theft and she responded that they do not.

The warehouses are dispersed throughout the main building. Behind the building, are smaller garage-type buildings where the trucks are stored. The pharmaciya does not own a fleet of its own trucks and leases about 40-50 of them out from a transport company. Tatiana added that this was a large expense for the Pharmaciya, and before they used to have even more trucks. Due to cost they had to reduce the number of transportation vehicles.

While touring the back of the facility, I was able to see the construction sight of the new sterilization mini-factory which is being built. The only thing that has been erected is the concrete skeletal structure of the building and the stairs. It will be 2 storeys.

While briefly touring the inside of the facility, I met the managing director of the warehouse, a Mr. Boris Alekseevich Davidov, the Director/Manager of the warehouse, whose chief duties are to handle the communications and the transport of the pharmaceuticals.

The interior of the building looked as if it could use some cosmetic repairs, but there are no reported problems with storage units.

I was also told that the Head of the Pharmaciya, Tamara Lashkevich oversees receipt of shipments. This is necessary since the stock that is ordered/purchased never matches up with the actual quantity of stock received.

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/09/94
Time: 9:00 am

Subject: General meeting with Aleksei Viktorovich Krivonos, Member of the Chamber of Commerce and Industry
Present: John R. Rook, Aleksei V. Krivonos

Received the following materials from Mr. Krivonos:

1. copy of the Law of the Russian Federation "On Health Insurance of the Citizens of the Russian Federation, 1991" (russian copy);

2. xeroxed pages of 1989 health statistics for the former Soviet Union(in Russian);

3. copy of Kalinin Oblast statistics from 1989.

Concerning Health Insurance Legislation

Mr. Krivonos stressed that the oblasts, have for the most part stopped receiving copies of new legislation officially. This is due to the fact that there is so much new legislation since the break up of the Soviet Union, and with restructuring. He continued to say that most oblasts wait for the laws to be published in a newspaper or political journal. He extended this to the example of the June 28, 1991 Insurance law, and saying that it is still not in effect now.

Brief Review of the Health Insurance Legislation

After skimming through the legislation quickly, Mr. Krivonos pointed out some relevant points to the law.

1. pointed out the difference between compulsory insurance and voluntary insurance services.

2. As far as he knows, Mr. Krivonos does not think that there are official agreements between the "subjects of medical insurance," (in article as of yet.

3. that any form of property, which medical institutions fall under are eligible to provide medical services (article 20)

Concerning Privatization of Pharmacies

First of all Mr. Krivonos suggested that privatization is possible, more specifically of Pharmacies(apteky). He recommended that we should attempt to privatize a so-called "bad" pharmacy, as opposed to a "good" one. By his definition, a "bad" pharmacy would be one:

1. located in a city region of Tver which does not have a significantly large population;

2. which would not supply major city hospitals with drugs

or other preparations;

3. where the workers are not very efficient, and the management is not so effective(i. e. the manager of the pharmacy is incompetent)

His major concern, like other concerned city officials and administrators is the population and the effects that privatization will have. If the pilot privatization project with a "bad" pharmacy does not work out, say that it goes bankrupt, the larger and "Central" pharmacies can take the extra volume. What will be a disadvantage would be that those people in the area of the pilot pharmacy would have to travel farther to reach other pharmacies.

Furthermore, Mr. Krivonos added that many businesses and enterprises which have privatized, i.e. become Joint Stock Companies, have failed. More specifically, the production has not improved but fallen, and many of them have become bankrupted. He continued to argue that this causes many products which would otherwise be produced domestically, to be imported, thus further harming industry and manufacturing, and inevitably, the economy. In his opinion, Mr. Chubaes thinks that those businesses that have ceased to produce were "meant for destruction."

Suggestions for Privatization:

1. After the privatization process has been completed, provide additional support by **investing in Russian industry,** via the purchase of new equipment or machinery;

2. By keeping Russian industry alive, this would in turn prevent the unemployment rate from skyrocketing

3. More stable Russian industries will also ease the minds of American firms and companies wanting to invest.

Mr. Krivonos also recommended that I speak with **Mr. Vyachislav Yakovlevich Sergeyenko**, the President of the Committee on Economics and Prognosis, and who is working on introducing the medical insurance program.

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/10/94
Time: 8:30am

HOSPITAL/POLYCLINIC INTERVIEW
City Hospital Number 6
Location: Moscow Region of Tver
Russian Federation
Present at interview: Svetlana M. Yevdokimova, Head Physician at the Hospital, Aleksander M. Molokaev, Deputy Manager of the Oblast Health Administration and Tatiana A. Timonina, Head of the Pharmaceuticals Supply Department

Interviewer: John R. Rook, IBTCI

After first learning of IBTCI's project, Dr. Yevdokimova claimed that privatization would not be possible as far as hospitals and polyclinics are concerned. This subject will be addressed at the end of the note.

Statistical and General Information on the Hospital

The hospital is a large facility which provides all types of medical services to the population of Tver. The only service which is not included are gynecological services and those can be acquired at the "Birth Houses." The hospital was built in 1954 and when asked about renovations, I learned that renovations are ongoing at the hospital, and that the most significant renovation is occurring in the cardiological wing of the hospital. There is what is called a "pharmaceutical kiosk" in the hospital, but no major pharmacy. The Pharmacy No. 6 prepares and supplies some drugs for the hospital. An organizational chart of the hospital was not available on this short of notice.

There are 1,600 total employees that work at the hospital. Of this number, there are approximately 400-420 physicians.

The hospital complex serves the city region of Tver, known as Moskovskiy, and the population numbers at 123,000.

The are 600 hospital beds, 9 affiliated polyclinics either attached to the hospital complex or in the city region, and there are 8 medical, diagnostic facilities. The hospital is able to offer "better" accommodations for those patients who are willing to pay more money. These would include a private room, probably with better nurse attention, and any additional tests that the patient him/herself feel is necessary. The hospital also maintains a referral service with other city hospitals, if for some reason they can not provide services for a patient.

The hospital is affiliated with the local medical school, and a joint project is in the works with the local clinical hospital.

The average number of patients that are taken in on a daily basis are 40-50 for the region, and another 20 or so from other regions throughout the city.

Physical features of building

Most of the building seemed as if it was in need of major renovations. The facilities looked clean for the most part, but maybe not completely sanitary. A large portion of the front facade of the building is glass and it is quite cold in the stairwells and entrance-way. I saw a department which was recently renovated and this involved repainting the walls and repairing any cracks. Common smoking areas appear to be in offices, stairwells and in physician lounge rooms. When asked about an emergency generator, I was told that it is in operating and reliable condition. During a brief tour of the hospital, I witnessed the renovations in the cardio wing and these were quite significant. The walls were being re-plastered and new floors were being put in. I was initially told that patients on the floors undergoing renovations are not displaced, but are just moved to other rooms. In fact, there were 3 patients in the common lounge areas on the couches with blankets, and one with an I.V.

Equipment and Supplies

A comprehensive list of equipment was not available. When asked about the condition of the present equipment, I was told that much of it is reaching the point of what is called amortizatsiya, or amortization. The standard time length allowed for this is 8 years, and then it is usually replaced or given new parts. When asked about the origin of some of the equipment, I was told frankly that foreign equipment is too expensive, especially American. During a tour of the surgical department, I was shown a piece of equipment which checks all types of vital signs and this was made in Korea. The price of the equipment was said to be a third of the price an American manufacturer would charge. Replacement parts are obtained through a wholesaler, if needed. Replacement parts for foreign-made equipment takes very long to acquire, so hospitals try to buy equipment that is made domestically in the former Soviet Union or Russian Federation.

Financing and Economics

The hospital economist reported that for the year, 1993, the hospital received an total of 1,606,963,000rubles and was allotted a total amount of 2,301,023,000r. So, they received roughly half of what they should be working with. More specific financial data was not available on such short notice.

Privatization

When asked about privatizing the hospital, or the related polyclinics, Dr. Yevdokimova had the following concerns:

1. that by privatizing the hospital, the facility would lose all government funding, and in turn fall into financial ruin. They would also lose certain priveledges for paying utilities and for funding the health care of invalids and veterans.

2. if a privatization project would not be successful Dr. Yevdokimova was concerned about the population of the city regions. She further explained that the hospitals are situated accordingly in the regions so as to make health care services more accessible.

3. that the quality of care would decline significantly due to lack of government regulations.

4. the other thing that Dr. Yevdokimova stressed was that the ambulatory network in the city is vital to the provision of health care services and that this would also suffer during the process or after privatization. I think what she was referring to was that what is called "skoraya pomoshch," or emergency, plays a significant role in delivering services to the population, instead of having alot of patients needlessly coming to the medical facilities.

Tour of Hospital

Considering the limited amount of time for the hospital interview, the hospital tour which was of the main building and an affiliated polyclinic was sufficient. A portion of the tour was spent in the Department of Anesthesiology, where I was acquainted with 2 doctors there. I also saw an intesive care unit which had 3 patients, and an attending nurse.

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/10/94
Time: 1:00pm

Meeting at: Committee on Economics and Prognosis, Project on Incorporating Medical Insurance Program.
Present: Vycheslav Yakovlevich Sergeyenko, the President of the Committee and also a Deputy Head of the Oblast Administration, Anatoly Sergeyevich Kleimyonov, the Deputy President of the Committee.
Interviewer: John R. Rook
Subject: Insurance legislation and its incorporation.

Mr. Kleimyonov told me briefly about the efforts on the part of the Committee which is now carrying out an insurance experiment in the Firovski region of the Tver, with the ACKO Insurance Company. Please refer to the meeting with Vladimir Ivanovich Podyachev, on 3/10/94, and to the notes.

Medical Insurance Funds

Mr. Kleimyonov stated that in order to finance medical insurance, the Medical Insurance Funds would not be sufficient or even a reliable source for the funds. The reasons for this are:

1. due to the inflation rate and its growth;

2. the 3.6% of the wage salary funds of businesses is not enough

3. that the industrial and business sector is not a reliable base for this percentage, since many are in very poor financial condition and even bankrupt.

He reiterated that financing the program seems to be the biggest obstacle to incorporating the program and financing it in the future. He added that the municipal and oblast budgets would not be able to support this fund, and it could not be placed on the shoulders of the people since 1/3 of the people are already living on or below the poverty line. To this statistic, he added that the mortality rate is rising and far surpassing the birth rate, and also the infection rate has increase too.

However, the Committee is reviewing the oblast budget for financing the insurance program.

During this process of incorporating the insurance program, Mr. Kleimyonov stressed that the quality of medical services must be maintained, as well as the qualifications of doctors.

On a related point, he added that alot of medical institutes are suffering from financial problems and many teachers and professors from different institutes are switching to more profitable professions(i.e., non-academic)

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/09/94
Time: 10:45 am

Subject: General meeting at the Pharmaciya
Present: John R. Rook, Aleksei V. Krivonos and Tatiana Anatolyevna Timonina, Head of the Pharmaceutical Supply Department

This was an informal meeting, which served as an opportunity to set up a meeting at the Tver Pharmaceutical Manufacturer. The meeting was arranged for 3:00 pm on Wednesday. We also set a time to visit the warehouse for the Pharmaciya, and another Pharmacy, number 200.

Tver Pharmaceuticals Manufacturer:

Briefly we spoke about the pharmaceuticals manufacturer and discussed the following:

that the manufacturer produces about 80 different types of medications, all of which are over the counter. Some of these are as follows:

1. Nastoiki
2. mild heart medications
3. rubs
4. eye drops

Tatiana mentioned that the plant, to the best of her knowledge, has not been functioning for the past 10 days. This is due to the fact that there is no serya, or alchohol. The factory is Government owned, i.e. and receives money from the federal budget. Also, 15% of the plant's production is supplied to the Tver oblast. Additionally, she added that the plant might have received a subsidy from the oblast administration of 50 million rubles to buy seryo(that is valerian root and other herbs), which would be interest free.

Privatization:

Tatiana thinks that there is an optical wholesaler which is already privatized has become a joint stock company, or will be soon.

Pharmacies:

Out of 36 Regions in Tver Oblast, Tatiana mentioned that only 10 pharmacies are "ubitochniye," which is the Russian word for murdered, or more figuratively, in financial ruin. She further mentioned that all of the city pharmacies are profitable. When asked how this could be so, since all of the pharmacies in Novgorod are in this state of financial ruin she referred to the price that the Pharmacies sell their medications at. She introduced the example of buying the medications at, say 10 rubles and selling it at 15 rubles. This is in accordance with the Decree dealing with price controls. The Wholesalers are only allowed a 50% markup on the medications. Tatiana said that this was too little and they raised this percentage to 80. This is what pulled the pharmacies out of financial ruin.

When asked how they could raise this percentage, Tatiana referred specifically to the Decree which states that Municipal Authorities can look at the expenses

of the enterprise and possibly add this commercial fee. She also stated that there might be a new decree which would state this more clearly. She further added that there were high costs because of too many "middlemen" who are trying to control and create monopolies. She called this the "Dictatorship of the Middlemen." They want to, she says, control the consumers and not vice versa.

Warehouse:

Tatiana mentioned that Tamara F. Lashkevich, the General Manager of the Pharmatsiya, is at the warehouse at present. I learned that Tamara has to inspect shipments that have been received for quantity, stock, etc. This is very necessary Tatiana stated since the shipments never concur with what has been ordered

The warehouse is located not too far from the train station.

Problems with the Insurance legislation:

There was a mention about how people receiving benefits will fit into this insurance legislation. More specifically, how hospitals will be able to pay for, or be reimbursed for these services provided to people who receive priveledges (lgotniki).

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/1/94
Time: 8:00am

Meeting: Central Pharmacy No. 1,
Present: Marina Kishinyova, Deputy Manager of the Pharmacy
Address: Ul. Sovyetskaya, No. 25
Interviewer: John R. Rook

General Information

Pharmacy No. 1 is the oldest pharmacy, and I believe the first in the city of Tver. The Managing director of the pharmacy, Natalia Ivanovna Chalova was not in that morning, so I interviewed her deputy director, Marina Kishinyova. She has been working at the pharmacy for 17 years. The pharmacy is located in the center of town, on a main street which goes through the center of the city. It is in a very accessible location. There is also a referral service with other city pharmacies if in the case some medication was not available at one pharmacy, but was at another. The pharmacy is not privatized and is still the property of the municipality.

Pharmacy Personnel

The pharmacy employs 36 people, of which there is the following breakdown:

Provizor
23 pharmacists
sanitation workers
cashiers/clerks
2 accountants
auxiliary/support staff.

The Managing Director of the pharmacy, Ms. Chalova has been employed there for the past 35 years. All of the employees work full-time, and there is even what is called a night staff person. The pharmacy is open 24 hours, and it has what is called "nochnoye dezhurstvo," which means evening duty. There is a trained pharmacist on working during the late hours. This is the only pharmacy in Tver which has such a feature. When asked about the number of workers, Ms. Kishinyova responded that they have adequate staffing, and could probably even stand to lay off a few people. The staffing decisions are made by Ms. Chalova, and the payroll is handled by the accounting department.

The management of the pharmacy all have degrees in pharmaceuticals and are provizors. Many of the pharmacists have completed higher degree programs at the Leningrad Chemical and Pharmaceuticals Institute, on of the only pharmaceuticals institutes in the Russian Federation. It was also mentioned that Medical Institutes also have Pharmaceutical Departments and people can obtain degrees from here also. Periodically, the professional staff of the pharmacy will attend seminars/classes in St. Petersburg to increase their qualifications.

Facilities

The pharmacy is located on the first floor of an apartment/office building

on a busy downtown street. Many Russian stores, in general, are located on the first floor of either office buildings or dwellings. The building is over 100 years old and the interior of the pharmacy was very clean and not really in need of repair. I was only able to see the selling floor and the administrative offices. There are some storage facilities in the basement. There are no production facilities on the premises, i.e. they do not semi-manufacture medications. They do mix and fill prescriptions on a walk-in basis. The selling floor is separated into three different departments, prescription, over-the-counter, and mixing/ prescription filling department.

The pharmacy, I was told, is actually a profitable enterprise. It receives funding from the municipal and oblast budgets. The only wholesaler in Tver Oblast is the local Pharmaciya, from whom the pharmacy purchases its drug supply. Since the warehouse is located the same city, transportation costs are minimal.

Privatization

Regarding privatization, Ms. Kishinyova had the following concerns:

1. that after privatization the success of such an undertaking would have to be guaranteed, so as to not adversely affect the supply of medications made available to the public;

2. that many of the workers have worked at the pharmacy all their lives and their jobs would need to be secured.

TVER NOTES

John R. Rook
IBTCI
Moscow

Date: 3/09/94
Time: 2:00pm

Meeting: Tver Pharmaceuticals Manufacturer
Address: Staritskoe Shosse, 2 phone: 4-47-26
Present: Dina Nikolaevna Bulanova, Director of the Pharmaceuticals Manufacturer, Tatiana A. Timonina, Manager of Pharmaceuticals Supply for the Oblast, Aleksei V. Krivonos, Member of the Chamber of Commerce and Industry.
Interviewer: John R. Rook

General Information:

The Tver Pharmaceuticals Manufacturer is located about a 10 minute drive from downtown. The manufacturer is about 25 years old, and there is one main building of three stories, and smaller storage facilities in front and in back. As we drove into the complex, I noticed that there were many small brown bottles outside, stacked on wooden pallets. The space of the building is approximately 2,000 square meters. The plant has adequate storage facilities. The factory was originally built on grounds but since it was founded, other enterprises have been developed surrounding the factory and there is no room for expansion. This was something that the Soviet officials did not address when they originally built the facility. Furthermore, the plant is specialized which does not facilitate production of a wider product base.

Production

The plant does not produce any substances which require chemical processes. Because of this, there are no ecological problems which the plant is facing. The plant produces the following preparations:

compounds
extracts
valerian
nastoiki(tinctures)
various types of alcohol
rubbing ointments
soluble iodine
a paste of some kind

It was quoted that there are more than 80 different products that are produced which fall into the above classifications. 15 % of the production is supplied to the Tver Oblast and the remaining is distributed to other surrounding Oblasts, such as the Leningrad Oblast. They do not transport to the Far East since this would be too costly for the plant

The medicines that are produced are all finished products and they do not send out any thing for further processing. The plant used to prepare nastoiki directly, but the stopped doing this.

There is no system of GMP and the director said that the plant would have to be rebuilt and new equipment brought in to meet these standards. The meds produces do not meet the standards for international markets.

Financial Information

The manufacturer is in very poor financial condition and this is mainly due to the fact that as of January 1, 1994, the prices of raw materials for production were increased, by 5 times. Before this, the plant was operating on a 30% profitability. Due to the high cost of raw materials, and the fact that many of them are sold through intermediaries, the director of the plant tries to purchase the materials directly from the producers.

Ms. Bulanova spoke a little about the transferral of money/credit between oblasts. She gave the following example when she was referring to borrowing money from banks, receiving payment from the federal government, or for paying for raw materials for production. She quoted that it takes about 15 days at minimum for the transfer of money to take place and to be credit to respective accounts. When she spoke of the taking loans from local banks, the current interest rate is 240%, which is payable monthly. So, when the plant orders raw materials from an intermediary or producer, it takes 15 days for the money to be transferred between oblasts, then another 15 days for the order to be processed and another 18 days for it to get to Tver by train. In the meantime, the plant is still without any money, without any raw materials for production, which tends to cease when there are no raw materials, and the interest is accruing monthly. Furthermore, any profit which would be made after production would not be very significant due to the fact that the value of the ruble is constantly changing due to inflation. This is used to cover various minor costs.

There are no sterilization facilities on the premises, but there is a thorough process by which the medicine bottles are washed and dried to the appropriate temperature.

Personnel

The total number of employees at the production facility is 130. Of this number, the employees fall into two categories:

management
pharmacists
apparachiki--maintenance(operate equipment)
facovshiki--packers, pour the solutions into the bottles
bottle washers

The apparachiki and the facovshiki need no formal training to begin working at the facility. They undergo a training course which lasts about 6-8 months.

The professional staff are sent to the Chemical and Pharmaceuticals Institute in St. Petersburg, but this occurs infrequently, maybe once in a couple of years. This process is known as sending some to improve their qualifications. There was also a "scientific society" at the factory which discussed new advances in the pharmceuticals industry and new products. I got the impression that this has since fallen by the wayside. There used to be more conferences put on by the Ministry of Health, but scientific conferences have also stopped due to changes in the structure of the government and funding. There is no money for the director or other professionals to attend international conferences.

The director, by education is an economist and has been working for the entire existence of the factory.

Cooperation with Western Companies

About 2 years ago the Tver Pharmaceuticals Plant was approached by the German Pharmaceuticals Company, Bayer Pharmaceuticals to set up a joint venture. This was supposed to involve joint production of some sort, but since the Tver plant lacked the necessary equipment and would have to had built a waste processing facility on the premises. This did not work out. There have been no more joint venture projects or prospects since then.

Major Problems of the Plant

1. **Equipment:** the plants equipment is already about 15-17 years old and has not been replaced. Again the average time that the equipment is updated is 8 years.

2. In terms of the production, the plant produces, what the director called, **"pharmceuticals for the poor."** More specifically, the products are not very expensive and the demand is not very high, so that the average citizen can afford them. Thus the prices that the Tver plant charges cannot compete with the more expensive ones. There also exists certain pharmacies for people who have low incomes. Many of the products are sold in these types of pharmacies.

Privatization

The plant is at present, still the property of the Government of the Russian Federation. The director filed a request for privatization last year with the local Property Committee and this was rejected. The director added that before the increase in prices of raw materials has since not made privatization possible at this time.

Ms. Bulanova feels that privatization would be possible, but only with certain conditions and with keeping the following in mind:

1. that the federal government needs to guarantee that the pharmaceuticals which are produced and priced reasonably would still be available to low-income citizens.

2. that many of the pharmaceutical factories and enterprises are broke

3. if the plant were to be privatized today, most likely the manufacture of medicine would stop and the owners would introduce some other type of product to manufacture that would be more profitable.

4. regarding legislation, I was told that there is a decree expected in the near future for product protection. This decree would insure that an analogous product would not be imported if it is already produced on the territory of the Russian Federation.

SECTION 5: EKATERINBURG

IBTCI visited the representatives of the Oblast and City Health Administrations, the Oblast Pharmaciya, a hospital, a pharmacy, a polyclinic, and a pharmaceutical factory.

The emphasis of the interviews was on the qualitative and quantitative aspects of the health-care and pharmaceutical industries in Ekaterinburg. The interview notes provide details of the findings.

The pharmaceutical factory seems to be leaning toward privatization. The factory owns or rents 12 pharmacies of its own. As with many other Russian pharmaceutical manufacturers, the Ekaterinburg factory suffers lose due to inflation. It buys raw materials once per year, in September, and must use this purchase amount, without adjustment for inflation when calculating cost.

The Oblast Pharmaciya receives more bureaucratic interference from the Oblast government than subsidies. The Pharmaciya is experiencing financial strain and has no easy solution. Privatization is a nebulous concept with little appeal.

There are reports of private pharmacies using an 80% markup at the retail level.

The municipal pharmacy interviewed has not made a profit since 1992. Municipal subsidies are comforting and privatization is frightening. The pharmacy has the authority to procure products on its own, but wants to maintain ties with the government suppliers.

The Third Municipal Hospital is now receiving funds from the territorial insurance fund rather than the municipal government as before. The hospital is reimbursed by the insurance fund for services performed, but the hospital feels that the reimbursement is based on 1984 rates. Because of this discrepancy, reimbursement is about 33% of real costs.

Children's Polyclinic of Hospital #13 is quite comfortable with its relationship with the hospital and the municipality. Changing this relationship is seen as welcoming instability. The polyclinic is focused on treating patients, not making money. Privatization is not a very interesting prospect.

The Municipal Health Department sees the new insurance fund as a new version of ineffective bureaucracy. For now medical institutions must still receive subsidies because the insurance plan is not yet fully implemented.

Persons Met/Ekaterinburg
Robert L. Shirley
IBTCI

1. Alexander Nikolaevich Mekhonoshin
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   Sibirsky Tract, 49
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2. Galina Pavlovna Smeryakova
   Director, Pharmacy (Apteka)
   Russia, Ekaterinburg
   Ul. Bardina, 34
   (3432)-28-33-60

3. Valentin Ivanovich Izmaylov
   Director, Pharmacia (Wholesale Pharmaceutical Distributor)
   Russia, 620032 Ekaterinburg
   Sibirsky Tract, 49
   (3432)-24-05-95

4. Victor Borisovich Zimerov
   Chief Doctor, Third Municipal Pediatric Infections Hospital
   Russia, Ekaterinburg
   Verhisetsky Rayon, Ul. Chelyskinsev 5
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5. Maria Vladimirova Maltseva
   Chief Doctor, Pediatric Polyclinic of Hospital 13
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   Sibirsky Tract, 5a
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6. Vera Grigorevna Okulskaya
   Vice Administrator, Municipal Health Administration
   Russia, 620038 Ekaterinburg
   City Hall, Ul. Lenina 24
   (3432)-51-27-08

7. Ruslan Albertovich Khalfin
   Vice-Administrator, Oblast Health Administration
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8. Evgeny Legedin
   Local Contact
   (3432)-52-50-61, 52-36-15

March 15, 1994
Ekaterinburg, Russia

Interviewers: Robert Shirley
Evgeny Legedin

Contact: Alexander N. Mekhonoshin
Director, Pharmaceutical Factory

NOTES

General:

The factory dates from the 30's with the last renovation being in 1956. The enterprise comprises some 6000 sq m with half being allocated for production and the other half for storage. The factory employs some 200: 32 engineers, 6 researchers; the rest being workers, clerical, and accounting staff. According to the director, education and retraining of the staff takes place some 1-2 times per year. The director mentioned that getting a hold of more international pharmaceutical periodicals along with the opportunity to attend international seminars would be valuable, but the factory lacks funds for such things. According to the director, the plant's manufacturing facilities are old but kept in working condition, although the director would like to get hold of new equipment if the funds were to become available, especially new laboratory facilities.

Production:

The primary goods produced by the factory include herbal medicines, ointments, tinctures, balsams, extracts, pastes, and medicinal teas among others. Full processing of raw materials takes place on the plant's premises. 90% of the plant's raw materials come from Russia, some 6.7% from other former Soviet republics, and some .5% from other countries. The plant has a biochemical laboratory where animal experiments are conducted and goods are analyzed at the raw material, partial manufactured, and final production stage. No refrigeration or sterilization is necessary because the factory mainly processes plant and herbal products that demand only a dry and constant temperature environment for storage.

Most of the factory's pharmaceuticals have a 1-3 year shelf life. The maximum a product is warehoused before being distributed is two weeks to a month. Most of the products are intended for human consumption. According to the director, one of the weakest links in the enterprise's manufacturing process is packaging. Packaging materials mostly consist of rough cardboard or glass bottles that are far below western standards.

Besides being analyzed at the factory's biochemical lab, finished goods are also inspected by oblast health administrators to insure that they meet Russian quality control standards. For now most of the plant's pharmaceuticals are produced only for domestic use. As of yet, the director has not attempted to institute international quality controls because of the expense of renovating the plant's equipment to meet such regulatory standards.

Market and Distribution:

94% of the factory's production is distributed in the Ural region of Russia. The factory owns two pharmacies outright and rents another 10. The factory's main way of distribution is through these pharmacies then directly through other pharmacies throughout the region. Only 10% of the factory's manufactured output is distributed through the wholesaler Pharmaciya due to its lack of profitability. According to the director, the factory makes extensive use of its pharmacies to research market demand. Obtaining materials to keep up with demand is not a problem except for the fact that the factory is often pressed for funds to obtain such materials.

Costs and Pricing:

In determining production costs for a pharmaceutical product the factory includes all costs including wages, overhead costs, leasing costs etc. As of yet, the enterprise has not taken any credit due to high rates (around 280-300% per year) but would in the future include any possible credit in its production costs. When I told the director that we had been told in Vladivostok and Irkutsk that such things as credit, labor costs, overhead, etc were not supposed to be included in production costs, he mentioned that we had been deceived and that such was not the case for pharmaceutical plants. One particular problem of the factory is that it makes one major purchase of raw materials per year in September. Later in the year when calculating raw material costs, the factory can base such costs only on September prices due to Russian federal law; this prevents the price of the company's goods from fully keeping up with inflation.

The factory uses a 30% markup from its production costs when selling its goods to pharmacies. The 12 pharmacies owned or rented by the factory use a 20% markup of this manufacturer's price. Other pharmacies will employ the full 50% price ceiling.

Budget and Financing:

The factory's budget is almost entirely financed by the operation's profitability. The director stated that this is because the factory receives almost no money from municipal, oblast, or federal state organs. The factory's budget is particularly hard pressed. According to the director, taxes paid of the factory's profits can reach as high as 88%. Moreover, the director mentioned that excise taxes on spirit, a prime processing material for the factory, have gone up more than 5 times in the last quarter. In addition, the factory now pays 3.6% of the sum of all its employees' wages to the newly created Health Insurance Fund; this sum is also taken out of the factory's profits. Additional stains on the factory's budget include paying the municipal government for the leasing of its premises. The director said that in order to survive the factory battles for market share, making use of the pharmacies it owns in order to conduct research. In addition, the factory is sometimes able to negotiate in delaying payment to its suppliers and to the municipality. In terms of profitability the factory is, according to the director, just breaking even.

privatization:

The factory is in the process of buying up the space that it leases from the municipal government and becoming a closed joint stock company-I was told that this process would take another two months to complete.

International Perspectives:

The director mentioned that he would be very interested in starting a joint venture with a western or American firm. For now, western, especially American pharmaceuticals are too expensive for the factory to import. One of the director's suggestion for a joint venture would be for the factory to import and sell the western company's pharmaceuticals in its home market. Then it would use the profits from these sales to buy western production equipment. The factory would then be able to engage in upscale manufacturing of pharmaceuticals for the Soviet and international market, taking advantage of its low labor costs; profits would be divided with the western partner.

Conclusions:

The director seems to have a favorable attitude towards Americans having himself spent a month and a half attending pharmaceutical seminars at Duke University in '93.

The factory is aggressively seeking market share for its products, having full say on what, when, and where to sell. One of its last hurdles on the road to privatization remains buying up the premises that is leases from the municipality and formulating the charter of its stock company. Ironically, the factory is physically directly connected with the wholesaler pharmaciya. In the Soviet period the two organizations functioned as one unit under oblast administration. Now they have broken their once deep ties, with the factory only selling 10% of its goods to the pharmaciya. The pharmaciya now gets many of its goods from other factories. Having once been one unit, the pharmaciya and factory now seem to have split off as individual competitive units.

March 17 Interviewers: Robert Shirley
Ekaterinburg, Russia Evgeny Legedin

Contact: Valentin I. Izmaylov, Director of the Ekaterinburg Oblast Pharmaciya

General:

The pharmaciya functions as the oblast's official wholesaler/distributor of pharmaceutical products. In all, the pharmaciya employs some 260 including some 20 university level pharmacists. Many of the pharmacists attend seminars in Russia to further their qualifications, but no one has of yet attended a seminar abroad. For staffing and paying of wages the director assumes ultimate responsibility. The present warehousing facilities of the Pharmaciya were constructed in 1977. Warehousing area is some 20,000 m sq including refrigeration facilities.

Officially the Pharmaciya is under oblast administration with day to day management decisions being made by the director and long term financial or other questions being decided by a joint committee of the pharmaciya and the oblast.

Purchasing decisions are usually made by the director. The pharmaciya can buy a wide range of drugs usually without restriction. All goods purchased must meet Russian Gosstandart quality control. International quality standards are not directly enforced due to the cost involved. According to the director, the pharmaciya has long standing relationships with both its suppliers and buyers. 75% of the pharmaceutical products received come form Russia and 25% from former Soviet republics and other foreign countries. Due to the breakdown in currency and distribution links, suppliers form former Soviet Central Asia are only able to be paid if they have a ruble bank account in Moscow. Suppliers from the Ukraine and Beloruss transport their goods directly to the Ekaterinburg pharmaciya and sell them on the spot for rubles. The director mentioned that goods from the other Slavic republics are inexpensive due to the devaluation of their respective currencies relative to the ruble.

Deliveries to the pharmaciya from the oblast generally take about 2-3 days with delivery from other parts of the former Soviet Union being a little longer; international deliveries generally take around 2 weeks. The director mentioned that for the most part international deliveries come form Asia and Europe. Goods form the Americas are too expensive due to transportation costs. The main problem the pharmaciya has in procuring pharmaceuticals is lack of funds.

In terms of distributing its goods, the pharmaciya has state orders that it is obligated to fulfil, the remaining portion of the goods are sold to private clients. The director would not tell me what percentage mandatory state orders comprise in his total sales. feeling this to be a commercial secret.

Costs and pricing:

The director would not mention his total costs nor his total revenue considering these things to be commercially secret. He mentioned product turnover for Feb, '93 at 1 billion 700,000 rubles, while total turnover for '93 at 9 billion rubles. The main sources

of the pharmaciya's costs include purchasing, wages, utilities, custom fees, and taxes. The director would not tell me the percent of his revenue spent on taxes but mentioned that a tax rate of around 100% would not surprise him. 3.6% of the sum of employee wages is also paid to the newly instituted territorial health insurance fund.

The pharmaciya assumes a markup of no greater than 25% above the manufacture's price.

Budget and Financing:

Though under its administration, the pharmaciya pays the oblast rent as well as taxes, while only receiving small government subsidies. According to the director the pharmaciya is now existing on its own profits and on loans of credit. The director mentioned that the pharmaciya now has a credit arrangement with the Sverdlovsky Sotsialnii Bank at 190% a year. The director said that this interest rate is not considered too large and that the pharmaciya even pays its loans back ahead of time. In addition, the pharmaciya sometimes gets an occasional tax break from the oblast. Still according to the director, the pharmaciya's financial situation is desperate-in his words only the taking of credit has kept the enterprise somewhat viable. When I asked the director what he would do if he could not pay his creditors he said in all seriousness that he would pay them in medicine.

Conclusions:

The pharmaciya seems more hindered than helped by the oblast government. While still having to answer to the oblast government on administrative issues, the pharmaciya has to pay it taxes and rent, while also having part of its market pre-determined by the state. Paradoxically, the pharmaciya is getting very little in the way of state subsidies and is being forced to make its own credit arrangements in order to stay afloat financially. However, the director did not seem to have a notion of about how to get beyond this arrangement. Privatization as he remarked is still a vague term. The link with the oblast is hindering but also comforting in that it is an extension of administrative rule and guarantied market security (ie state oblast enterprises that the pharmaciya must sell to, and who in turn have to buy its goods) that has existed since the Soviet period.

March 15, 1994
Ekaterinburg, Russia

Interviewers: Robert Shirley
Evgeny Legedin

Contact: Galina P. Smeryakova, Pharmacy Director, Ekaterinburg

General:

The pharmacy (apteka) is located in a residential section of Ekaterinburg. The pharmacy employs 34 with some 9 people having higher pharmaceutical education. General area is 842 sq m with 200 m allocated for warehousing. Staffing decisions and the paying of salaries are done by the director and chief accountant. Although the pharmacy is open during the day the majority of its customers come in the early evening hours. The pharmacy has all domestically produced pharmaceutical equipment that is old but kept in working condition. The director said that the pharmacy's area is adequate although the customer service area is two big while the warehousing and processing facilities need to be enlarged.

The building where the pharmacy is housed belongs to the municipal property committee from whom the pharmacy rents. Major management decisions are made jointly by the pharmacy and the committee. As of now, the pharmacy is still municipal property.

The pharmacy is able to sell all types of pharmaceuticals without restriction. According to the director one of the major factors involved in the pharmacy's purchasing decisions are public demand for various types of drugs or medicines. Though some goods are still obtained from the state pharmaciya the pharmacy has also resorted to using private suppliers for some hard to obtain medicines. The director mentioned that the pharmacy will not buy anything without a quality certificate issued by the Russian government. Theoretically, the director decides what to sell and at what price (within the accepted limits). According to the director, most of the medicines that the pharmacy wants to purchase are available; the one main problem in obtaining a drug is lack of money among the pharmacy itself and consumers interested in buying it. Especially lacking are diabetic and cardiac medicines and enzymes. A growing inflation rate has made this problem even more acute.

The pharmacy warehouses some 5 million rubles worth of goods at any one time. Product turnover for Jan '94 was 64 million rubles. Average consumer spending at the pharmacy is about 10,000 rubles per month.

Costs and Pricing:

The director would not tell us the total cost of running the pharmacy. Most costs go to cover wages and utilities.

In general, the pharmacy employs the maximum 50% markup from the manufacturing price. The director mentioned that some privatized pharmacies will employ a markup of 80% or higher. Certain population categories such as invalids.

veterans, and chronic disease suffers pay less than the average consumer price as this is dictated by Russian legislation.

Budget and Financing:

The pharmacy receives subsidies from the municipality to cover its loses. The subsides keep the pharmacy somewhat afloat as it has not made a profit since 1992 when much of its once consistent state funding began to dry up. According to the director, credit is not an option because the pharmacy cannot afford the going rates of 250-300% per year. In addition grants of money are allocated by the municipality if the pharmacy runs into trouble paying its suppliers. However, according to the director, taxes on revenue run about 33%. This figure plus rent for the premises, plus growing utility rates, and inflationary prices for goods have put tremendous pressure on the overall financial position of the pharmacy.

Some of its suppliers allow the pharmacy to receive goods with forestalled payment of up to two weeks. According to the director the pharmacy has strained to pay its suppliers on time as after the two week deadline the pharmacy must pay an interest rate of .5% per day.

Like all other enterprises the pharmacy pays 3.6% of the sum of its employees' wages to the newly created health insurance fund.

Privatization:

Although still officially a state enterprise, the pharmacy can now make agreements with private wholesalers of its own discretion. According the director, the pharmacy now takes the time to study the demands of its consumer market and to independently react to such demands. However, the director does not want to sever ties with the municipality. In the director's words, privatization would completely take it out of the municipal subsidy safety net leaving it to the mercy of creditors and possibly involving layoffs of the pharmacy's employees.

Conclusions:

Like the much larger wholesaler pharmaciya, the pharmacy is pivoted between the demands of the free market and its dependence on the municipality. For now the director has opted not to fully privatize for fear of being alone and without the state's mantle in protecting it from the demands of the market and from the corruption of the mafia.

March 16, 1994
Ekaterinburg, Russia

Interviewers: Robert Shirley
Evgeny Legedin

Contact: Victor B. Zimerov, Chief Doctor, Third Municipal Pediatric Infection Hospital

General:

The hospital which was originally built in 1876 is one of the oldest in Ekaterinburg. A total of 18 doctors are employed by the hospital (4 male, 14 female) including 2 associate medical professors and 3 candidates of medical science. The hospital specializes in the treatment of certain childhood infections especially gastric and intestinal disorders such as dysentery, salmonella, and septic infections. Working equipment includes electronic weighing scales for newborns and one Medicor incubator. According to the chief doctor the hospital could really use some ultra sound equipment.

Treatment at the hospital is essentially inpatient with any outpatient treatment being done at a corresponding polyclinic. In the hospital has 110 beds and two intensive care units each able to handle a total of 10 people at any one time.

The hospital buys its medicines from municipal pharmacies (aptekas) and private firms. According to the chief doctor, the hospital occasionally lacks antibiotics and neurological medicines but in general its pharmaceutical reserves are stable. In cases where a particular medication is not available the hospital either finds an appropriate analog or makes an exchange with another hospital that has the particular medication. The chief doctor mentioned that now more than ever the market is flooded with literature, much of it distributed from private firms, about new medications available in Russia.

According to the chief doctor, parents pay the hospital nothing for medications nor for the treatment of their children, though he said that around 30% of the population of Ekaterinburg would be willing to pay for higher quality medical services. Other hospitals in the city of Ekaterinburg recommended by the chief doctor for quality of care include: Maternity-Maternity and Infancy Protection Institute, Pediatrics- Children's Hospital # 9, Oncology and Pediatric Oncology-Onocological Health (one to the city), Heart attack-Cardiac Center of the Municipal Clinical Hospital's emergency care section, Heart surgery-Oblast Clinical Hospital # 1, Traumatic injury-Municipal Hospital #36.

The hospital is under municipal administration and is part of a rayon system- although it will treat patients from outside of its rayon or neighbourhood because other hospitals in the city are unable to provide the services. In addition to links with the municipality, the hospital has a relationship with a local medical institute allowing students to complete residencies. According to the chief doctor, fully privatized hospitals in the city of Ekaterinburg do not yet exist, although there are hospitals that charge for some services. The chief doctor has doubts about his hospital charging for services and medications because he doubts the ability of many of his patients to pay.

Budget and Financing:

The hospital budget for Jan '94 was 35 million rubles with 79% of that figure going to cover the salaries of personnel. According to the chief doctor, since the beginning of 1994 the hospital has stopped receiving funds from the municipality and instead has been getting them from the newly created territorial branch of the recently implemented national insurance fund. In order to receive compensation from the fund, the hospital must submit a monthly list of diseases treated. This list then is apparently indexed against a book of figures called the Medico-Economicheskii Standarti (Medical Economic Standards) which has a complete listing of diseases and a sum total of costs expected for treatment of each particular disease that includes the cost of hospital stay (food etc), medication, and hospital staff personnel to name a few. According to the chief doctor, this system is fundamentally flawed because the prices contained in the book date from 1984. When I asked him why this was the case he said that the health insurance reform movement had been on the books in some form or another since the Brezhnev era and that the administrators of the recently reformed health insurance package had taken Medico-Economicheskii Standarti for 1984 without adjusting for 1994 prices. The chief doctor mentioned that a newly revised price list drawn up in Dec '93 by city and oblast doctors was rejected as being too costly. Some of the prices contained in the book are simply ludicrously cheap- one for example that comes to mind is the price for treating cancer of the lower lip-36,000 rubles for 3 months. In February '94 the chief doctor mentioned the hospital having real costs of 58 million rubles, however, according to the Health Insurance fund using the "Standarti" the hospital had costs of only 21. The chief doctor has been pressing the insurance fund and is awaiting 37 million in compensation.

Conclusions:

Like other Russian institutions the biggest problem facing the hospital is lack of money. The newly created Health Insurance Fund seems to be hindering the hospital's financing rather than helping. In the chief doctor's opinion the Health Insurance Fund like other bureaucratic units in Russia seems more concerned with supporting itself than with the institutions it was set up to defend. Personally, the chief doctor does not want to charge for provider services but might have to in some form to keep the hospital financially afloat and running.

March 17, 1994
Ekaterinburg, Russia

Interviewers: Robert Shirley
Evgeny Legedin

Contact: Maria V. Maltseva, Chief Doctor, Children's Polyclinic of Hospital #13.

General:

The polyclinic is an outpatient facility of Hospital #13 specializing in the treatment of childhood diseases, childhood respiratory, gastric, and viral infections, and post birth injuries. The polyclinic employs 30 nurses and 30 doctors of which only 3 of the doctors are men. Polyclinic staff undergoes retraining 1 to 2 times every 5 years.

The polyclinic was built in 1974 with a renovation completed in 1990. It has 29 rooms of which most seemed relatively clean. Most of its equipment has been domestically produced in Russian plants in the Ural region and while old has been kept in working condition. The polyclinic obtains spare parts for its equipment through a municipal technical warehouse. The polyclinic has an electrical cardiogram as one of its most advanced pieces of equipment. The chief doctor mentioned that equipment repair and parts delivery generally takes 1-2 days. Being an outpatient facility, the polyclinic has no intensive care or emergency facilities on its premises-these departments being part of the hospital.

Pharmaceuticals are obtained from the hospital pharmacy. The chief doctor mentioned that the medicines occasionally unobtainable by the hospital include diabetic drugs and antibiotics, although shortages occur rarely. When the polyclinic has a shortage of a particular medicine it tries to use an analog.

In general, children up to age 3 are treated free of charge while parents of older children pay part of the costs for treatment. Invalids and sufferers of chronic childhood diseases or cancer are treated free of charge regardless of age category. Theoretically, the polyclinic is supposed to only treat children from its rayon or district. The polyclinic has 3 working shifts per day. Each shift is meant to handle a maximum of 75 cases per day, however the chief doctor mentioned that the daily average is 100-150 per shift.

Budget and financing:

The polyclinic has an approximate monthly budget of 250 million rubles, which is part of the hospital's budget. The money is received form the municipal district government. For now nothing has been received from the territorial health insurance fund. Primary expenditures include salaries, medicines (ones used on premises and not prescribed), and utilities. In the chief doctor's opinion the polyclinic's relationship with the municipal government has been a secure one with the polyclinic receiving most of the funding that it needs. The chief doctor has expressed concern about the new health insurance regulations, feeling this new administrative mechanism to be somewhat of a threat to the long-standing relationship between the polyclinic and the municipality. The chief doctor has mentioned talk about a change in the way and amount of funding that the

polyclinic receives and has expressed concern about this preferring to keep things as they are.

Privatization:

The director said that for the time being the polyclinic has no plans to privatize although it has liberty to enter joint ventures. The director mentioned that the polyclinic has had a financial venture with a local firm, Rostek, treating the children of the firm's employees although they live outside of the polyclinic's rayon. However, the polyclinic is considering disbanding this venture due to over capacity and a 28% municipal tax rate on the venture's revenues.

Conclusion:

The polyclinic seems to have made it up to the present day secure in the relationship that it has with the hospital and the municipality. Changes in this relationship do not seem to be welcome as it could pose a change to the stability of the polyclinic's financial situation. Like many other Russian public medical institutions, the polyclinic has been more concerned with treating patients than with making a profit. This is an attitude that is deep rooted and a likely of the polyclinic's ambivalence towards the market and self-financing, independent of the state.

March 15. 1994
Ekaterinburg. Russia

Interviewers: Robert Shirley
Evgeny Legedin

Contact: Vera G. Okulskaya, Deputy Administrator, Ekaterinburg Municipal Health department

General:

The municipal health administration is under the aegis of the oblast health administration. The municipal health administration answers for the running of 9 central municipal hospitals, 88 municipal hospitals and 124 polyclinics. The municipal administration includes chief doctors and medical specialists on its staff. The administration licenses hospitals but not individual doctors.

Aggregate statistics obtained for the city of Ekaterinburg from the director include the following:

# of doctors per person-69/10,000
# of hospital bed per person-108/10,000
Ekaterinburg city population-1 million 380 thous.
Present population growth rate (for '93) - -6.6% (negative)
Crude birth rate (for '93) 8.2%
Life expectancy- men 63, women-65
Mortality rate (for '93)-14.8/10,000

Health Insurance Fund vs. Municipal Budget:

According to the director, the Ekaterinburg city municipal health budget was 56 billion rubles for '93. Until the implementation of a general health insurance fund in Feb '93. the municipal budget covered all costs. Tentatively, under the new system. 60% of the money spent on health care for the city of Ekaterinburg will come from the newly created territorial health insurance fund, while the remaining 40% will come from the municipal budget. Under the new system funds from the municipal budget will be allocated to specialized medical organizations such as the city's emergency medical system. onocological treatment centers, psychiatric hospitals etc. The main source of funding for the municipal budget will be taxes. Money from the insurance fund will be targeted for the administration of general hospitals and polyclinics. Money for the insurance fund will be collected from state and private enterprises in the form of 3.6% of the sum of a particular enterprise's total employee salaries. In order to receive compensation form the fund, hospitals and polyclinics will be required to submit forms showing the type and total of patient services performed. This information is indexed to the Medico-Economicheskii-Standarti (see above notes on hospital) to figure out approximate compensation.

Oblast Administration met March 16, 1994 by Robert Shirley and Evgeny Legedin:

Contacts: Ruslan A. Khalfin, Deputy Administrator, Ekaterinburg Oblast Health Administration
Leonid M. Bekhter " "
Konstantin Barazgov, Goskomstat (for aggregate statistics)

Aggregate oblast statistics: (see attached appendix)

For now, oblast hospitals and polyclinics are being funded by the local municipal budgets of the cities were they are located. The insurance fund has yet to be fully implemented.

Conclusions:

Rather than being a solution to the cost of Russian health care, the newly created Health Insurance Fund, seems to represent the slow creation of a new bureaucracy whose allocation of funds is cumbersome and not keeping with the cost of inflation.

SECTION 6: ADDITIONAL INTERVIEWS

March 14, 1994
Moscow, Russia

Interviewers: Dr. Mark Novitch
Brandon Bennett

Contact: Douglas Herman, General Manager CIS, The Upjohn Company

Pirjo Kortekangas, Marketing Director, The Upjohn Company

NOTES

Distribution:
Foreign importers and Russian manufacturers have little direct contact with pharmaceutical retail enterprises.

The poor distribution system is the most significant problem facing pharmaceutical enterprises.

Companies from Holland, Finland, and Turkey have established wholesale operations in Russia.

In as many as 50% of the Oblasts, enough competition exists that the Pharmaciya does not enjoy monopoly control. In some Oblasts, the Pharmaciya no longer operates.

Production:
The idea of developing "greenfield" production sites is more attractive to foreign companies than investing in current manufacturing facilities.

Domestic pharmaceutical production satisfies only 30% of national demand.

The Russian government is close to imposing tariffs upon foreign imported drugs that are also manufactured domestically.

Pricing:
In some regions, Moscow in particular, the 50% post-manufacturer price limit is entirely ignored and not enforced. Markups of 200-300% are not uncommon.

Market Characteristics:
Only 10% of the Russian population can afford pharmaceuticals at western prices; or each individual would be able to spend only $10 per year on western pharmaceuticals. The total market for Western pharmaceuticals is $280 million. The total pharmaceutical market is $1.2 billion.

General:
Prescriptions are not necessary to obtain many drugs that require prescriptions in western countries (i.e. antibiotics).

DRAFT

TO :

FROM : Roman LOLA, Oliver TARDY

SUBJECT : GKI / Pharma Distribution in Russia

DATE : February 14, 1994

PHARMACY INTERVIEW

GENERAL DESCRIPTION / SALES :

Large pharmacy on Krasnaya Presnya street, one of 9 pharmacies in the Kresnopresninsky district in Moscow. Historically the 3rd. pharmacy to open in Moscow some 100 years ago, it is owned by the municipality.

It is open from 8 am to 8 pm Monday through Friday, and from 10 to 6 on Saturday.

Overall floor space is 341 square meters, of which 70 are the sales room (quite cramped with over 30 people in 3 crossing lines). An additional 60 m2 is the accountants office and the restrooms. The remainder is storage space.

There used to be a manufacturing unit within the pharmacy, but it was closed for hygiene reasons. Today, only 4 out of the 9 pharmacies of the district have the authorization to manufacture prescription drugs.

The pharmacy also operates 4 sales kiosks located at the :

- Filatov Children Clinic
- White House (strong sales despite competition of another kiosk there)
- Former Ministry of Ships building
- International Center for Informatics and Electronics

These were opened to increase sales.

Overall sales for the 4th. quarter (Q4) of 1993 were 193 M.Rubles, January 1994 was 100 M.Rubles. The main pharmacy represents 70% of sales, and the kiosks 30%.

89.1% of sales are drugs (medical care including thermometers 4.4%, bandages 1.4%, medical equipment and tools 1.4%, perfume and cosmetics 1%, other goods 2.7%).

Some drugs (children, handicapped, cancer patients, ...) are supplied for free, or for 50% of the retail price. The District Health Department reimburses, twice a month, 5 or 6 days after recieving the forms showing the sales of such products, sent in by the pharmacy. Overall, these reimbursements amount to 26 to 29% of sales.

SUPPLIERS / DELIVERY / TERMS :

The pharmacy used to be supplied by 2 warehouses from the area, but now there is a large number of suppliers, which creates a lot of complexity and paperwork.

The warehouses now account for 8 and 6% of sales, the Moscow Pharmaceutical Factory, Ferein, and a lot of new joint stock companies such as Pharmindustria, and Pharmaservice are proposing products. There is also a lot of foreign companies going direct, such as Eli Lily. Indian companies are also sending sales representatives to pharmacies.

Typical number of sales contacts are 7 to 8 per day. For well known products, these sales contacts can take place over the phone. For new products, the pharmacist needs to see the license, quality and safety certificates, and the price agreement records.

Selection of the supliers is based on the price of the products (the lower the better despite a pharmacist margin that is roughly constant in percentage terms !).

Delivery frequency varies a lot depending on the products. From weekly to biweekly or even monthly. The pharmacy used to be requested by law to have seasonal stocks, but not any more. The goal is to minimize stocks, and only have necessary stuff. An average of 5 days stocks is replenished every 10 to 15 days.

The deliveries usually take place 9 days after ordering. In case of urgency, the drugs can be provided in 2 days.

Payment terms are 5 to 6 days after delivery.

MARGINS / COST STRUCTURE :

By law (Moscow City Council but also apparently Federal), the markup on manufacturers price cannot exceed 50%, for the overall distribution chain (wholesalers + pharmacists).

Typical wholesalers markups are in the range of 10 to 15% (previous sources indicated 15 to 20-25%, but according to this interview, only for drugs for which the level of need makes it possible for the wholesaler to charge that much).

There are legal documents that indicate the manufacturer's or import price. These documents also indicate the supplier's price and his markup. Tax Authorities can come in any time and ask for justification of the public price. The price agreement records are used to prove that the 50% markup has not been exceeded. However, there is no control over the manufacturers or importers costs.

The competition between drugs appears somewhat limited (?). Some Siberian antibiotics are similar to Moscow ones, but this is not a general case. The main purchasing criterion however is to have the cheapest drug available, because the people buying them are not wealthy.

In terms of costs, the pharmacy employs **28** people :

- **1** director
- 1 deputy, also heading the "already made" prescription drugs department, which employs 2 deputies (handling the paperwork), and 2 sales persons with college education to also replace the deputies on weekends. That is 5 people overall
- 1 head of what used to be the "prepared" prescription drugs, now closed and replaced by the homeopathic department, combined with the non prescription drugs. 3 deputies for the homeopathy department, as well as 3 deputies for non

prescription drugs, and 1 specialist in homeopathic manufacturing (N.B.: there is also homeopathic drugs on prescription). That is 8 people overall

- 1 person per kiosk (4 overall)
- 4 cashiers, one of them chief
- 3 accountants, one of them chief
- 2 cleaning women, and 1 on maternity leave

Salaries are set by a table determining, depending on the special qualification group employees are in, the salary indexed on the minimum wage.

Rent is cheap (privilege because the pharmacy is a health entity), amounting to 87 780 Rubles (55-60 USD) for Q4 1993, but maintenance is expensive with 586 000 Rubles (400 USD) for the same period.

There is a variety of taxes, from profit tax, pension funds, employment fund, road fund, the maintenance of educational establishments, ..., all of this being very expensive, like for other retailers. Last year the pharmacy was however exempt from municipal tax.

Overall, profits are close to zero.

ADDITIONAL INFORMATION :

There is a substitution right at the pharmacist level (synonims can be dispensed), provided the doctor is contacted, either by the patient, or by the pharmacist.

The interest of privatizing a pharmacy did not appear self explanatory to the interviewee. The right to dispose of your profits to invest in other enterprises, the initiatives and efficiency derived from such a system were not very convincing. Profits are close to zero anyway (ven given the size of this pharmacy !??), and a few pharmacies that have been given the premises on which they operate still have to pay for utilities and repairs which are very expensive.

GENERAL MARKET DATA TO BE VALIDATED :

Pharma market : *3* B$ (2.3 closer to reality ?)

Per head consumption (148 Million people) : *20* $ (15 closer to reality ?)

16 000 pharmacies

50% of the drugs market going through hospitals (given extensive length of stay)

50% markup for distribution

2.3 x .5 x 1.5 = 1.73 B$ pharma retail market

1.73 / 16 x 1000 / 90% = 120 K$ average turnover

INTERVIEW NOTES

Interviewee:	Vilken A.E.	**Position:**	Former deputy minister, Representative
Company:	MOH, Chemo	**Tel No:**	
Address:			
Interviewer:	Roman Lola	**Case No:**	
Date:	Feb 18, 94	**Ref:**	

Pricing

30% mark up cap on manufactureres should be removed as it puts medical industry in less competitive position vs. other industries and private capital does not flow in the industry.

Mark up cap is easily avoided.

One of possible ways is dollar based accounting when all costs are translated into dollars at times when incurred and then back into rubles at the sales time (r payment collection time). This allows to make 30% cap less restrictive as it eliminates the rouble inflation factor.

Dollar based accounting though not explicitely allowed is not explicitely illegal either.

If 30% mark up is removed people in the industry will get the opportunity to earn their money without accounitg gimmicks. But outside investors could possibly be more interested as they can see the industry is not different from others.

Imported drugs margins are not controlled as their manufacturing price is taken as given by producer. I.e. imported drugs can be in advantageous position vs. domestic.

Active substanse prices are now at world level, but ready forms are still cheaper (however could not explain why). Substances are about 50% of costs of ready forms.

In many cases domestic prices are already limited by foreign competition.
"nobody will sell domestic aspirin at a higher price that imorted one"

Privatisation

Depending on how the state sells its 49% (2 option) or 60% (1 option) the privatisation can differ greatly.

The ideal is when 20-30% of stock ends up in hands of good entreprenuer.

State should limit its holdings to 10%.

Recommendations

- Tax credits for investments in production
- import duties on selected finished medicines
- no duties on substances and equipment

- currently equipment cost can be increased by 100% by import duty and value added tax, this cost is transferred to cost of drugs

• tax preferences for pharma and supplies manufacturers (lower profit tax, no excessive salary tax etc)

INTERVIEW NOTES

Interviewee:	Ambrosov V.A.	**Position:**	Former Head, Director
Company:	MOH medical supplies department, ARMI - association of producers of medical disposables	**Tel No:**	
Address:			
Interviewer:	Roman Lola	**Case No:**	
Date:	Feb 18,94	**Ref:**	

Privatisation of manufacturers

Privatisation is possible under the followinfg conditions

- no mandatory privatisation with firm deadlines (some are not ready)
- create level conditiions for all forms of ownership
- keep well functioning state sector enterprises to create competiton during the transition period
- increase of share of private enterprises should be accelerated by creation of new private businesses, that shoud be stimulated
- no transfer of ownership to workers or other owners without sound strategy/business plan for enterprise
- no privatisation of the following enterprises
  - which production is 100% subsidised and is free to patients, eg. vaccines producers (15 plants), insuline producers if would be (0) etc.
  - monopolies

"Privatisation experience so far has been that directors got their JSC shares, said they are free to produce whatever they want, but next day they show up in MOH asking for budget financing."

Pricing

Currently there are no direct price controls, but MOH minister Nechaev demands them.
Margins are regulated at producer's level and set at 30% maximum.
Wholesale and retail margins can not exceed 50% altogether.

30% margin caps should be left, however strict price controls are detrimental.

ARMI - private enterprise producing seringes - can work within 30% margin. But ARMI does not have to spend on investment/expansion that is covered by other types of business. The scheme is to invest money earned on trade into medical production.

Profile regulations

No current regulations on profile exists.

Current system: Pharmacies, hospitals submit requirements to MOH, MOH sends it to plants as a state purchasing order. The money should come from the budget but this year the budget

could purchase only 40% of ordered quantities. Therefore profile can be currently supported only via state ordering necessary drugs.

There had been examples of pharma plants starting production of spirits (AO Ferrein started to produce 40% alkohol alegedly for for external use to avoid sales tax, Vishnevolotskiy plant started to produce 40% alcohol "cucumber solution" for skin care" etc).

Profile changes should be negotiated with MOH.

Federal purchasing should be contained to 10-15% of all drugs produced. The rest should be financed either out of regional budgets or bouught by patients.

ARMI story

Association of producers of disposables (ARMI) was founded in 1991 by private businessmen that decided to invest his profits from mink farm into medical disposables production.

The first seringe plant was built in 8 months in Voronezh (800 km south west from Moscow) and produces 250 M pieces a year. The year after the second plant with the same capacity.

Currently there is a construction of plant to produce blood transfusion equipment. The equipment worth of 150M DM was bought from "Fresenius".

All businesses are 100% privately owned.

Plan to produce clean aminoacids (in partnership with MOH) and insulin (50-50% with Eli Lilly). The Voronesh authorities allocated 100 ha of land for the future production.

Eg. of "Good Privatisation": state enterprise "Processor" was sold to ARMI at rock bottom price by Voronezh authorities since it basically collapsed and average monthly salary was as low as 11000 Rb (11$). ARMI received facilities and buildings in good condition in exchange for obligation to keep employees and pay them monthly 120000 Rb . ARMI also promised to set up a scientific-research base for its medical production. Morale: state enterprices should be given to private socially responsible investors with business plan.

INTERVIEW NOTES

Interviewee:	Mr. Lomakin-Rumyantsev I. V.	**Position:**	Executive Director
Company:	Moscow City Fund of Compulsory Insurance	**Tel No:**	203-60-12
Address:			
Interviewer:	Roman Lola, Ed Kaufman	**Case No:**	
Date:	March 16, 94	**Ref:**	

Fund was established following the adoption of the Law on Health Insurance, and its amendment in April 1993.

"I found myself at this table on 20th of July [1993] without a phone and anybody around..."

Functions

General
- to collect from enterprises of Moscow the health insurance tax (3.4% of payroll)
- purchase health care from providers for population of Moscow within CHI requirements

Start up functions
- create a reserve capital of $\geq$ 2 months of financing requirements
- create a normative base for insurance: agreements between providers and insurance companies, contracts with insurance companies, banks, etc.
- set up price per units of reimbursement
  - based on cost structure
- create control mechanism

Proceeds

- 270,000 enterprises that pay to Fund, i.e. payers

To create a reserve fund
- 1993 - 93 bln Rb from enterprises
- Jan and Feb 1994 - 49 bln from enterprises

To pay for health care of special social groups
- 23 bln in 1994 from Moscow city budget (17% of city health care budget, the rest 83% goes to Health Department of Moscow Government)
  - 22 bln Rb is still owned by the Government of Moscow

Fund manages to collect @75% of potential proceeds as Fund employs its own tax inspectors (compared to 30% in other Funds that leave it to Tax Service to collect the proceeds)

Working Population of Moscow:	4.4 M
Average salary in January	230,000Rb

Health insurance Tax @ 3.4%	34.5 bln
Over two months (2x34.5)	69 bln
Actually collected	49 bln or 72%

Allocation of resources

93 bln Rb collected by Dec 31 1993 was allocated as follows
- 0.93 bln Rb Fund's expenses
- 54 bln Rb invested to create reserve fund
- 18 bln Rb paid to pharmacies to replenish their working capital
- 19 bln Rb salary raise of medical personnel in Moscow
- 0.2 bln Rb to set up "Health Insurance" magazine

Money to pharmacies and to salary raise were allocated by decision of Moscow government, though there were no official orders. When asked was it his voluntary decision to give money to pharmacies Mr.Lomakin said "...when the sheriff offers you a seat, it seems impolite to keep standing.."

Investments

- consortium of banks was created headed by Sberbank
  - "... if Sberbank goes bust, no one would notice that we went bankrupt..."
- 90% of 54 bln were allocated in this consortium, each bank is liable up to total amount of money allocated to consortium
- 10% were deposited to big commercial bank
- three trenches of maturity
  - 30 days, 55 days, 9 months
  - interest payments from 9 month trench can be allocated to sub-accounts of providers in form of line of credit
  - providers that were given line of credit have then to settle their accounts directly with banks

- currently there is an interesting form of investment developing - "penalty investment"
  - e.g. ZIL plant owns 3.5 bln Rb to Fund as health insurance tax liability, there is a penalty rate of 1% per day, i.e. 365% per annum, Fund knows that ZIL has money to cover the liability, and prefers not to claim it as 365% is a good rate. ZIL prefers not to pay it as 365% is lower than its borrowing rate.

  [restricted by law to invest in riskier assets Fund seems to be bypassing this via "penalty investment"]

Organisation

Board of Directors

Members include
- 1st deputy Mayor
- 1st deputy Chief of finance dept of Moscow government
- 1 st deputy head of Central Bank's Moscow branch
- executive director

- 400 employees overall, out of which 270 tax inspectors
- 1 tax inspector per 1000 payers

Insurance Companies (IC)

• ICs act as agents
- distribute Funds money to providers
- control accounting
- help to calculate prices

• initially it was a plan to create district Funds but Moscow Fund insisted on working directly with ICs
- "easier to work with established private companies than try to create another nine bureaucracies"
- " may be later when the system is set up district funds will be possible"

• currently work with all 20 IC that work in Moscow (started with 8 six months ago)
• ICs that specialise only in health insurance do not grow as fast as multiproduct ICs
- as CMI returns can not be distributed back to capital providers due to non-profit status, specialised ICs have disadvantage since the share of CMI in their revenues is much higher
- multiservise ICs are interested in underwriting CMI as they use it as marketing tool and often bundle it with other insurance products

Reimbursement

Prices
• based on line items
• costs that included in calculation of price
- labour
- pharmaceuticals
- food for patients
- medical supplies
• all other expenses are covered from Dept. of Health budget directly
- reasons: it was hard to allocate indirect expenses to price of each operation

• perspective: prices should be negotiated and agreed upon between Moscow Health Department and Medical Professional Association.

Mechanism
• every month Fund transfers money to providers via ICs advancing 90% of projected costs
• cost projections are based on registered population
• in the end of the month reimbursement is adjusted
- if advanced sum < actual expenses then Fund pays more, otherwise % free credit is extended to provider for next month

Requirements
• capacity of polyclinics and hospitals greatly exceeds needs (on average in Moscow 40% excess capacity)
- people go to clinics less often as "absenteeism slips" are no longer needed
- in central Moscow district there is 90% excess capacity as less people live downtown

• CMI currently to great extent finances doctors employment as price rates include redundant doctors salaries

• CMI finances so called "social beds" (for elderly, homeless etc.) in hospitals that is @15% of total beds

• providers are increasingly asking "what to do with unused money"

Problems/Perspective

Legislative Problems
• ban on multiproduct ICs mentioned above

• limitless liability
- "if a patient gets 1000 examinations per week we have to pay for all 1000 examinations"
- risk based insurance is not possible

• Health Insurance Law does not specify Funds as one of the constituencies of the insurance system => difficulties to legalise Funds rights and responsibilities
- there are four constituencies: insured, insurer (individual,enterprice or state), IC, provider

• Providers' status is not defined in the law
- unclear who is responsible for providers liabilities

Growth Problems
• health statistics should be increasingly accumulated to enable start risk based insurance

• doctors have to become businessmen

• 2/3 of doctors in Moscow may become unemployed if patients decide were to go and state stops to finance their employment

Perspective
• risk based insurance

• "though it is not insurance system yet, but separation of purchaser and provider has been achieved, ... and many do not like it as before they did both"

• in perspective Fund may become secondary insurance provider
- buy insurance premiums in bulk from ICs as they will need more capital

ANNEX B

ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES
FINAL REPORT ON PHASE 1

BACKGROUND NOTES

INTRODUCTION

As part of the Phase 1 study, IBTCI and BCG produced notes on three areas: (a) Hospitals and Clinics; (b) Pharmaceutical Manufacturers; and (c) Pharmaceutical Wholesale and Retail Enterprises. The following sections contain the background notes on these three areas.

Section 1: Hospitals and Clinics

Section 2: Pharmaceutical Manufacturing

Section 3: Pharmaceutical Wholesale and Retail Enterprises

PRIVATIZATION OF HOSPITALS AND POLYCLINICS IN RUSSIA

Briefing Note for Draft Privatization Law

Prepared for
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USAID
by

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PRIVATIZATION OF HOSPITALS AND POLYCLINICS IN RUSSIA

Introduction

This memorandum provides advise to the Russian Ministry of Privatization (GKI) on the issues involved in privatization of health care. The memo makes recommendations regarding hospitals, polyclinics, and to some extent, health care finance.

The memo is intended to provide practical, top-level advice as requested by the GKI. It is intended to provide a *directional* focus for the drafting of the law, not to examine the details of health care reform or the options for implementing proposed changes.

The starting point for assessing the situation and making recommendations is the premise that Russia *should continue to provide universal access to health care, free at the point of consumption. The majority of health care providers would benefit from becoming private, non-profit institutions*. However, the government should continue to provide the majority of finance for the health care system, in line with all other OECD countries (except the USA). The key element is for health care purchasers to be separated from health care providers, and to ensure that the purchasers are capable of fulfilling this function.

Most providers should be turned into "hybrids"; self managing, non-profit institutions, combining state ownership of assets with competition and patient choice. Additionally some institutions can be privatized in the traditional sense.

This memo will cover six areas:

I. Brief assessment of the Russian health care system
II. Hospitals
III. Specialist institutions
IV. Polyclinics
V. Health care finance
VI. General comments .

I. Russian Health Care System

The Russian health care system has a number of positive features. Although there is a clear need to reform many aspects of the system, it is important to retain and build upon the features which are attractive. These include:

- *Universal access*: The Russian system provides universal access, which is the hallmark of a modern, west European style health care system. It is essential, as free market principles are introduced, that the Russian government maintain its commitment to provide universal access for its citizens, with special emphasis on providing care to the unemployed, the elderly, and children.

- *Polyclinics*: The concept of a polyclinic, in which primary physicians, specialists, and medical staff together provide primary care, is good. Polyclinics make a sensible starting point for privatization.

- *Supply of doctors*: There is a large supply of doctors in Russia. This fact must be distinguished from the fact that doctors generally do not have the right incentives to treat patients in an efficient manner, and may not have access to the best training or equipment. It will be important to encourage these doctors to take part in the reform process and to help upgrade their skills.

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Having said this, it is also true that the Russian health care system has some serious problems in terms of financing, efficiency, and performance:

- Overall health expenditure as a percentage of GDP appears to be very low, (even considering lower medical salaries, etc.) around 3%; vs 8% or more in most western countries;.

- Standard measures of efficiency and effectiveness, such as average length of stay in hospital, suggest that Russian systems are inefficient compared to most western hospitals;

- Health care seems to focus on treatment, rather than on prevention, screening, etc;.

- Health status along such variables as life expectancy and infant mortality is below western norms.

In summary, the Russian health care system has many positive features, but it also has serious flaws. All western countries are struggling, to some extent, with similar problems. The challenge is to correct the inefficiencies, thereby releasing capital and making the system more effective, and better able to provide adequate health care to the population.

II. Hospitals

Hospitals in Russia vary enormously and our assessment is based on a small sample. There are many hospitals which are suitable to be turned into hybrid "NHS Trust" style institutions. However, *the majority of hospitals in Russia are not yet in a position to become fully private.* Insurance schemes are not operating adequately to finance care, or to fulfil the purchasing function, as of yet.

The key issue at present is how to improve hospital facilities and treatment. There are only four possible ways to generate the necessary capital:

- Borrowings,
- Increased state contributions,
- Sale of assets,
- Improved efficiency.

With no private or public capital available for this purpose, and the sale of assets likely to be limited, the crucial task is to improve efficiency, which could release cash now tied up in hospital operations. It should be possible to achieve certain efficiencies in the short term. However in the longer term, it is our view that the only way to ensure that hospitals have efficiency incentives is to separate the providers from the purchaser of care. This is the *intention* of the health reforms in place, and it may occur naturally as the Sick Funds (insurance funds) extend coverage to the whole population. At present, however, the purchaser and provider are not fully separated and so the incentives appear to reward inefficiency and poor management.

<u>Length of Stay</u>
Nowhere is this efficiency problem more apparent than in the 24-day average medical length of stay in hospital. (This compares unfavourably with every western country. As a healthcare system becomes more market driven, the length of stay shrinks; the lowest length of stay is in the USA). In Russia, despite the fact some patients may require long stays due to poor home conditions, at present there is no incentive for a doctor to discharge a patient as quickly as

possible. Thus each patient incurs a large extra expense, in terms of the costs of unnecessary nursing, food, and in-patient care. Additionally, the long hospital stays create an environment in which general infections spread rapidly; and indeed Russian hospitals, maternity wards in particular, suffer from a much higher degree of secondary infections than most western institutions.

Modern Equipment and Medicines

Secondly, modernising the techniques and drug therapies could produce efficiencies (for example switching to automatic rather than manual blood counting; use of anti-ulcerants rather than hospitalising ulcer patients). Although upgrading machinery is not sufficient, there are specific areas in which more modern technology could produce dramatic improvements in efficiency. Therefore hospitals (and clinics) should be able to acquire these machines, and medicines which may reduce hospitalization. This requires a form of low cost financing to be made available (as outlined in section V). It also requires a change in attitude: so the health care system begins to *think* about efficiency, and shortening or avoiding putting patients in hospital.

Doctor/Nurse Allocation of Responsibilities

Staffing responsibilities and doctor/nurse demarcations need to be rethought. There is a high number of doctors compared to other western countries suggesting that doctors are being used to perform many functions that could be carried out more cost-effectively by trained nurses.

Hygiene

Standards of hygiene require urgent attention. This is an area where the Ministry of Health (MOH) should be able to make progress quickly if the government allows it to set financial incentives for those hospitals meeting standards.

Role of the Hospital Manager

The hospital manager seems to have a fair degree of managerial control but not enough to fundamentally change the situation at his hospital. For example he cannot determine staffing levels, wages, and trade-off between wages and treatment. We suggest that hospital managers, should be empowered and motivated to run the hospital as efficiently as possible. This would mean granting them power to:

- Rent out space in the hospital, where available, up to some agreed percentage of space;
- Charge fees for special services not covered by the state; and
- Negotiate medicine supply and other contracts.

Sale of Land and Assets

In terms of hospital land and assets, the state should probably retain the majority ownership of these for the time being. There is no obvious buyer or market value for many hospitals. At a minimum, the government should establish strict guidelines for prospective buyers. However, over the long-term it will be more efficient to close some of the older facilities in the center and use the funds generated by the sale to construct modern, purpose-built facilities elsewhere.

Therefore for the bulk of ordinary hospitals the following is recommended:

1. Hospitals should be majority owned and maintained by the government for the time being. The government should set out criteria and restrictions for the transfer of ownerships including the service profile of the hospitals.

2. The MOH should consider how to introduce greater efficiencies and performance targets into the system, in particular how to expedite the separation of purchasing from provision.

3. Hospital managers should be given greater authority over the decisions in their hospitals, including rental of space.

4. Money should be directed to achieving desirable outcomes. Government funds should be tied to specific improvements in efficiency and performance targets.

III. Top Level Hospitals and Specialist Facilities

If the GKI wishes to introduce privatization into the hospital sector, there are some "special" high reputation hospitals which could be privatized in the traditional way. These are those which have an international reputation that would make them attractive to prospective buyers. We could envisage a system whereby the government retains a controlling share but sells off a stake to an international purchaser, who would perhaps bring in an international management company to run the facility. A portion of the shares could be sold to the public, as well.

The objective would be to create fully private hospitals, with independent management and operating responsibilities. Hospital management would set its own investment and service strategies based on what customers want. Current purchasers of care at such facilities could continue to buy care there by negotiating block contracts for certain categories of people. (This is now done at the Kremlin Clinic).

There are a number of advantages to privatizing such facilities. It is likely to inject fresh capital, and management skills into the institutions. They would also acquire access to borrowing. It would be a way of capitalizing on the high quality of the medical personnel already there. And if successful, this initial wave of privatization would serve as encouragement for the rank and file hospitals which will be watching them closely. The key requirements for the government, should it wish to pursue this avenue; are as follows:

1. To pass enabling legislation for certain types of health care institutions to become private;

2. For the government to set certain conditions on who can purchase (such as that they must be experienced in the health care industry etc); and

3. For the government to retain a controlling interest so as to ensure political acceptance.

<u>Hospitals Suitable for Achieving "Hybrid" Status</u>

Many hospitals are suitable for semi-privatization, to become units similar to NHS Trust Hospitals in Britain. These are non-profit, self-managing hospitals which sell care and are required to earn a reasonable return on assets. NHS Trust Hospitals are empowered to set their own employment policies, investment strategies, and service strategy, based on what their purchasers want. The only restrictions are that they cannot make major changes, investments, and acquire or dispose of assets without government approval and a plan to show what they intend to do with the proceeds of a sale. Such hospitals must also meet strict financial criteria, and meet the demands of their purchasers, if they are to survive.

Russian hospitals suitable for this kind of status would need to meet the following criteria:

- Management capable of organising and running a hospital,
- Basic information systems available for tracking cost and monitoring outcomes,
- Sound financial basis for the hospital,
- Adequate level of equipment, medicine, and staff for the patient population.

The NHS Trust type model (similar models exist in Scandinavia and Israel), which can be introduced gradually, would appear to be a good one for Russian hospitals which meet these criteria. Additionally, the following conditions must be in place:

- The system of provider/producer separation must be in place, completely, with health insurance schemes covering the whole population, and acting as purchasers of health services;

- The purchaser must be able to ensure that the health needs of the local population are understood and met
  - it is especially important that provision be made for the elderly and unemployed during the transition and launch of the insurance system;

- The government must establish strict financial criteria for such hospitals, which will be obliged to meet those criteria.

It is important to be clear that the purpose of setting up such hospitals is to make providers responsive to, and led by, the purchaser. By forcing them to compete for funds and patients, hospitals have an incentive to become efficient. Britain, Scandinavia and Israel have used this concept as a way to introduce market efficiency into their previously state-run systems.

IV. Polyclinics

We believe that most ordinary polyclinics could become private or semi-private entities. We recommend that polyclinic doctors take ownership of their practice. This would mean transferring the business and operations of the clinics to the polyclinic doctors. The clinics would become non-profit institutions where the doctors have decision - making power over what to do with their premises, which specialities to provide, employment, services provided, number of doctor hours available in the clinic or home, and whether to do some fee-paying extra services (e.g. orthodontics). Government would rent or lease the land and building assets to the practice.

The polyclinics are suitable for this kind of reform because, unlike hospitals, it would be feasible to introduce patient choice into the polyclinic level. *Government reimbursement must be changed to a per capita basis* (per person, weighted for demographic factors), so that it will be possible for patients to choose which polyclinic they wish to be registered with and attend regularly. The patient should also be able to choose which doctor within the polyclinic they wish to see, as their main doctor.

Pilot projects along these lines are being carried out at present in three *oblasts*, and it makes sense to evaluate the pilot schemes before expanding the concept. In theory, at least, the system would provide an incentive for the polyclinics, and individual doctors, to become more patient-friendly, in order to attract the largest number of patients and thus funding. Within constraints set down by government, polyclinic doctors managing the clinic (or solo practices) would be able to choose how to spend their revenues, thus gaining a further incentive to be efficient and to provide services for which there is greatest demand.

In order to ensure that all public health needs are met, the government needs to stipulate: a list of services the clinic *must* provide for its population; and that the polyclinic facility is used for providing primary health care services. The government could also provide bonus revenues for polyclinics hitting certain targets, especially in preventative medicine (such as immunisation, cervical screening, etc).

The government should pass "enabling" legislation to make private and semi-private primary care possible. This would entail the following changes:

1. Make non-profit polyclinic institutions possible;

2. Change reimbursement to a (demographically weighted) per capita basis (more sophisticated methods to be introduced over time);

3. Enable patients to choose their clinic and doctor;

4. Enable solo practices to be set up on a for-private basis;

5. Enable a variety of primary care arrangements to be set up (eg specialist clinics).

In order for the system to work, polyclinic doctors need to become, essentially, small scale businessmen as partners in their own practice. They will therefore require some training on how best to run a clinic. They will also need software packages and other support to assist them in tracking and monitoring their costs and patient flows.

Most polyclinics, under this scheme, would be hybrids. Their premises would continue to be state-owned, but all budget would be controlled by the doctors themselves, (who could in fact be given a share in the premises as well) and would be free to allocate budget to equipment and facilities.

Polyclinics in Enterprises

A separate issue is the status of polyclinics at state (and/or newly privatised) enterprises. These are different from the ordinary polyclinics in several respects. Firstly, some of them provide above-average health care. Second, patients often have no choice as to whether to use them; they are the only local primary care, and it may be impossible to introduce normal competition in the short-term.

We advise that short-term, the enterprises should be encouraged to *retain* the polyclinics. It is essential that in the transition period to a market system that people do not suddenly find themselves without health care. In the longer term, these polyclinics could also become semi-private (as described in the previous section), or diversify as they wish to meet the needs of the local community.

Where enterprise polyclinics only care for employees and their families, there may suddenly be a large unmet need if the enterprise loses jobs in a restructuring programme. In this case the most efficient way to avoid leaving people without care is for the government to *reimburse the polyclinics directly* for treatment of former employees and their families. This should be done until the Sick Funds (insurance) for unemployed persons are functioning properly.

V. Health Care Financing

Russian health care financing is complex, and in flux at the moment; so we have not attempted to deal with it comprehensively here. However there are a few items which deserve mention as part of our overall recommendations:

Equipment Financing

There is a need for low-cost financing of basic equipment. Once providers have become non-profit and tax exempt, they should be eligible for loan guarantees, interest free financing through leasing, tax exempt donations and sales of below-market value equipment. The priority is to assist institutions that wish to acquire *basic* equipment, with priority for equipment that increases efficiency or effectiveness, or helps with preventative care.

Much of this equipment should be eligible for *export credits*, which comprise a large share of western aid designated to Russia. At present the ordinary hospital or polyclinic has difficulty capitalising on this benefit, because they are not familiar with the process of securing these credits.

In the USA, some 10-15% of the operating budgets of non-profit hospitals are funded through tax exemptions to the providers *and* contributions of money, credit, and equipment which are tax exempt to the *donor*. In Russia, manufacturers of health care equipment and medicines are anxious to secure a foothold in the Russian market - and are taxed at high rates. It is critical that such tax exemptions be made available; this may provide an important source of funding for the hospitals and clinics. The law should be drafted in such a way that providers can obtain the full tax benefits of becoming non-profit private or semi-private entities.

Insurance (Sick Funds)
The insurance mechanism, planned to be along the lines of the Dutch and German Sick Funds, is just beginning to take shape. The concept is sensible, but the mechanisms are not yet functioning properly. It will take some time before the insurance funds are fully in place, and the system has adjusted to the introduction of insurance.

We have not attempted to address the subject of health insurance here. However, for the purposes of this memorandum, *the key issue is whether the insurance funds can function effectively as separate purchasers of health care.* In order for the recommendations in this memorandum to be implemented, the insurance funds must become purchasers. This may involve greater government participation; not less. In the German and Dutch systems, for example, the funds are tightly regulated by Government, which guarantees solvency.

The western European systems which rely upon insurance funds as purchasers still finance, on average, some 70% of public health care. It is unlikely that the Russian system will work unless the government contributes this kind of percentage of health financing. However, the government needs to shift the way it subsidises so that it is contributing to the public health care needs through the *financing mechanism* - not by underwriting inefficient providers.

VI. General Comments

There are several general comments which should be noted in this report:

1. Russia spends less as a percentage of its GDP on health than any western country. This argues that, in addition to introducing efficiencies and privatising where possible, *the government will eventually have to increase the absolute level of funding for health care if it is to achieve western standards.*

2. *The best place to spend more money is at the primary level*, and in health education, prevention, and screening. The clearest lesson from the west is that the most cost effective way to achieve high standards of health is to devote more resources to primary care.

3. In the UK, the move away from a large centralised bureaucracy to smaller units, such as Trust Hospitals and GP fundholders, has been fraught with complications. It is important that a public education campaign accompany the health reforms, in order to explain and prepare the public, and health care workers, for these vast reforms (A separate memorandum has been prepared on this subject).

4. In order to protect the *most needy*, such as seniors, unemployed, and handicapped persons, the government *must ensure that the financing mechanism is fully in place before the old system is dismantled.* Otherwise the neediest groups may suddenly find themselves with no health care.

5. As the system becomes more private, Russia needs a strategy for the training of doctors. Training will never be a function that generates money, it is an investment. As hospitals become more market-orientated, separate funding needs to be arranged for medical training.

6. In general, *it is better to devolve decision-making to the lowest level.* The system has been plagued by being overly-bureaucratic, and in general, the closer the decision can be to the individual doctor and patient, the better and more efficient that decision is likely to be.

7. It is very difficult to implement these changes in an environment of high inflation. Hospitals at present are setting monthly budgets, and so inflation is consuming both time and resources. The higher inflation runs, the more it is important to proceed slowly with health care reform.

8. All types of care should be encouraged to develop and flourish in the new system, such as day surgery centers, and specialist clinics for women and therapeutic categories. The law should not discriminate in any way against new approaches, which in many cases will provide better quality and more efficient care.

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Denationalization[1] and Privatization of Medical Care Institutions: Hospitals, Polyclinics, other Providers of Different Types, and Health Insurance Institutions

Preliminary Concept and Issues Note (Feb. 28, 1994)

A. Objectives

1. In accordance with the Presidential decree of Dec. 24 1993 (#2284), GKI has started developing the legislation proposal concerning the denationalization and privatization of different institutions providing medical care to the Russian population.

2. The process of denationalization and privatization in the health sector, which the proposed legislation should promote, needs to be consistent with the principles of the Health Insurance Legislation signed by the president on April 16th, 1993. The proposed denationalization and privatization legislation (DPL) needs to reflect also the uniqueness of the sector and the social and political sensitivity associated with medical care. Consequently, the legitimate concerns of the medical profession, the Federal Ministry of Health (FMOH) and regional health authorities need to be carefully considered.

3. The objectives of this note are (1) to outline the "constitutional" framework for proposed legislation of medical services and facilities, (2) to identify the specific institutions that can be denationalized and privatized; and (3) to highlight the special complexities of privatization in the health sector that the proposed legislation needs to address.

B. The "Constitutional Framework" - The Russian Health Insurance Legislation

4. The Russian health insurance law (HIL), while dealing with the health finance system, stipulates far-reaching changes in the organization and management of the Russian health sector. This legislation falls conceptually in line with the systemic reforms that have been taking place in other developed economies. The adoption of a new law was an important step in moving the Russian health sector toward non-governmental organization, management and provision of services - thus increasing the quality of care and service - while retaining public control over finance in an attempt to deal with a basic inability of markets to provide socially efficient solutions in health care, and maintain the solidarity principle which guarantees a basic package of care to every Russian citizen.

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[1] Denationalization refers to the creation of non-governmental legal entities such as not-for-profit institutions and public trusts. Such institutions not yet common in Russia are common in all other health systems.

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C. Institutions under the HIL

5. The HIL would effectively allow separation of (a) the funding of care in Russia: (b) the organization and management of care for consumers by "insurance companies" or sickness funds wherever possible: and (c) the provision of care.

6. The HIL legislation aims to offer Russian citizens two levels of choice -- under the auspices of public finance. The first is the right to enroll in any insurance company or sickness fund they wish, without going through an employer. The second level of choice is among alternative competing care providers. The HIL envisions non-governmental competing "insurers" as well as providers of care. The proposed DPL should promote these institutions, moving the system from its current state to a reformed system in line with other modern health systems. Consequently the HIL stipulates the following institutions.

7. **Federal and Regional (Social) Health Insurance Funds (FHIF and RHIF)** The central institutional feature of the amended law would be the creation of separate, social, compulsory health insurance (CHI) funds at the federal and territorial levels for the management of compulsory insurance revenues from a wage-bill tax and federal and territorial governments' contributions. The funds are to be established as independent non-commercial finance and credit institutions. The federal CHI fund is given the function of achieving cross regional equity objectives.

8. **Health "Insurers."** Fund managers would contract with insurers or sickness funds for the management of care for their constituent or enrolled populations. Where such insurers were not available (1993), branches of territorial CHI funds would assume their functions. The insurers (and by implication the territorial branches) would be reimbursed under contract on a capitation basis. An important aspect of the HIL is that it would allow insurers to perform the functions of care managers and providers either by using salaried personnel in their own medical institutions or, as stipulated by the HIL, by buying services from independent providers of care. Thus, such "insurers" may become owners of care facilities, thus becoming Health Maintenance Organizations (HMO)-type institutions.

9. **Providers of Care.** Provision of care under the HIL is handled through hospitals, polyclinics, solo practices, pharmacies (for their part in supplying pharmaceuticals) and by a variety of institutions providing all kinds of services (laboratory, imaging, specialized treatment, etc.).[2]

D. Privatization and Denationalization of Medical Providers and Insurers

Perspective

10. In line with other developed health care systems, the Russian HIL allows for competing insurers and providers, but is flexible with regard to the ownership of these institutions. The legislation to be proposed by GKI needs to consider carefully the different types of ownership possible for different types of institution according to type of care and location.

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[2] Pharmacies are not explicitly the subject of this note.

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11. The proposed DPL needs to support the following systemic objectives:
    (1) to promote health through quality care:
    (2) to promote efficiency in the provision of care;
    (3) to promote responsiveness to clients needs and desires:
    (4) to guarantee universal access;
    (5) to maintain budgetary discipline among providers and insure their economic viability.

12. Base on the experience of other nations, decentralized and autonomous management. the basic feature of private enterprise, of competing health care institutions is best suited to achieve the first three objectives. The Russian health care system has seriously lagged behind other developed economies in the achievement of these objectives.

13. The last two objectives are best achieved through principles of public finance as stipulated by the HIL. Indeed. if Russia is to follow the example of OECD countries (the USA being an exception). public health care finance will stay at the level of 70-80% of the national health expenditure. even when the provision of care is private (e.g. Canada. Australia. the United Kingdom). Thereby. Russia would be able to preserve its major achievement in health care. mainly universal access.

14. It is therefore in the interest of the state to subject even private institutions in the sector to legislation and regulations that would be consistent with the budgetary discipline of state finance and. at the same time. secure the other systemic objectives.

Relevant Experience in Industrialized Democracies

15. At the outset. there is little world experience with privatization of health providers because all health systems in industrialized economies started out with private and non-state finance and provision of care. By and large provision of care stayed private even as finance has become mostly public in virtually all OECD nations. except the USA.

16. Some relevant experience is now building up mainly in the United Kingdom. Israel. and the Scandinavian countries with regard to so called denationalization of state hospitals. Self-Governing Hospital Trusts (SGHT) are organized in these countries where like in Russia the state has direct control--which it wants to relinquish--over hospitals. Hospitals become "public trusts" which are not-for-profit organizations. This status removes mainly the management of the institution from Government.

17. Such hospital trusts run on variable income from the sale of services rather than on fixed budgets based on inputs. Because money "moves" with the patients. SGHTs must focus their energies on patient care and satisfaction in marketing their services if they are to remain viable. Under this system. control over the allocation of hospital resources to hospitals shifts from bureaucrats and hospital consultants to the buyers of hospital services in the community.

18. Yet. even in the nations mentioned above, the process is painful because of ideology. intricate conceptual and legal requirements. as well as vested interests.

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Relevant Experience in Russia

19. The DPL can benefit by adopting some fundamental principles of the experimentation with a new economic mechanism which began in the health sector in the late 1980s and is unfolding in some areas of Russia. The experiment, which involves some of the principles just mentioned with regard to hospitals, originally took place in three areas: the city of St. Petersburg, Kemerovskaya oblast and Samarskaya oblast; other regions have been subsequently pressed to experiment on their own because of changes in the Russian administration and economy. The new mechanism stipulated radical changes aiming at decentralizing the management of medical care institutions, and increase their efficiency and responsiveness to the population.

20. A Territorial Medical Association (TMA) was established as the organ responsible for managing and providing treatment and preventive care for a particular unit of the population. The concept behind the TMA is close to that underlying the Health Maintenance Organization (HMO) in the United States. The HMO is essentially a non-governmental, for or not-for-profit body that becomes a "budget holder" and assumes the responsibility to provide care for an enrolled population. A TMA may comprise polyclinics (for adults, for children, stomatological diseases, etc.), women's consultation stations, dispensaries, hospitals, maternity hospitals, children's sanatoria, emergency care stations, etc. Each particular TMA structure is defined by local circumstances.

21. Financing under the new mechanism was marked by a transition from budgeting by line inputs to financing by standard definitions of need. Medical facilities were given an option to obtain additional sources of finance through the sale of services to the population at large and to enterprises.

22. The polyclinic has played the leading role in the TMA. Polyclinic-based TMAs were primarily budgeted according to a capitation formula based basic demographic characteristics of the registered population. These Polyclinics have become "budget holders": they were allocated funds for medical services provided by other institutions such as hospitals.

23. In turn, hospitals were to have been reimbursed for patients' treatment according to type of illness and complexity (i.e. various types of Diagnostic Related Groupings). The norms guiding the budgeting of institutions had been developed and approved by the appropriate health management bodies of republics, krais, oblasts, and by the TMAs.

24. In-spite of flaws, which need to be rectified, this economic experiment in health system has been institutionally and politically bold, as well as conceptually innovative by international standards. In a number of respects it had promising results. Inpatient care declined in favor of care in community polyclinics; work performance increased.

25. It is highly desirable therefore that the DPL follows up on this unique experience.

Fundamental Pre-requisites for Denationalization and Privatization

26. The major issue remains that in almost all developed countries medical care is publicly financed and the health care market is not subject to common competitive forces. In most situations governments set the fees and compensation mechanisms for institutions operating under public finance. Consequently, along with the option to be private, prospective private institutions need to be insured of compensation mechanisms that would lead to their economic viability and a fair return on

their investment. Such mechanisms and structures are not yet in place in Russia, although stipulated in the Decree issued by the Government on October 11, 1993.

27. Private and other denationalized institutions need to be guaranteed equal opportunities of access to patients as well as to resources to that of public institutions. Private institutions in the current system have no access to publicly financed patients and thus have no access to the majority of patients and finance. This may be a serious matter especially during the period of transition when authorities with vested interests may try to discriminate against private entities.

28. Substantial help can be given to denationalized and privatized institutions by enabling them to lease state property and equipment.

29. It is also in the public interest to assure the viability of private and denationalized institutions through strong management. In the United Kingdom, for example, where the government has been establishing free-standing hospital trusts, only economically viable and best run institutions qualify for the new status, while managerially weak hospitals remain under the auspices of government until they improve their capabilities and thereby qualify to become trusts.

30. Privatization would be easiest with institutions which constitute natural monopolies, provided they can exploit their monopoly position. Such monopolies dominate the Russian health scene today. Some such institutions mainly associated with national research centers are not subject to privatization under the Decree of Dec. 24, 1993 (#2284). Other institutions could be encouraged to privatize through striking a balance between the incentive of investors to invest and the welfare of the population they serve. Still others need to be broken up in the process of denationalization and privatization; by and large it is not the intention of the DPL to replace state monopolies with unregulated private monopolies.

Feasibility of Privatization of Different Institutions

31. World experience with the nature and viability of medical care institutions operating under public finance suggests that it would be easy to maintain, particularly in urban areas, private pharmacies, laboratories, specialized diagnostic institutions, and clinics including solo practices.

32. The DPL should enable and foster the breakup of polyclinics many with as many as 200 employees. These polyclinics can and should be broken up (on the same premises) into individual privately or semi-privately owned units, including those which provide management services to care providers. Thereby the polyclinics will become private and quite desirable "medical centers" in the community, a common and efficient concept for delivery of community care in other developed countries.

33. Hospitals will remain an issue, however, even in urban areas. It is very likely that Russia will have to follow the experience of the United Kingdom and develop a new legal entity of Public Trusts and a framework for not-for-profit institutions. The experience of the city of St. Petersburg may be helpful too.

34. In general franchising should be encouraged by the DPL as a lever to promote privatization and competition across the country. Investors should be offered "bundles" of institutions, including lucrative facilities, say in urban centers, and facilities in areas that otherwise would not be attractive

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to investors as in outlying rural areas. The privatization process should avoid creating a situation whereby outlying and socially and economically weak areas cannot benefit from private enterprises after all. This may lead to undesirable regional disparities in quality of care and service.

35. Special attention needs to be given to insurers in the health sector and their association with providers. Although such insurers are not considered explicitly in the President's Decree, their legal status in the health system needs careful attention: they can be promoted as a catalyst for change. As the main purchasers of care, instead of the state, these institutions would constitute the "first line" reducing the role of the state in the management and provision of care.

36. Second, these entities may acquire medical facilities from the government in different territories and serve as a good vehicle for franchising. Third, "insurers" may acquire monopsony power vis a vis monopoly providers, thereby reduce the regulatory role of Government. The existing experience of TMAs in Russia could be helpful in this regard.

Summary

37. In sum, the health sector is unique. It is in the interest of society and the economy to maintain principles of public finance in this sector in order to secure universal access to a basic package of care and social efficiency. At the same time, the provision of care can be denationalized and privatized in order to promote quality care and service, and efficiency in provision. Denationalized and privatized providers may and can operate under auspices of public finance.

38. The DPL should make possible a wide spectrum of ownership options in the Russian health system that are common in other systems. Such options accommodate (a) the public finance nature of the sector, (b) different types of care and technology, and (c) a variety of local circumstances.

39. The DPL needs to promote regulatory frameworks that would (a) protect the financial viability of investors operating in a market dominated by public finance, and (b) protect the population from monopolies which are inevitable within the sector.

40. The DPL should also facilitate the geographical and social spread of reform in the sector by fostering denationalization and privatization of medical services (not finance) across the Russian Federation through a variety of franchising arrangements.

This note was prepared by Dov Chernichovsky, Ph.D., Ben Gurion University, Israel.

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PRIVATIZATION OF PHARMACEUTICAL PRODUCTION ENTERPRISES

Briefing Note for Draft Privatization Law

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March 1994

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OVERVIEW OF PHARMACEUTICAL PRODUCTION ENTERPRISES

The state of Russian pharmaceuticals manufacturing is poor and is getting worse. Some of the problems stem from the structure of the sector and the companies within it, others from the economic and policy environment in which companies are forced to operate.

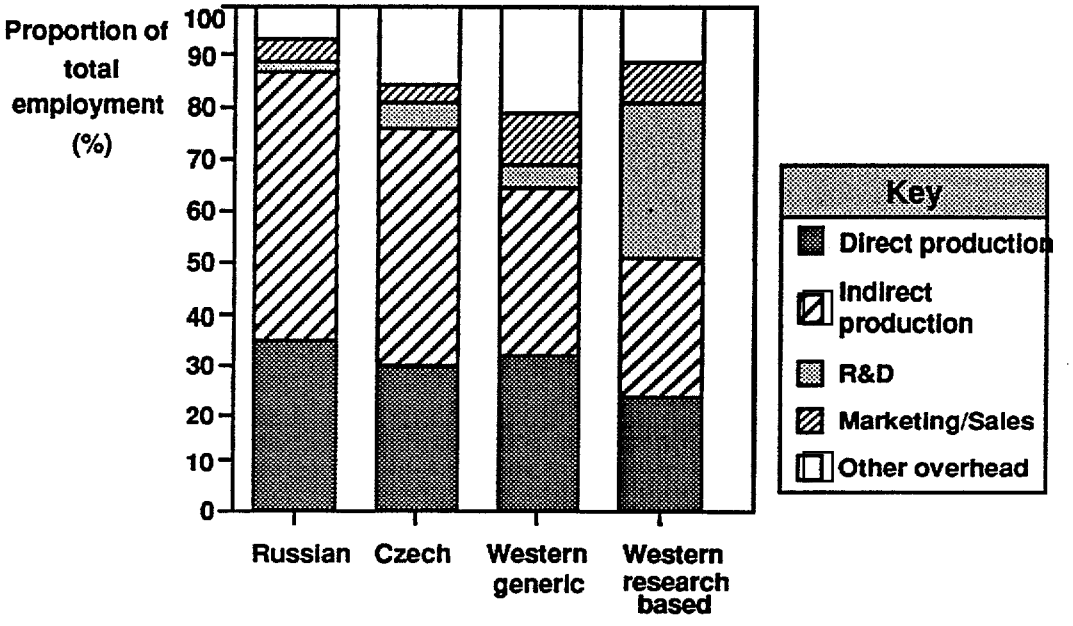
Structural problems

Plants are obsolete. Virtually no new plant (aside from the Akrihin joint venture with Bristol Myers Squibb) has been built in over 15 years, and some actually date from the turn of the century. Not only are these plants inefficient, they also pose significant risks- to the consumers who buy their inconsistent and often impure products and to surrounding populations, which are threatened by existing and continuing environmental problems.

Russian producers lack expertise in the production of many pharmaceuticals. Under the previous system, Soviet producers focused mainly on the production of substances while the production of finished forms was left to the East Europeans. This helps to account for the fact that even today imports from Eastern Europe account for nearly 40% of the market. Thirty percent of essential drugs were never produced in Russia.

Product ranges are outdated and excessively complex. In a given therapeutic category, leading Russian products are often one or more generations behind leading Western products. Western companies are often unwilling to provide newer licenses, both for economic and for quality control reasons. Some Russian companies produce as many as 150-200 products, creating complexity which increases costs as well as contamination risk.

Organisational structures are inefficient. The ratio of indirect to direct production employees is far too high. At the same time, marketing and sales departments are embryonic or ineffective. Distribution networks tend to be poorly developed, given the breakdown of the old central system. The graphic below compares the typical employment structure for Russian enterprises, versus Czech , Western generic and Western research-based producers.



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Russian producers have excessive employment in indirect production areas, but are understaffed in marketing and sales.

The Economic and Policy Environment

The structural problems faced by Russian pharmaceutical producers are multiplied by the difficult economic and policy environment in which the companies must conduct business. High levels of receivables, inflation and the unavailability of credit are problems which, while not specific to this sector, nonetheless affect it tremendously. What is specific to the sector is an inflexible system of price controls which appears to all but preclude making a profit on pharmaceuticals manufacturing.

Why Privatize?

The performance of Russia's pharmaceutical manufacturing sector is suffering at present. Many firms operate at only a fraction of capacity. At the same time, demand for pharmaceuticals far outstrips supply, and imports hold at least a 50% market share. Given these circumstances, it comes as no surprise that some are calling for a return to command production and a closed domestic market. Such a step would be misguided - leading to higher, rather than lower health care costs. Under a closed, command system even existing incentives to improve efficiency would disappear - and it's apparent that the existing incentives are inadequate to stimulate the needed levels of production at a reasonable cost to the government and consumers.

Rather than reverting to previous economic models, *the government should proceed as quickly as possible with the privatization of this sector*. The basic justification for privatization of this sector is no different from that applicable to other sectors. Private producers, pursuing their own economic self-interest, should be far more efficient, and should therefore produce their products more cheaply, than state-owned producers responding to bureaucratic authority and interests.

We disagree with those who would claim that this sector, because it produces such a critical product, cannot be privatized. *Regulation, not ownership* is the appropriate policy instrument to achieve legitimate government objectives. The government has a number of mechanisms for regulating the types and quality of products available. Precisely *because* of the government's important regulatory role, it is particularly important that ownership not be allowed to present a conflict of interest.

The need for private ownership of pharmaceutical production has been recognised in most countries of the world, including the countries of Eastern Europe. Privatization is in progress in Hungary, the Czech Republic and Poland. There is no reason why Russia should follow a different path.

How to privatize

Type-one privatization, in which the majority of shares can be sold to an outside investor, is most appropriate for the pharmaceutical sector. It is of crucial importance that privatization of existing enterprises go beyond a simple transfer of ownership. Privatization can only succeed if new owners have a greater interest in the long-term success of the enterprise. Independent, profit-driven investors - be they Russian or foreign - are likely to manage for future, as well as current, profitability.

While privatization can provide new owners with the incentive to restructure, it is of utmost importance that they also have the authority to restructure. In particular, they should have the authority to fire management and employees if necessary and change the

product portfolio.(In cases where particularly critical drugs are to be discontinued, the Government might place restrictions or require some form of advance notification.).

Privatization must be supported by additional policy changes

While privatization of the Russian pharmaceutical industry is a prerequisite for improving the quality of Russian health care, additional policies will be required in order to attract investment, and ensure the viability of privatized enterprises.

Reform Pricing Policy

The current price control system needs to be changed. Under the current system, producers are allowed a 30% markup over costs. Whereas the cost of raw materials must often be paid in advance, manufacturers receive payment for finished products much later, in rubles which are worth considerably less than those which were paid for raw materials. Because the 30% markup is based on historical (i.e.. time-of-purchase) costs, a profitable transaction is by no means guaranteed.

Some producers try to soften the impact of inflation by using dollars as the basis for internal bookkeeping. If all costs are converted to dollars at current exchange rates, the 30% markup can be more or less preserved. Such a practice is apparently illegal. Nonetheless, companies need to be at least partially insulated from the effects of inflation on margin calculations. One solution would be to allow the use of inflation adjusters in calculating the costs upon which margins are based. At the very least, companies could be allowed to use current rather than time-of-purchase exchange rates for calculating the margins on hard currency purchases (eg. active substances).

Even disregarding the effects of inflation, it would seem that the current cost-plus pricing system sends all the wrong signals to current and potential investors. Unless the market is highly competitive, producers have little incentive to improve efficiency, given that they can pass costs along to the consumer. At the same time, the 30% cap limits the amount of profit available for reinvestment in an industry in dire need of restructuring, and places the industry at a disadvantage vis a vis unregulated industries in competing for investment capital.

There are several alternatives to the current unsatisfactory *margin* caps system. The first is free pricing combined with control via reimbursement based on reference prices (see discussion on reimbursement below). The second is drug-specific *price* caps, which can be based on the lowest international price for specific drugs. Both would provide Russian producers with clear incentives to increase production efficiency.

Reform Reimbursement System

The Russian government currently reimburses roughly 25-30% of retail drug sales (relatively low compared to 35-45% in EC countries) and 100% of drugs consumed in hospitals. Additionally, discretionary subsidies are paid to loss making manufacturers. Increased government reimbursement would provide a stimulus to consumers, and therefore to producers - both domestic and foreign. Reimbursements should be directed to consumers rather than pharmacies, wholesalers or manufacturers per se.

No explicit rationing mechanism for reimbursement cost containment is currently in place. Western experience suggests three options for reimbursement cost rationing: via purchasing power of large buyers with no explicit government interference (HMO system in US), reference price system (only a fixed percentage of the least expensive appropriate drug is reimbursed), and price caps (reimbursement cap is set directly for certain types of drugs).

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Any of the above options would be better than the current reimbursement scheme. However, the reference price system could be recommended as the preferred option. It combines flexibility, objectivity, and effectiveness in cost containment. Price caps may be considered as the second best option. It is less flexible and objective and can lead to bureaucratic inefficiencies. If set too low, caps may drive certain drugs out of the market.

Reimbursement should *not* be limited to domestic drugs, since such a limit would undoubtedly lead to domestic price increases while simultaneously limiting patient's choice.

Encourage competition

Given the urgent need for restructuring which privatisation will encourage, it is essential that Russian monopolies be exposed to competition from foreign producers. A general tariff on imported pharmaceuticals would be unwise. Liberalization of registration policy will further increase the competitive pressure on monopolistic Russian producers. The recent move to accept FDA registrations should be supplemented by similar provisions to automatically accept, or at least favour, the registration of drugs which are already registered in high developed countries.

Selective tariffs could in theory be used to provide temporary protection for specific new investments. This policy option should, however, be used with utmost caution. Such tariffs could easily lead to the Government and consumers purchasing over-priced, lower quality pharmaceuticals. Even providing a mechanism for introducing such tariffs may be opening Pandora's box.

Ensure tariff-free imports of active substances

Russia currently allows tariff-free imports of finished forms, while placing tariffs on imported active substances. Not only does such a policy fail to protect local producers, it actively discriminates against them. *Tariffs on active substance imports should be eliminated.* The same is true for tariffs on packaging materials, production equipment, and other items necessary for pharmaceutical production.

Encourage equity investments by selected Western manufacturers

Western manufacturers have been extremely cautious with regard to investment in Russian manufacturing. While there have been a number of production experiments, none involved a major commitment of resources, and none can be called an unqualified success. The experience in Eastern Europe has been broadly similar, with a number of joint ventures with western producers, but very few major equity investments in large existing producers. The only significant investment to date have been Sanofi's majority investment in Chinoin of Hungary, and IVAX, a major US generics producer, in Galena (Czech Republic).

Western manufacturers will be even more cautious in Russia with regard to equity investments in existing producers. In additional to the normal business risks, western producers fear the legal and public relations liabilities which could result from their involvement in companies making inferior products or polluting the environment. American companies, in particular, fear that a disaster could expose them to tremendous liabilities, not just in Russia, but also in the United States.

Without new incentives, equity investment by leading foreign producers is highly unlikely. Such incentives might include effective (i.e.. enforced) Western-style patent protection (for products as well as processes), favourable tax treatment and guaranteed purchase contracts (if prices are competitive and if drugs are essential).

Above all, however, the liability issue must be addressed. Possibilities for indemnifying producers against certain environmental risks, not just in Russian but also in their home markets, should be actively investigated.

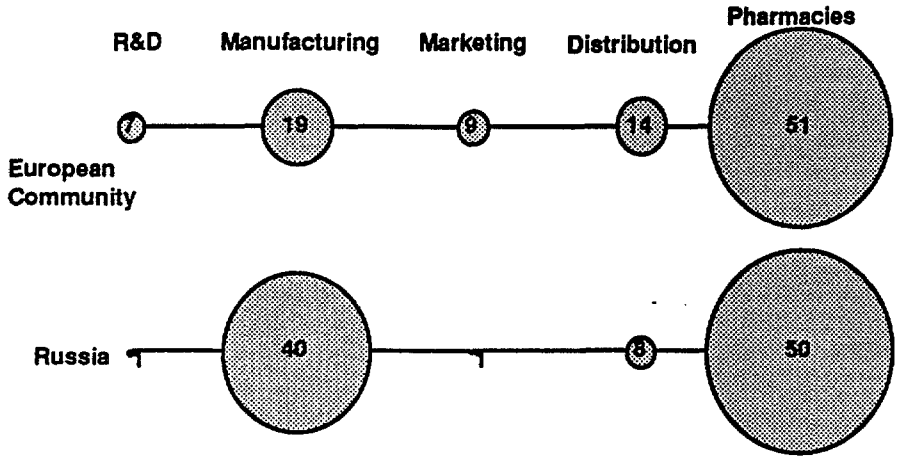
GMP

Russian manufacturers are generally far from meeting GMP (Good Manufacturing Practice) standards. In most cases, it is unrealistic to expect that such standards can be met in the near future. A sensible policy might include selective, but progressive, enforcement of internationally accepted GMP standards, with a focus on enforcing those standards which relate most directly to public health.

Although it might be easier to privatize firms which meet at least minimal GMP standards, we believe that it would be wrong to link privatization to the achievement of such standards, because this would unnecessarily delay privatization. Following privatization, producers will be exposed to market forces which encourage GMP investment. Companies wishing to export will increasingly discover that non-GMP production is of little interest to prospective buyers. Eventually, the Russian government should also require that the drugs it purchases be produced in accordance with GMP-standards, and set a timetable for reaching GMP in the future. Special tax incentives for investments in GMP might be considered.

Encourage the development of an effective distribution system

The privatization of Russian producers will be of limited value if these producers lack access to an efficient wholesale distribution system. Government policy should encourage the development of a private, competitive national distribution network (see accompanying memorandum on wholesale and pharmacy privatization).
The underdevelopment of the distribution network in Russia relative to Western Europe, is shown in the bubble display below (the circle size represents the percentage of employment in each part of the pharmaceutical value - chain).



It also indicates the need for the Russian pharmaceutical companies to develop their marketing capabilities, and the disproportionate amount of employment in manufacturing, reflecting low productivity, specially in indirect production areas.

Use Government purchasing power effectively

The Russian Government is in a position to behave as a large Health Management Organisation (HMO) - i.e. to use its purchasing power (or that of its citizens) in negotiating with foreign and domestic pharmaceutical manufactures. Not only price, but also quality and consistency should be taken into account in evaluating bids for large purchase contracts, or even for preferential access to the Russian market. Government purchases should generally be limited to essential drugs. Decisions should be made as transparent as possible, and the negotiating /decision-making process should be handled by an independent authority subject to the strictest ethical standards and control.

Three options should be considered for the sale and distribution of drugs covered by Government price negotiations:

1) *Producers could sell drugs through normal channels at the negotiated price.* This option is probably the easiest to implement and the most difficult to subvert.

2) *Producers could sell drugs through normal channels at a discount chosen by the Government. The Government would then reimburse producers for the difference between the negotiated and the discounted price.* This option is administratively complicated. In addition, producers would reasonably fear that the Government might not follow through with reimbursement, or might reimburse late, using rubles made less valuable by inflation.

3) *Producers could sell drugs through normal channels at the negotiated price, but consumers would pay a discounted price at the pharmacy. The pharmacies would be reimbursed by the Government.* While not quite as complicated as option 2, this option would still require a reimbursement bureaucracy. As with option 2, non- or late reimbursement would be a real danger.

Apparently there is considerable support for requiring local production of so-called "strategic" drugs. Any discussion of "strategic drugs" should be viewed with suspicion. Strategic drugs might include drugs which Russia would need, but might not be able to obtain, in an international war or crisis, or important drugs produced by a monopolist, foreign supplier, upon which Russia fears becoming dependent.

We believe that Russia can ill afford to force or maintain inefficient local production, based on fears of international isolation. If such fears absolutely need to be addressed, we believe that strategic stockpiles of selected drugs, purchased at the lowest possible price on the domestic or international market, would be preferable to inefficient local production, maintained "just in case" disaster strikes. Drugs for which production could be geared up quickly in a crisis would not need to be stockpiled at all. If it should become politically impossible to avoid requiring that certain drugs be domestically produced, the Government should at least be sure to promote open, competitive bidding by domestic producers.

As is the case with protective tariffs, special treatment for "strategic" drugs threatens to open a Pandora's box of subsidies and non-economically-based decision making. It should be avoided.

Summary

Privatization of existing pharmaceutical enterprises will not, by itself, solve Russia's health care crisis, or even eliminate shortages of important drugs. Given the acute shortage of drugs, *it is probably at least as important to create attractive conditions for investment in new pharmaceutical enterprises as it is to stimulate investment in existing enterprises*. Fortunately, many of the recommended policy changes will support both kinds of investment.

In general, **it should be possible to privatize the pharmaceutical production enterprises like these in other sectors. However,** a numbers of changes in the *regulatory framework* will be necessary to ensure their viability as privatized enterprises and to attract badly needed new investment into the sector:

- **eliminate the current cost plus pricing system**, and substitute it with a reference pricing system in combination with reimbursement policy, or with price caps at lowest international levels;
- **reduce or eliminate tariffs on imported active substances** and other critical inputs;
- build-on recent initiatives to **speed up registration of new drugs**;
- **adopt a long-term program to reach GMP standards, but do not make it a prior condition for privatization.**

These changes should provide the necessary conditions and incentives to privatize the industry and build a strong pharmaceutical sector in the future.

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES

Mr. David A. Caplin, IBTCI's
Comments on Mr. Mark Turley's Note on Pharmaceutical and Medical Equipment Enterprises

February 25, 1994

Privatizing any pharmaceutical industry, particularly those in Easten Europe and the CIS. On the one hand, there is no questions that the pharmaceutical industry throughout the world operates better in the private sector than in the public sector.The industry needs entrepreneurship, vision, quick reaction to changing market conditions, and the ability and readiness to take risks, particularly in R&D, where you must wait perhaps 15-20 years to recoup today's R&D expenditures. On the other hand, economies of scale, in virtually every aspect of the pharmaceutical industry, are of prime importance, and are probably more significant than in any other major industry. These economies apply not only to capacity/capital cost ratios, but also in purchasing raw materials and intermediates, marketing, R&D, quality control and production economics. (This is one reason why the wide Russian product ranges lead to high costs. It's alos why it's often cheaper to import than to produce, unless the size of the market is sufficiently large, and why the multinationals are often unwilling to erect new production facilities in developing countries while there is spare capacity available in their home producing country). Because of the pervasive nature of these scale economies, there is a natural tendency to monopoly at both the national and international levels, and it is certainly true that the there has been a constant movement to mergers among the research based multinational and major national companies (and the trend, even among generics producers, is now becoming apparent).

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So, while the privatization process virtually demands a prior condition of demonopolization (a private monopoly being even more dangerous than a public one), the industry, being concerned with maintaining or achieving competitiveness, wants as large a market as possible in order to capture these economies of scale. We believe the issue can be resolved by permitting any individual privatized enterprise to maintain, in the short to medium term, a domestic monopoly production of a specific product, while other enterprises are free to compete with other products in the same therapeutic group. This domestic production monopoly must however be limited by import liberalization of the product in question, with reasonable tariffs being levied during the short to medium term , in order to give the enterprise a breathing space to re-equip with modernized, more efficient, production facilities.

Now to the specific points:

1. Page 1. "Structural Problems". While agreeing with everything you say in this section , we think that it is worthwhile to add some further points here. For instance, the absence of any adherence to GMP standards (buildings, equipment, production procedures and adequate quality control) not only endangers the Russian pharmaceutical consumer, but, with the increasing adoption of the WHO GMP Certification procedure by exporting and importing countries, means that Russian pharmaceutical products, when not in short supply, cannot be exported. It is likely that the certification procedure will be adopted by many of the CIS states (I believe that the Baltic States have already adopted it). These markets would then be closed to Russian (non GMP) production, limiting the market size and hence increasing unit production costs. This point is particularly important as regards products which must be manufactured in sterile conditions. Few Russian pharmaceutical plants and buildings meet the sterility requirements laid down in international GMP standards. GMP refers not only to the standards of equipment and buildings; it also lays down strict procedural rules for recording and analyzing process conditions, intermediate and final product batches etc. Russian industrial discipline was not of a comparitively high level before the freak up of the Soviet Union; could it pose a problem today in the adoption of GMP?

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One reason that the Russian pharmaceutical product range is obsolete is the outdated nature of the Russian pharmacopoeia, and the cumbersome procedures that were in force for the registration of new (usually imported) drugs. The Baltic States, when they broke away, intended to adopt the Scandinavian pharmacopoeia, and automatically to register any drug on that list; I don't know if they have as yet implemented this, nor if the Russians have followed suit. Adoption of such a list would require retraining of doctors and other practicioners in the efficacy and appropriate conditions (and counter indications), as well as when and how the Western drugs should be prescribed.

2. Page 2, para2; "Regulation, not ownership, is the proper instrument for government control of pharmaceuticals production". We think this is ambiguous. Regulation of the types and quality of products offered for consumption, production procedures (through adherence to GMP) and quality control are proper subjects for government regulation, but, as far as possible, not those factors affecting commercial operations, e.g. prices. Government should interfere in the market place not only to encourage competition, by breaking up monopolies (where scale economies are not overriding), by liberalization of imports and by encouraging transparent tendering processes such as International Competitive Bidding or, if at all possible, a corruption-free local competitive bidding procedure wherever appropriate. Also, the authorities should not insist on maintaining the "self-sufficiency' or "strategic" myths, but, as virtually throughout the Western world, look to foreign trade for the supply of drugs which can be importd more cheaply than being produced domestically.

3. Page 3. "Reform Pricing Policy". We believe that all attempts at price control produce undesirable side effects. The encouragement of both internal and external competition (internal - by breaking up of monopolies in production and distribution; external - by liberalization of imports) can do more to stabilize prices at reasonable levels and ensure a satisfactory supply than any attempt at governmental price control. The Russian market could well be big enough to permit economic production from more than one producer for several of the more common generics, but such production should not be dictated by the Government. In any case, competition between alternative products in the same therapeutic group is common in the international pharmaceutical industry. If price fixing must be undertaken , then, at

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most, maximim internal prices should be fixed at the opportunity cost of imports plus, in the short term, a reasonable tariff of 15-25% to give local industry resources and time to re-equip with competitive processes and products.

4. Page 3. "Reform reimbursement policy". The issue of reimbursement is a thorny one; it has not been satisfactorily solved in most Western European economies. We suggest that it should be examined in the context of a comprehensive reform of health insurance, which, we expect, would be carried out in the medium term.

5. Page4. Paragraphs on tariffs. We agree with all your proposals. Temporary tariffs should not exceed 15-25% and should be limited to a term of 5-10 years.
Tariffs on imports of active substance imports should, of course, be eliminated. So should tariffs on packaging materials, where a similar problem exists.

6. Page 4. "Encourage equity investments..." Unless (often inferior) processes are licensed from e.g. Italian or Spanish manufactures, the only way to get modern production know-how will be from the majors, who, on several counts, will be reluctant to license (e.g. lack of patent protection , difficulty of quality control etc.) . Our experience elsewhere leads us to believe that joint ventures with the know-how holders stand the best chance of success. However, we realize how reluctant Western manufactures are to enter into such arrangements in Russia, particularly with existing companies.The establishment of new pharmaceutical companies would to some extent be facilitated if, apart from the incentives which you list, product patent laws were introduced and process patent enforcement were to be strengthened. None-the less, there is a real difficulty here, and we do not know of any panacea to solve the problem.

7. Page 5. "Three options..." We much preferthe first option, which should be pushed. The second is open to abuse (the government doesn't pay, or pays so late that inflation has made production uneconomic). The third is administratively complicated and in any case should await a comprehensive review of health insurance. It is not sufficient simply to privatize the distribution system; it must first be demonopolized, to

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encourage competition in supplying hospitals, retail outlets etc. who should be free to choose their source of supply. Incidentally , the standard of distribution and warehousing which I have observed throughout Eastern Europe leads me to believe that some form of technical inspection and control of the operations of the sector is mandatory. In the warehouses which I have visited. pilferage was a major problem; random sampling of inventory indicated a large proportion of drugs with an expired shelf life in the system. Drugs were not stored at the right temperature and in some cases away from direct sunlight. Narcotics were not kept under lock and key. In one case, a refrigerator intended for storing insulin was full of bottles of Coca-Cola. I don't believe that you will find a substantially different state of affairs in the Russian distribution system.

8. Page 5 Last paragraph. Resist as hard as you can the uneconomic domestic production of pharmaceuticals on specious grounds such as "strategic needs". Subsidized credits for the purchase of active substances should be avoided. If Government support is really necessary, direct Government budget allocations keep the issue out in the open.

9. Overall, we think that you could usefully distinguish further between short to medium term and longer term considerations. In the first category we would place reduced government price regulation, import liberalization (but with tariffs in the range of 15-25%, not higher) demonopolization and pilot privatization (mainly pharmacies and distribution). In the latter category we would place privatization of production facilities and joint ventures (mainly because of our percieved reluctance of international companies to undertake investments in Russia at this time) and health sector reform, including the issue of reimbursement.

10. It seems to one of us (D.A.C.) that while the report well diagnoses the ills of the industry, the TOR doesn't really address all major problems in depth, particularly how the industry can be physically restructured i.e. how to attract the necessary technology, know-how and capital in order to make it modern and effective.

I hope that these comments will prove useful to you. Please don't hesitate to contact me to clarify obscurities etc.

Best regards,

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICALS ENTERPRISES

MARK NOVITCH, M.D., IBTCI

February 26, 1994

Russian Pharmaceutical Production--Committee on Draft of 1/14/94

I believe the draft contains exellent and useful suggestions. I have the following comments:

1. **Good Manufacturing Practices.** Observations about the obsolescence of Russian production are particularly relevant to foreign investment. It is difficult, if not impossible, to find a Russian plant that can meet internationally recognized Good Manufacturing Practices (GMP) regulations. Without GMP drug production carries some obvious health risk. In terms of privatization , however, the lack of GMP compliance means simply that Russian production cannot move in international commerce and forms a serious impediment to long term investment. The Russian government needs to adopt and, as efforts are made to build and rehabiliate facilities, progressively enforce GMP requirements.

2. **Regulatory Considerations.** Other regulatory considerations are of equal importance. Historically, the new drug approval process has been cumbersome and inconsistent. The Ministry of Health has required foreign sponsors of new drugs to provide samples to the MoH for local testing. Foreign studies have not been recognized. This situation has taken a dramatically positive turn, however, at least with regard to the United States. On February 15, 1994, the MoH signed an agreement with the US FDA acknowledging FDA approval as sufficient for the marketing of new products within Russia. A copy of the document is attached. Over the long term , western nations should help the Russian government to build a compatible regulatory system. Efforts in this direction are being made by a niumber of multinational groups, including the International Foundation on Drug Safety and Efficacy.

Apart from GMPs and compatible approval requirements, these should include laboratory practices clinical practices, pharmacopeial standards, labeling and other basic requirements.

3. **Essential Drugs.** Considering the serious drug shortages throughout Russia, efforts should be made to develop a meaningful Essential Drug List. Such a list has been developed and regularly updated by the World Health Organization. Russia has a list of its own , promulgated in 1992, but it apparently contains a number of natural substances and other products of unproven efficacy and fails to meet WHO standards. Such a list could be used as incentive for investment. If, for example, investors agree to produce certain listed essential drugs, they could be granted "most favored pharmaceutical producer" status and given priority in the purchase of such products by government and other institutions.

4. **Foreign Debt.** A potentially serious deterrent to foreign investment is the persistent outstanding debt owed by the Russians to foreigns for pharmaceutical supplies. The payment of these longstanding obligations would greatly enhance the confidence of western firms in the determination of the Russian government to privatize its industrial holdings.

5. **Legal Structure.** Potential investors are deterred by the lack of a firm and consistent legal structure to undergirdof the formation of private enterprise. Moreover, corruption is acknowledged to be a continuing deterrent to investment.

6 **Prices and Distribution.** I agree completely with the author that prices paid or pharmaceuticals in Russia should be based on competitive world prices. No less important than the internal production and fair pricing of drugs is the establishment of a competitive and reliable distribution system.

PRIVATIZATION OF PHARMACEUTICAL WHOLESALE AND RETAIL DISTRIBUTION IN RUSSIA

Briefing Note for Draft Privatization Law

Prepared for
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March 1994

RETAIL DISTRIBUTION
General overview

The data available indicates that pharmacies in Russia, though not very numerous (~16,000, i.e. 1 for 9,400 inhabitants), have limited sales (typically $100 to 200,000 annual drugs sales per pharmacy, versus 500,000 to 1,000,000 in the West)

This is consistent with the market size of approximately $2.5 billion in Russia at ex-manufactures' or importers' prices. Though a large part of the demand is still unmet (~50%?), this is apparently more an issue of lack of funds, and in some cases lack of products at importers' or wholesalers' level, rather than an issue affecting the pharmacies per se.

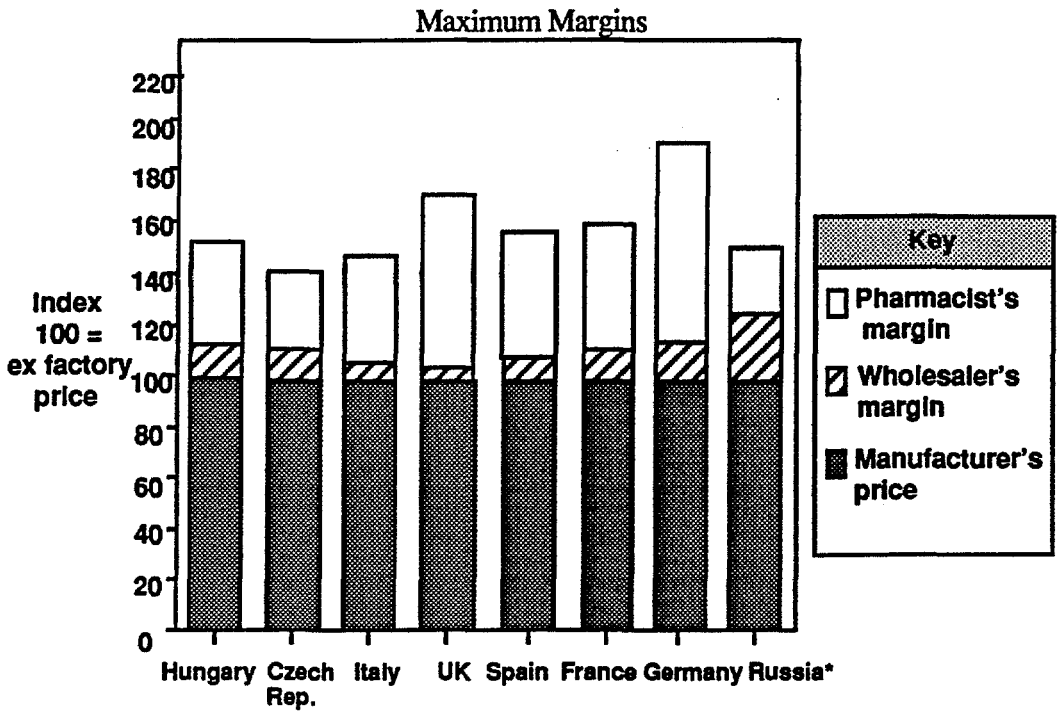
The table below compares the Russian pharmacies sector with various Western and Eastern European countries:

Country	Pharmacies		Inhabitants/ pharmacy	No of items	
	No (000)	Avg. sales (K$)		Drugs (000)	Total (000)
Germany(w)	18.1	884	3400	45.0	130.0
France	22.1	678	2600	7.0	20.0
Italy	16.0	625	3500	7.5	13.7
UK	11.9	630	5000	7.0	11.0
Spain	18.0	333	2200	9.5	18.0
Average EC	na	632	3300	17.0	38.0
Hungary	1.9	333	5400	2.7	6.0
Poland	5.2	115	7300	12.0	na
Russia	16	100-200	9400	1-2	na

Given the comparatively low penetration of pharmacies relative to population, the number in the future is likely to double from the current 16,000 over the next several years. Hungary and Poland had roughly similar numbers prior to their beginning the reform process; since then, numbers of new pharmacies have increased sharply. Licensing and other regulations in Russia affecting the establishment of new pharmacies should be liberal to permit this process to occur, consistent with the requirements of maintaining high professional standards and safety.

The table above also indicates the relatively reduced product offering of ethical drugs and especially of OTC and non-pharmaceutical products such as herbal medicines, cosmetics, and hygiene products. These other products provide an important underpinning to the profitability of pharmacists in the rest of Europe, as well as improving service to the consumer. The expansion of the product line will bring a concommitant need for sophisticated computer information systems to handle the product complexity. A profitable privatized pharmaceutical sector will best be able to afford these investments in the future.

Pharmacies should be relatively straightforward to privatize. These are small retail businesses, operating today with regulated markups of 50 % minus the wholesalers' and/or importers' mark-up. The graphic below shows the legal maximum margins applicable at the retail and wholesale level in various European countries.



* Typical division of 50% legal margin between wholesaler and retailer

The typical division in Russia of the 50% maximum mark-up for the combined wholesale and retail level is about 10%-25% for wholesalers and around 25-35% for pharmacies, according to interviews. As the graphic above indicates, this provides an excessive margin at the wholesale level and a very reduced one for the pharmacies compared to other Western, and even Eastern European countries. It seems that the current wholesale level of costs is not efficient today in Russia and this is depressing retail margins. (Where they are enforced; interviews would suggest that the margin regulations are often ignored in various parts of Russia).

Given today's 50% cap on distribution margins and wholesalers' inefficiencies, pharmacies' profits are expected to be close to zero, even with municipal privileges such as low rent. As these privileges gradually disappear, the need to increase pharmacies' margins, to ensure financial viability, will become even more important.

Virtually all OECD countries (with the exception of the US) regulate pharmacies' margins. This is generally achieved through degressive percentage markups, though in the UK for instance, margins are regulated through a flat dispensing fee (on a per box basis).

To ensure the financial viability of privatized pharmacies, there is a need to amend the law on the 50% mark-up. Although elimination of all margin controls is one policy option, the continued role of the state at the federal and oblast levels in funding drug purchases probably requires the continuation of some margin controls, at least in the medium-term. A change in the regulation to allow a separate margin for retailers is probably needed. It is likely this should be in the range of 35%-50%, although field work during the proposed pilot program on the economics of Russian pharmacies should confirm this.

Given current shortages in the availability of some products, enabling pharmacies to substitute products (therapeutic equivalents) is important. A flat margin system that eliminates the incentives to a private pharmacist to dispense the most expensive alternative is an option.

With the change in margin rules, the pharmacies should be profitable and easy to privatize. In most European countries, operating a pharmacy is a profitable small businesses; the business is typically valued at one times annual sales. The experience of privatization of pharmacies in the Eastern European countries indicates the relative ease of sale of this part of the pharmaceutical sector.

Sources of further gains in profitability probably lie in the gradual reduction of overstaffing. For instance, a pharmacy in Moscow, with 4 kiosks, generating overall sales of $750,000, employed 28 people, versus 4 to 5 people for a comparable pharmacy in the West. The differences in staff levels also reflect the lack of sophisticated computerized information systems in most Russian pharmacies.

Regulations governing the product line to be sold by pharmacies are an important element of control in almost all OECD countries. A key issue in Russia, given the low coverage of pharmacies relative to population, is whether pharmacies should be required to carry a full line of drugs. Certainly during the next few years, before an expansion of the number of new pharmacies occurs, a requirement such as that advocated by the Ministry of Health for pharmacies to carry a basic line of drugs seems reasonable. What is required is for the Ministry of Health to issue a **list of essential drugs**, similar to the WHO one of between 150-300 drugs, that could form the basis of a stocking requirement for the pharmacists as well as for other policies related to imports and development of the pharmaceutical sector.

Beyond the requirement to carry the essential drug list, **a liberal approach to allow pharmacies to sell a range of other products**-herbal medicines, nutritional aids, cosmetics, hygiene products, etc.-would be desirable, in order to improve the profitability of privatized pharmacies and to attract new entrants to expand the number and coverage of pharmacies in Russia. Liberal rules on the extent of sales of over-the-counter (OTC) drugs - medicines that can be sold to the public without a doctor's prescription would also contribute to this goal. In the European Community, OTC drugs represent around 10% of pharmacy sales, and in the USA **21%**, and are expanding rapidly in both markets.

In most OECD countries (aside from the UK and USA), many restrictions apply to the right to own pharmacies and to dispense drugs. Typical restrictions include:

- Only licensed pharmacists can be owners of pharmacies;
- Transfer or sale of the right of ownership are limited (various regulations);
- A pharmacist can only buy one pharmacy (in some cases, he can also be a minority shareholder in additional pharmacies);
- To open a new pharmacy, a local base of a certain number (e.g. at least 5000) of people is needed.

The geographical coverage type restrictions are meant to even out size of the outlets and to ensure coverage of less populated rural areas. The maximum of one pharmacy per pharmacist is intended to prevent chains (at least for the short-term), since chains could destabilize the wholesale activities before these are able to compete.

To ensure rapid privatization with minimum disruption of supply and rapidly create a class of small professional owners, we would recommend majority ownership by pharmacists, with one or a relatively few outlets as a maximum number per owner. The wholesalers (*pharmaciyas*) should therefore not be allowed to buy pharmacies, in an attempt to reestablish the old torg relationships with the anticompetitive implications this would have.

The selection of applicants in the privatization process should therefore probably favor the pharmacist's experience and qualifications, rather than price. In some countries undergoing a pharmacy privatization process, such as Hungary, price only counts for 20% of the total score for selecting bidders, while experience and professional qualifications count for 80%. This implies that most pharmacies will be purchased by their existing pharmacist (s).

Summary - Pharmacies

Pharmacies can be privatized rapidly and successfully and should be a key short-term priority in the privatization of the health care sector. Pilot programmes in a few regions should be undertaken to refine privatization approaches and the regulatory framework, prior to beginning an accelerated national program.

The most important single step needed is to change the current 50% retail/wholesale margin regulation to allow the pharmacies a margin of at least 35%, consistent with practice in other countries.

Other aspects of the **regulatory framework** recommended are:

- **Wide product line**: pharmacies should be required to stock the list of essential drugs, but otherwise should be allowed to carry a wide range of other related products;
- **Licensing of new pharmacies should be eased** and rapid, to allow a needed expansion in the number of pharmacies. Geographic coverage requirements may be necessary during a transitional period to ensure adequate coverage especially of rural areas.

Beyond this change, the key suggestions in terms of *privatization approach* are:

- **Purchasers should be licensed pharmacists only;**
- **Wholesalers should not be allowed to buy privatizing pharmacies;**
- **Each pharmacist should be allowed to buy only one (or a limited number) of pharmacies;**
- **The professional qualifications and experience of the pharmacist should take preference over price in selecting bidders.**

WHOLESALE DISTRIBUTION

General overview

Data available indicates that, apart from a few new entrants, the current Russian pharmaceutical wholesale system is inefficient and will need significant restructuring.

The wholesale margin level mentioned previously (10 to 25%), and its ratio to the retail margin level, are a strong indicator of this efficiency problem. Wholesale activities are characterised by low inventory turns, high administrative costs, and low service levels.

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The current structure consists of approximately 100 wholesalers, with about 130 warehouses. The table below compares the Russian pharmaceutical wholesaling sector with various Western and Eastern European countries:

Country	Warehouses No.	Warehouses Average sales ($ million)	Pharmacies/ Warehouses
Germany	105	152	172
France	227	66	97
Italy	353	28	45
UK	65	115	183
Spain	189	32	95
Average EC	na	58	92
Hungary	32	16	63
Russia (est.)	133	3-25	120

The average size in terms of sales is smaller than in Western Europe, reflecting lower drug prices in Russia and, the absence of related product lines like cosmetics, parapharmaceuticals, etc mentioned earlier. However, the number of pharmacies served per warehouse is very high - only surpassed by Germany and the UK, which have highly efficient, fully automated warehouses with sophisticated information systems. In order to improve service to pharmacies - frequent deliveries, wide product line - an expansion of the number of warehouses is probably needed, particularly taking into account the likely increase in the number of pharmacies mentioned earlier.

The other key differences with the structure in developed market economies are:

- Degree of competition,
- National vs. regional coverage.

The *pharmaciyas* are monopolies in their regions, although new private wholesalers have entered the market in Moscow, St Petersburg and a few other major cities in Russia. This structure is very different to the structure in most countries, where a relatively few national wholesalers compete intensively with each across the country. The presence of national wholesalers also provides an efficient service to pharmaceutical manufacturing companies, who do not have to deal with 100 plus regional wholesalers, as is the case in Russia today. The differences in structure are shown below:

Country	National full-line wholesalers				Regional full-line wholesalers			
	No. Com-panies	No. of Ware-houses	W/h per com-pany	% of total market	No.	No. of Ware-houses	W/h per com-pany	% of total market
Germany	5	70	12.0	80	17	35	2.0	20
France	17	218	12.8	97	2	7	3.5	3
UK	2	39	19.5	70	24	27	1.2	30
Italy	8	120	15.0	50	100	160	1.6	50
Spain	3	60	20.0	30	82	140	1.7	70
Sweden	2	7	3.5	100	0	0	0	0
Switzerland	2	8	4.0	70	4	4	1.0	30
Hungary	1	3	3.0	22	23	29	1.3	78
Russia*	3	5	1.7	<10%	100**	130	1.3	<90%

* Estimated

** The number would be increased by 50-100 wholesalers if small dealers operating without storage facilities are included.

In Hungary, like Russia, the break-up of the old national monopoly distribution system has led to fragmented series of regional monopolies. However, in the privatization process groups of regional wholesalers are being "bundled" together for sale to lead to a structure of 4-5 national wholesale companies, improving both the level of competition and service levels. A similar privatization approach - ie bundling of regional warehouses into 4 groups - was applied successfully in the Czech Republic.

There are basically **two options for privatizing** the *oblast pharmaciyas*:

- The first one is to **privatize individually the regional monopolies and let market forces act to produce the needed restructuring.** This will probably lead to competition from greenfield operations in the neighbouring regions, and/or purchase of regional entities by others. A number of mergers or bankruptcies are likely to occur;

- The second option is to **pre-structure a few national or supraregional players, by bundling regional wholesalers at time of privatization.** Non adjacent regions would be needed, to ensure overall national or multiregional coverage. The size of the regional clusters or constitutive elements of these national or supraregional wholesalers should be sufficient to enable local restructuring if needed. This is the privatization approach followed in the Czech Republic and Hungary.

Although the second option has the advantage of leading rapidly to a competitive and efficient national distribution system, it would in practice be very hard to implement in current circumstances in Russia, particularly given the importance of *oblast* decision-makers in regard to the *pharmaciyas*.

Greenfield operations are probably the most attractive option for new entrants, in particular foreign distribution groups. The transition towards an efficient and competitive system can be brutal under the first option as the existing regional wholesale structures are exposed to greenfield competitors. It will probably mean bankruptcy of a number of the newly privatised regional wholesalers.

This could bring a risk of disruption of supply of drugs in certain regions, with the concomitant problems for the pharmacies and patients. Therefore, *new wholesalers' licences over the first 1-2 years of intensive restructuring after privatization should probably impose the obligation to carry at least the essential list of drugs* (as discussed before). This would prevent competition from new entrants carrying only the highest volume or value products (mainly imported drugs) from causing a collapse of the *pharmaciyas*. Service level requirements such as the maximum delay to deliver any given product to a pharmacy might also be considered.

Maximum wholesale margins could be regulated in the short term, potentially with differences to take into account transportation costs to serve different parts of the country. The experience of other countries indicates that competitive forces result in actual wholesale markup normally significantly below maximum legal limits, as wholesalers pass on discounts to pharmacies to increase their market penetration.

Country	Legal average wholesalers' margins (% ex-factory price)		Real operating wholesalers' margins (% ex-factory price)
Germany	15.0		10.0
UK	12.5		4.5
Spain	12.0		5.0
Italy	10.5	Discounts to pharmacists	6.5
France	9.5		6.0
Hungary	12.7		9.5 to state pharmacies 7.5 to private pharmacies
Russia	50% (wholesale plus pharmacies)		5-35%

The some thing is true in Russia, where competitive markets like Moscow and St. Petersburg are observed to have margins as low as 5%, whereas remote regions like Irkutsk with little competition have margins as high as 35%. To prevent monopolistic abuse in regions with little competition, most governments have put maximum wholesale margins of around 15%. Given the importance of government reimbursement for a significant part of drug purchases/consumption, maximum margin caps serve to control government expenditures on the drug budget. The pilot project should investigate the economics of wholesale distribution to determine what an appropriate upper limit on wholesale margins might be.

Summary - Wholesalers

Wholesalers can be privatized relatively quickly as well, but the post-privatization needs are likely to be significantly greater than with pharmacies. At the individual *oblast pharmaciya* level, there is a need to improve stock turns and service levels, invest in EDP systems and necessary sanitary conditions (GMP regulations), and reduce personnel.

At the national level there is the need for the emergence of a number of strong wholesalers with national coverage. Although a "bundled" privatization option is one way to accomplish this, the most realistic approach in Russia today is to individually privatize the *pharmaciyas*, and assist with post privatization restructuring assistance if possible.

For a limited period, a requirement for new entrants to offer at least the essential drug list is probably necessary to ensure no interruption of vital drug supplies in the regions. Maximum margin requirements will also probably be necessary to control anticompetitive behaviour in remote regions and to control the government drug budget.

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Mr. Jim Rankin, IBTCI's
COMMENTS ON MR. OLIVER TURLEY'S NOTE ON WHOLESALE AND PHARMACIES

Re: Draft report from BCG

Thanks for sending the draft report; per your request I offer the following comments (and questions).

General Issues

During our discussion in Moscow, we covered several issues which are likely to be important when considering privatization in the pharmaceutical sector:

• Management of existing debt at all levels of the system would seem to be an urgent concern in privatization, along with mechanisms to avoid a similar situation in the future.

• Would state subsidies continue to "private" warehouses and pharmacies? If so, is this sustainable, and if not, can the privatized entities survive in the short and long term?

* Although there are some pharmacy directors, and probably some wharehouse managers, who are prepared to take on a private role as entreprenuers and managers, these skills and attitudes are less common than in most countries. Substantial training and support may be needed to allow most of the pharmacies and ex-government wholesalers to adapt to private sector methods and demands.

* If rapid privatization is adapted, how many entities would survive? Would bankruptcies be allowed to happen , and if so, what would be the social impact in various oblasts and municipalities?

As I read the draft BCG report, it seemed that some of these issues are not addressed, such as debt and subsidies, attitudes and capabilities of managers and stuff, "safety net", and regulations relating to quality assuarance in wholesale and pharmacy practice and regulations concerning types of merchandise sold. Perhaps this report is not the place for these discussions, but I hope the issues are understood by both BCG and GKI.

I did find the report very interesting; it has several useful observations and suggestions. There are some specific comments and questions concerning the information which is in the report; these comments are divided as was the report into "retail" and "wholesale" sections.

Retail Distribution (Page 3 of report)

The assumption that pharmaciesshould be relatively straight forward to privatize may be optimistic, particularly outside the major urban areas.

If Russian regulations do forbid sales of "front end" items in pharmacies, can this be changed? This would have a particular adverse impact on smaller pharmacies with smaller prescription volumes.

While reduction in over-staffing may be desirable and feasible, if done rapidly on a whide scale the reverberations may be unpleasant.

The issue of regulated mark-ups or margins and dispensing fees is complex. Flat dispensing fees per se do not affect the type of drug dispensed (moderately priced versus expensive); flat markups or margins, however, do encourage the pharmacist to dispense the most expensive prodict allowed, particularly when the payment is subsidized. Do most Western countries regulate margins? I know, some do, but many prefer the reference price approach, whereby payment is made at a stipulated rate for a generic drug no matter which vendor's product is dispensed.

Incidentally, I think the current regulations refers to markup rather than margin, which as all of you know are two distinctly different concepts (but which may not be clear to all readers). The report seems to switch back and forth between the terms, which probably should be changed for consistency.

Does the report mean to encourage generic substitution (same drug, different source) or therapeutic substitution (different generic drug with similar therapeutic effect). Therapeutic substitution, which is advocated in the report, is rarely practiced in Western countries outside the context of an institutional formulary, and it might be strongly resisted by Russian doctors. As noted above, the flat margin system <u>does</u> give incentives to dispense the most expensive product.

It is unclear why one would necessarily need to regulate the size of pharmacies; a limited franchise approach in metropolitan areas would likely reduce competition (and thus promote higher prices). In some settings, smaller pharmacies may indeed be able to survive if they are well run, particularly if they are located near to health providers and if they can supplement drug sales with "front end". It is unlikely that "geographical coverage regulations" wouls assure viable pharmacies in rural areas of Russia. At least in many rural areas of the United States, successful private pharmacies are not fpund; coverage is provided through publicly funded programs.

While pharmacists as a profession support restrictions on pharmacy ownership, it may not be useful or necessary for the public good to restrict ownership of pharmacies to a licensed pharmacist or to limit the number of pharmacies owned by any individual or company. Certainly in the United States chains are the most viable pharmacy providers. A chain could become the best customer of wholesalers rather than destabilize them, depending upon the situation.

The section on "next steps" should expand the data collectiopn to address some of the issues we discussed earlier.

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Wholesale distribution

The observation in the report (Retail section) comparing Russian wholesaler markups of 10-15% with Western wholesalers who survive with 5-8% should be leaned with a discussion of how Western wholesalers do this (for example, most U.S. wholesalers depend on the difference in payment times between their accounts payable and receivable). Also, it must be remembered that wholesalers cannot survive on even 10-15% if they cannot turn their merchandise quickly enough to beat inflation. Finally, I suspect we may in Western cases be talking about margin rather than markup.

What is envisioned in "bundling" of wholesalers? It is mandatory mergers into a limited number of privately operated wholesalers? Or is the report suggesting that multiple individual wholesalers would form consortiums? In either case, it seemes to us that many would need significant assistance to convert to successful private operation. In either case, how will the new entities deal with existing debt and what sorts of subsidies will be continued?

Are the wholesale structures in Russia valueless? This may be true in some situations , but not so true in others. The report suggests that there is significant interest in "greenfield" development of wholesale business. Is this true (other than in the case of Russian entrepreneurs)? Where is the interest coming from?

The siggested obligation to be a "full line" wholesaler is debatable. First, what does this mean - all products from all manufacturers or all products from each manufacture represented? In either case, it may not be economically viable (although drug manufacturers like such regulations). It might be preferable to mandate that a certain list of essential drugs, in specific strengths and forms, be caried by each wholesaler.

Regulations concerning service levels and maximum lead times (which are not really the same thing) may be difficult to enforce.

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It may be preferable to use something other than regulated margins to govern wholesale operations, considering instead reference pricing (assuming lists could be updated in a timely fashion) or perhaps preferential markups or margin to promote use of moderately priced drugs which meet public health needs.

Again, the next steps section should probably be expanded with respect to the types of information needed concerning current wholesaler operations and coverage. The relevant issues are those discussed earlier (debt, financial and human resources and capacities, attitudes, regulations and enforcement, quality assurance, etc.)

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES

Mr. David A. Caplin, IBTCI's
COMMENTS ON MR. OLIVER TURLEY'S NOTE ON WHOLESALE AND PHARMACIES.

February, 1994

Dear Mr. Kolotra,

I have discussed the document on pharmaceutical wholesale and retail distribution with my colleague David Kochav. We are again in basic agreement with everything which you have written, but have a few comments on questions of details. These I'll outline below.

1. **Over-staffing of pharmacies.** While 28 people in a pharmacy with a turnover of US$750,000 is clearly excessive, one should not necessarily aim for a staffing level of Western standards. The ratio of usage unit to equipment cost in Russia is much lower than that in the West, and the different labour/capital costs ratio must be taken into account.

2. **Pharmasists' margins.** A flat margin system (as in the UK) that does not encourage the pharmacist to dispense the expensive alternative is clearly preferable, particularly if registration of Western brand name drugs is to be permitted.

3. **Potential restrictions on pharmacies.** Only pharmacists should be owners of pharmacies, but is the supply of qualified pharmasists sufficient and is the standard of existing pharmacists high enough? In other words, do yoy need an educational and training program as part of the restructuring program?

2446

Some countries permit e.g. supermarkets to have a pharmacy department, providing a qualified pharmacist is always on duty. This is to be discouraged. New pharmacies should be permitted not only if the users' base is big enough but also if the location is sufficiently distant from existing pharmacies in the area.

4. **Wholesale Distribution.** The discussion in the paper nowhere refers to other outlets than the retail pharmacies. However, institutional users of the wholesale distribution system (e.g. hospitals, polyclinics, etc.) probably represent larger demands in toto than the retail pharmacies. They should be mentioned, as location and structural factors are affected by the need to service these outlets.

In our earlier fax, we mentioned the need for some form of inspection and regulation on warehouse operation. It is relevant in this section.

In your discussion of the restructuring alternatives (concentration at the regional, than national level) we suspect that the possibility of greenfield operations proving a serious threat to existing units may be a bit overstated. We think that any greenfield units would be most likely to be initiated by foreign investors, but the marked reluctance of foreign companies to consummate investment deals in Russia at this time is all too obvious. Privatization of existing units may have to be the way to go. However, the introduction of competition into the system is of prime importance. Have you considered the Chinese model? There the system was formerly a centrally directed three tier (national, provincial and municipal warehouses) monopoly through which all producers had to market and all users had to purchase. Today, any user can approach any producer, or any level or location of the three tier system for the suppliers which it needs. This was implemented at the same time as virtually all price controls were abolished on pharmaceuticals. The effect on response of all parts of the system has been beneficial. Your alternative of prestructuring a few national or regional places could be viable if you can find a way to introduce the competitive element , without which the system will be inefficient and open to corruption.

4. **Next steps.** Detailed data needs to cover locations and capacities of supply points including producers, importers, etc. Warehouse location depends on supply sources as well as demand points.

Best regards,

David A. Caplin

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COMMUNICATING THE HEALTHCARE REFORM PROCESS IN RUSSIA

Briefing Note for Draft Privatisation Law

Prepared for
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March 1994

COMMUNICATING THE HEALTHCARE REFORM PROCESS IN RUSSIA

1. Sweeping health care reform is being introduced in Russia

The health care reforms being introduced by the Government[1] will affect the most fundamental aspects of life in Russia. If reform is successful, Russians will enjoy a wider choice of health care providers, better diagnosis and treatment of illness, safer conditions for childbirth, and more dignified care in old age. Medical staff will have an incentive to be more responsive and sympathetic to the ordinary patient. Health care institutions will be forced to operate in a more efficient way.

However, these enormous potential benefits depend upon a radical shift in mentality - both among health care workers and ordinary Russians. For many people, the overhaul of the health care system will be a more visible and controversial change than any privatizations to date. The population will need to pay for some of its health care, both indirectly (through employee contributions) and via direct contributions to insurance funds and medical institutions. Even more significantly, consumers will need to learn how to choose among hospitals, doctors, primary care clinics, and health insurers. They will need to take responsibility in demanding quality care.

For hospitals, polyclinics, and other health care providers, the reforms will be equally radical. Until now, these institutions have received government money and spent it according to instructions. Now, many health care providers will become independent revenue earners, with responsibility to manage budgets, draw up contracts, borrow money, hire and fire personnel, and make hundreds of decisions which affect people's lives. Although the government will continue to finance most health care, this financing will be separated from the provision of care. So health care providers will for the first time be forced to compete with other providers for funding and patients.

2. The public is likely to find the new system confusing and frightening

The need for health care reform - and the consequences of failure - cannot be understated. However, any transition on such a large scale is bound to be puzzling and difficult for the public. Experience in Britain, Scandinavia and Israel, which have introduced similar kinds of health care reform in recent years, suggests that health care reform is often unpopular, despite the fact that people are unhappy with the pre-reform health care system. In particular, those who are highly dependent on health care assistance, such as the elderly, the disabled, parents of young children, and veterans, have been fearful of any change in the health care system.

3. Better understanding is necessary to ensure support for health care reform

To increase the political and social acceptability of health care reform, the public needs to understand the issue of health care more fully. In particular, the public needs to know why health care reform is being undertaken, how it will work, and what the impact will be on their lives. Without such understanding, there is the risk that the reform program will arouse unrealistic expectations followed by disillusionment and failure.

[1] Health insurance and privatisation/denationalisation of health care providers

4. A carefully designed communications program can increase public understanding

It is possible to bridge the gap in understanding by adopting an explicit communication program, to explain the objectives of health care reform and to shape and manage public expectations. The program would be designed in collaboration with the relevant ministries in the Russian government. Key elements would be to:

- Understand (through focus groups and market research) how the public presently thinks about the health care system and preliminary reforms.
- Analyse how and when different groups in society are likely to be affected by health care reform.
- Develop targeted messages to educate and communicate with each group so as to match expectations more closely with the likely evolution of health care reforms:
    - a) Ensure that the public understands why the government is embarking on such a radical shake-up of the health care system;
    - b) Try to convince people and health care providers that they will benefit from the reforms, if successful;
    - c) Provide people with the knowledge base to enable them to choose intelligently among insurance funds and health care providers;
    - d) Help the public realize the part they must play in making the reforms succeed.
- Translate these messages into communication programs using the most effective channels. For different groups in society, these could include some combination of television (via news programs, soap operas, documentaries, personal testimonials, infomercials, or animation), radio, publications, lectures, town meetings, and training courses.
- Set clear simple benchmarks against which the public can measure the progress of the reforms over time and incorporate them into the communication program.
- Monitor public opinion (through opinion surveys) to provide feedback and guidelines for developing additional phases of communication.
- Ensure that booklets and brochures are available at all health care facilities.

5. The content of the communication program should demonstrate that health care reform is absolutely necessary and that the proposed plan is a sensible one for Russia

The communications package should be designed using the basic forensic formula

- There is an inherent need
- There is a serious need
- There is a plan to meet the need
- The plan is workable and practical
- The plan will not create more problems than it will solve

Inherent and serious need should be demonstrated by citing the appalling Russian health care statistics on basic items such as life expectancy, infant mortality, infection rates, and disease prevalence.

This section should also focus on the problem within the international context, explaining that all western countries, including the US, Britain, France, Germany, Scandinavia, and The Netherlands, are struggling with the issue of how to provide high quality health care to their population in a cost effective way.

The second part of the communications campaign should then explain the workability of the Russian health reform plan:

- Spell out the specifics of the Russian health care reform package and place them squarely in the context of other health care reforms, explaining how Russia has drawn from some of the best features of the American, British, Dutch and German systems.

- Map out what people should expect to see from the reform plan, how it will affect their lives, and the timeframe in which to anticipate changes taking place.

Finally, the message should be why this proposed scheme is superior to other types of health care reforms. The package should outline why it is better to embark upon these reforms, difficult though they may be, than to allow the health care situation in Russia to continue as it is.

6. The costs involved in such a program are low relative to the benefits

The Russian government could commence public awareness activities on a modest scale. It would make sense to begin with a communications program in the oblasts which will initially be at the forefront of health care reform - likely to be St Petersburg (which has already begun many health care reforms), Sverdlovsk, and three or four other regions.

The main budget items are market research and media production. Television production costs are low in Russia and most of the work can be done using local facilities and personnel.

ANNEX B

ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES
FINAL REPORT ON PHASE 1

BACKGROUND NOTES

INTRODUCTION

As part of the Phase 1 study, IBTCI and BCG produced notes on three areas: (a) Hospitals and Clinics; (b) Pharmaceutical Manufacturers; and (c) Pharmaceutical Wholesale and Retail Enterprises. The following sections contain the background notes on these three areas.

Section 1: Hospitals and Clinics

Section 2: Pharmaceutical Manufacturing

Section 3: Pharmaceutical Wholesale and Retail Enterprises

ANNEX C

ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES
FINAL REPORT ON PHASE 1

SUPPORTING LEGAL DOCUMENTS

INTRODUCTION

Much of the Final Report on Phase 1 focuses on the legal framework of privatization. The following section provides relevant Russian legal documents for reference.

Section 1: Law of the "RSFSR on Privatization of State and Municipal Enterprises in the RSFSR," dated 3 July, 1991; as amended by the Law of the Russian Federation on "Amendments and Additions to the Law of the RSFSR," dated 5 June, 1992.

Section 2: State Program of Privatization of State and Municipal Enterprises in the Russian Federation, adopted by the Supreme Soviet of the Russian Federation on 11 June 1992, as subsequently amended.

Section 3: Law of the RSFSR on "Foreign Investments in the RSFSR," No. 1534, dated 4 July, 1991.

Section 4: Decree of the President of the Russian Federation on the State Program of Privatization of State and Municipal Enterprises in the Russian Federation, No. 2284, of 24 December, 1993.

Section 5: The Law of the Russian Federation on Health Insurance of the citizens of the Russian Federation.

Section 6: Basic Provisions of the Ordinance of the Council of Ministers, Government of the Russian Federation "On Measures for Enforcing RF Law "On Amendments and Additions to the RSFSR Law "On Medical Insurance of the Citizens in the RSFSR" (Dated October 11, 1993 No.1018)

LAW OF THE RSFSR ON 'PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES IN THE RSFSR' DATED 3 JULY 1991; LAW OF THE RUSSIAN FEDERATION ON 'AMENDMENTS AND ADDITIONS TO THE LAW OF RSFSR ON PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES IN THE RSFSR' DATED 5 JUNE 1992

This Law establishes the organisational and legal framework for the transformation of arrangements concerning ownership of capital goods in the Russian Federation through the privatisation of state and municipal enterprises with the aim of forging an efficient market economy geared to meeting social needs.

CHAPTER I. GENERAL PROVISIONS

ARTICLE 1. DEFINITION OF PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES

Privatisation of state and municipal enterprises shall be understood to mean acquisition by individuals or joint-stock companies (partnerships) into their private ownership from the state and from local Councils of People's Deputies of enterprises, plants, production bays and other divisions of such enterprises detached to form independent enterprises; of equipment, buildings, structures, licences, patents and other tangible or intangible assets of enterprises (either existing or liquidated by agencies duly authorised to take such decisions on behalf of the proprietor); ownership interests (equities, shares) of the state and local Councils of People's Deputies in the capital of joint-stock companies (partnerships); and ownership interests (equities, shares), which belong to enterprises marked for privatisation, in the capital of other joint-stock companies (partnerships), joint ventures, commercial banks, associations, concerns, alliances and other associations of enterprises.

Privatisation of state and municipal enterprises shall hereinafter be understood to mean privatisation of all properties listed above.

ARTICLE 2. RUSSIAN FEDERATION LEGISLATION ON PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES

1. Russian Federation legislation on privatisation of state and municipal enterprises shall consist of the laws of the Russian Federation "On Ownership in the Russian Federation" and "on Enterprises and Entrepreneurial Activities", of this Law and of other legislative acts of the Russian Federation and of republics within the same, regulating privatisation.

2. Privatisation of ownership interests (equities, shares) belonging to the state and to local Councils of People's Deputies in the capital of joint-stock companies (partnerships) co-owned with foreign nationals or corporate bodies or with international organisations shall be regulated by this Law and by other legislative acts in force in the Russian Federation and in republics within the same, as well as by agreements with foreign states.

3. This Law does not regulate restitution of the property rights of owners, their heirs and successors in rights to enterprises that have been nationalised, confiscated or otherwise taken against their will to become property of the state.

4. Acquisition of state and municipal enterprises by foreign nationals or corporate bodies shall be regulated by this Law, by Russian Federation legislation on foreign investment and by other legislative acts in force in the Russian Federation and in republics within the same.

5. Privatisation of land and housing stock, as well as of social and cultural institutions and of assets that are part of the cultural or natural heritage, shall be regulated by other legislative acts in force in the Russian Federation and in republics making part thereof.

ARTICLE 3. STATE PRIVATISATION PROGRAMME

1. The aims, priorities and restrictions in privatisation in the Russian Federation shall be determined by a State Programme for Privatisation. The Programme shall be submitted by the Russian Federation Council of Ministers and approved by the Russian Federation Supreme Soviet at least a month before discussion of the first reading of the Law of the Russian Federation "on Republican Budget". The Programme shall be drawn up for the three coming years and consist of a target assignment for the current year and a forecast for the two years that follow.

2. The programme shall contain the following:

- list of facilities (groups of facilities) in state ownership that are marked for privatisation, and a substantiation of their choice;

- requirements with respect to local privatisation programme;

- tasks set to agencies of state power and management in privatisation of state-owned property;

- determination of the preferable ways and means of privatisation and forms of payment, as well as benefits to staff members of enterprises slated to be privatised;

- terms and conditions of crediting and the amounts of credit resources planned to be used for privatisation;

- amount of privatisation deposits to be distributed to the nationals of the Russian Federation within the period planned, and the amount of such deposit for each recipient;

- terms and conditions of using foreign investment in privatisation;

- estimate of receipts from privatisation in the said Period, and rates for distribution thereof among the Russian Federation republican budget, the budgets of republics within the Russian Federation, local budgets, non-budgetary funds, and for other purposes;

- procedures for mutual settlements between property funds at different levels, as well as for their settlements with appropriate budgets with respect to all kinds of payment facilities; and

- list, time-frames and procedures for formation, with receipts from privatisation, of target-oriented funds for investment in the socially and economically most backward regions of the Russian Federation, for restructuring of the national economy, for rehabilitation of the environment, or for other purposes.

3. The Programme shall determine the list of state-owned enterprises and of associations or divisions thereof that shall not be subject to privatisation. This list shall be agreed upon with republics making part of the Russian Federation, with regions, territories, autonomous regions, autonomous areas and the cities of Moscow and St. Petersburg and shall be annually endorsed by the Supreme Soviet of the Russian Federation.

The Programme may also include lists of facilities, the privatisation of which shall require authorisation from the Government of the Russian Federation and the State Committee of the Russian Federation for the Management of State Property. In privatisation of enterprises included in such lists, the Government of the Russian Federation and the State Committee of the Russian Federation for the Management of State Property shall have the right to take decisions on retention of controlling blocks of their shares in state ownership for a period of up to three years.

4. To regulate privatisation on a day-to-day basis, the Russian Federation Council of Ministers shall have the right to alter standards, the list of which shall be included in the State Programme for Privatisation, without approval by the Russian Federation Supreme Soviet.

5. As a follow-up on the State Programme for Privatisation, the Supreme Soviets of republics within the Russian Federation and local Councils of People's Deputies shall adopt republican and local privatisation programmes and norm-setting acts regulating procedures for fulfilment thereof. Such republican and local programmes may not impose additional restrictions on privatisation of state-owned and municipal enterprises other than within the limits and in accordance with procedures to be established by the State Programme for Privatisation.

ARTICLE 4. STATE COMMITTEE OF THE RUSSIAN FEDERATION FOR THE MANAGEMENT OF STATE PROPERTY

1. Privatisation of state-owned property shall be organised by the State Committee of the Russian Federation for the Management of State Property.

The chairman of State Committee of the Russian Federation for the Management of State Property shall be included in the Russian Federation Council of Ministers and shall hold the office of a Deputy Chairman of the Russian Federation Council of Ministers.

Acting jointly with the appropriate Councils of People's Deputies, State Committee of the Russian Federation for the Management of State Property shall set up its territorial agencies, and determine their terms of reference, in republics within the Russian Federation, in regions, territories, autonomous regions, autonomous areas, the cities of Moscow and Leningrad and in other cities with a population of more than one million people.

The activities of the State Committee of the Russian Federation for the Management of State Property shall be financed out of the Russian Federation republican budget.

2. In order to ensure that a uniform state policy of privatisation is maintained, the State Committee of the Russian Federation for the Management of State Property shall:

- elaborate and submit to the Russian Federation Council of Ministers a draft State Programme for Privatisation, as well as changes and additions thereto on an annual basis, and also draft laws and other regulations on privatisation;

- organise and supervise carry out the Programme;

- annually report back to the Russian Federation Supreme Soviet on Programme fulfilment;

- summarise proposals for privatisation, coming from Local Councils of People's Deputies, worker collectives, social organisations (associations), ministries and agencies;

- establish arrangements for bonuses to be paid to staff members of agencies of state government and of local administrations, based on the results achieved in carry out the State Programme for Privatisation;

- exercise guidance in terms of counselling on methods, as well as control, over privatisation through its territorial agencies. In cases of violations of Russian Federation legislation on privatisation or of the State Programme for Privatisation, the State Committee of the Russian Federation for the Management of State Property shall lodge complaints with a court of justice or a court of arbitration in order to reverse the illegal decisions and bring the officials at fault to account;

- set up commissions for privatisation of enterprises in ownership of the Russian Federation;

- take decisions on privatisation of enterprises owned by the Russian Federation, carry out their requisite organisational and legal transformation, and convey the certificates of ownership of the same (equities, shares) for sale to the Russian Federal Property Fund pursuant to Article 15 below. By decision of the Russian Federation Council of Ministers, the State Committee of the Russian Federation for the Management of State Property may transfer such enterprises to the property funds of republics making part of the Russian Federation or those of regions, territories, autonomous regions, autonomous areas, districts (with the exception of boroughs in cities) or cities (excluding cities under district jurisdiction);

- assist with establishment of investment funds and holding companies; and

- issue norm-setting acts regulating the process of privatisation within its terms of reference and make changes and additions thereto, as well as provide explanations of such regulations and of the State Programme for Privatisation.

The State Committee of the Russian Federation for the Management of State Property may not delegate its powers to ministries, agencies and holding companies based on state concerns, on corporations or on associations or to other economic entities not deemed buyers pursuant to Para 1 of Article 9 below.

3. The State Committee of the Russian Federation for the Management of State Property shall prepare proposals for dividing state property into that in the ownership of the Russian Federation, that in the ownership of republics within the Russian Federation, that in the ownership of regions and so on down to territories, autonomous regions and autonomous areas, as well as into the municipal property of districts, cities and the administrative-territorial entities that are part thereof. Decisions on such delimiting of property shall be passed by the Russian Federation Supreme Soviet, the Supreme Soviets of republics making part of the Russian Federation, and by local Councils of People's Deputies in accordance with procedures established by legislation in effect in the Russian Federation and in republics within the same.

In the absence of a decision (certificate) confirming the property rights of a republic within the Russian Federation or of a region, territory, autonomous region, autonomous area, city, district or an administrative-territorial entity making part thereof, to any object of privatisation, the same shall be privatised by the State Committee of the Russian Federation for the Management of State Property as property of the Russian Federation.

4. Decisions taken by the State Committee of the Russian Federation for the Management of State Property within its terms of reference in execution of the State Programme for Privatisation shall be binding on all agencies of state government and of the local administration.

Disputes arising in connection with such decisions shall be considered by a court of justice or a court of arbitration in accordance with procedures established by applicable legislation.

ARTICLE 5. PROPERTY MANAGEMENT COMMITTEES OF REPUBLICS WITHIN THE RUSSIAN FEDERATION, OF REGIONS, TERRITORIES, AUTONOMOUS REGIONS, AUTONOMOUS AREAS, DISTRICTS (WITH THE EXCEPTION OF BOROUGHS IN CITIES) AND CITIES (WITH THE EXCEPTION OF CITIES UNDER DISTRICT JURISDICTION)

1. Privatisation of property in the ownership of republics within the Russian Federation, of regions, territories, autonomous regions, autonomous areas, districts (with the exception of boroughs in cities) and cities (with the exception of cities under district jurisdiction) shall be organised by the property management committees making part of the appropriate agencies of state government or of the local administrations (hereinafter the property management committees of ethnic-state and ethnic- or administrative-territorial entities).

Property management committees shall be established in all such ethnic-state and ethnic- or administrative-territorial entities and shall be agencies of state government (the local administration) with the right of a corporate body. The powers of property management committees may not be transferred to any other agencies of state government or of the local administration or to other corporate bodies. The committee chairman shall *ex officio* be a deputy head of government of the appropriate republic within the Russian Federation or a deputy head of the administration of the appropriate region, territory, autonomous region, autonomous area, city or district.

Regulations on a property management committee shall be approved by the appropriate Councils of People's Deputies. Such Regulations may not contradict the standard Regulations on a Property Management Committee to be endorsed by the Government of the Russian Federation. The activities of the said committees shall be financed at the expense of receipts from privatisation of state and municipal enterprises in the ownership of the appropriate ethnic-state or ethnic- or administrative-territorial entities.

2. To carry out privatisation, the property management committees of ethnic-state and ethnic- or administrative-territorial entities shall:

- elaborate and submit to the appropriate Councils of People's Deputies draft republican or local privatisation programmes and annual changes and additions thereto, as well as draft regulations on privatisation, with due regard for the requirements set forth by the State Programme for Privatisation;

- organise and monitor carry out of the State Programme for Privatisation and of republican or local privatisation programmes and report annually on fulfilment thereof back to the appropriate Councils of People's Deputies;

- establish arrangements for bonuses to be paid to staff members of agencies of state government and of local administrations, enterprises and institutions, who are involved with privatisation programmes;

- set up commissions for privatisation of enterprises in state or municipal ownership of ethnic-state or ethnic or administrative-territorial entities;

- take decisions on privatisation of such enterprises, carrying out their organisational and legal transformation, and convey certificates of ownership thereof for sale to the appropriate property funds. By decision of the appropriate Councils of People's Deputies, such objects of privatisation may be transferred to the Russian Federal Property Fund;

- assist with establishment of investment funds and holding companies; and

- send their representatives to serve on commissions for privatisation of property of the Russian Federation to be established by the State Committee of the Russian Federation for the Management of State Property.

The committees may not delegate their powers to ministries, agencies and holding companies based on state concerns, on corporations or on associations or to other economic entities not deemed buyers pursuant to Para 1 of Article 9 below.

3. Decisions taken by such committees within their terms of reference in execution of the State Programme for Privatisation and of republican and local privatisation programmes shall be binding upon all agencies of state government and of the local administration.

Disputes arising from such decisions shall be considered by a court of justice or a court of arbitration in accordance with procedures established by applicable legislation.

4. On instructions from the State Committee of the Russian Federation for the Management of State Property, such committees may privatise owned by the Russian Federation.

ARTICLE 6. RUSSIAN FEDERAL PROPERTY FUND

1. The Russian Federal Property Fund and representatives appointed thereby shall be deemed the sole sellers of state enterprises in the ownership of the Russian Federation that are marked for privatisation, as well as of ownership interests (equities, shares) that are owned by the Russian Federation in the capital of enterprises.

The Fund shall be a corporate body, shall be set up by decision of the Russian Federation Supreme Soviet Presidium and shall be accountable to the same, as well as to the Russian Federation Supreme Soviet. Regulations on the Fund shall be approved by the Russian Federation Supreme Soviet. The activities of the Fund shall be financed at the expense of receipts from privatisation of state enterprises in the ownership of the Russian Federation. The Fund shall set up its local branches.

2. The Russian Federal Property Fund shall perform the following functions:

- temporarily hold certificates of ownership of enterprises and of ownership interests (equities, shares) in the capital of joint-stock companies (partnerships), which are owned by the Russian Federation and have been transferred to the Fund by the State Committee of the Russian Federation for the Management of State Property;

- exercise the proprietor rights of the Russian Federation at the general meetings of shareholders (stockholders) and bear a risk (responsibility) for the activities of enterprises to the extent of the ownership interests held by the Fund in the capital of such enterprises;

- sell such ownership interests (equities, shares) of enterprises;

- act as a founder of joint-stock companies (partnerships) and acquire shares and equities of joint-stock companies and partnerships, the development of which is determined by the tasks of accelerated structural reorganisation of the national economy, environmental protection and development of the socially and economically most backward regions, with the exception of those [joint-stock companies and partnerships that have been] established through transformation of state and municipal enterprises;

- draw and remit dividends and receipts from privatisation of enterprises in accordance with income taken into account in the republican budget of the Russian Federation and with norms established by the State Programme for Privatisation;

- exchange shares of joint-stock companies that belong to the Russian Federation for shares of investment funds and holding companies in establishment thereof;

- exercise control over granting of benefits envisaged by applicable legislation to the employees of enterprises marked for privatisation; and

- carry out state registration of privatisation deals.

The Russian Federal Property Fund may not delegate its powers to ministries, agencies and holding companies based on state concerns, on corporations or on associations or to other economic entities not deemed buyers pursuant to Para 1 of Article 9 below.

3. All shares of any joint-stock company owned by the Fund, the voting shares may not account for more than 20 per cent; the remaining shares owned by the Fund, regardless of their quantity and nominal status, shall be preference shares pursuant to this Law. On sale by the Fund of such shares, they shall be converted into common shares.

The Fund and its branches shall not have the right to interfere in the activities of enterprises, with the exception of cases envisaged by the fund documents of such enterprises and by legislation in effect in the Russian Federation and in republics making part of the same.

4. The Russian Federation Supreme Soviet shall annually consider and approve a report on the activities of the Russian Federal Property Fund for the past year.

ARTICLE 7. PROPERTY FUNDS OF REPUBLICS WITHIN THE RUSSIAN FEDERATION, OF REGIONS, TERRITORIES, AUTONOMOUS REGIONS, AUTONOMOUS AREAS, DISTRICTS (WITH THE EXCEPTION OF BOROUGHS IN CITIES) AND CITIES (WITH THE EXCEPTION OF CITIES UNDER DISTRICT JURISDICTION)

1. The sellers of state and municipal enterprises, as well as of ownership interests (equities, shares) in the capital of enterprises in the ownership of republics making part of the Russian Federation, of regions, territories, autonomous regions, autonomous areas, districts (with the exception of boroughs in cities) and of cities (with the exception of cities under district jurisdiction), shall be the property funds of the appropriate ethnic-state or ethnic- or administrative territorial entities or representatives duly appointed thereby.

Such funds shall be corporate bodies, shall be established by decision of the Presidiums of the Supreme Soviets of republics within the Russian Federation or the Presidiums of the appropriate local Councils of People's Deputies and shall be accountable to the same and to such Councils. Regulations on a fund shall be endorsed by the appropriate Council of People's Deputies.

The activities of property funds shall be financed out of funds received in the form of deductions from the amounts of transactions effected thereby in privatisation of state and municipal enterprises at rates to be established by the State Programme for Privatisation.

2. Property funds shall perform the following functions:

- temporarily hold certificates of ownership of state (municipal) enterprises and ownership interests (equities, shares) in the capital of joint-stock companies (partnerships), which are owned by republics within the Russian Federation, by regions, territories, autonomous regions, autonomous areas, districts or cities and have been transferred to such funds by the appropriate property management committees for sale;

- exercise appropriate proprietor rights at the meetings of shareholders (stockholders) and bear a risk (responsibility) for the activities of enterprises to the extent of the ownership interest held by such funds in the capital of such enterprises;

- sell such ownership interests (equities, shares) of enterprises;

- act as founders of joint-stock companies and partnerships and acquire equities and shares of joint-stock companies and partnerships, the development of which is dictated by the interests of the local population, with the exception of those [joint-stock companies and partnerships that have been] established by way of transformation of state and municipal enterprises;

- draw and remit dividends and receipts from privatisation of enterprises in accordance with income taken into account in the appropriate budgets and with norms established by the State Programme for Privatisation and by republican and local privatisation programmes;

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- exchange shares of joint-stock companies that belong to the appropriate ethnic-state or ethnic- or administrative-territorial entities for shares of investment funds and holding companies in establishment thereof;

- exercise control over granting of benefits envisaged in the applicable legislation to the employees of enterprises marked for privatisation;

- may not delegate their powers to ministries, agencies and holding companies based carry out state registration of privatisation deals. Funds on state concerns, on corporations and on associations or to other economic entities not deemed buyers pursuant to Para 1 of Article 9 below.

3. Of the shares of any joint-stock company that are owned by a fund, the voting shares may not account for more than 20 per cent of the overall number of the shares of a company; the remaining shares owned by the Fund, regardless of their quantity and nominal status, shall be preference shares pursuant to this Law. In sale by the fund of such shares, they shall be converted into common shares.

The funds and their branches shall not have the right to interfere in the activities of enterprises, with the exception of cases envisaged by the fund documents of such enterprises and by legislation in effect in the Russian Federation and in republics making part of the same.

4. The Supreme Soviets of republics within the Russian Federation shall annually consider and approve a report on the activities of the appropriate property fund for the past year.

ARTICLE 8. INVESTMENT FUNDS AND HOLDING COMPANIES

1. Investment funds shall be established with the aim of setting up a primary securities market and lowering the risks of share purchasers. Regulations on investment funds shall be approved by the Russian Federation Council of Ministers.

2. An investment fund shall have the right to own not more than 10 per cent of the voting shares of a joint-stock company and to invest not more than 5 per cent of its assets in the securities of the same.

3. Investment funds shall publish their quarterly, semi-annual and annual reports according to the form established by the Russian Federation Ministry of Finance. The activities of such funds shall be subject to mandatory annual audits.

4. Holding companies may be set up on the basis of enterprises making part of amalgamations (associations, concerns) or enterprises under the control of agencies of state government or of the local administration by agreement with the Russian Federation State Authority on Anti-Monopoly Policies and Support for New Economic Entities with a view to arranging co-production schemes involving allied enterprises. Establishment of holding companies resulting in monopoly in the manufacture of specific products or performance of specific services (works) shall be prohibited.

Regulations on procedures for establishment of holding companies on the basis of amalgamations, associations, concerns, ministries and agencies shall be approved by the Russian Federation Supreme Soviet.

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ARTICLE 9. BUYERS

1. Corporate bodies, the ownership interest of the state, of the local Councils of People's Deputies, social organisations (associations) and of charity and other public funds in the authorised capital of which exceeds 25 per cent, may not -- in privatisation of state and municipal enterprises -- be buyers or bidders in tender or at auctions or acquire shares of such enterprises marked for privatisation.

2. The obligation to prove their right to purchase enterprises slated to be privatised shall rest with the buyers. In order to participate in auctions or tender or to acquire shares of such enterprises, corporate bodies seeking to be buyers shall present to the appropriate property funds declarations detailing the make-up of partners in the respective joint-stock company (partnership) and the break-down of the authorised capital thereof. Should it come to light at a later date that at the time of sale of an enterprise marked for privatisation (equities, shares) a corporate body had no legal right to make the purchase, the transaction shall be deemed invalid pursuant to legislation in effect in the Russian Federation.

3. Staff members of state and municipal enterprises may act as buyers thereof and set up a partnership or joint-stock company for this purpose. Benefits established by this Law shall be enjoyed by them, as well as by former employees of enterprises marked for privatisation, who have retired on a pension or worked at such enterprises for at least 10 years in the case of men or 7.5 years in the case of women and left such enterprises on their own initiative or under a staff-reduction plan, as well as by persons entitled pursuant to legislation to return to their former jobs at such enterprises.

ARTICLE 10. REPRESENTATIVES AND INTERMEDIARIES

In privatisation, sellers and buyers may act through their representatives (authorised persons) and employ the assistance of intermediaries in accordance with legislation in force in the Russian Federation and in republics making part thereof.

ARTICLE 11. SOURCES OF FUNDS FOR ACQUISITION OF STATE AND MUNICIPAL ENTERPRISES

1. The personal savings of individuals, registered privatisation deposits, personal privatisation accounts and the own funds of corporate bodies listed in Para 1 of Article 9 above, as well as borrowed funds, shall be used to buy state and municipal enterprises.

Procedures for gratis transfer to individuals of state and municipal property by way of remittance by the state of privatisation deposits to registered privatisation accounts and for use of such accounts in privatisation shall be determined by the Law of the Russian Federation "On Registered Privatisation Accounts and Deposits".

Money from the incentive funds of enterprises slated for privatisation may be used by their staffs in accordance with procedures and in amounts to be established by the State Programme for Privatisation.

2. The legal tender of the USSR, including the registered privatisation deposits of individuals, shall be used to buy state and municipal enterprises in privatisation.

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3. In acquisition of enterprises marked for privatisation or of ownership interests (equities, shares) in the capital of a joint-stock company (partnership), individuals shall be obliged to present a certificate from the tax inspection service if their contribution in roubles exceeds 500 statutory minimum monthly wages.

ARTICLE 12. USE OF RECEIPTS FROM PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES

1. Funds received from privatisation of state and municipal enterprises shall be distributed in accordance with rates to be established by the State Programme for Privatisation or by republican or local privatisation programmes. Such funds shall be exempt from all taxes.

2. Guidelines for spending receipts from privatisation of state and municipal enterprises within the frameworks set by Para 1 of this Article shall be established by the Russian Federation Supreme Soviet, by the Supreme Soviets of republics within the Russian Federation and by local Councils of People's Deputies.

CHAPTER II. PROCEDURES FOR, AND WAYS AND MEANS OF, PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES

ARTICLE 13. INITIATIVE IN PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES

1. Initiative in privatisation of state and municipal enterprises may ensue from the State Committee of the Russian Federation for the Management of State Property, territorial agencies thereof, the property management committees of ethnic state and ethnic- or administrative-territorial entities, the manager of an enterprise, or the staff of an enterprise, plant, production bay or other divisions of such enterprise, from buyers listed in Article 9 above, or again from other entities, including allied enterprises, banks, creditors, and agencies of power and administration.

Applications for privatisation of enterprises shall be submitted to the territorial agencies of the State Committee of the Russian Federation for the Management of State Property or to the property management committees of ethnic-state or ethnic or administrative-territorial entities. The form of such application and the amount of state duty payable upon submission thereof shall be determined by the Russian Federation Council of Ministers.

2. Applications from worker collectives shall be accepted for consideration if signed by at least half of all staff members of the given enterprise. Such applications shall be regarded as a statement of intent by the staff to found a partnership (joint-stock company) pursuant to Articles 15, 32 and 33 of the Law of the Russian Federation "On Enterprises and Entrepreneurial Activities" in privatisation of the enterprise.

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ARTICLE 14. PROCEDURES FOR CONSIDERATION OF APPLICATIONS FOR PRIVATISATION

1. Applications for privatisation of state and municipal enterprises shall be registered by the State Committee of the Russian Federation for the Management of State Property or a territorial agency thereof or by the property management committee of the appropriate ethnic-state or ethnic- or administrative-territorial entity on the day of filing of the same with such committee. Decisions on privatisation of an enterprise or on refusal to allow it to be privatised shall be passed by the appropriate committee within a month of registration of the application. The decision with respect to such application either on privatisation or on refusal to allow privatisation shall be brought in writing to the notice of the individuals, corporate bodies or worker collectives that have filed the registered application within three days of taking of such decision.

2. Refusals to allow privatisation of state or municipal enterprises may only take place in the following cases:

- if the applicant cannot be deemed a buyer pursuant to Article 9 above;

- if there are statutory restrictions on privatisation of the given enterprise;

- if the enterprise is on the list of facilities (groups of facilities) not subject to privatisation, which have been established by the State Programme for Privatisation or by republican or local privatisation programmes; and

- if the enterprise specified in the application has privatised before.

3. In the event that a decision on privatisation has been taken, a commission for privatisation of the enterprise shall be formed and a time-frame established for preparation of the appropriate privatisation plan. Such time-frame may not exceed three months after filing of the application.

The time-frame for elaboration of the privatisation plan may be extended by decision of the State Committee of the Russian Federation for the Management of State Property, but to no more than six months.

The commission for privatisation shall be obliged to consider draft privatisation plans submitted by the applicants.

4. The commission for privatisation of an enterprise shall include representatives of the State Committee of the Russian Federation for the Management of State Property, a territorial agency thereof or the property management committee of the appropriate ethnic-state or ethnic- or administrative-territorial entity, and officials of financial agencies. The Council of People's Deputies in the area where the enterprise is located, the management and staff of the enterprise, and the Russian Federation State Authority for Anti-Monopoly Policies and Support for New Economic Entities shall have the right to send their representatives to serve on the commission. The commission shall have the right to enlist experts, as well as specialised auditing, consulting and other organisations, in its work.

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5. The commission shall examine the plan for privatisation of the enterprise and send it for endorsement by the local Councils of People's Deputies or a representative duly authorised thereby, as well as to the staff of the enterprise. Should the Council of People's Deputies and the staff of the enterprise fail to take an appropriate decision within a week of receipt of the privatisation plan, the same shall be deemed endorsed. The time-frame for endorsement of the privatisation plan by the Council of People's Deputies and the staff may be extended at their request, but to no more than two weeks. The privatisation plan shall be approved by the appropriate property management committee.

Facilities and enterprises included in the State Register of Monopolist Associations and Enterprises shall be privatised by agreement with the Russian Federation State Authority for Anti-Monopoly Policies and Support for New Economic Entities if their charter fund exceeds Rbs500,000.

6. The privatisation plan of an enterprise shall determine the form and time-frame of privatisation, the initial price of such enterprise, the amount of the authorised capital of the joint-stock company or partnership, and the recommended form of payments (settlements). It may also include a plan for reorganisation of such enterprise, which may envisage, in particular, divesting divisions of the same to act as independent enterprises (including determination of authorised capital thereof) or sale of the assets of the enterprise.

In privatisation, enterprises may not be merged with or attached to others or stripped of the status of a corporate body (with the exception of cases of their liquidation with subsequent sale of their assets).

7. Should the staff reject a privatisation plan, the commission shall be obliged to propose another version of such plan. In the event of repeat rejection of the privatisation plan by the staff, ultimate say on finalising of the plan, on the form of privatisation and on procedures for the same shall belong to the appropriate Council of People's Deputies or an agency duly authorised thereby.

8. If a local Council of People's Deputies rejects a plan for privatisation of an enterprise in the ownership of the Russian Federation, the commission shall be under an obligation to propose another version of such plan. In the event of repeat rejection of the privatisation plan, the final decision shall be taken by the State Committee of the Russian Federation for the Management of State Property.

9. Should a privatisation plan be approved, the enterprise shall be included by the appropriate committee in the plan/schedule for tender, auctions or for transformation of enterprises into joint-stock companies.

10. If requested by the Russian Federal Property Fund, branches thereof or by the property management committees of the appropriate ethnic-state or ethnic- or administrative-territorial entity, the commission shall be obliged to submit all available documents and reference material on an enterprise being privatised.

ARTICLE 15. FORMS OF PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES

1. State and municipal enterprises shall be privatised by way of their purchase through tender or at an auction, through sale of ownership interests (shares) in the capital of such enterprises or through redemption of the property of enterprises leased out fully or partially.

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Privatisation of enterprises through sale of ownership interests in their capital (shares) shall be carried out after transformation of state or municipal enterprises into joint-stock companies. Procedures for such conversion shall be laid down by regulations to be approved by the State Committee of the Russian Federation for the Management of State Property.

2. The property of a state or municipal enterprise leased out with the right of redemption thereof pursuant to a lease agreement concluded prior to entry into force of the Russian Federation Law "On Privatisation of State and municipal Enterprises in the Russian Federation" shall be privatised in the following ways:

- pursuant to the lease agreement if the amounts, time-frame, procedures and other terms and conditions of redemption have been established by the same with granting of all benefits envisaged for the staff of a state and municipal enterprise to the staff of the leasehold enterprise; and

- through transformation of the leasehold enterprise into an open-type joint-stock company with the leaseholders' right of first refusal to shares owned by the state or by the local Councils of People's Deputies if such decision has been taken by a general meeting (conference) of the leaseholders.

The leaseholders of trading, public-catering and consumer-service enterprises not enjoying the right to redeem leased property under the terms and conditions of the appropriate lease agreements concluded therewith prior to entry into force of the Russian Federation Law "On Privatisation of State and Municipal Enterprises in the Russian Federation" may be granted such right should members of the leaseholder collective agree to the spinning off of individual divisions of such enterprises in the process of privatisation.

Procedures for granting the right of redemption, for conclusion of a supplementary agreement and for conversion of a leasehold enterprise into a joint-stock company shall be laid down by Regulations on Procedures for Privatisation of Property of Leased-Out State and Municipal Enterprises to be endorsed by the State Committee of the Russian Federation for the Management of State Property.

In other cases, the lessor of the property of a state (municipal) enterprise deemed a buyer pursuant to Article 9 above may only win the right to redeem leased property in accordance with procedures established by Articles 20, 21 and 24 below.

3. The following shall be taken into account by the commission for privatisation when choosing the recommended form of privatisation:

- opinion of the staff of the enterprise;

- proposals from buyers, submitted to the appropriate property management committee along with the application for privatisation;

- sectoral characteristics of the facility slated for privatisation;

- evaluation of its authorised capital;

- socio-economic significance of the enterprise to the given territory; and

- opinion of the representative of the property fund.

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4. Decisions on the form of privatisation of an enterprise and on the form of payment shall be adopted by the State Committee of the Russian Federation for the Management of State Property, territorial agencies thereof or the property management committees of the appropriate ethnic-state or ethnic or administrative-territorial entity in accordance with Procedures established by Article 14 above.

5. After the commission for privatisation completes its work, the State Committee of the Russian Federation for the Management of State Property, a territorial agency thereof or the property management committee of the appropriate ethnic-state or ethnic- or administrative-territorial entity shall reorganise or liquidate the state (municipal) enterprise, found a joint-stock company and transfer its shares and founder rights or the enterprise marked for privatisation or again the assets of the liquidated enterprise for sale to the Russian Federal Property Fund or to the property fund of the appropriate republic within the Russian Federation or of the appropriate region, territory, autonomous region, autonomous district, district or city.

6. The Russian Federal Property Fund and the property funds of republics within the Russian Federation, of regions, territories, cities (except cities under district jurisdiction) and of districts (except boroughs in cities) shall annually conclude with the State Committee of the Russian Federation for the Management of State Property and the appropriate property management committees, within a month of endorsement of the State Programme for Privatisation, agreements regulating procedures for transfer of enterprises marked for privatisation, of ownership interests (equities, shares) in the capital thereof and of the assets of enterprises either in the process of being liquidated or already liquidated and for execution of documents required there for, procedures and standard time-frames for sale of property slated for privatisation (including on a category-by-category basis), and mutual payments procedures, and defining the mutual liability of the parties.

Such agreements may also determine the powers of the committees as representatives of the property funds.

7. Closed-type joint-stock companies (limited-liability partnerships), part of the authorised capital which is in state and/or municipal ownership, shall be subject to conversion into open-type joint-stock companies. Procedures and time-frames for such conversion shall be established by the Programme for Privatisation.

ARTICLE 16. PREPARATION OF ENTERPRISE FOR PRIVATISATION

1. Preparation of an enterprise for privatisation shall include stock-taking of its fixed assets and non-production assets marked for privatisation, as well as reorganisation of such enterprise, including detachment of divisions thereof to act as independent enterprises (including determination of the authorised capital thereof).

2. The make-up of social-infrastructure assets on the balance of an enterprise and guidelines for using such assets shall be determined in reorganisation of such enterprise.

Should such assets be included among property marked for privatisation, the buyer shall have the right to use them in any manner consistent with the requirements of legislation in effect in the Russian Federation, with the agreement between the buyer and the seller and with the collective-bargaining agreement.

ARTICLE 17. DETERMINATION OF INITIAL PRICE OF ENTERPRISES SLATED FOR PRIVATISATION

The initial price of an enterprise for sale thereof in tender (at an auction) or the amount of the authorised capital of a joint-stock company may not be determined other than pursuant to Instructions on Methods of Evaluation of Property Slated for Privatisation to be endorsed by the State Committee of the Russian Federation for the Management of State Property.

ARTICLE 18. INFORMATION ON STATE AND MUNICIPAL ENTERPRISES MARKED FOR PRIVATISATION

1. Information on state and municipal enterprises offered for sale through tender or at an auction, on sale of shares of joint-stock companies, and on the results of privatisation deals shall be published in the special newsletters of property funds (in the case of enterprises, the authorised capital of which exceeds Rbs50 million -- in the newsletter of the Russian Federal Property Fund) at least a month before the date of such tender, auction or public offering of the shares. In privatisation of property in municipal ownership, the appropriate property management committee may establish a shorter notice period, but one of no less than two weeks.

2. The following information about enterprises marked for privatisation must be publicised:

- size of the site and the characteristics of the buildings located thereon, as well as the terms and conditions of their lease or sale;

- ownership interests (equities, shares) in the Capital of other enterprises, which are owned by the enterprise in question;

- intangible assets (patents, trademarks and others);

- obligations of the enterprise (including commercial, budget and credit obligations);

- balances of the enterprise for the previous year;

- detailed range of products manufactured; and

- average number of employees.

Upon presentation by the Russian Federation State Authority for Anti-Monopoly Policies and Support for New Economic Entities and territorial agencies thereof, data shall be published on the share of products (works, services) of the enterprise marked for privatisation on the appropriate commodity market.

The form, in which the data shall be submitted, and the list of additional data to be provided shall be decided by the State Committee of the Russian Federation for the Management of State Property.

3. Privatisation shall be carried out under the public supervision of employees of the enterprises being privatised, buyers, social organisations (associations) and people's deputies.

ARTICLE 19. FORMS OF PAYMENT

1. Payments for acquired enterprises or ownership interests (equities, shares) in the capital of joint-stock companies (partnerships) may be one-off or by instalments.

2. Redemption of the property of a state or municipal enterprise pursuant to a lease agreement shall be deemed payment by instalments.

Lease payments for use of the property of state or municipal enterprises may not be taken into account in payment for purchase of the property.

3. The form of payment shall be determined in an agreement between the seller and the buyer and may be among the terms and conditions of acquisition of an enterprise through tender.

ARTICLE 20. ACQUISITION OF STATE AND MUNICIPAL ENTERPRISES THROUGH TENDER

1. State and municipal enterprises, as well as the assets of liquidated enterprises (including those in the process of being liquidated), shall be sold through tender in cases where buyers are required to fulfil certain terms and conditions as established by the appropriate property management committee.

2. General procedures for arranging bids shall be governed by regulations to be endorsed by the Government of the Russian Federation. The regulations shall define the terms and conditions of buyer participation in bids procedures for examining bids, and procedures for endorsement of the decision taken and for formalisation of the title to the appropriate enterprise.

The terms and conditions of bids shall be published at least 30 days before the date of tender.

In privatisation of property in municipal ownership, the appropriate property management committee may establish a shorter notice period, but one of at least two weeks.

3. Sale of an enterprise through tender shall be carried out by a tender commission to be formed by the Russian Federal Property Fund, by local branches thereof or by the property fund of the appropriate ethnic-state or ethnic- or administrative-territorial entity with the involvement of the worker collective, the local Council of People's Deputies and the Russian Federation State Authority for Anti-Monopoly Policy and Support of New Economic Entities, as well as experts enlisted by them.

4. The tender commission shall determine the terms and conditions, procedures and time-frame of tender.

5. The purchase price of an enterprise shall be determined in the course of competitive bid examination. It may not be more than 25 per cent below the initial price. Should an enterprise fail to be sold in tender, it shall be withdrawn from the same.

6. The priority right to buy enterprises specialising in the traditional handicrafts and trades of the peoples of the north and small ethnic groups shall belong to members of the indigenous population. Privatisation of such enterprises shall be based on their residual value.

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ARTICLE 21. ACQUISITION OF STATE AND MUNICIPAL ENTERPRISES AT AUCTIONS

1. State and municipal enterprises, as well as the assets of liquidated enterprises, shall be sold through auctions in cases, where buyers are not required to meet any terms and conditions.

In such case, property rights shall go to the highest bidder.

2. Procedures for holding auctions, the terms and conditions of buyer participation therein, and procedures for payments and for registration of the right of ownership shall be determined by regulations to be approved by the Russian Federation Council of Ministers.

3. Auctions shall be held by the Russian Federal Property Fund, its local branches, the property funds of ethnic-state and ethnic- or administrative-territorial entities, or their duly appointed representatives.

4. The purchase price of an enterprise at an auction shall be determined in the course of the bidding. It may not be lowered by more than 30 per cent of the initial price. Should the enterprise fail to be sold at such price, it shall be withdrawn from the auction. In such case, the commission for privatisation shall review the plan for privatisation of the enterprise and (or) its initial price within a month.

ARTICLE 22. ACQUISITION BY BUYERS OF SHARES OF OPEN JOINT-STOCK COMPANIES

1. The founder of an open joint-stock company established on the basis of a state or municipal enterprise shall be the State Committee of the Russian Federation for the Management of State Property, a territorial agency thereof or the property management committee of the appropriate ethnic-state or ethnic or administrative-territorial entity. Pursuant to Article 34 of the Law of the Russian Federation "On Enterprises and Entrepreneurial Activities", the founder shall submit the decision to establish the joint-stock company, an application for registration, the company charter and the certificate of payment of state duty to the Council of People's Deputies in the area, where the enterprise is located, for registration.

2. After registration of a joint-stock company, the property management committee shall hand over the founder rights and the appropriate share holding to the appropriate property fund.

3. The fund shall sell the shares to the staff members of the enterprise marked for privatisation on preferential terms pursuant to Article 23 below within a month of fund of the company. Part of the shares may be transferred to the enterprise employee joint-stock company establishment fund established pursuant to Article 25 below, or may be exchanged for shares of investment funds. The shares shall be sold pursuant to regulations on sale of shares in privatisation to be endorsed by the State Committee of the Russian Federation for the Management of State Property.

4. The shares remaining unsold shall remain at the disposal of the Russian Federal Property Fund or the property funds of the appropriate ethnic-state or ethnic or administrative-territorial entities.

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ARTICLE 23. BENEFITS TO EMPLOYEES OF ENTERPRISES BEING PRIVATISED WITH RESPECT TO ACQUISITION OF SHARES THEREOF

1. The employees of state and municipal enterprises transformed into joint-stock companies shall have the right to acquire shares of such enterprises on easy terms. The discount on the price of a share of stock in such case shall amount to 30 per cent of the face value thereof. The face value of a share holding offered per staff member on easy terms shall not exceed the amounts established by the State Programme for Privatisation. The shares in excess of such amounts shall be acquired by enterprise employees on the same terms as everyone else.

A grace period for payment for shares acquired on easy terms by enterprise employees shall be granted for three years as of the moment of joint-stock company registration. In such case, the size of the down payment may not be less than 15 per cent of the face value of the shares.

2. Benefits with respect to acquisition of shares of a joint-stock company shall apply to former employees of the enterprise marked for privatisation, who have retired on a pension or worked at such enterprise for at least 10 years in the case of men or 7.5 years in the case of women and left such enterprise on their own initiative or under a staff-reduction plan, as well as to persons entitled pursuant to legislation to return to their former jobs at such enterprise.

3. The State Programme for Privatisation may establish extra benefits to employees of individual enterprises or groups of enterprises (industries).

ARTICLE 24. ACQUISITION OF STATE AND MUNICIPAL ENTERPRISES BY EMPLOYEES THEREOF THROUGH TENDER (AUCTION)

1. In order to take part in tender (an auction) to acquire a state or municipal enterprise as a buyer, members of its staff may, pursuant to the Russian Federation Law "On Enterprises and Entrepreneurial Activities", found a partnership (joint-stock company) or sign a joint-activity agreement.

2. If a partnership (joint-stock company) taking part in tender (an auction) or in an appropriate joint-activity agreement includes at least a third of the scheduled workforce of the enterprise marked for privatisation or of a division thereof, it shall have the right in acquisition of the enterprise (division thereof) to pay by instalments, as well as to use the part of the balance of the incentive fund proportional to the number of the employees, who have joined the partnership (joint-stock company) or signed the agreement.

3. Such partnership (joint-stock company) shall have the right to a grace period for payment in acquisition of the respective state or municipal enterprise. The grace period may not exceed three years and the down payment shall not be smaller than 25 per cent of the purchasing price of the enterprise.

This provision shall apply to the contracts of sale and lease agreements concluded prior to enforcement of this Law.

4. Should such partnership (joint-stock company) and other buyers offer identical competitive bids, such partnership (joint-stock company) shall have the priority right to acquire the enterprise.

ARTICLE 25. ACQUISITION OF SHARES (EQUITIES) FROM ENTERPRISE EMPLOYEE JOINT-STOCK COMPANY ESTABLISHMENT FUNDS

1. The staff of joint-stock companies (partnerships) shall have the right to buy shares (equities) from enterprise employee joint-stock company establishment funds if the same have been formed as a share of the authorised capital of the enterprise pursuant to the privatisation plan.

2. Such funds shall be formed with contributions from the Russian Federal Property Fund or from the property funds of the appropriate ethnic-state or ethnic- or administrative-territorial entities.

The decision on establishment of such fund shall be taken on the basis of an agreement with the buyer.

The size of such fund may not exceed 10 per cent of the enterprise's authorised capital.

No such funds shall be formed in auctioning off of the property and non-tangible assets of liquidated enterprises.

3. The unredeemed shares of such fund and the receipts from sale of shares (equities) shall be owned by the appropriate property fund or its appointed representative. The available resources of such fund shall be spent exclusively on acquiring shares (equities) of the appropriate joint-stock company (partnership). The shares (equity) not bought out from such fund shall not carry voting rights.

ARTICLE 26. SOCIAL GUARANTEES TO EMPLOYEES OF STATE AND MUNICIPAL ENTERPRISES BEING PRIVATISED

1. Enterprises acquired through tender or at an auction, as well as joint-stock companies and partnerships, shall be liable for obligations arising from employment arrangements under the collective-bargaining agreement in effect prior to privatisation.

2. Not later than six months after the date of registration by the buyer of the property rights thereof to a privatised state or municipal enterprise or the date of transformation of the same into a joint-stock company (partnership), its manager shall be obliged to conclude a collective-bargaining agreement with its staff, should the same decide so.

3. Acquisition of assets of a liquidated enterprise shall not encumber the buyer with any obligations that would be connected with employment arrangements previously in effect at such enterprise.

4. Discharge of the employees of a privatised enterprise and their subsequent employment shall be regulated by legislation on labour and employment in effect in the Russian Federation and in republics within the same.

CHAPTER III. FINAL PROVISIONS

ARTICLE 27. EXECUTION OF PRIVATISATION DEALS

1. Regardless of the form of privatisation, the buyers and sellers of state and municipal enterprises shall sign agreements by and between themselves pursuant to legislation in force in the Russian Federation and in republics making part thereof.

2. These agreements shall include the following data: information about the seller, buyer and intermediary, the name of the enterprise and location thereof, the make-up and value of the enterprise's assets, including the price of the site (in the event of sale of the same) or the terms and conditions of lease thereof, the number and price of the shares of the joint-stock company (size of the equity in the limited-liability company), procedures for transfer of the enterprise, the form and time-frame of payment, mutual commitments by the sides regarding further uses of the enterprise, the terms and conditions under which the enterprise has been sold through tender, and other terms and conditions established by agreement by and between the parties.

3. The right of ownership of an enterprise shall pass from seller to buyer as of the moment of registration of the contract of sale in accordance with procedures established by legislation in effect in the Russian Federation.

The registered contract of sale shall be the document certifying the buyer's right of ownership. Non-performance of statutory actions to register contracts of sale shall be appealed against in a court of justice or a court of arbitration.

No state duties shall be levied on any privatisation deals and certificates.

4. Alteration of the organisational or legal form of an enterprise shall be registered pursuant to the Russian Federation Law "On Enterprises and Entrepreneurial Activities".

ARTICLE 28. OBLIGATIONS OF SELLER AND BUYER

1. The seller of a state or municipal enterprise shall be required to publish an announcement about privatisation of the same, show the assets of the enterprise and documents concerning the financial and economic status thereof to a buyer at his request, execute the transaction, and transfer the enterprise (property, equity, shares) to the buyer, as well as perform other obligations specified by the agreement between the seller and the buyer.

2. The buyers of state and municipal enterprises shall become successors in rights to the property rights and obligations thereof pursuant to the appropriate agreements and legislation in effect in the Russian Federation.

3. The legal rights of the sellers and the buyers indicated in this Article shall respectively end and arise as of the moment of registration of the agreement by and between them.

4. Disputes over recognition of privatisation deals to be null and void shall be examined in accordance with the procedures and within the time-frames established by legislation in effect in the Russian Federation.

ARTICLE 29. STATE GUARANTEES OF RIGHTS OF PARTICIPANTS IN PRIVATISATION

The state shall guarantee respect for the rights of sellers, buyers, their representatives and intermediaries in privatisation. If privatisation has been in violation of legislation in force in the Russian Federation on privatisation of state and municipal enterprises, the State Committee of the Russian Federation for the Management of State Property, the property management committees of the appropriate ethnic-state or ethnic- or administrative-territorial entities, agencies of the Russian Public Prosecutor's Office, sellers, buyers, their representatives and intermediaries shall start legal proceedings for abrogation of the respective transaction, rectification of the violations, and bringing of those at fault to account.

The Council of People's Deputies shall exercise control over privatisation from the standpoint of correspondence thereof to applicable legislation.

ARTICLE 30. INVALIDITY OF PRIVATISATION DEALS

1. Transactions to purchase state or municipal enterprises shall be deemed invalid in the following cases:

- if privatisation of the enterprise has not been authorised by the State Committee of the Russian Federation for the Management of State Property, a territorial agency thereof or the property management committee of the appropriate ethnic-state or ethnic- or administrative-territorial entity;

- if the rules of the tender or of the auction have been grossly violated;

- if the buyer has refused to pay the purchase price or ownership interest (equity, shares) in the capital of the joint-stock company (partnership);

- if the enterprise or the ownership interest (equity shares) in the capital of the joint-stock company (partnership) has been acquired by an entity that does not have the right to do so;

- if illegal payment facilities have been used to make the purchase;

- if there has been collusion between the seller and the buyer on an illegitimate division of the property or on a reduction in the price of the enterprise (equity, shares);

- if the buyer has been granted illegal preference and benefits compared with other bidders;

- if the terms and conditions, under which the enterprise was acquired through tender, have been violated;

- if the requirements of the Russian Federation's anti-monopoly legislation have been violated; and

- for other reasons envisaged by the Russian Federation Civil Code.

2. Privatisation deals concluded in violation of this Law shall be deemed invalid in accordance with procedures established by legislation in force in the Russian Federation.

3. Disputes over recognition of privatisation deals to be invalid shall be examined in a court of justice or a court of arbitration on the basis of statements of claim to be lodged by the seller, buyer, intermediary, public prosecutor, a people's deputy of the Russian Federation, a member of the Council of People's Deputies, the State Committee of the Russian Federation for the Management of State Property, a territorial agency thereof, the property management committee of the appropriate ethnic-state or ethnic- or administrative-territorial entity, and other duly authorised state agencies in accordance with procedures and within time-frames established by legislation in force in the Russian Federation and in republics making part of the same.

ARTICLE 31. LIABILITY FOR VIOLATIONS OF THIS LAW

1. The following violations of this Law by officials of agencies of state government, of the local administration, property funds, enterprises, organisations and of institutions shall entail administrative liability:

- refusal to register an application for privatisation - punishable by a fine amounting to 5 to 10 guaranteed statutory minimum monthly wages;

- violation of time-frames for taking a decision on privatisation - punishable by a fine amounting to 5 to 10 guaranteed minimum monthly statutory wages;

- failure to publish an announcement about privatisation, concealment of information about an enterprise marked for privatisation from customers or intermediaries, misleading of a customer or intermediary about the make-up or price of the enterprise on sale, or concealment of information about the fact that the enterprise has been sold or about the results of tender or an auction -- punishable by a fine amounting to 10 to 30 guaranteed statutory minimal monthly wages. Data listed in this Paragraph shall be published at the expense of the official at fault;

- unjustified refusal to sell an enterprise (shares) -- punishable by a fine amounting to 2 to 10 per cent of the initial price of the enterprise marked for privatisation (shares);

- unjustified refusal to conclude a collective-bargaining agreement with the staff of a privatised enterprise or failure to fulfil demands for social guarantees to employees of enterprises marked for privatisation -- punishable by a fine amounting to 10 to 100 guaranteed statutory minimum monthly wages;

- disclosure of data about bidders before the start of tender or an auction -- punishable by a fine amounting to 2 to 20 guaranteed statutory minimum monthly wages; and

- refusal to pay for an enterprise (shares) required through tender or auction -- punishable by a fine amounting to 5 to 20 per cent of the selling price of the enterprise marked for privatisation (shares).

2. Procedures and time-frames for examining claims of offences listed in this Article and of other wrongdoing in privatisation shall be established by the Russian Federation Code on Administrative Offenses.

3. Claims of offences listed in Para 1 of this Article shall be examined by judges on their own, either based on statements (complaints) filed by property management committees, sellers, buyers, intermediaries, Russian Federation people's deputies, Councils of People's Deputies, officials of agencies of state power and management, local administrations, social organisations (associations) or on the initiative of a public procurator.

4. Property management committees and property funds at every level shall have the right where it concerns issues falling under their terms of reference pursuant to legislation in effect in the Russian Federation and republics within the same and to decisions by Councils of People's Deputies:

- to appear in a court of justice or a court of arbitration on behalf of the Russian Federation, republics within the same or appropriate ethnic- or administrative-territorial entities; and

- to send material to public prosecutor offices for decision-making on opening of criminal cases.

Such agencies shall be exempt from state duties in recourse to judiciary authorities.

STATE PROGRAMME OF PRIVATISATION OF STATE AND MUNICIPAL ENTERPRISES IN THE RUSSIAN FEDERATION FOR 1992 ADOPTED BY THE SUPREME SOVIET OF THE RUSSIAN FEDERATION ON 11TH JUNE 1992

1. INTRODUCTION

The State Programme of Privatisation of State/Municipally-Owned Enterprises of the Russian Federation for 1992 (hereinafter referred to as the Programme) has been developed in accordance with the terms of the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the RSFSR and shall establish the goals, targets, and the procedure of privatisation for 1992 and limitations in this area. The principal objectives of privatisation in 1992 shall be:

- to form a group of private owners contributing to the emergence of a socially oriented market economy;

- to raise the efficiency of enterprises through their privatisation;

- to ensure a safety net and to develop social infrastructure using the proceeds of privatisation;

- to contribute to the process of financial stabilisation in the Russian Federation;

- to provide a competitive environment and contribute to the demonopolisation of the national economy;

- to attract foreign investments; to provide the environment and institutional structures to expand the scale of privatisation in 1993-1994.

The requirements of the Programme shall be binding on all state bodies and authorities of republics within the Russian Federation, the autonomous region, autonomous districts, territories, regions, the cities of Moscow and St. Petersburg, as well as for local self governing bodies.

State/municipally-owned objects shall be divided, depending on the possibility of privatisation thereof in 1992, into following groups:

- objects and enterprises whose privatisation shall not be allowed;

- objects and enterprises that will only be privatised by a decision of the Government of the Russian Federation or the Governments of the republics within the Russian Federation (depending on the type of state property);

- objects and enterprises that will be privatised by a decision of the State Committee of the Russian Federation for the Management of State Property (hereinafter the GKI of Russia) taking into account the opinion of sectoral ministries;

- objects and enterprises that may be privatised only under local privatisation programmes;

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- objects, enterprises and structural units thereof privatised in the cases envisaged by the Law of the Russian Federation on the Privatisation of State/Municipally-Owned Enterprises of the Russian Federation, with the consent of their workers' collectives;

- objects and enterprises subject to mandatory privatisation.

Privatisation of property not included in binding targets and not subject to privatisation-related restrictions shall be conducted under local privatisation programmes or privatisation applications.

The Programme will not cover privatisation of State farms, land and housing.

2. CLASSIFICATION OF OBJECTS AND ENTERPRISES DEPENDING ON THE POSSIBILITY OF PRIVATISATION THEREOF IN 1992

2.1 OBJECTS AND ENTERPRISES WHOSE PRIVATISATION SHALL NOT BE ALLOWED IN 1992

2.1.1. Mineral, water and forest resources, airspace, continental shelf resources, territorial waters and sea economic zone of the Russian Federation, as well as the right to launch communications satellites into certain areas of the geostationary orbit and to operate them.

2.1.2. Natural territories that are protected or reserved for special use.

2.1.3. Historic and cultural heritage of the peoples of Russia (unique cultural and natural monuments as well as objects of historic, cultural, scientific and technological value including valuables stored in state museums, archives and libraries, including the premises in which they are located).

2.1.4. Funds of the federal budget of the Russian Federation, the Republican currency reserve of the Russian Federation, those of the Pension Fund of the Russian Federation and state extra-budgetary funds, the Central Bank of the Russian Federation as well as the gold reserve and the diamond reserve.

2.1.5. The Central Bank of the Russian Federation and enterprises, organisations and establishments ensuring the issue and storage of banknotes, Treasury notes, bonds and other state securities. Facilities and enterprises involved in the sorting of precious stones and affinage factories.

2.1.6. Organic and reserve equipment under the operational command of the Armed Forces of the Russian Federation, as well as that of the troops of the Security Ministry and the Ministry of the Interior of the Russian Federation.

2.1.7. Agencies financed out of budgets of all levels.

2.1.8. Enterprises and agencies of geological, mapping/geodetic and hydrometeorlogical services as well as those of services of environmental monitoring and of environmental protection.

2.1.9. Enterprises and agencies of the hygiene and epidemiologic, veterinary and forest and plant protection services.

2.1.10. Patent, standards and metrology agencies, and machine-testing facilities.

2.1.11. Pipeline facilities, enterprises, organisations and institutions.

2.1.12. Facilities of water-use and improvement systems and structures, as well as facilities and enterprises operating them.

2.1.13. TV and radio broadcasting centres.

2.1.14. Motor roads of general use and maintenance organisations.

2.1.15. Enterprises producing state awards and insignia.

2.1.16. Enterprises producing drugs and poisonous substances as well as those responsible for planting, cultivation and processes of narcotic and poisonous plants.

2.1.17. Port structures and facilities, nuclear-powered, training and hydrography ships, lighters, rescue ships and ships fighting oil spills at sea, the Atomflot repair and technology enterprise, the waterways and canals production associations, property owned by the detachment of Underwater River Construction Agency as well as shipping inspectorate.

2.1.18. Facilities, enterprises and equipment for the burial of solid industrial and household waste, solid and liquid radioactive waste as well as cattle burial grounds.

2.1.19. Facilities and enterprises of medical institutions and the prison system.

2.1.20. Civil engineering infrastructure facilities (including electricity, thermal energy and gas supply, water and sewerage pipelines, and street lighting) as well as city and district development facilities, and enterprises operating, maintaining,and servicing the above facilities.

2.1.21. Gas supply facilities of inter-regional and national importance.

2.1.22. Crematoria and cemeteries.

2.1.23. Enterprises producing fissionable and radioactive substances, nuclear weapons, and spacecraft; enterprises and facilities dealing with servicing, launches and tracking of spacecraft, as well as those engaged in research and development in the above fields.

2.1.24. Social security organisations and agencies, orphanages, old people's homes, boarding schools, hospitals and sanatoriums for disabled persons, children and senior citizens, as well as organisations and agencies involved in the prevention and treatment of mental, psycho-neurological, contagious, cancer, and skin and venereal patients, addicts as well as HIV-infected and AIDS-afflicted persons.

Note: Privatisation restrictions specified in 2.1.11, 2.1.12, 2.1.14, 2.1.21 shall be applied only to enterprises (divisions) dealing directly with the operation and maintenance of the facilities and systems referred to therein.

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2.2. OBJECTS AND ENTERPRISES TO BE PRIVATISED ONLY BY DECISION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION OR THE GOVERNMENTS OF THE REPUBLICS WITHIN THE RUSSIAN FEDERATION (DEPENDING ON THE TYPE OF STATE OWNERSHIP)

2.2.1. Facilities and enterprises producing and repairing any weapons systems and components, producing ammunition, explosives and fireworks, as well as those engaged in research and development in the above fields.

2.2.2. Civil defence and mobilisation facilities and installations.

2.2.3. Facilities and enterprises producing nuclear-related equipment.

2.2.4. Specialised grain elevators, refrigerators, and storage facilities designed for permanent storage of state and mobilisation reserves and stocks.

2.2.5. Extracting enterprises (excluding those producing raw materials under local authorities).

2.2.6. Enterprises processing precious metal ores, precious and semi-precious gems, radioactive and rare earth products.

2.2.7. Fuel and energy complex enterprises and associations (except for construction and construction-related enterprises) including electric power, coal, oil and gas producing and processing enterprises, export trans-shipment oil installations as well as oil installations of national and inter-regional importance.

2.2.8. Commercial banks (to be privatised in accordance with a special procedure).

2.2.9. Communications enterprises (except those within the "Rospechat" retail network).

2.2.10. Information and wireless agencies subordinate to the Press and Information Ministry of the Russian Federation.

2.2.11. Social, cultural and entertainment facilities (health, education, culture and sports) facilities and agencies in federal ownership or in the state ownership of republics within the Russian Federation, irrespective of their departmental affiliation (excluding facilities owned by enterprises and organisations).

2.2.12. Wholesale facilities servicing the Far North or equal regions including rotation settlements.

2.2.13. Foreign trade associations of the Foreign Economic Relations Ministry of the Russian Federation and other ministries and departments of the Russian Federation.

2.2.14. Printing enterprises and printing houses.

2.2.15. State-owned sanatoriums and resorts.

Applications to privatise facilities and enterprises specified in Section 2.2 of this Programme shall be submitted to the territorial agencies of GKI of Russia to be forwarded to the State Committee of the Russian Federation for the Management of State Property of which the applicant must be notified. Decisions on applications shall be made by the Deputy Chairman of the Government of the Russian Federation at the submission of GKI of Russia and the relevant ministry. Decisions on such applications shall be made within one month of their being filed with the territorial agencies of GKI of Russia.

This procedure shall be followed in relation to those facilities and enterprises referred to in Section 2.2. that cannot be regarded as those within the scope of Section 2.1. of this Programme.

2.3. OBJECTS AND ENTERPRISES TO BE PRIVATISED EXCLUSIVELY BY A DECISION OF GKI OF RUSSIA TAKING INTO ACCOUNT THE OPINION OF SECTORAL MINISTRIES

2.3.1. Enterprises in all sectors of national economy dominating at the federal or local level markets of products, works and services but not covered by Sections 2.1. and 2.2 of this Programme.

2.3.2. Large enterprises (with more than 10,000 employees or a book value of fixed assets over 150 million roubles as of January 1, 1992), not covered in Sections 2.1. and 2.2.

2.3.3. Real estate and property being released as a result of reductions in the Armed Forces of the Russian Federation except weapons to be eliminated in accordance with the international obligations of the Russian Federation as well as the released property of the Security Ministry of the Russian Federation and the Ministry of the Interior of the Russian Federation.

2.3.4. Railroad, air, maritime and river transport enterprises.

2.3.5. Construction enterprises and enterprises of national importance producing construction materials and structures.

2.3.6. State-owned cattle-breeding and horse-breeding plants, selection and hybridisation facilities, state seed inspectorates and laboratories testing the brands of agricultural crops, brand testing farms and grounds, farms breeding valuable and anadromous species of fish, State farms and animal farms.

2.3.7. Higher and specialised secondary establishments. Research and design centres as well as enterprises and establishments affiliated to the Russian Academy of Sciences, sectoral Academies, the Ministry of Health, and the Ministry of Sciences, Higher Education and Technological Policy of the Russian Federation, the Ministry of Education of the Russian Federation, Ministry of Environment and Natural Resources of the Russian Federation, and facilities of state research centres.

2.3.8. Medical equipment facilities and enterprises (including pharmacology and production of biomedical medications) except those specified in Section 2.1.16 of this Programme.

2.3.9. Enterprises producing alcohol, liquor, wine and tobacco products.

2.3.10. Enterprises and agencies producing infant food.

2.3.11. Mobilisation stocks (to be excluded from property of privatised enterprises).

2.3.12. Petrochemical supply facilities.

2.3.13. Enterprises of folk crafts and art.

Decisions on privatising facilities and enterprises covered in Section 2.3. of this Programme shall be made by GKI of Russia. Ministries and departments of the Russian Federation shall provide their opinion on draft decisions upon its request.

This procedure shall be followed in relation to those facilities and enterprises referred to in Section 2.3. that cannot be regarded as those within the scope of Sections 2.1 and 2.2. of this Programme.

When enterprises and facilities specified in Sections 2.2. and 2.3. above are privatised, GKI of Russia shall be entitled to keep controlling blocks of shares in federal ownership for a period of up to three years.

2.4. OBJECTS AND ENTERPRISES TO BE PRIVATISED EXCLUSIVELY UNDER LOCAL PRIVATISATION PROGRAMMES

2.4.1. Mass transit facilities (except taxis) and their maintenance and repair facilities.

2.4.2. Bath houses and laundries.

2.4.3. Funeral parlours except those referred to in 2.1.22 of this Programme.

2.4.4. Refuse processing plants.

2.4.5. Drugstores and pharmacies (subject to mandatory state licensing).

2.4.6. Social, cultural and entertainment facilities (health, education, culture and sports) facilities and agencies regardless of their departmental affiliation (except those covered by 2.2.11 and facilities owned by enterprises and organisations).

Decisions on privatising facilities and enterprises covered in Section 2.4 of this Programme shall be made by the relevant property management committees taking into account requirements of local privatisation programmes.

Restrictions on privatisation established by this Programme shall be binding on all state authorities, government agencies and local self-government bodies. No additional restrictions of privatisation may be imposed by these said bodies.

Privatisation of objects covered by the restrictions established by this Programme shall not be allowed without proper authorisation of appropriate bodies.

Privatisation restrictions under Sections 2.2. and 2.3. and 2.4. shall not imply any prohibition to transform state/municipally-owned enterprises into state/municipally-owned open-ended joint-stock companies.

Sale and purchase, transfer, exchange of shares or parts thereof between legal entities with a 25 per cent or greater share of state or municipal capital in their charter capital shall not be allowed unless otherwise provided by the laws of the Russian Federation.

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2.5. OBJECTS AND ENTERPRISES SUBJECT TO MANDATORY PRIVATISATION

Objects and enterprises most influencing the emergence and operation of a market infrastructure in the economy of the Russian Federation, as well as objects and enterprises whose inefficient operation impedes the economic development of Russia and the emergence of a market shall be subject to mandatory privatisation.

Such objects and enterprises are:

2.5.1. Wholesale and retail objects and enterprises including those involved in the marketing of industrial goods, catering facilities and consumer services (including open departmental retail outlets, catering facilities and consumer services);

2.5.2. Construction and construction materials producing facilities and enterprises (organisations);

2.5.3. State agricultural objects and enterprises including poultry farms (except State farms);

2.5.4. Enterprises processing agricultural produce, servicing agriculture and producing industrial goods for this sector;

2.5.5. Food processing and light industrial enterprises;

2.5.6. Enterprises in all sectors of economy that operate at a loss except those specified in Section 2.1 of this Programme;

2.5.7. Halted projects and unfinished construction whose planned construction time has expired;

2.5.8. Assets of enterprises liquidated with no succession rights;

2.5.9. Road transport enterprises except those specified in 2.4.1.

3. PRIVATISATION TARGETS SET BEFORE STATE AUTHORITIES

3.1. Privatisation targets for 1992 set before republics within the Russian Federation are set forth in Table 1, those set before Territories, Regions, and the Cities of Moscow and St.Petersburg are set forth in Table 2, those set before the Autonomous Region, Autonomous Districts are set forth in Table 3.

3.2. The targets are expressed as relative values (the share of privatised objects as percentage of the total number of objects in an industry that are subject to privatisation) and shall be the necessary minimum to be incorporated in local privatisation programmes.

Targets for privatisation of enterprises specified in 2.5.6 and 2.5.7 shall not be established.

3.3. Committees for the Management of State Property of the republics within the Russian Federation, the Autonomous Region, Autonomous Districts Territories, Regions, the Cities of Moscow and St. Petersburg shall draft local programmes based on the targets of this Programme and shall make projections for expected proceeds of privatisation.

Privatisation programmes approved by appropriate Councils of People's Deputies shall be submitted to GKI of Russia.

The Chairmen of Councils of People's Deputies, Heads of Administrations, Chairmen of GKIs and Chairmen of Property Funds at all levels shall be held personally responsible for ensuring that the targets set in this Programme are met.

4. RULES OF ALLOCATION OF PRIVATISATION PROCEEDS IN 1992 AND PROJECTIONS FOR SUCH PROCEEDS - 1992-1994

4.1 State/municipally-owned enterprises shall be privatised in 1992-1994 both on a remunerative and non-remunerative basis.

The projections of privatisation proceeds for enterprises to be privatised on a remunerative basis in 1992 presented as desegregated by industries in Table 4, have been calculated on the basis of effective demand for objects of privatisation in various industries and regions of the Russian Federation and will amount to 72 billion roubles, including:

- 15 billion roubles from personal savings of the population;

- 32 billion roubles from enterprises' economic incentives funds;

- 15 billion roubles from the funds of enterprises recognised as buyers under the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the RSFSR.

- 10 billion roubles from foreign investors.

Additional effective demand of the population will be provided in the fourth quarter of 1992 through the introduction of personal privatisation accounts (privatisation vouchers).

4.2. The projection of proceeds from privatisation in 1993 - 1994 is based on the effective demand for privatisation objects in various sectors and regions. Proceeds will amount to 350 billion roubles in 1993; 470 billion roubles in 1994.

Individual privatisation accounts and privatisation funds of enterprises shall be the major source for the purchase of privatised objects.

4.3. Proceeds of privatisation shall be allocated to appropriate budgets and management bodies in accordance with the rates shown in Table.

The allocation shall be valid after payments to the employees of privatised enterprises in accordance with the procedure established by the Programme.

4.4. The Government of the Russian Federation shall have the right to adjust the privatisation targets (upon consent of the republics within the Russian Federation) and rates of allocation of privatisation proceeds taking into account the state of the financial system of the Russian Federation and the situation on the property market.

4.5. No proceeds of privatisation shall be subject to taxation.

4.6. The property management committees and property funds at all levels shall be exempt from all taxes.

4.7. State duties shall not be levied on any privatisation transactions.

5. METHODS OF PRIVATISATION AND PRIVATISATION BENEFITS TO BE GRANTED IN 1992

5.1. A specific method for the privatisation of enterprises shall be selected by an appropriate committee for the management of state property guided by the results of work performed by a privatisation commission in accordance with the requirements of the Law of the Russian Federation on Privatisation of State/Municipally-Owned Enterprises in the Russian Federation, the State and local privatisation programmes, regulations issued by GKI of Russia and taking into account the opinion of the workers' collective of the enterprise subject to privatisation.

Formation of closed joint-stock companies as a result of transformation of state/municipally-owned enterprises shall not be allowed.

Formation of joint-stock companies (including holding companies) on the basis of concerns, leagues, agglomerations or other associations of enterprises comprising state/municipally-owned enterprises shall not be allowed except for the cases when their organisational and legal form made to conform with the laws of the Russian Federation

Property contributions made by state/municipally-owned enterprises to the charter capital of enterprises in any organisational or legal forms including associations of enterprises shall be deemed state/municipally-owned. Such contributions by enterprises shall be allowed only when duly authorised by the appropriate property management committees while their sale or other alienation shall be allowed only in accordance with the privatisation laws of the Russian Federation.

Formation of enterprises in any organisational and legal forms by associations of state/municipally-owned enterprises as well as by state authorities and local self government bodies shall not be allowed with the exception being committees for management of property and property funds acting within their competence as defined by the laws of the Russian Federation.

The successors of the above legal entities as founders and partners (shareholders) of previously formed enterprises shall be solely the appropriate property funds.

Decisions on separating structural units from enterprises in the course of their privatisation shall be made by appropriate committees for the management of property taking into account requirements of the Anti-Trust Law of the Russian Federation, in which case no consent of the workers' collective of the enterprise concerned shall be required. If the units are transformed into open joint-stock companies when they are separated, the managers of these units shall be fully entitled to benefits and advantages envisaged by 5.4 of the Programme.

5.2. All state/municipally-owned enterprises shall be divided into three categories depending on the method of privatisation used:

- Small-scale enterprises (with an average work force of up to 200 employees and book value of fixed capital less than 1 million roubles as of January 1, 1992) shall be sold at auction/tenders in accordance with the requirements hereof;

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- Enterprises with an average work force of more than 1,000 employees or a book value of fixed capital of more than 50 million roubles as of January 1, 1992 shall be privatised by being transformed into open joint-stock companies;

- The remaining enterprises may be privatised by any of the methods established hereby.

5.3. The following privatisation methods under this Programme shall be used in 1992:

- sale of shares of open-end joint-stock companies; sale of enterprises at auctions;

- sale of enterprises through commercial tenders (including those with a limited number of bidders); sale of enterprises through non-commercial investment tenders (investment bidding); sale of property (assets) of enterprises being liquidated and already liquidated; buy-out of rented assets.

5.4. If shares of open joint-stock companies formed by transforming state/municipally-owned enterprises (including those transformed previously into closed joint-stock companies) are sold, one of the following options for the granting of benefits to members of the worker's collective of the enterprise subject to privatisation shall be used at the suggestion of the workers' collective with the benefits covering:

- employees whose principal job is at the enterprise;

- people who are entitled to be re-employed by the enterprise under the law of the Russian Federation; and

- pensioners who retired from the enterprise or former workers of enterprise who have worked at the privatised enterprise not less than for 10 years in the case of men and 7 years and 6 months in the case of women and were discharged voluntarily or as a result of staff cuts;

- persons discharged from this enterprise as a result of staff cuts after January 1, 1992 and registered as unemployed.

Option 1:

All employees of the enterprise subject to privatisation shall be given free of charge as a one-off benefit inscribed preferred (non-voting) shares representing 25% of the charter capital but not more than 20 minimum monthly wages established by law for one employee;

common shares representing up to 10% of the charter capital but not more than 6 monthly wages established by law for one employee shall be sold by subscription to employees at a 30% discount of their face value and with deferred payment for a period of 3 years, with the down payment not less than 15% of the face value of the shares;

administrative officers of the privatised enterprise (director, deputy directors, chief engineer, chief accountant) shall be granted an option to buy common shares at their face value, but the total amount received by all the above mentioned administrative officers shall not exceed 5 % of the charter capital or 2000 minimum monthly wages established by law for one employee.

Option 2:

All employees of the privatised enterprise shall be granted the right to buy common (voting) shares representing 51 % of the charter capital. In this event:

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- neither a free-of-charge transfer of shares nor a concessionary sale of shares shall be allowed;

- the purchase price of the shares shall be determined according to the regulations issued by GKI of Russia;

- when transforming state/municipally-owned enterprises into joint-stock companies, property management committees may, at the request of the management of the enterprise subject to privatisation and upon agreement of the work collective, grant personally to employees of enterprises making part of a single technological complex with the enterprise subject to privatisation, the right to participate in a closed subscription for shares to be held among employees of the enterprise subject to privatisation;

- the total number of shares subject to the sale to employees of the transformed enterprise and to employees of enterprises making part of a single technological complex therewith may not exceed 51 per cent of the charter capital of the joint-stock company.

Option 3:

If a group of employees of an enterprise makes a commitment to carry out the privatisation plan of the enterprise and to avoid its bankruptcy, obtaining the agreement of the general meeting of the workers' collective to sign the appropriate agreement for a period of no more than one year (with no right of renewal), the members of such group shall be granted an option to buy, after the said agreement expires and its terms are carried out, 20 per cent of the charter capital in common shares of the enterprise at their face value. If the group fails to comply with the terms of the agreement, the right (option) shall be lost and the shares shall be sold under the established procedure.

The group shall be entitled to a vote equal to the 20 per cent voting power of the shares held by the appropriate property fund for the duration of the agreement.

The privatisation plan shall include the terms of the agreement that must be signed between the said group and the appropriate property fund. The agreement shall specify the obligations of the group members and the limits of their liability by the property they privately own (contributed as collateral) to the value of no less than 200 minimum monthly wages established by law of the Russian Federation for each member of the group.

When this option is used, common shares making up 20 per cent of the charter capital but not to excess of 20 minimum monthly wages established by law of the Russian Federation for one employee shall be sold to all employees of the enterprise (including the members of the group) at a discount of 30 per cent of their face value and under a 3-year deferred payment schedule.

In this case the down payment shall be of no less than 15 per cent of the face value of the shares.

Option 3 may be used only at enterprises with a work force of up to 200 employees and a book value of fixed assets from 1 million to 50 million roubles.

The decision to choose Option 2 or 3 shall be made by a general meeting of the workers' collective or certified by the signatures of the members of such collective. The decision shall be valid if voted for (signed) by at least 2/3 of the employees of the enterprise. In the absence of such a decision, benefits shall be granted under Option 1.

Under either option 10 per cent of proceeds from the sale of shares (except for shares sold to the members of the workers' collective of the privatised enterprise) shall be remitted to personal privatisation accounts of the enterprise's employees.

The procedure of free distribution of shares (under Option 1) as well as of distribution and transfer of proceeds to the employees' personal privatisation accounts shall be defined by the general meeting of the workers' collective.

Shares shall be sold to the employees of the enterprise within the benefits granted hereby through closed subscription in accordance with the Regulation to be approved by GKI of Russia. If the amount of the subscription exceeds the level envisaged in the option used, the privatisation commission of the enterprise shall decrease the shares of all employees in an equal proportion in order to comply with this restriction.

Shares bought or obtained free of charge under procedures mentioned above or acquired on other terms under the Regulation on the sale of stock to be approved by GKI of Russia may be sold by shareholders without any restrictions.

5.5. The sale at an auction shall mean the purchase of privatisation objects by legal entities and individuals for private ownership in open bidding when the buyers are not obliged to meet any requirements with respect to the object of privatisation.

The property right in this case shall be transferred to the buyer who offered the maximum price in the bidding.

In this event employees of the enterprise subject to privatisation as well as persons discharged from that enterprise as a result of staff cuts after January 1, 1992 and registered as unemployed, who have not obtained the ownership rights as a result of the auction, shall receive up to 30 per cent of the purchase price of the enterprise but not more than 20 minimum monthly salaries established by law of the Russian Federation for one employee.

5.6. The sale at a tender (commercial or non-commercial investment tender) shall mean the purchase of privatisation objects by legal entities and individuals for private ownership in the cases when buyers are obliged to meet certain of the following requirements with respect to the privatisation object (such as continuing sale of certain products or purpose of the object, preserving a certain number of jobs, financing of the social sector, preserving certain investment levels, etc.).

In this event employees of the enterprise subject to privatisation as well as persons discharged from that enterprise as a result of staff cuts after January 1, 1992 and registered as unemployed, shall receive up to 20 per cent of the purchase price of the object but not more than 15 minimum monthly salaries established by law for one employee.

The commercial tender may be held as open bidding or closed tender.

The right to purchase the object of privatisation shall be granted to the buyer who offered the maximum price at the commercial tender.

The sale through commercial tender with a restricted number of bidders shall be allowed (in accordance with the local privatisation programmes) to privatise trade, catering and customer service facilities, upstream agro-processing enterprises, as well as production and maintenance enterprises servicing agriculture located in rural areas and townships; in the Extreme North or equivalent areas. Only employees of such privatised enterprises, local residents and persons expelled from the area (including those outside of the Russian Federation) during mass repressions may bid at such tenders.

Non-commercial investment tenders shall be held to sell state/municipally-owned enterprises when the buyer is required to carry out an investment programme. In this case the right of ownership shall be granted to the buyer whose proposal best meets the criteria established by the privatisation plan.

A regulation on investment tenders shall be approved by GKI of Russia.

When state/municipally-owned enterprises (as well as assets of liquidated enterprises) are sold at a tender or auction to a partnership (joint-stock company) comprising at least 1/3 of the employees of the privatised enterprise (unit), or purchased (except for buy out situations), such partnership or joint-stock company shall be entitled to a discount of 30 per cent of the purchase price and a deferred payment plan for a term of 3 years. The size of the down payment must be at least 25% of the purchase price.

5.7. Individuals and legal entities winning the ownership of privatised state/municipally-owned enterprises at an auction/tender shall have the right to sign long term (at least 15 years) lease contracts for the state/municipal non-residential premises, buildings and structures occupied by those enterprises but not making part of the acquired assets, as well as the right to acquire for ownership the said premises, buildings and structures (not earlier than one year after the contract of purchase and sale of the enterprise enters into force) as well as land occupied by those enterprises under the procedure established by the Government of the Russian Federation. Any changes in the terms as compared to the lease contracts previously signed by those enterprises shall be allowed only by agreement of the parties, unless otherwise provided by the contract.

5.8. Should an individual or a legal entity recognised as buyer under Article 9 of the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the RSFSR be the only bidder at an auction or tender, the enterprise shall be sold to the said individual or entity at a price determined under the procedure established by GKI of Russia. The enterprise shall be sold within two weeks of the auction/tender by the relevant property fund. Employees of the enterprise who have become the buyer shall not be granted benefits in case of such a sale.

5.9. The property (assets) of enterprises liquidated or subject to liquidation shall be sold exclusively at auctions.

In this event employees of the enterprise as well as persons discharged from that enterprise as a result of staff cuts after January 1, 1992 and registered as unemployed, shall be paid up to 30 per cent of the purchase price of the property (assets) but not more than 20 minimum monthly wages established by law of the Russian Federation per one employee.

5.10. Rented state/municipally-owned property may be privatised by various methods depending on whether the right to a buy-out is envisaged in the relevant contract on the consent of the workers' collective of the rented enterprise approved by at least one half of members of that collective.

Leaseholders who have the right to a buy-out under their lease contracts shall exercise this right as follows:

- in accordance with the lease contract entered into before the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the RSFSR came into force if the amount, terms, procedure and other conditions of a buy-out were established by the lease contract;

- through the transformation of the enterprise operating on the basis of lease of state/municipal property into an open joint-stock company with the right of priority buy-out of shares by the leaseholders, by the local Soviet of People's Deputies.

The collective of a structural division within wholesale and retail enterprise, catering facilities and consumer services operating under a lease contract envisaging a right to buy-out shall have the right, if it decides to transform into an independent enterprise, to buy out a share of state/municipal property proportionate to its share in the total production marketing of products, works and services, at a 30 per cent discount to the value stipulated in the lease contract.

Provisions of this paragraph shall cover leased enterprises and co-operatives only provided they are transformed into an appropriate organisational and legal form required by the law of the Russian Federation.

5.11. The right of buy-out of leased property shall be granted to partnerships formed by the workers' collectives of divisions separated from enterprises formed by workers' collectives of state/municipal enterprises before the entry into force of the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the RSFSR on the basis of lease of assets of those enterprises, that do not have such a right under the lease contract.

In these cases the said partnership shall also be granted the priority right of long term lease (for a term of at least 15 years) of state/municipally-owned non-residential premises, buildings and structures occupied by them as well as the right to buy them for ownership but not earlier than after one year since the rented property was bought out under the procedure to be established by GKI of Russia.

5.12. In 1992 state/municipally-owned enterprises (regardless of restrictions imposed on their privatisation) may set up, at the expense of remaining economic incentive and profit funds, a privatisation fund with personal privatisation accounts to be opened for employees. Funds remitted to the personal privatisation accounts shall not be subject to taxation.

In 1992 all remaining economic incentive funds as of January 1, 1992, and up to 50 per cent of actual profits retained by the enterprise after taxes and other mandatory payments may be remitted to the privatisation fund. The following assets may not be transferred to the privatisation fund:
- profits made by selling fixed capital of the enterprises and depreciation allowances.

Once state/municipally-owned enterprises are privatised, funds transferred to personal privatisation accounts shall be left at the disposal of employees. Should an employee be dismissed, those funds may be transferred at his or her request to privatisation account.

The right to ownership of the funds transferred to a personal privatisation account of the employee may be transferred to other persons by way of inheritance or gift. Funds from personal privatisation accounts may only be used by employees to buy any state/municipally-owned assets in the course of privatisation.

5.13. For the purposes of protecting the interests of employees of enterprises subject to privatisation, from the decision of the workers' collective to file an application for privatisation of the state/municipally-owned enterprise or a division thereof or from the filing of application by another individual or legal entity and until the date when the property right of the buyer is created (the first meeting of shareholders is held) it shall not be permissible to:

- reorganise, liquidate or restructure the enterprise;

- alter or terminate previously signed contracts for the lease of premises, buildings, and structures occupied by the enterprise;

- without permission from an appropriate property management committee.

Any changes in the staff schedule or staff cuts shall not be permitted during this period without the agreement of the workers' collective of the enterprise or a division thereof.

5.14. In 1992 the following additional benefits shall be granted in the course of privatisation of state/municipally-owned enterprises:

- A partnership set up by employees of the enterprise where the number of disabled persons exceeds 50 per cent of the total number of employees shall have the priority right to buy their enterprise at the residual value thereof; if the ratio of disabled persons employed is less than 50 per cent but more than 10 per cent of the total number of employees, the terms of sale of the enterprise must include the commitment by the buyer to preserve the number of jobs reserved for disabled persons by the privatisation plan and to provide special working conditions for them;

- A partnership set up by at least 2/3 of the employees of state/municipally-owned enterprises engaged in traditional crafts and trades of peoples of the Extreme North (provided that at least 50 per cent of the members of the partnership are members of small ethnic groups indigenous to the area concerned) and engaged in traditional arts shall have the priority right to purchase the enterprise at the residual value;

- When privatising mining enterprises located in the Extreme North or equivalent, the benefits and advantages envisaged hereby for the members of their workers' collectives shall also cover former employees of those enterprises who have worked there for at least five years and the members of gold-mining teams leasing property of those enterprises who have worked there for at least five seasons;

- When privatising enterprises involved in the upstream agro-processing in the logistical support of agricultural production, shares may be sold through a closed subscription to agricultural producers in the territory of the relevant republic within the Russian Federation (autonomous region, autonomous district, territory, region) recognised as buyers under the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the Russian Federation.

6. TERMS OF LENDING FOR PRIVATISATION PURPOSES IN 1992

Commercial banks of the Russian Federation and foreign banks may finance privatisation transactions on commercial terms without restrictions.

The Central Bank of the Russian Federation shall not provide credits for these purposes.

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Local privatisation programmes may envisage allocation of credits for these purposes out of the funds at the disposal of the Soviets of People's Deputies concerned.

7. USE OF INDIVIDUAL PRIVATISATION ACCOUNTS IN 1992

7.1. A system of individual privatisation accounts/vouchers shall be introduced no later than November 1, 1992. The Government of the Russian Federation shall submit the total amount to be transferred to individual privatisation accounts (allocated by vouchers) as well as the payment to each citizen for the approval of the Supreme Soviet of the Russian Federation no later than one month before the start of payments under the individual privatisation account/vouchers scheme.

7.2. For the purposes of servicing the circulation and distribution of funds on individual privatisation account/vouchers, the committees for the management of state property at all levels shall set up and promote the setting up of financial institutions (investment companies, funds, etc.) to ensure that the business community is broadly involved in these financial institutions.

7.3. GKI of Russia and local committees for the management of state property shall complete before September 1, 1992, the transformation of enterprises the book value of whose fixed capital exceeded 50 million roubles as of January 1, 1992, except those whose privatisation is not allowed under Section 2.1 hereof, into open joint-stock companies for the purposes of providing to citizens the opportunity of buying assets to be privatised using their individual privatisation account/vouchers. For these purposes, the managers of such enterprises shall be responsible for drafting constituent documents of open joint-stock companies and their privatisation plans based on requirements of the Law of the Russian Federation On Privatisation of State/Municipally-Owned Enterprises in the Russian Federation, this Programme and the standard documents approved by the Government of the Russian Federation. The draft plans shall be submitted by enterprise managers, upon agreement of the working collective, to appropriate property management committees before September 1, 1992.

8. USE OF FOREIGN INVESTMENTS

8.1. Foreign investments may be used for privatisation of state/municipally-owned enterprises on the following terms:

- Foreign investors may participate in auction, tender or investment bidding. In transactions with foreign investors, only appropriate committees for the management of state property may act as sellers of property subject to privatisation;

- If the foreign investor is the sole participant in the auction or commercial or investment tender, the enterprise concerned may be sold to such investor. In this event special valuation of the assets of the enterprise shall be conducted according to the methods approved by GKI of Russia;

- Foreign investors shall be allowed to take part in the privatisation of enterprises and facilities of, public catering and consumer services, as well as small-scale (with the average work force of no more than 200 employees or the book value of up to 1 million roubles as of January 1, 1992) of industry, construction and road transport only at the decision of local authorities or bodies duly authorised by them;

- Decisions to allow foreign investors to participate in the privatisation of enterprises and facilities of the fuel and energy complex, enterprises producing and processing precious metal ores, precious and semi-precious stones, precious metals, radioactive and rare-earth products, shall be made by the Government of the Russian Federation or the Governments of republics within the Russian Federation (depending on the type of state property) at the time when a decision is made to allow privatisation of such facilities and enterprises.

No other restrictions on foreign participation in privatisation shall be imposed.

8.2. Mutual payments under transactions with foreign investors shall be made in the currency of the Russian Federation taken from special bank accounts to be opened in accordance with the laws of the Russian Federation.

8.3. Foreign individuals not registered as entrepreneurs in their respective countries of origin shall be recognised as foreign investors with respect to their participation in privatisation.

9. MUTUAL RELATIONS BETWEEN STATE PRIVATISATION BODIES, AND THEIR RELATIONS WITH OTHER STATE AUTHORITIES AND BUDGETS OF ALL LEVELS

9.1. Appropriate property funds shall be the sellers of state/municipally-owned enterprises and other state/municipally-owned assets.

When the Government of the Russian Federation and GKI of Russia make a privatisation decision delegated to their competence by this Programme, they shall represent the interest of the autonomous region, autonomous districts, the territories, regions, the Cities of Moscow and St.Petersburg and ensure their protection.

Standing commissions of the Soviets of People's Deputies concerned shall supervise the fulfilment and validity of privatisation transactions.

In regions where property funds (offices of the Russian Federal Property Fund) have not been set up, all their functions shall be performed, at the request of the Soviets of People's Deputies concerned Russian Federal Property Fund, by appropriate property management committees.

9.2. Powers delegated by the appropriate property management committee to a ministry, department, or a local administration body shall expire when the decision is taken to privatise the enterprise concerned.

9.3. The ministries and departments of the Russian Federation shall develop their recommendations regarding the specific situation in their sector to be taken into consideration in the course of privatisation and exercising proprietary powers and submit such recommendations to GKI of Russia, upon obtaining the consent of the State Committee of the Russian Federation on Anti-Trust Policies and the Support of New Economic Ventures.

9.4. In order for the property funds at different levels to exercise their proprietary powers at shareholder meetings of joint-stock companies where controlling blocks of shares were reserved for the state, they may use as proxies representatives of appropriate ministries and departments of the Russian Federation and managers of enterprises.

10. THE SETTING UP OF AD HOC FINANCIAL FUNDS USING PRIVATISATION PROCEEDS

10.1. Privatisation proceeds shall be understood to include all cash revenues from the sale of objects of privatisation as well as other revenues obtained in the course of privatisation (including registration fees, deposits, etc.).

Dividends and lease payments obtained by property funds and property management committees shall not be considered proceeds of privatisation and shall be transferred to special accounts minus bank transaction fees.

10.2. Privatisation proceeds, except for funds on individual privatisation accounts/vouchers, received by appropriate Soviets of People's Deputies in accordance with the rates established hereby, shall be set aside to establish the following ad hoc funds:

- social safety nets for the population;

- implementation of environmental projects;

- demonopolisation and restructuring;

- development of social and civil engineering infrastructures of cities and regions as well as covering budget deficits.

Proceeds from privatisation of federal property under the operational command of the Armed Forces of the Russian Federation, the Security Ministry of the Russian Federation and the Ministry of the Interior of the Russian Federation shall be used to set up a fund for the social protection of servicemen.

10.3. The procedure for the setting up of such funds, amounts of money to be remitted for such purposes and the manner of expenditure shall be determined by the appropriate Soviets of People's Deputies.

11. REQUIREMENTS FOR LOCAL PRIVATISATION PROGRAMMES

11.1. Local privatisation programmes shall be developed by committees for the management of property of the constituent republics of the Russian Federation, autonomous region and autonomous districts, territories, regions, cities (except for towns below district-level centres), districts (except for city districts) and shall be approved by appropriate Soviets of People's Deputies which shall be entitled to assign privatisation-related tasks to government authorities and management bodies (local self-governing bodies) subordinate to them in accordance with this Programme.

11.2. Local privatisation programmes shall be developed amended in compliance with the requirement hereof and approved not later than one month after the publication of this Programme. Then the local programmes shall be published in the press of appropriate Soviets of People's Deputies and submitted to GKI of Russia.

11.3. Local privatisation programmes shall be approved for a period of one year and shall meet the following binding requirements:

- not to be inconsistent with this, not to contain proposals on the privatisation of objects not subject to privatisation or subject to restrictions (except for Section 2.4) in accordance with this Programme, not to impose additional restrictions on privatisation of facilities and enterprises;

- to meet fully the binding requirements and objectives set by this Programme;

- to contain lists of specific objects groups of objects subject to mandatory privatisation for the purposes of achieving targets and meeting mandatory objectives under this Programme;

- to contain projections for expected proceeds from privatisation, the procedure and options for their use;

- to contain a list of privatisation-related restrictions to be imposed under paragraph 2.4. of this Programme;

- to envisage specific measures aimed at countering monopolies and providing a competitive environment, at using these ad hoc funds and foreign investments for these purposes.

11.4. Committees for the management of property of republics within the Russian Federation, of the autonomous region, autonomous districts, territories, regions, cities and districts may make amendments to local privatisation programmes with the consent of the appropriate Supreme Soviets and the Soviets of People's Deputies.

11.5. Forms and terms of submitting reports on the achievement of targets set by this Programme shall be established jointly by GKI of Russia and the Russian Federal Property Fund upon agreement with the State Statistics Committee of the Russian Federation.

11.6. Chairmen of the local Soviets of People's Deputies and property funds, heads of administrations and chairmen of local committees for the management of property shall be responsible for the implementation of local privatisation programmes.

11.7. GKI of Russia shall supervise the implementation of local privatisation programmes.

LAW OF THE RSFSR ON 'FOREIGN INVESTMENTS IN THE RSFSR' NO.1534, DATED APRIL 7, 1991

This Law defines the legal and economic funds for the investment of foreign capital on the territory of the RSFSR, and is aimed at attracting and efficiently using in the Russian Federation's economy, material and financial resources, advanced machinery and equipment and technologies, and managerial know-how from foreign countries.

The provisions of this Law are in force on the territory of the RSFSR and apply to all foreign investors and enterprises with foreign investments.

CHAPTER I. GENERAL PROVISIONS

ARTICLE 1. FOREIGN INVESTORS

Foreign investors in the RSFSR may be:

- foreign legal entities, including, in particular, any companies, firms, enterprises, organisations or associations set up and legally empowered to make investments in accordance with the legislation of the country where they are located;

- aliens, stateless persons and Soviet citizens domiciled abroad, provided they have been registered for the purpose of conducting economic activity in the country of their citizenship of permanent residence;

- foreign states;

- international organisations.

ARTICLE 2. FOREIGN INVESTMENTS

Foreign investments shall be all types of material and intellectual values placed by foreign investors in objects of entrepreneurial and other types of activity with the aim of deriving a profit (or an income).

ARTICLE 3. INVESTMENT OF FOREIGN CAPITAL

Foreign investors shall have the right to make investments on RSFSR territory by:

- holding shares in enterprises set up jointly with legal entities and citizens of the RSFSR and other Union republics;

- setting up enterprises that will wholly belong to foreign investors, and also subsidiaries of foreign legal entities;

- acquiring enterprises, property complexes, buildings and other structures; participating and holding shares in enterprises, owning bonds and other securities; and also other property which, under the legislation in force on RSFSR territory, may belong to foreign investors;

- acquiring rights to use land and other natural resources;

- acquiring other property rights;

- engaging in other investment-related activities that are not prohibited by the legislation in force on RSFSR territory, including the granting of loans, credits, property and property rights.

USSR currency shall be used by foreign investors to make investments according to the procedure and under the terms prescribed by the legislation in force on RSFSR territory.

ARTICLE 4. OBJECTS OF FOREIGN INVESTMENT

The objects of foreign investment of RSFSR territory may be any objects that are not legislatively prohibited with respect to making such investments. They may include:

- newly formed and modernised fixed and current assets in all sectors and spheres of the national economy;

- securities;

- money deposits for specific purposes;

- scientific and technical products;

- rights to intellectual values;

- property rights.

ARTICLE 5. LEGAL REGULATION OF FOREIGN INVESTMENTS IN THE RSFSR

Relationships connected with foreign investments in the RSFSR shall be regulated by the present Law, and also by other legislative acts and international treaties effective on RSFSR territory. Where the rules laid down by an international treaty effective on RSFSR territory differ from those prescribed by legislative acts of the RSFSR, the rules of the international treaty shall be applied.

CHAPTER II. STATE GUARANTEES OF THE PROTECTION OF FOREIGN INVESTMENTS

ARTICLE 6. THE LEGAL REGIME GOVERNING FOREIGN INVESTMENTS

Foreign investments made on RSFSR territory shall enjoy full and unconditional legal protection, which shall be guaranteed by the present Law, and by other legislative acts and international treaties in force on RSFSR territory. The legal regime governing foreign investments and the investment activity of foreign businessmen shall not be less favourable than the regime established for the property, property rights and investment activity of legal entities and citizens of the RSFSR, except for the cases envisaged by the present Law.

ARTICLE 7. GUARANTEES AGAINST CONFISCATION, AND ALSO AGAINST ILLEGAL ACTIONS ON THE PART OF STATE BODIES AND THEIR OFFICIALS

1. Foreign investments in the RSFSR shall not be subject to nationalisation, requisition or confiscation, except for the emergency cases envisaged by legislative acts, when such measures shall be taken in the public interests. In cases of nationalisation or requisition, the foreign investor shall be paid prompt, adequate and effective compensation.

Decisions on nationalisation shall be adopted by the Supreme Soviet of the RSFSR. Decisions on requisition and confiscation shall be passed according to the procedure stipulated by the legislation in force on RSFSR territory.

Decisions by bodies of state administration on the confiscation of foreign investments may be appealed against in RSFSR courts.

2. Foreign investors shall be entitled to compensation for damage, including missed gain, caused to them as a result of execution of instructions from RSFSR state bodies or their officials which contradict the legislation in force on RSFSR territory, and also as a consequence of these bodies or their officials improperly discharging their legislation stipulated duties towards the foreign investor concerned or towards an enterprise with foreign investments.

ARTICLE 8. COMPENSATION AND INDEMNIFICATION OF FOREIGN INVESTORS FOR LOSSES

1. The compensation payable to a foreign investor must correspond to the real value of his investments being nationalised or requisition i.e. to its value before the time when the actual or the forthcoming nationalisation or requisition became officially known.

The compensation must be paid without unjustified delay in the currency in which the investments were initially made, or in any other foreign currency acceptable to the foreign investor. Before payment, interest shall be added to the compensation sum in accordance with the interest rate effective on RSFSR territory.

2. Compensation for losses, including missed gain, caused to a foreign investor as a result of the actions indicated in Clause 2 of Article 7 shall be paid by the body which permitted the said actions to occur.

ARTICLE 9. THE PROCEDURE FOR RESOLVING DISPUTES

1. Investment-related disputes over the amount and terms or procedure for the payment of compensation shall be resolved in the Supreme Court of the RSFSR, unless a different procedure is laid down by the relevant international treaty effective on RSFSR territory.

2. The relevant international treaty effective on RSFSR territory may provide for recourse to international means of settling disputes arising in connection with foreign investments made on RSFSR territory.

ARTICLE 10. GUARANTEES OF TRANSFER OF PAYMENTS IN CONNECTION WITH FOREIGN INVESTMENTS

Foreign investors who have paid the appropriate taxes and fees shall be guaranteed unhindered transfer of payments abroad in connection with the investments made by them, provided these payments have been made in foreign currency, and in particular:

- income on investment derived, among other things, as profit, a share of profit, dividends, interest, licence fees and commissions, payments for technical aid and maintenance service, and other remunerations;

- sums payable on grounds of rights to money claims, and of demands to fulfil contractual obligations of economic value;

- sums received by investors in connection with partial or total liquidation, or the sale of their shares;

- compensations provided for in Article 8 of the present Law.

ARTICLE 11. GUARANTEES OF THE USE OF PAYMENTS IN USSR CURRENCY ON RSFSR TERRITORY

1. The payments indicated in Article 10 of the present Law and received by foreign investors in USSR currency from sources in the RSFSR and other Union republics may be re-invested on RSFSR territory and used in accordance with the legislation in force in the RSFSR.

Foreign investors may keep their rouble funds in current and settlement accounts with banks situated on RSFSR territory which have the appropriate licence of the Central Bank of the RSFSR, without the right to transfer abroad money from the said accounts.

Foreign investors may use their rouble funds in these accounts to purchase foreign currency on the domestic currency market according to the procedure prescribed by the legislation in force on RSFSR territory.

2. Enterprises with foreign investments that produce goods of key national-economic importance that replace imports which shall be confirmed by the findings of the RSFSR Ministry of Foreign Economic Relations, the RSFSR Council of Ministers, and the Councils of Ministers of the republics within the RSFSR) may, using the hard-currency fund of the RSFSR and those of the republics within the RSFSR respectively, and by agreement with the foreign investor concerned, convert his rouble profit into foreign currency at an agreed-upon rate, but not lower than the rate used by the State Bank of the USSR in its foreign-economic transactions.

CHAPTER III. THE ESTABLISHMENT AND LIQUIDATION OF ENTERPRISES WITH FOREIGN INVESTMENTS

ARTICLE 12. ORGANISATIONAL-LEGAL FORMS AND TYPES OF ENTERPRISES WITH FOREIGN INVESTMENTS

1. On the territory of the RSFSR enterprises with foreign investments shall be set up and operate as joint-stock companies and other economic societies and partnerships, as envisaged by RSFSR legislation.

2. On the territory of the RSFSR the following enterprises may be set up and operate:

- enterprises with foreign equity (joint ventures), and also their daughter enterprises and subsidiaries;

- enterprises wholly owned by foreign investors, and also their daughter enterprises and subsidiaries;

- subsidiaries of foreign legal entities.

ARTICLE 13. THE PROCEDURE FOR SETTING UP ENTERPRISES WITH FOREIGN INVESTMENTS

1. An enterprise with foreign investments may be set up either by founding one or as a result of a foreign investor acquiring shares in an enterprise founded earlier without foreign investments, or by his acquiring the entire enterprise.

2. Enterprises with foreign investments shall be founded according to the procedure stipulated by the legislation, effective on RSFSR territory, on enterprises and entrepreneurial activity, economic societies and partnerships, with due account taken of the addenda attached to the present Law.

3. Where a foreign investor acquires shares in an enterprise founded earlier without foreign investments, and also where he acquires such an enterprise, he shall do so in accordance with the procedure stipulated by the legislation in force on RSFSR territory, taking into account the addenda attached to the present Law.

ARTICLE 14. SUBSTANTIATION STUDY FOR ENTERPRISES WITH FOREIGN INVESTMENTS

1. When setting up an enterprise with foreign investments which involves large-scale construction or reconstruction, the appropriate preliminary substantiation study shall be carried out. In certain cases the establishment of enterprises with foreign investments shall necessarily require the relevant expertise of the sanitary-epidemiological services and an ecological inspection. All types of substantiation studies shall be conducted and the relevant permits issued according to the general procedure prescribed by the legislation in force on RSFSR territory.

2. With regard to enterprises with foreign investments whose ecological impact may affect the territory of more than one republic within the RSFSR, the ecological study shall be conducted by a joint commission set up on a parity basis by the relevant bodies of the republics concerned within the RSFSR. The required permits shall be issued by the RSFSR State Committee for Ecology and Use of Natural Resources on the strength of the report of a joint commission of experts.

ARTICLE 15. FOUNDING DOCUMENTS OF ENTERPRISES WITH FOREIGN INVESTMENTS

1. The founding documents of an enterprise with foreign investments must specify the object and purposes of its activity, the composition of the partners, the amount and procedure for forming its statutory capital, the value of the share of each of the partners, the structure, composition and competence of its management bodies, the decision-making procedure, the questions requiring unanimous decision, and the procedure for liquidating the enterprise. In addition to this, the founding documents may include other provisions that do not contradict the legislation in force of RSFSR territory and reflect the specific features of the enterprise's activity.

2. Contributions to the statutory capital of an enterprise with foreign investments shall be valued by agreement between its partners on the basis of world-market prices. Where such prices are lacking, the value of the contributions shall be determined by agreement among the partners. The valuation may be made either in USSR currency or in a foreign currency with the value of the contributions converted into roubles according to the exchange rate that the USSR State Bank applies in its foreign-economic operations.

ARTICLE 16. STATE REGISTRATION OF ENTERPRISES WITH FOREIGN INVESTMENTS

1. The state registration of enterprises with foreign investments shall be effected by the RSFSR Ministry of Finance or by another authorised state body.

Enterprises whose foreign investments exceed 100 million roubles shall be registered by the RSFSR Ministry of Finance with the permission of the RSFSR Council of Ministers. The RSFSR Council of Ministers must, within two months from the date the application is submitted to the RSFSR Ministry of Finance, issue a permit or provide the applicant with a well-founded reason for refusing.

2. The state registration of enterprises with foreign investments shall be effected where the following documents are available:

1) for joint ventures:

(a) the founders' written application requesting the registration of the enterprise being set up;

(b) two sets of notarised copies of the founding documents;

(c) the expertise required as provided for by the law;

(d) for Soviet legal entities, notarised copies of the decision of the owner of the assets to set up the enterprise concerned, or copies of the decision of a body authorised by him, and also notarised copies of the founding documents for each Soviet legal entity participating in the establishment of the joint venture concerned;

(e) a document attesting to the foreign investor's solvency issued by the bank or other credit-financial institution servicing him (with a certified translation into Russian);

(f) a statement from the commercial register of the foreign investor's country of origin, or an equivalent document testifying to his legal status in conformity with the legislation of the country where he resides, to his citizenship or domicile (with a certified translation into Russian);

2) for enterprises wholly belonging to foreign investors:

(a) the foreign investor's written application for registration;

(b) two sets of notarised copies of the founding documents;

(c) a document attesting to the foreign investor's solvency issued by the bank or other credit-financial institution serving him (with a certified translation into Russian);

(d) a statement from the commercial register of the foreign investor's country of origin (with a certified translation into Russian);

(e) in the cases provided for by the law, the relevant expertise;

3) for subsidiaries of enterprises with foreign investments and subsidiaries of foreign legal entities:

(a) an application for registration signed by the head of the enterprise setting up the subsidiary;

(b) a notarised copy of a statement from the decision of the enterprise's management body authorised to set up a subsidiary;

(c) two notarised copies of the subsidiary's statute;

(d) notarised copies of the founding documents of the enterprise setting up the subsidiary;

(e) as regards the foreign legal entity, a statement from the commercial register of his country of origin or an equivalent document testifying to his legal status in accordance with the legislation of the country where he resides (with a certified translation into Russian);

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(f) in the cases provided for by the law, the relevant expertise.

3. Also subject to state registration shall be all addenda and amendments made in the founding documents of already registered enterprises with foreign investments, and in those of their subsidiaries, and also data on their liquidation.

A notarised copy of the decision of the competent body of the enterprise with foreign investments about the amendments or addenda made in its founding documents shall be presented by this enterprise to the registering body not later than 30 days after their adoption. The said amendments and addenda made in the founding documents shall take effect only upon their registration.

ARTICLE 17. TIME-LIMITS FOR THE REGISTRATION OF ENTERPRISES WITH FOREIGN INVESTMENTS

The Ministry of Finance of the RSFSR or another authorised state body must, within 21 days of the date of submission of an application, register the enterprise with foreign investments or communicate to the applicant the reasons for refusal.

A registered enterprise with foreign investments shall be issued a standard certificate of registration. An enterprise with foreign investments shall acquire the right of a legal entity from the moment of its registration. The local authorities in the area where the enterprise is situated shall be notified of the registration and announcement on registration shall be published in the press.

ARTICLE 18. REFUSAL TO REGISTER ENTERPRISES WITH FOREIGN INVESTMENTS

Denial of state registration to an enterprise with foreign investments shall be possible only where the procedure for forming such an enterprise, established by the legislation in force on RSFSR territory, has been violated, or where the documents necessary for registration are incompatible with it. Denial of registration may be appealed against in accordance with legal procedure.

ARTICLE 19. LIQUIDATION OF ENTERPRISES WITH FOREIGN INVESTMENTS

1. The liquidation of an enterprise with foreign investments shall be effected in the cases and in accordance with the procedure provided for by the legislation in force on RSFSR territory which applies to the respective organisational-legal forms of enterprises.

2. Should after a year following the registration of an enterprise with foreign investments there is no documentary confirmation that each of the partners has paid not less than 50 per cent of his contributions to the statutory capital as indicated in the founding documents, then the body that had registered the given enterprise shall declare the enterprise non-existent and pass a decision on its liquidation. Information about this shall be published in the press.

3. The registration of the liquidation of an enterprise with foreign investments shall be effected by the body that registered it on the strength of the report of the liquidation commission and of the liquidation balance sheet confirmed by an auditing organisation. Information of the liquidation shall be published in the press.

CHAPTER IV. CONDITIONS FOR THE FUNCTIONING OF ENTERPRISES WITH FOREIGN INVESTMENTS

ARTICLE 20. TYPES OF ACTIVITY

An enterprise with foreign investments may engage in any types of activity that meets the purposes provided for in the enterprise's Statute, with the exception of those prohibited by the legislation in force on RSFSR territory.

To conduct insurance and intermediary activities connected with the movement of securities, an enterprise with foreign investments must obtain a licence from the RSFSR Ministry of Finance. Banking requires a licence from the Central Bank of the RSFSR. The RSFSR Council of Ministers may specify other types of activity which shall be conducted by enterprises with foreign investments only on the basis of a special permit (or licence).

ARTICLE 21. DAUGHTER ENTERPRISES, SUBSIDIARIES AND REPRESENTATIVE OFFICES OF ENTERPRISES WITH FOREIGN INVESTMENTS

1. An enterprise with foreign investments may set up daughter enterprises having the rights of a legal entity, and also subsidiaries and representative offices on RSFSR territory and beyond its borders, including in foreign states, in compliance with the regulations established by the legislation in force on RSFSR territory, by the legislation of the Union republics, and/or by the relevant legislation of the foreign states concerned.

2. The subsidiaries and representative offices of enterprises with foreign investments shall operate on the basis of their statutes approved by these enterprises. They shall have the right to open accounts in banking institutions in the RSFSR.

ARTICLE 22. TERMS FOR THE REALISATION OF GOODS, OPERATIONS AND SERVICES ON THE MARKET OF THE RSFSR

An enterprise with foreign investments may, on a contractual basis, specify the terms for realising its products/operations/services on the market of the RSFSR including the prices for them, and also the terms for delivering goods and rendering services obtained on this market. The enterprise with foreign investments shall pay for the delivery of goods and the rendering of services obtained from the RSFSR market, and shall also pay rent for housing and non-dwelling premises on RSFSR territory, in USSR currency.

ARTICLE 23. ASSOCIATIONS AND UNIONS OF ENTERPRISES WITH FOREIGN INVESTMENTS

Enterprises with foreign investments may, on a voluntary basis, unite into unions, associations, concerns, and inter-sectoral, regional and other amalgamations on terms that do not contradict the anti-monopoly legislation in force on RSFSR territory and in accordance with the procedure prescribed by the legislative acts of the RSFSR.

Within the framework of such amalgamations the payments in hard currency by enterprises with foreign investments may be regulated.

ARTICLE 24. CUSTOMS DUTIES

1. Assets brought into the RSFSR as contributions of foreign investors to the statutory fund of enterprises with foreign investments within the time-limits established by their founding documents for its formation, and also assets intended for their own material production, shall be exempt from customs duties and import taxes.

2. Assets brought into the RSFSR by foreign employees of enterprises with foreign investments for their own needs shall be exempt from customs duties.

ARTICLE 25. EXPORT AND IMPORT OF GOODS AND SERVICES

1. Enterprises wholly owned by foreign investors and joint ventures with foreign investments amounting to more than 30 per cent in their statutory capital, shall be entitled without a licence to export their products and import goods for their own needs, except for the cases provided for by international agreements effective on RSFSR territory. The procedure for identifying goods of their own manufacture intended for export, and goods imported by the enterprises for their own needs, shall be established by the RSFSR Council of Ministers on the basis of the rules concerning the origin of goods that are accepted in to world practice.

2. The hard currency proceeds of the said enterprises from the export of their own products shall remain entirely at their disposal. The export and import of other goods/services shall be carried out by all enterprises with foreign investments on general terms.

ARTICLE 26. SELF-REPAYMENT IN HARD CURRENCY

All hard currency expenditures connected with the conduct by enterprises with foreign investments of various types of economic activity on RSFSR territory, including transfers abroad of the foreign investor's share of profit, shall be paid for from their hard currency earnings from the given type of activity, and also from other sources of obtaining foreign currency permitted by legislation. Operations with foreign currency shall be transacted by enterprises with foreign investments in accordance with the procedure stipulated by the legislation in force on RSFSR territory.

ARTICLE 27. INSURANCE OF ASSETS AND INSURANCE AGAINST RISKS

The insurance of the assets of an enterprise with foreign investments and insurance against risks shall be effected at its own discretion, unless otherwise stipulated by the legislation in force on RSFSR territory.

ARTICLE 28. TAXATION

Enterprises with foreign investments and also foreign investors shall pay taxes established by the legislation in force on RSFSR territory.

Taxation benefits may be established for enterprises with foreign investments operating in priority sectors of the national economy and in some particular regions.

ARTICLE 29. AUDITING FOR PURPOSES OF TAXATION

Auditing for the purpose of taxing the financial and commercial activity of enterprises with foreign investments shall be carried out by auditing organisations of the RSFSR.

ARTICLE 30. BOOK-KEEPING ACCOUNTS AND REPORTS

The accounts and reports of enterprises with foreign investments on RSFSR territory shall be kept according to the rules in force in the foreign investor's country of origin.

For the purpose of balance sheet assessment and accounting, an enterprise with foreign investments shall convert its hard currency into roubles according to the rate used by the State Bank of the USSR in its foreign economic transactions.

ARTICLE 31. SECURITY FOR OBLIGATIONS

The assets of an enterprise with foreign investments may be used as security for all types of its obligations, including the attraction of loans. Its rights of ownership of buildings, structures and equipment, and other property rights, may serve as security for obligations.

Mortgaged assets or property rights may be sold by the mortgagee for roubles or foreign currency at contractual prices, including at auctions, to legal entities and citizens of the RSFSR, and in the cases provided for by legislative acts in force in the RSFSR, and also to foreign legal entities and natural persons and their associations.

ARTICLE 32. RIGHTS TO INTELLECTUAL PROPERTY

1. The protection and execution of rights to the intellectual property of enterprises with foreign investments shall be guaranteed in accordance with the legislation in force on RSFSR territory.

Enterprises with foreign investments shall conclude with their employees contracts in regard to the rights to objects of intellectual property created in keeping with the assignments confirmed by the enterprises' documents.

2. Patents for an invention, industrial sample and a trade mark shall be issued to an enterprise on concluding the relevant contract between the employee and the enterprise. This contract, in addition to transferring to the enterprise the employee's right to a patent, shall specify the enterprise's reciprocal duties to provide material, production and social conditions for the employee. Where the said contract between the employee and the enterprise with foreign investments has not been concluded, the patent shall be issued to the author of the invention or the industrial or commodity sample. The enterprise shall have the right to use this invention, industrial sample or trade mark on the terms stipulated by the contract concluded with the inventor holding the patent.

3. An enterprise with foreign investments shall take independent decisions on patenting abroad inventions and industrial samples belonging to it.

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ARTICLE 33. LABOUR RELATIONS

1. Labour relations, including questions of hire and dismissal, work and recreation regime, terms of remuneration, guarantees and compensations at an enterprise with foreign investment shall be regulated by collective agreement (contract) and by individual labour agreements (contracts).

The terms of collective and individual labour agreements (contracts) must not worsen the conditions of the enterprise's employees compared with the terms stipulated by the legislation in force on RSFSR territory.

2. Aliens may be employees of enterprises with foreign investments and members of their management bodies. The terms of hire, work and rest and recreation and also the pension provisions for foreign employees shall be agreed upon in labour agreement (contract) concluded with each of them individually. The wages received in hard currency by foreign employees may be transferred by them abroad after payment of income tax.

3. Trade unions at enterprises with foreign investments shall conduct their activity on the basis of the legislation in force on RSFSR territory.

ARTICLE 34. SOCIAL INSURANCE AND SECURITY FOR EMPLOYEES OF ENTERPRISES WITH FOREIGN INVESTMENTS

1. Social insurance for workers at enterprises with foreign investments and their social security (with the exception of the pension scheme for foreign employees) shall be regulated by the legal norms of the legislation in force on RSFSR territory.

2. Payments for the pension schemes for foreign employees at enterprises with foreign investments shall be remitted to the respective funds in the countries of their permanent residence in currency and under the terms of these countries.

Enterprises with foreign investments shall make deductions for the state social insurance of Soviet and foreign employees and deductions for the pension schemes of Soviet employees according to the rates established for enterprises and organisations in the RSFSR.

CHAPTER V. ACQUISITION BY FOREIGN INVESTORS OF EQUITY IN ENTERPRISES, SHARES AND OTHER SECURITIES

ARTICLE 35. ACQUISITION BY FOREIGN INVESTORS OF EQUITY, STOCKS, SHARES AND OTHER SECURITIES OF ENTERPRISES

1. Foreign investors shall have the right to acquire equity, stocks, shares and other securities of enterprises situated on RSFSR territory. Equity, stocks and shares in enterprises may be purchased by foreign investors for USSR currency received as income from sources on the territory of the RSFSR and other Union republics, as well as for foreign currency. In the latter case, the foreign currency shall be converted into roubles according to the rate of exchange used by the State Bank of the USSR in its foreign economic transactions.

A foreign investor shall not use USSR currency, bought at a rate of exchange higher than the rate used by the USSR State Bank in its foreign economic transactions, to acquire equity, stocks, shares and other securities.

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2. Where payment for equity, stocks, shares in an enterprise is made by the foreign investor in foreign currency, this enterprise shall be regarded as an enterprise with foreign investments. Where payment is made in USSR currency, the enterprise shall be regarded as an enterprise with foreign investments provided the foreign investor owns in it more than 50 per cent of equity, stocks, shares. In this case, the enterprise shall enjoy the privileges provided for in Article 25 of the present Law.

3. The acquisition by foreign investors of equity, stocks, shares and other securities shall be subject to registration at the RSFSR Ministry of Finance or other authorised state bodies.

4. The acquisition by foreign investors of shares and other securities at stock exchanges shall be regulated by the legislative acts of the RSFSR on stock exchanges and exchange transactions.

ARTICLE 36. ACQUISITION BY FOREIGN INVESTORS OF STATE-ISSUED SECURITIES

Foreign investors may acquire state-issued securities with the permission of the Ministry of Finance of the RSFSR or central financial bodies or the republics within the RSFSR.

ARTICLE 37. PARTICIPATION OF FOREIGN INVESTORS IN PRIVATISATION

1. Foreign investors may participate in the privatisation of state/municipally-owned enterprises, and also uncompleted projects of capital construction on RSFSR territory. The terms of their participation in competitions and auction sales for the privatisation of state/municipally-owned enterprises shall be defined by the legislation in force on RSFSR territory.

Payment for the acquired enterprises or equity, stocks, shares shall be made in USSR currency.

2. For the purpose of privatisation foreign investors may use the rouble funds in their settlement accounts obtained as income from sources on the territory of the RSFSR and other Union republics.

A foreign investor shall not use USSR currency, bought at a rate higher than the rate used by the USSR State Bank in its foreign economic transactions for purposes of privatisation.

Foreign investors may exchange their hard currency funds for USSR currency at the rate used by the USSR State Bank in its foreign economic transactions, and place them in special accounts at the Central Bank of the RSFSR and other authorised banks. Funds from the said accounts may be spent only for the purpose of privatisation. Foreign investors shall have the right to convert the remaining funds in these accounts back into foreign currency.

CHAPTER VI. ACQUISITION BY FOREIGN INVESTORS AND ENTERPRISES WITH FOREIGN INVESTMENTS OF RIGHTS TO USE LAND AND OTHER PROPERTY RIGHTS

ARTICLE 38. THE RIGHT TO USE LAND AND NATURAL RESOURCES

The granting to foreign investors and enterprises with foreign investments of rights to use land, including its lease, and natural resources shall be regulated by the Land Code of the RSFSR and other legislative acts in force on RSFSR territory.

ARTICLE 39. LEASING OF PROPERTY

Property shall be leased to foreign investors and enterprises with foreign investments on the basis of lease-hold agreements in accordance with the legislation in force on RSFSR territory.

Property which is the property of the RSFSR and costs more than 100 million roubles shall be leased with the permission of the state body authorised to manage this property.

ARTICLE 40. CONCESSION AGREEMENTS

1. The granting to foreign investors of rights to develop and exploit renewable and non-renewable natural resources and to conduct economic activity connected with the use of objects which are state property (but have not been transferred to the full economic or operational management of enterprises, institutions and organisations) shall be based on concession agreements concluded with the foreign investors by the RSFSR Council of Ministers or other authorised state body in accordance with the procedure laid down by the RSFSR legislation on concessions.

The duration of a concession agreement shall depend on the nature and terms of the concession, but may not be more than 50 years.

Unilateral alteration of the terms of a concession agreement shall not be permitted, unless otherwise stipulated by the agreement.

2. Concession agreements may contain clauses taken from the legislation in force on RSFSR territory. In this case they are subject to endorsement by the RSFSR Supreme Soviet.

CHAPTER VII. FOREIGN INVESTMENTS IN FREE ECONOMIC ZONES

ARTICLE 41. FREE ECONOMIC ZONES

Free economic zones shall be set up in the RSFSR in order to attract foreign capital, advanced technologies and managerial know-how from other countries and develop the republic's export potential. A preferential regime of economic activity, compared with the general one, shall be established in free economic zones for foreign investors and enterprises with foreign investments.

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ARTICLE 42. CONDITIONS OF ECONOMIC ACTIVITY FOR FOREIGN INVESTORS AND ENTERPRISES WITH FOREIGN INVESTMENTS IN FREE ECONOMIC ZONES

1. Foreign investors and enterprises with foreign investments engaging in economic activity in free economic zones shall be granted, apart from the rights and guarantees provided for by the legislation in force on RSFSR territory, the following additional benefits:

- a simplified procedure for the registration of enterprises with foreign investments; enterprises with foreign investments of up to 75 million roubles shall be subject to registration with the authorised bodies directly in the economic zone;

- a preferential taxation regime: foreign investors and enterprises with foreign investments shall be taxed at reduced rates; this shall also apply to the tax on the portion of the profit repatriated. The tax rates may not be less than 50 per cent of the rates effective on RSFSR territory and applicable to foreign investors and enterprises with foreign investments;

- reduced rates of payment for the use of land and other natural resources; the granting of rights to long term lease for a period of up to 70 years with sub-leasing rights;

- a special customs regime that includes reduced customs duties on the import and export of goods; simplified formalities for cross-border trips;

- simplified formalities for granting entry and exit visas to aliens, and also entry without visa and exits.

2. The types and amounts of benefits granted in free economic zones shall be established by the RSFSR Council of Ministers and endorsed by the RSFSR Supreme Soviet.

RESOLUTION OF THE RSFSR SUPREME SOVIET ON THE ENFORCEMENT OF THE RSFSR LAW "ON FOREIGN INVESTMENTS IN THE RSFSR"

The Supreme Soviet of the RSFSR hereby resolves:

1. To enforce the RSFSR Law "On Foreign Investments in the RSFSR" as from September 1991.

2. To charge the Committee of the RSFSR Supreme Soviet for International Affairs and Foreign-Economic Relations, jointly with the RSFSR Council of Ministers, to draw up and submit to the RSFSR Supreme Soviet a draft Law of the RSFSR "On Concessions" prior to November 1, 1991.

3. All concession agreements shall be subject to endorsement by the RSFSR Supreme Soviet pending the adoption of the RSFSR Law "On Concessions".

4. The RSFSR Council of Ministers shall, prior to September 1:

- bring into conformity with this Law the resolutions and directives of the RSFSR Council of Ministers, and also ensure that the ministries, state committees and departments of the RSFSR revise or repeal their normative acts, including instructions that contradict this Law;

- resolve the question of the operation on RSFSR territory of the USSR Government's resolutions and directives where they contradict this Law.

5. The Central Bank of the RSFSR shall, prior to September 1, issue normative acts in execution of the RSFSR Law "On Foreign Investments in the RSFSR".

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DECREE

OF THE PRESIDENT OF THE RUSSIAN FEDERATION

On the State Program of Privatization of State and Municipal Enterprises in the Russian Federation

For the purposes of deepening economic reforms and ensuring the stability of the legal bases for the single market of objects of privatization in the Russian Federation and in accordance with points 2 and 3 of Decree of the President of the Russian Federation No. 1598 of 7 October 1993 "On Legal Regulation in the Period of Phased Constitutional Reform in the Russian Federation," I hereby decree:

1. That the State Program of Privatization of State and Municipal Enterprises in the Russian Federation presented by the Council of Ministers - Government of the Russian Federation be ratified and put into effect from 1 January 1994.

2. That the Council of Ministers - Government of the Russian Federation shall:

by 25 January 1994 prepare proposals for the introduction of appropriate changes and supplements to the current legislation of the Russian Federation concerning taxation;

by 25 January 1994 prepare a Register of Stock-Issuing Enterprises and publish this Register in order to ensure the right of Russian citizens to use their privatization vouchers;

by 1 February 1994 bring previously issued regulatory acts into compliance with the State Program of Privatization of State and Municipal Enterprises in the Russian Federation;

by 1 March 1994 prepare regulatory acts ensuring execution of the State Program of Privatization of State and Municipal Enterprises in the Russian Federation;

by 1 March 1994 prepare drafts of Laws of the Russian Federation "On the Privatization of State and Municipal Educational Institutions" and "On the Privatization of Public Health Institutions and Pharmaceutical Institutions and Enterprises";

by 1 March 1994 develop a draft of a law of the Russian Federation on the transformation of state enterprises into public works (factories, institutes, and other organizations) financed directly from budgetary funds;

by 1 March 1994 develop and ratify Regulations on the Procedure for Use of Objects and Property of Civil Defense by Privatized Enterprises, Institutions, and Organizations.

3. That the State Committee of the Russian Federation for the Management of State Property, together with the State Committee of the Russian Federation for Issues of Architecture and Construction and the Ministry of Culture of the Russian Federation, shall by 1 March 1994 develop a Model Protective Contract applicable to the privatization of unoccupied premises located in buildings that are historical or cultural landmarks.

4. That it is established that the procedures installed by Decree of the President of the Russian Federation No. 1662 of 19 October 1993 "On Improving Bookkeeping and Increasing Accountability for its Timely Execution" apply to enterprises in which the share of state ownership, at the issuance of Decree of the President of the Russian Federation No. 1662 of 19 October 1993, constituted less than 25 percent.

5. That the commission of Securities and Stock Exchanges under the President of the Russian Federation shall within a two-month period ratify both a unified form for a qualification certificate granting the right to carry out operations with securities and also the procedure for issuing such a certificate.

6. That the State Committee of the Russian Federation for the Management of State Property and the territorial property management committees shall carry out the necessary work to compile a listing, using state budgetary funds, of the property of non-state organizations (trade unions, the former DOSAAF, consumer cooperatives) no later than 1 July 1994.

7. That the following decisions of the Supreme Soviet of the Russian Federation, which are directed towards the curtailment of the process of privatization in the Russian Federation, are declared inactive:

Resolution of the Presidium of the Supreme Soviet of the Russian Federation No. 2626-1 of 30 March 1992 "On the Legal Succession of the Russian Federal Property Fund with Regard to the Share of Ownership of the State Structures of the Former USSR";

subpoint (a) of point 1 of Resolution of the Supreme Soviet of the Russian Federation No. 5475-1 of 21 July 1993 "On the Introduction of Changes and Supplements to Resolution of the Supreme Soviet of the Russian Federation No. 3020-1 of 27 December 1991 'On the Delimitation of State Ownership in the Russian Federation to Federal Ownership, State Ownership by Republics within the Russian Federation, Krais, Oblasts, the Autonomous Oblast, Autonomous Okrugs, and the Cities of Moscow and St. Petersburg, and Municipal Ownership.'"

8. That the state administrative bodies and authorities of republics within the Russian Federation, the autonomous oblast, autonomous okrugs, krais, oblasts, and the cities of Moscow and St. Petersburg and the appropriate property management committees shall bring republic and local privatization programs into compliance with the State Program of Privatization of State and Municipal Enterprises in the Russian Federation within two months of publication of the latter.

9. That the State Committee of the Russian Federation for Statistics, together with the State Committee of the Russian Federation for the Management of State Property, shall within a three-month period develop a procedure and forms for the presentation of statistical accounting of privatization by enterprises.

10. That the State Program of Privatization of State and Municipal Enterprises in the Russian Federation be published.

11. That the present Decree be submitted for consideration by the Federal Assembly of the Russian Federation.

12. That the present Decree goes into effect from the moment of its signing.

President of the Russian Federation B. Yeltsin

Moscow, The Kremlin
24 December 1993
No. 2284

THE STATE PROGRAM OF PRIVATIZATION OF MUNICIPAL ENTERPRISES IN THE RUSSIAN FEDERATION

1. INTRODUCTION

The State Program of Privatization of State and Municipal Enterprises in the Russian Federation (hereinafter referred to as the Program) is a federal program in the economic and social development of the Russian Federation developed in accordance with the requirements of the Law of the Russian Federation "On the Privatization of State and Municipal Enterprises in the Russian Federation" taking into account the experience and results of the implementation of privatization in 1992-1993.

The Program establishes the goals, targets, priorities, restrictions, and procedure of privatization.

A broad construction of the restrictions on privatization that are indicated in the Program and also in local privatizaiton programs is not permitted.

The principal objectives of the Program are:

to form a broad stratum of private owners as an economic basis for market relations;

to involve the broadest possible strata of the population in the process of privatization through the sale of state and municipal property being privatized for privatization vouchers in specialized voucher auctions before 1 July 1994, and for money in auctions after 1 July 1994;

to complete privatization with the use of privatization vouchers;

to complete privatization of the majority of objects of "small privatization" and, on the basis of this, to accelerate the development of the commerce and services sphere;

to complete, for the most part, privatization of large- and medium-scale enterprises of industry and construction;

to heighten the efficiency of the activity of enterprises and of the national economy as a whole by implementing economic restructuring, developing post-privatization support for enterprises, creating a competitive environment, and developing a secondary market;

to attract investments into manufacture, including foreign investments;

to assist in the implementation of measures for social welfare, including protection of the rights of private owners (stockholders).

Federally-, state-, and municipally-owned objects and enterprises, based on the possibility of their privatization, can be assigned to the following groups:

federally-owned objects and enterprises whose privatization is prohibited:

federally-owned objects and enterprises that can be privatized only by a decision of the Government of the Russian Federation;

federally-owned objects and enterprises that can be privatized only by a decision of the State Committee of the Russian Federation for the Management of State Property (hereinafter the GKI of Russia) taking into account the opinion of sectoral ministries;

state/municipally-owned objects and enterprises that can be privatized in accordance with the Program only by a decision of state administrative bodies and authorities of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg and in accordance with local privatization programs;

federally- and state/municipally-owned objects and enterprises that are subject to mandatory privatization.

Federally- and state/municipally-owned objects that are not included in targets and not subject to privatization-related restrictions can be privatized on the basis of decisions of territorial property management committees or privatization applications submitted by any

individual.

When an application for privatization of an enterprise is submitted by a work collective or by any other outside physical or legal person acknowledged by the buyer in the process of privatization, the appropriate property management committee shall be obliged both to make a decision on privatization of the enterprise and to notify the applicant of this decision.

Privatization of state and municipal educational institutions shall be regulated by the corresponding legislation.

Public health institutions and enterprises, and also pharmaceutical institutions, pending the passage of a law or other legislative act of the Russian Federation, shall be privatized by a special procedure established by the Government of the Russian Federation.

Issues concerning the privatization of objects owned by republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, or the cities of Moscow and St. Petersburg, and also those concerning the privatization of municipally-owned objects, shall be decided by subjects of the Federation based on the legislation of the Russian Federation on privatization, including features, restrictions, and principles determined by the current Program.

The requirements established by the Program shall be binding for federal authorities, state administrative bodies, and authorities of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg, as well as for local self-governing bodies.

2. CLASSIFICATION OF OBJECTS AND ENTERPRISES BASED ON THE POSSIBILITY OF PRIVATIZATION THEREOF

2.1 FEDERALLY-OWNED OBJECTS AND ENTERPRISES WHOSE PRIVATIZATION IS PROHIBITED

2.1.1 Mineral, forest, and water resources, airspace, resources of the continental shelf, territorial waters, and maritime economic zone of the Russian Federation, as well as the communication and orbiting capabilities of satellites.

2.1.2 Natural territories that are protected or reserved for special use and the real estate located in these territories.

2.1.3 Funds of the republican budget of the Russian Federation, the Republican Currency Reserve of the Russian Federation, the Pension Fund of the Russian Federation, the Fund for Social Security, Employment, and Social Support of the Population of the Russian Federation, other state extra-budgetary funds, and the Central Bank of the Russian Federation, including the Diamond Fund of the Russian Federation and the Gold Reserve of the Russian Federation.

2.1.4 The Central Bank of the Russian Federation and the enterprises ensuring the issue and storage of banknotes, state treasury notes, bonds, and other state securities.

2.1.5 Permanent or issued military and nonmilitary property (including arsenals) under the operational command of the Armed Forces of the Russian Federation, the Federal Counterintelligence Service of the Russian Federation, the Ministry of Defense of the Russian Federation, the Ministry of the Interior of the Russian Federation, the Federal Agency of Government Communications and Information under the President of the Russian Federation, the troops of the aforementioned branches, and other ministries and departments having military units, as well as the property of defense industry boards and troop detachments of

the Federal Bureau of Special Construction under the Government of the Russian Federation and the Federal Special Bureau for Construction in the Eastern Raions of the Russian Federation under the State Committee of the Russian Federation for Issues of Architecture and Construction. Special sites for testing of weapons and military hardware.

2.1.6 Institutions and organizations that receive more than 50 percent of their financing from the republican budget of the Russian Federation.

2.1.7 Chattel and real estate of historical and cultural significance from a list approved by the Government of the Russian Federation.

2.1.8 Enterprises and objects of the hydrogeological service of the Ministry of Public Health of the Russian Federation, services for environmental monitoring and environmental protection, including regional institutes and enterprises of the Russian Scientific Research and Planning/Surveying Association for the Use of Land, the All-Russian Institute of Agricultural Aerophotogeophysical Investigation with its regional branches, the Russian Center for Scientific Land Reform, and the Russian Institute of Soil and Ecosystem Monitoring with its regional institutes.

2.1.9 Enterprises, organizations, and objects in the scientific and technical sphere of the state health and epidemiological services of the Russian Federation, veterinary services, crop protection services, resources for protection and breeding of endangered species, and also nurseries for laboratory animals.

2.1.10 Hydroeconomic and meliorative systems and structures, organizations for supervision of the meliorative condition of soil.

2.1.11 Railroads and objects and property of rail transport directly participating in the delivery process and in emergency restoration work.

2.1.12 Enterprises manufacturing state insignia.

2.1.13 Enterprises and objects in the scientific and technical sphere involved in the development, production, and sale of narcotic substances, and also in the planting, cultivation, and processing of crops bearing narcotic substances, including enterprises for the processing of hemp.

2.1.14 Port hydrotechnical structures and objects, including those servicing the Northern Maritime Route and nuclear, academic, hydrographic, and ice-breaking fleets, property for carrying out rescue work and fighting oil spills at sea, objects and structures for managing naval traffic and inspecting port supervision, the Atomflot repair and technology enterprise, property of associations for the construction of waterways and canals, property owned by detachments of the Underwater River Construction Agency and by shipping inspectorates.

2.1.15 Organizations and objects of naval emergency rescue services and radionavigational and technological communications for sea and river transport.

2.1.16 Objects, enterprises, and equipment for burial of solid and liquid radioactive and toxic chemical waste, burial grounds for animal refuse.

2.1.17 Objects and enterprises of the Ministry of the Interior of the Russian Federation, the Federal Counterintelligence Service of the Russian Federation, the Ministry of Defense of the Russian Federation, and the State Customs Committee of the Russian Federation, and also enterprises created to ensure the operation of federal government bodies and authorities of the Russian Federation and Border Troops of the Russian Federation.

2.1.18 Nuclear installations and enterprises for the production of special nuclear and radioactive materials and nuclear weapons, and also enterprise performing scientific research and development work in the indicated areas.

2.1.19 Stationary objects of social services, including orphanages, nurseries, the Scientific Research Institute of Prosthetics and Prosthesis Development, the Scientific Research Institute for the Determination of the Ability to Work and the Organization of the Work of Invalids, the institute for the advanced training of doctors and specialists, and territorial centers of social services, and also boarding schools for orphans and children without guardians, boarding schools for children with deficiencies in intellectual and physical development, homes for the elderly, nursing homes, dormitories, hospitals, sanatoria, boarding houses for invalids, children and the elderly, prosthetic and orthopedic enterprises, including scientific research institutes in the areas of prosthetics and orthopedics involved in the production of products and the provision of services to invalids with impaired motor ability.

2.1.20 Objects, enterprises, systems, and funds for air-traffic control and enterprises involved in the provision of a unified system of air-traffic control in both lower and upper airspace; airfields of federal importance (classes A,B,C,D, and E in accordance with the adopted classification), meteorological centers and test-flight stations, training centers of civil aeronautics.

2.1.21 Objects and enterprises whose security is ensured by closed administrative and territorial units (from a list approved by the Government of the Russian Federation).

2.1.22 State seed inspection centers, breeding and hybridizing centers, laboratories for strain testing of agricultural crops, strain testing stations and plots, flaxseed culture and hempseed culture stations, planning and surveying centers and stations for agrochemical services, centers for chemizations and agricultural radiology, farms for production of valuable and anadromous species of fish, reservoir operations for the protection and reproduction of fish populations, state fish hatcheries and farms, state stables and racetracks of federal importance, and nurseries for laboratory animals.

2.1.23 Stocks of the state reserve, bases of the Committee of the Russian Federation for State Reserves and other objects of same intended for the storage and maintenance of the financial assets of the state reserve, and also mobilization reserves (with the exception of such property of reserves as meets the specifications given in the model agreement established by the GKI of Russia in conjunction with the Ministry of Defense of Russia and the Ministry of the Economy of Russia).

2.1.24 Objects and enterprises of the Federal Postal Service under the Ministry of Communications of the Russian Federation.

2.1.25 Objects and enterprises within the jurisdiction of the State Committee of the Russian Federation for Statistics.

2.1.26 The Insurance Fund of Technical Documentation.

2.1.27 Organs of scientific and technical information, scientific and technical libraries that gather, process, store, and offer access to state informational resources on the scientific and technical development of Russia, state archives and funds.

2.1.28 Enterprises and objects of the Federal Bureau of Russia for Hydrometeorology and Monitoring of the Environment and the Federal Bureau of Russia for Geodesy and Cartography that help ensure the standardization of the technological process of observation and information preparation.

2.1.29 Objects and enterprises under the auspices of the Federal Agency for Medical-Biological and Extremal Problems under the Ministry of Public Health of the Russian Federation.

2.1.30 Militarization and mine-rescue units, services and specialized subdivisions providing defense against gas and oil outflows, including those responding to emergency situations, natural disasters, and nuclear disasters.

2.1.31 Objects of amateur and professional sports used for the training of national teams.

2.1.32 Objects and enterprises for the extraction of precious stones, refining factories (mills and plants).

2.1.33 Enterprises and objects in the scientific and industrial-development sphere under the auspices of the Russian Academy of Sciences, the Russian Academy of Agricultural Sciences, the Russian Academy of Medical Sciences, the Russian Academy of Education, and the Russian Academy of Arts imparted to same by the procedure established by decree of the President of the Russian Federation (from a list approved by the Council of Ministers - Government of the Russian Federation).

2.1.34 Television broadcasting centers, radio centers (including technical facilities and structures, except those that are the property of enterprises subject to privatization).

2.1.35 Enterprises involved in the development and manufacture of encoding technology.

2.1.36 Objects in the scientific and technical sphere engaged in research into environmental protection and ecological monitoring under the Ministry for the Protection of the Environment and Natural Resources of the Russian Federation.

2.1.37 Protected objects of state administrative bodies, protective structures of civil defense, type two financial assets and special independent warehouses for their storage.

2.1.38 Federal highways for public use and organizations for their upkeep.

2.1.39 Objects in the nonindustrial sphere under the jurisdiction of federal representative bodies.

2.1.40 Objects and enterprises for the development and manufacture of

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immunobiological compounds under the jurisdiction of the Ministry of Public Health of the Russian Federation.

2.1.41 Institutes for training the personnel of sectoral ministries and departments.

2.1.42 Crematoria and cemeteries.

2.1.43 Enterprises, objects, and organizations of geological services engaged in regional geological research related to state defensive needs and work on the continental shelf and within the boundaries of the maritime economic zone and in international waters, including naval vessels intended for this work, and also enterprises, objects, and organizations engaged in fundamental scientific research and development work directed towards resolutions of federal programs for the development of the national mineral and raw material base, corresponding to a special list approved by a Decree of the President of the Russian Federation, deep drilling wells located within the boundaries of mining areas or within areas in which licenses are issued to mining or other enterprises, and the state network of supervisory wells and observation points for oil gushers and gas springs.

2.1.44 The subway

Note: By decision of the Government of the Russian Federation, for enterprises listed in section 2.1, the privatization of independent production not connected to the output of specifically proscribed goods may be allowed.

2.2 FEDERALLY-OWNED OBJECTS AND ENTERPRISES THAT CAN BE PRIVATIZED ONLY BY A DECISION OF THE GOVERNMENT OF THE RUSSIAN FEDERATION

2.2.1 Objects and enterprises producing and repairing any weapons systems and components, including coupling devices and military hardware not suitable for other applications, those manufacturing spacecraft, military supplies, explosives, fireworks, and special chemicals, and also objects engaged in research and development in the above fields (except those specified in 2.1).

2.2.2 Objects of civil defense (except those specified in 2.1).

2.2.3 Special refrigerators designed for the permanent housing of state reserves, the accumulation of a federal food stock, and the storage of mobilization reserves (except those specified in 2.1).

2.2.4 Objects and enterprises processing precious metal ores, precious and semiprecious stones, and radioactive and rare-earth elements (except those specified in 2.1).

2.2.5 Enterprises and associations of the fuel and energy complex (with the exception of organizations and enterprises in the construction industry), including enterprises involved in electric power, coal, oil, and gas extraction and processing, oil geophysics, and the manufacture of petroleum products, as well as nuclear power plants and objects and enterprises of pipeline transport.

2.2.6 Enterprises and objects of rail transport, enterprises of sea and air transport of federal importance (except those specified in 2.1 and 2.4).

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2.2.7 The scientific research fleet for the regulation of prospecting in the fish industry, fishing ports.

2.2.8 Commercial banks (to be privatized in accordance with a special procedure established by the Government of the Russian Federation based on the consulting opinion of the GKI of Russia, the Ministry of Finance of Russia, and the Ministry of the Economy of Russia).

2.2.9 Communications enterprises (except those within the "Rospechat" retail network and those specified in 2.1), including scientific research and planning and design enterprises and organizations, their enterprises for experimentation and testing, and also institutions of the Committee of the Russian Federation for Information Dissemination.

2.2.10 News agencies and television and radio broadcasting companies.

2.2.11 Objects and enterprises of sociocultural importance (including theaters, cinemas, concert and exhibition halls, movie studios and film-printing facilities, and objects of amateur and professional sports).

2.2.12 Foreign trade associations of the Ministry of Foreign Economic Affairs of the Russian Federation and of other ministries and departments of the Russian Federation, if others are not established by the legislation of the Russian Federation.

2.2.13 Objects and enterprises conducting operation and maintenance in the gas industry having general Russian and interregional importance.

2.2.14 Chattel and real estate of historical and cultural significance (except those specified in 2.1) entrusted to the state and also held in the collections of state and municipal museums, archives, libraries, and galleries, and in the showrooms of enterprises in the art industry and in the traditional folk trades, including the premises and buildings where they are located.

2.2.15 Printing enterprises, publishers, and book wholesalers under the jurisdiction of the Committee of the Russian Federation for Printing, the Ministry for Social Welfare of the Russian Federation and the Ministry of Public Health of the Russian Federation.

2.2.16 Enterprises and objects in the scientific and technical sphere under the auspices of the Committee of the Russian Federation for Standardization, Weights and Measures, and Certification, machine testing stations.

2.2.17 State-owned sanatoria and resorts under the jurisdiction of the Ministry for Social Welfare of the Russian Federation and the Ministry of Public Health of the Russian Federation.

2.2.18 Enterprises and objects of the Republican (Federal) Fund for Social Support.

2.2.19 Enterprises in the lumber industry, bases for airborne forest protection, and also objects in the scientific and technical sphere under the auspices of the Russian forest protection services.

2.2.20 Enterprises and objects under the auspices of the Committee for the Water

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in trust under the Government of the Russian Federation.

2.2.21 Disengaged chattel and real estate (with the exception of arms and ammunition) under the operational command of the Armed Forces of the Russian Federation, the Federal Counterintelligence Service of the Russian Federation, the Ministry of Defense of the Russian Federation, the Ministry of the Interior of the Russian Federation, the Federal Agency of Government Communications and Information under the President of the Russian Federation, the troops of the aforementioned bodies, and other ministries and departments having military units, as well as enterprises and objects of these ministries and departments not involved in the production or repair of weapons systems and components or the production of ammunition, explosives, or fireworks (except those specified in 2.1 and enterprises of the Federal Counterintelligence Service of the Russian Federation).

2.2.22 Enterprises for the production of special nonnuclear materials.

2.2.23 Enterprises of geological services (except those specified in 2.1.

2.2.24 Objects and enterprises of the medical industry. pharmaceutical bases (storehouses) and bases of medical technology that supply commodities for federal and state needs, and also those servicing raions in the Far North and similar raions (except those specified in 2.1).

2.2.25 Scientific and technical enterprises and objects of the chemical complex performing technical operations with toxic substances of the first and second danger classes, and also manufacturers rated as first level explosive hazards.

2.2.26 Objects whose construction is financed from the federal budget (except those specified in 2.5).

2.2.27 Objects and enterprises of the mining industry having general federal importance, including salt mining (with the exception of enterprises mining local raw materials, and also those performing logging activity, including those extracting tar-impregnated wood, resin, and barras).

2.2.28 Enterprises for the burial of solid industrial and everyday waste.

2.2.29 Enterprises and organizations within the jurisdiction of the Committee of the Russian Federation for Patents and Trademarks.

2.2.30 Livestock and horse breeding centers, livestock farms, enterprises of livestock services.

2.2.31 Auxiliary-production agricultural facilities of the biological industry, the Sortsemovoshch enterprises of the Rossortsemovoshch Russian republican association.

2.2.32 State scientific centers from a list approved by the Government of the Russian Federation.

2.2.33 Specialized factories and manufacturers of intermediate products and nonstandardized equipment and instruments for prothesis and orthopedic enterprises.

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2.2.34 Depots for the transportation of nuclear weapons.

2.2.35 Enterprises and objects of the Federal Bureau of Russia for Geodesy and Cartography (except those specified in 2.1).

2.2.36 Enterprises and organizations of the Federal Bureau of Employment of Russia that are financed from the State Fund for Employment of the Population of the Russian Federation.

2.3 FEDERALLY-OWNED OBJECTS AND ENTERPRISES THAT CAN BE PRIVATIZED ONLY BY A DECISION OF THE GKI OF RUSSIA TAKING INTO ACCOUNT THE OPINIONS OF SECTORAL MINISTRIES AND DEPARTMENTS

2.3.1 Enterprises of all branches of the national economy (not specified in 2.1 or 2.2) whose share in the federal market for certain products, work, or services exceeds 35 percent.

2.3.2 Large-scale enterprises having, as of 1 January 1992, a net value of fixed assets of greater than 1 million rubles.

2.3.3 Enterprises of sea and river transport (except those specified in 2.2).

2.3.4 Scientific research, design, planning and design, and planning and surveying institutes, objects, and experimental production objects (not specified in 2.1 or 2.2) having a net value of fixed assets, as of 1 January 1992, of greater than 1 million rubles.

2.3.5 Enterprises for the production, bottling, and packaging of alcoholic beverages and spirits, wine, and tobacco products.

2.3.6 Special enterprises for the production of baby food.

2.3.7 Enterprises and organizations connected with the feeding of passengers on ships and in railroad cars and stations, and also those supplying sea and river fleets.

2.3.8 Wholesale enterprises providing goods for federal and state needs, and also those serving raions of the Far North and similar regions, including temporary work settlements, as well as those serving the population of closed territories and administrative regions (except those specified in 2.2).

2.3.9 Printing enterprises and publishers (except those specified in 2.2).

2.3.10 Specialized construction organizations building objects providing state security (except those specified in 2.1 and 2.2).

2.3.11 Objects and enterprises whose construction and modernization is financed from the state budget and who operate in accordance with the federal nuclear disaster response program, and those situated in and outside evacuated areas, temporary residence areas for evacuees, and areas specified for social and economic disaster relief under the current legislation for territories subjected to radioactive contamination.

2.3.12 Objects and enterprises of nuclear machine building.

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2.3.13 Enterprises and objects of the Federal Bureau of Russian for Hydrometerrology and Monitoring of the Environment (except those specified in 2.1)

2.3.14 Enterprises and objects of oil and gas industry construction.

2.3.15 Enterprises for the manufacture of construction materials and equipment whose output constitutes greater than 30 percent of the general output volume in the Russian Federation.

2.3.16 Enterprises producing specialized equipment for cultural institutions.

2.3.17 Circus enterprises and organizations that are part of the Russian Circus company.

2.3.18 Craft producers, small and large game hunting facilities, animal farms, ranches, and husbandry associations, state fur farms (fur farms).

2.3.19 Specialized elevators and warehouses for permanent housing of state reserves, the accumulation of a federal food stock, and the storage of mobilization reserves (except those specified in 2.1).

2.3.20 Objects and enterprises of the agrobiological industry and their auxiliary agricultural facilities under the auspices of the Ministry of Agriculture of the Russian Federation.

The procedure for making decisions on the privatization of objects and enterprises specified in 2.2 and 2.3.

Decisions on the privatization of enterprises specified in 2.2 and 2.3 shall be made on the basis of laws of the Russian Federation and acts of the President of the Russian Federation by the Government of the Russian Federation and the GKI of Russia and its territorial bodies.

Documents on the privatization of federally-owned enterprises shall be submitted to the property management committee empowered by the territorial representative of the GKI of Russia. The committee must, within three days, refer these documents:

if the enterprise is specified in 2.2, to the GKI of Russia, with copies sent to the relevant ministry, state committee, committee, or financial institution;

if the enterprise is specified in 2.3, to the financial institution for the area where the enterprise is located or registered, with copies sent to the relevant sectoral ministry, state committee, or committee.

Copies of the documents on privatization shall also be sent to the State Committee of the Russian Federation for Antitrust Policy and Support of New Economic Structures or to its territorial department for objects requiring the Committee's approval, which must, within three weeks, report its conclusions to the GKI of Russia (if the enterprise is specified in 2.2) or to the territorial agency of the GKI (if the enterprise is specified in 2.3).

Sectoral ministries, state committees, and committees must, within two weeks of receipt of documents, report their conclusions on the advisability of privatization of federally-owned objects to the body making the final decision on privatization.

For objects and enterprises specified in 2.3, the head of the territorial agency of the GKI of Russia, taking into account the conclusion of the relevant ministry, must make a decision on privatization within one month after the documents are sent to the sectoral

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ministries and departments.

Upon expiration of the time allotted for the presentation of a nonfavorable response on privatization by the ministries, state committees, and committees, the appropriate head of the territorial agency of the GKI of Russia is obligated to make a decision on privatization.

If the territorial agency denies privatization, or if there is disagreement between the ministries and the territorial agencies on the issues of privatization of objects and enterprises specified in 2.3, then the GKI of Russia shall have the right to consider for itself the possibility of privatization, taking into account the opinion of sectoral ministries and departments.

For objects and enterprises specified in 2.2, the GKI of Russia, within 15 days of receipt of both the documents from the territorial agency and the conclusions from the ministries and departments, must submit drafts of directives to the Government of the Russian Federation.

The Government of the Russian Federation must, within 10 days (for enterprises of the military-industrial complex, within one month) of submission, consider the drafts of directives and make corresponding decisions.

If, in the time allotted the Government of the Russian Federation, no decisions are made by the established procedure, the GKI of Russia must, within one month of the expiration of the former period, make a decision on the possibility and procedure of privatization.

If the Government of the Russian Federation makes an unfavorable decision on privatization, the GKI must, in the same time frame, send a copy of the directive of the Government of the Russian Federation to the relevant territorial agency.

Upon considering the issues of privatization of objects and enterprises specified in 2.2 and 2.3, the Government of the Russian Federation and the GKI of Russia and its territorial agencies can make the following decisions:

1. To forbid privatization. In this case, one of the following decisions can be taken: to transform the enterprise into an open joint-stock company in accordance with Decree of the President of the Russian Federation No. 721 of 1 July 1992 "On Organizational Measures for Transforming State Enterprises and Charitable Organizations of State Enterprises into Joint-Stock Companies" with 100 percent of the shares held in state ownership, or to transform the enterprise into a state institution financed from the federal budget.

2. To establish restrictions on privatization exclusively by holding common (with voting privileges) share packages (51, 38, and 25.5 percent) in federal ownership or by issuing "Golden Shares" (Zolotye Aktsii).

3. To permit privatization without any type of restriction.

For the transformation of enterprises specified in 2.2 and 2.3 into joint-stock companies, the Government of the Russian Federation and the GKI of Russia shall determine the targets, conditions, and time limits for holding share packages and "Golden Shares" (Zolotye Aktsii) in federal ownership, taking into account the opinions of sectoral ministries and departments and state administrative bodies.

Share packages can be held in federal ownership for a period of no more than three years, and can only be held in the quantities of 51, 38, and 25.5 percent of the common (with voting privileges) shares as regards enterprises and organizations engaged in the following types of activity:

communications;

electric power generation and distribution;

extraction, processing, and sale of oil, natural gas, and gas condensate;

extraction and processing of precious metals, precious stones, and radioactive and rare-earth elements;

development, production, and repair of arms, military hardware, and ammunition (including chemical and bacteriological);

production of alcoholic beverages and spirits;

enterprises directly involved in sea and air traffic, and also airports, and sea and river ports; patent service, standardization and weights and measures;

scientific and technical and planning and design enterprises; specialized enterprises for constructing and operating objects intended for national security; publishers and enterprises releasing printed material for state needs;

pipeline transport;

circus enterprises and organizations that are part of the Russian Circus company;

wholesale enterprises purchasing for state needs and import-export operations for the fulfillment of interstate agreements.

Share packages of privatizing enterprises in the indicated areas that are held in federal ownership for less than three years consist of common shares which, prior to either the deadline indicated in the privatization plan or a decision to sell them prematurely, are held in the relevant committee for the management of state property.

A decision to hold a share package consisting of 51 percent of the common (with voting privileges) shares can be taken only on the basis of a decree of the President of the Russian Federation. A decision to hold a share package consisting of 38 percent of the common (with voting privileges) shares can be taken by the Government of the Russian Federation.

For the transformation of enterprises into joint-stock companies whose controlling interest is held in federal ownership for up to three years, the Government of the Russian Federation and the GKI of Russia shall have the right, according to their jurisdiction as established by the State Program of Privatization of State and Municipal Enterprises of the Russian Federation, to commission, on a contractual basis, the representation of state interests in the board of directors of a joint-stock company by parties appointed by them, including those holding offices in state administrative bodies for the representation of relevant ministries, departments, and raions. Office-holders in state administrative bodies who are appointed to the boards of directors of joint-stock companies in accordance with the established procedure shall perform their duties on a gratuitous basis.

For the transformation of enterprises specified in 2.2 and 2.3 into joint-stock companies, the Government of the Russian Federation or the GKI of Russia, taking into account the suggestions of ministries and departments, can, upon issuing stock in these companies, make a decision to issue "Golden Shares" (Zolotye Aktsii) for a period of up to three years.

Simultaneous holding of "Golden Shares" (Zolotye Aktsii) and any other types of share packages in state ownership is not permitted.

When "Golden Shares" (Zolotye Aktsii) is issued, benefits for members of a work collective shall be granted in accordance with the procedure put forth in the Program.

The Government of the Russian Federation and the GKI of Russia shall have the right to make a decision to transfer share packages held in federal ownership into "Golden Shares" (Zolotye Aktsii).

Dividends of stocks held in federal or state ownership shall be completely channelled into the financing of objects for sociocultural and community-service purposes. These are objects which are either acquired, in the process of transforming an enterprise into a joint-stock company, into the assets of local authorities or which remain in the assets of the enterprise and are used for their original purposes. In the absence of such objects, dividends

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[illegible] into the federal budget in accordance with the procedure set forth in the [illegible] determined by the Ministry of Finance of Russia with the consent of the GKI of Russia.

This procedure for the distribution of dividends can be changed only by decision of the Government of the Russian Federation.

The processes of separating state enterprises into groups, to which apply restrictions in accordance with 2.1 and 2.2, of making decisions to hold share packages in state ownership or to issue "Golden Shares" (Zolotye Aktsii), and also of representing state interests in the boards of directors of joint-stock companies by parties holding offices in state administrative bodies shall all be carried out in accordance with the Standards developed by the GKI of Russia and approved by the Government of the Russian Federation.

The fact that an enterprise possesses a defense contract constituting not greater than 30 percent of its general production, or that it is responsible for mobilization training, the protection of state secrets, or worker safety does not constitute a basis for holding any share packages in federal ownership upon the transformation of said enterprise into a joint-stock company.

Shares of an enterprise being privatized that are not held in federal ownership in accordance with 2.3 must be sold no later than four months after registration of the joint-stock company and are nonreservable.

2.4 STATE/MUNICIPALLY-OWNED OBJECTS AND ENTERPRISES THAT CAN BE PRIVATIZED IN ACCORDANCE WITH THE PROGRAM ONLY BY A DECISION OF STATE ADMINISTRATIVE BODIES AND AUTHORITIES OF REPUBLICS WITHIN THE RUSSIAN FEDERATION, KRAIS, OBLASTS, THE AUTONOMOUS Oblast, AUTONOMOUS OKRUGS, AND THE CITIES OF MOSCOW AND ST. PETERSBURG AND IN ACCORDANCE WITH LOCAL PRIVATIZATION PROGRAMS

2.4.1 Objects and enterprises of urban and suburban passenger transport, except taxis and enterprises for their repair.

2.4.2 Bath houses, laundries serving objects, enterprises, and institutions for sociocultural purposes (public health, education, culture, and sports).

2.4.3 Objects and enterprises for the offering of ritual services.

2.4.4 Garbage processing factories.

2.4.5 Pharmacies (with the required state operating licenses).

2.4.6 State/municipally-owned cultural objects and enterprises (including cinematography) and state/municipally-owned objects and enterprises of amateur and professional sports.

2.4.7 Property either in the assets of local governing and administrative bodies or ensuring their operation.

2.4.8 Objects in the engineering infrastructure of cities and raions (including electric, heat, and gas supply, water pipes, the sewer system, and public lighting), as well as enterprises operating, servicing, or maintaining the aforementioned objects.

2.4.9 Enterprises manufacturing products and performing work connected to prosthetics including dental prosthetics, prosthesis construction, and orthopaedics (except those specified in 2.1).

2.4.10 State/municipally-owned organizations in the system of social welfare programs.

2.4.11 Children's country homes and youth camps, including those in the assets of enterprises being privatized.

2.4.12 Airports of regional and local importance.

2.4.13 Enterprises of regional social support funds, including those having under their authority objects in the sanatorium and health resort industry.

2.4.14 Wholesale enterprises serving remote arctic raions of the Far North, regions of the Far North, and similar regions with seasonally-restricted navigability, including temporary work settlements, settlements of geophysical and geological parties, and regions for the residence and economic activity of the sparse poulation of the North.

2.4.15 Enterprises of minor power production using the energy of minor rivers, the sun, the wind, and geothermal sources, enterprises working in autonomous energy production and not connected with a unified energy system, with the exception of atomic stations.

2.4.16 Sea ports of regional and local importance.

2.4.17 Highways for public use, enterprises and organizations for their upkeep (except those specified in 2.1).

Restrictions on privatization set by the Program are mandatory for all state governing and administrative bodies and bodies for local self-government. The introduction by these bodies of supplementary restrictions on the privatization of enterprises and state and municipal property and on the sale of state- and municipally-owned shares is prohibited.

The privatization of objects and enterprises subject to restrictions established by the Program is not permitted without the permission of the appropriate organs.

Buying and selling, transfer, and exchange of interests (shares or parts thereof and stock) is forbidden among legal persons whose charter capital (fund) is more than 25 percent state or municipal property.

2.5 OBJECTS AND ENTERPRISES THAT ARE SUBJECT TO MANDATORY PRIVATIZATION

The following objects and enterprises are subject to mandatory privatization:

2.5.1 Wholesale and retail objects and enterprises (including those for the sale of products with industrial and technical purposes), objects and enterprise of the food service industry and basic services, including bureaucratic objects of the retail trade, public food supply, and basic services networks (except those specified in 2.1 - 2.4).

2.5.2 Objects and enterprises (organizations) involved in construction and the construction materials industry (except those specified in 2.2 and 2.3).

2.5.3 Enterprises in the food-processing industry and in light industry.

2.5.4 Objects that are temporarily shut down and objects of uncompleted construction for which the regulatory construction periods have expired (with the exception of power blocks of nuclear plants).

2.5.5 Property of enterprises liquidated without establishing successorship.

2.5.6 Enterprises of automobile transport, including taxi services (except those specified in 2.4).

2.5.7 Enterprises subject to mandatory issuing of stock, determined by Decree of the President of the Russian Federation No. 721 of 1 July 1992.

2.5.8 Objects involved in commerce, the food-services industry, and basic services of the population, enterprises of the construction industry built with funds from the state and local budgets.

2.5.9 Debtor enterprises in all branches of the national economy (except those specified in 2.1).

2.5.10 Guest complexes, hotels, motels, campsites, and boarding houses (except those specified in 2.2 and those which are in the property aggregate of an enterprise).

2.5.11 Enterprises in the communal housing industry (except those specified in 2.4).

2.6 PRIVATIZATION OF LEASED OBJECTS OF NONRESIDENTIAL REAL ESTATE

Citizens engaged in entrepreneurial activity and enterprises whose charter capital consists of no more than 25 percent state/municipally owned interests (shares), in the case that they have entered into a lease agreement on a competitive or auction basis, as well as partnerships and joint-stock companies created in the process of privatization, have the right to acquire nonresidential premises, including both permanent and annexed premises, leased by them in residential buildings, and also to acquire buildings and structures owned by the Russian Federation (federally-owned), by republics within the Russian Federation, krais, oblasts, autonomous formations, and the cities of Moscow and St. Petersburg (state-owned), or by municipalities (municipally-owned).

The sale of leased objects of nonresidential real estate is carried out by the appropriate property management committee in response to an application by the lessee. Establishment of restrictions on the resale of acquired objects of nonresidential real estate is not permitted.

The sale of leased real estate (buildings, structures, and plots of land on which they are situated) or nonresidential premises, including both permanent and annexed premises, in residential buildings to lessees indicated in 2.6 can be denied only if restrictions specified in 2.1 apply to these objects, or in regard to buildings and structures that are real estate of historical and cultural importance, religious buildings, and buildings and structures occupied by state governing and administrative bodies and courts.

The price paid by lessees for buildings, structures, and plots of land on which they are

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[illegible] (the sum of which constitutes real estate), and also for nonresidential premises, including both permanent and annexed premises, in residential buildings, is determined by the procedure set forth in article 17 of the Law of the Russian Federation "On the Privatization of State and Municipal Enterprises in the Russian Federation."

Auctioned or competitive sale is permitted only in regard to vacant or unused objects of nonresidential real estate.

Assets originating from the sale of leased objects of nonresidential real estate are allocated in accordance with the regulations set forth by the Program.

3. CALCULATED PRIVATIZATION INDICES FOR STATE GOVERNMENTAL AND ADMINISTRATIVE BODIES

3.1 Proceeding from privatization targets, and also from the structure and extent of privatization demands in territorial and sectoral divisions, the GKI of Russia will establish calculated targets for share issuing and privatization of an ever increasing number of enterprises, and for the use of privatization vouchers, which shall be an integral part of the Program.

Calculated indices shall be distributed to regions within one month of the Program's adoption and shall be subject to quarterly adjustment by the GKI of Russia.

3.2 Based on the targets, property management committee of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, and the cities of Moscow and St. Petersburg shall develop local privatization programs and shall make predictions of the quantity of privatization vouchers and money that will be received as a result of privatization. The local privatization programs adopted by the respective local governing bodies shall be presented to the GKI of Russia and to the Russian Fund for Federal Property.

4. ORGANIZATION AND ALLOCATION OF PROCEEDS FROM PRIVATIZATION

4.1 Proceeds from privatization shall be defined as all intake in the form of money and privatization vouchers resulting from the sale of objects of privatization, and all receipts during the process of population in the form of registration fees, collateral, and other receipts.

Neither dividends from shares belonging to the state nor royalties from the rental of state and municipal property are included in proceeds from privatization; they are thus subject to remittance into the appropriate budget, after deducting expenses incurred for banking operations (except in cases specified in 2.3 and 6).

4.2 The expected total receipts from privatization in 1994 are estimated at 0.7 trillion rubles in the form of privatization vouchers, and another 0.8 trillion rubles in cash.

The expected dividends from shares held in federal and state ownership in 1994 are estimated at 200 billion rubles.

4.3 Allocation of proceeds from privatization, including privatization vouchers, shall be conducted in accordance with regulations under Appendix 1 to the Program and in the following priority. Payments shall be made to: (1) work collectives; (2) privatization organs and local budgets, in which case settlements or remittances into the Federal Fund for Entrepreneurial Support shall be conducted in cash; and (3) the republican budget of the Russian Federation and budgets of republics within the Russian Federation, krais, oblasts, the

[illegible] of the autonomous okrugs, and the cities of Moscow and St. Petersburg, in which cases settlements shall be made in privatization vouchers.

If shares packages are held in state ownership, then, for the purposes of allocating proceeds from privatization, the remaining portion of shares shall be considered to be 100 percent of the shares.

4.4 The Government of the Russian Federation shall have the right to adjust indices and regulations for the allocation of proceeds from privatization, taking into account the condition of the financial system of the Russian Federation, business conditions in the market for objects of property, and the suggestions of the relevant privatization organs.

4.5 Proceeds from privatization shall not be subject to taxation.

4.6 The activities of property management committees and of property funds of all kinds, including transactions for other sales of state and municipal property, shall not be taxed.

4.7 Proceeds from privatization shall be channelled, in accordance with established regulations, into budgets at the appropriate levels and shall be directed exclusively towards:

the maintenance of sociocultural and community objects, including those that are not part of the property aggregate of a joint-stock company and those that are, in the proceed of privatization, brought under the jurisdiction of local governing bodies;

the financing of efforts for the post-privatization support of enterprises.

4.8 In cities that are subordinate to a raion and in cities having administrative and territorial subdivisions (raions, posyoloks), proceeds from privatization may be channelled by sellers into the budget of these administrative and territorial subdivisions in order to finance the maintenance of sociocultural and community objects that have been brought under state ownership upon the privatization of an enterprise. This can be done as follows: by a petition from the administrative heads of cities and subcity raions (posyoloks) and a subsequent decision by the administrative heads of cities and raions, in the case that the issue at hand concerns the sale of municipal property, or by a decision of state administrative bodies of subjects of the Russian Federation, in the case that the issue at hand concerns the sale of state property.

4.9 Monitoring of the timeliness and correctness of the settlements of privatization organs with budgets at various levels shall be carried out by the Monitoring and Inspection Bureau of the Ministry of Finance of Russia together with the GKI of Russia.

5. METHODS OF PRIVATIZATION AND PRIVILEGES GRANTED DURING PRIVATIZATION

The actual method of privatization is determined by the working commission on privatization or the commission on privatization of the responsible committee on the administration of property in accordance with the Law of the Russian Federation "On the Privatization of State and Municipal Property of the Russian Federation," Decree of the President of the Russian Federation No. 721 of 1 July 1992 "On Organisational Measures for the Transformation of State Enterprise and Voluntary Associations of State Enterprises into Joint-Stock Societies," state and local privatisation programs, and regulatory acts not contradicting this Program.

Changes and additions to the [illegible] of the privatization plan may be introduced by the [illegible] of Russia with mandatory reporting to the relevant financial organs and participants in the process of privatizing. However, the introduction of changes and additions to the privatization plan shall not be permitted after the publication of the announcement of the sale of an object to be privatized.

5.1 All state/municipal enterprises are divided by method of privatization into two groups:

the first group comprises small enterprises with a net value as of 1 January 1992 no greater than 1 million rubles and subject to sale by auction, bid competition, and stock auction. Work collectives of these enterprises have the right, with a qualified majority of 2/3 of the votes of all workers (at a general assembly or with a certified list of signatures), to choose the method of sale: by auction or by stock auction with unlimited participation. Such decisions are binding on the corresponding committees on the administration of the property;

the second group comprises all other enterprises, which may be privatized by any method, provided for in point 5.2 of the Program.

In cases of nonfulfillment of the provisions of this Program, of the Decrees of the President of the Russian Federation of 1 July 1992 N 721 and 14 October 1992 "On the Sale for Privatization Vouchers of Residential Buildings, Land and Municipal Property," and of the Resolution of the Council of Ministers and Government of the Russian Federation of 10 August 1993 N 757 "On the Realization of Additional Measures for the Protection of the Rights of the Citizens of Russia to Participation in Privatization," committees on the administration of the property (of the ministry and department) have the right to take decisions following the established procedure on the annulment of contracts previously concluded with the directors of the enterprises or, in cases where no contracts exist, on relieving them of their duties. In such cases, the transformation of the enterprise into an open joint-stock company proceeds on the initiative of the responsible committee on the administration of the property by the established procedure, with privileges extended to members of their work collectives only in the first variant (point 5.3.1) of the Program.

5.2. Use of the following methods of privatization shall be permitted in the procedure established by the Program:

sale of shares of open joint-stock companies formed in the process of privatization;

sale by auction of enterprises that are not joint-stock companies;

sale of enterprises that are not joint-stock companies by commercial bid competition (including those with limited participation);

sale of blocks of shares in joint-stock companies by stock auction;

sale by auction or bid competition of property (assets) of solvent, liquidating and liquidated enterprises, and also of objects whose construction is incomplete;

buy-out of rental property; sale of enterprises to associations formed in accordance with the additional privileges provided for in point 5.16;

sale of interest (shares, stocks) in state and municipal property by auction or commercial bid competition, including those with limited participation.

5.3. SALE OF SHARES OF OPEN JOINT-STOCK COMPANIES FORMED IN THE PROCESS OF PRIVATIZATION

A. Privileges granted to members of work collectives in the transformation of state/municipal enterprises into open joint-stock companies

5.3.1. In the sale (gratuitous transfer) of shares of open joint-stock companies formed via the transformation of state and municipal enterprises (including those previously transformed into closed joint-stock companies), the work collective of the enterprise shall decide on the use of one of the variants provided for by the Program in extending privileges to members of the work collective of the privatizing enterprise. These privileges shall also be extended to:

employees for whom the given enterprise is the principal place of employment;

former employees having tenure at the privatizing enterprise of not less than ten years for men and seven years and six months for women, and who left the enterprise voluntarily (including in connection with a transfer to other employment), as a result of manpower reductions, or in the course of the reorganization of the enterprise;

persons with the right, in accordance with the law of the Russian Federation, to return to their previous employment at the enterprise, including persons called up for military service while working for the state/municipal enterprise before its transformation into a joint-stock company, with the condition that such persons return to their previous employment within three months of demobilization;

pensioners, receiving a pension at the enterprise;

persons dismissed from the enterprise in the course of manpower reductions after 1 January 1992 and registered as unemployed;

workers of the enterprise receiving a pension for a handicap resulting from a work-related injury or illness;

family members who are heirs of workers of the enterprise killed at the enterprise.

All persons receiving these privileges shall be included in the calculation of the number of personnel on an equal basis with employees for whom the enterprise is the principal place of employment.

Variant 1

All members of the work collective of the privatizing enterprise and persons equivalent to them and having the right to privileges:

shall simultaneously receive gratis registered preferred (nonvoting) shares, constituting 25 per cent of the charter capital, but not more than 20 times the legislatively established minimum remuneration for one employee;

common shares, constituting up to 10 per cent of the charter capital, but not more than six times the legislatively established minimum remuneration for one employee, shall be sold by closed subscription to the members of the work collective with a discount of 30 per cent of their nominal price and payment by installment of up to three months; the initial payment shall not be less than 50 per cent of the nominal price of the shares.

The administration of the privatizing enterprise - the Director, his Deputy, Chief Engineer, Chief Accountant, Directors of separate structural divisions or subsidiaries - shall be given, under the terms of the contracts concluded with them, the right to acquire common shares at the nominal price to a total value, constituting up to five per cent of the charter capital, but not more than 2000 times the minimum remuneration established by the Laws of the Russian Federation for one person.

For enterprises with an average manpower of more than 10 thousand persons, with separate structural divisions, and also in cases where the privatization plan provides for the reorganization of the enterprise with the formation of subsidiaries, the list of administrative personnel having the right to such privileges may be broadened by a decision of the work collective.

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Variant 2

All members of the work collective and persons equivalent to them and having the right to privileges shall have the right to obtain common (voting) shares, constituting up to 51 per cent of the charter capital.

In this case:

gratuitous transfer and sale of shares under privileged conditions shall not take place;

the sale price of shares shall be set in accordance with the Regulation on closed subscription, approved by GKI of Russia.

Variant 3

If a group of workers of an enterprise or any physical or legal person, acknowledged as the purchaser in accordance with Article 9 of the Law of the Russian Federation " On the Privatisation of State and Municipal Enterprises of the Russian Federation", takes on the responsibility for the fulfillment of the privatization plan of the enterprise, for ensuring the solvency of the enterprise, and receives the consent of a general assembly of the work collective to the conclusion of the appropriate agreement, the length of which shall not exceed one year (and not be subject to extension),the members of such a group shall have the right, before the expiry of the indicated period and on the fulfillment of the conditions of the above-mentioned agreement, to acquire 30 per cent of the charter capital in the form of common shares of the enterprises at their nominal price.

The procedure of concluding an agreement with a group of workers on the acquisition of shares shall be in accordance with the Regulation approved by GKI of Russia.

For the period of the agreement, the voting rights of all voting shares of the corresponding property fund shall be transferred to the indicated group.

The conditions of the agreement shall be included in the privatization plan; the conclusion of this agreement with the indicated group by the founder of the joint-stock company shall be mandatory.In the agreement shall be specified the obligations of the members of the group and the limits of their material responsibility,in the form of their private property (provided as a deposit), to the sum of not less than 200 times the minimum remuneration established by the Laws of the Russian Federation for one person at the time of the deposition of the property for each member of the group.

In this variant, all workers of the enterprise (including the members of the group) shall be sold common shares to a sum constituting 20 per cent of the charter capital, but not exceeding 20 times the minimum remuneration established by the Laws of the Russian Federation for one worker, with a discount of 30 per cent of their nominal price and a three-month period of installment payment; the initial payment shall not be less than 25 per cent of the nominal price.

In the case of nonfulfillment of the provisions of the agreement by the group, the shares to be sold to the group shall instead be sold to the public at specialized voucher auction (after 1 July 1994 at auction for money).

The procedure of distribution of shares transferred gratis (under Variant 1) shall be determined by a decision of a general assembly (conference) of the work collective by a simple majority of votes.

The sale of shares to members of the work collective and to persons equivalent to them in privileges, as set out by this Program, shall proceed by closed subscription in accordance with the regulation approved by GKI of Russia.

Committees on the administration of property shall be permitted to extend to three months the period of closed subscription of shares among workers of the enterprise, based on the specifics of the production activity of the enterprise in question.at the same time, the

sale of shares transferred to property funds may be conducted until the end of the period of closed subscription.

The decision as to the choice of variant of privileges established by this Program shall be taken by a general assembly of the work collective or shall be ascertained by a signed list of its members. A decision must receive the votes (signatures) of not less than two thirds of the listed personnel of the enterprise. In the absence of such a decision, privileges shall be assigned in accordance with the first variant.

Workers of enterprises that make up a single technological complex with the privatizing enterprise shall be offered, in accordance with a decision of the work collective and independent of the variant chosen, the right to take part in the closed subscription to shares conducted among the workers of the privatizing enterprise, under equal conditions.

5.3.2. Any shares acquired or received gratis by physical or legal persons may be sold by their owners without limitation. The establishment of limitations shall be forbidden.

5.3.3. The initial price of state/municipal enterprises in their sale at auction, by commercial (noncommercial) competition or stock auction shall be established in accordance with the Provisional Methodological Instructions on the Evaluation of the Value of Objects of Privatization approved by the Decree of the President of the Russian Federation of 29 January 1992 N 66 "On the Acceleration of Privatization of State and Municipal Enterprises," with account taken of the changes introduced by the Directive of GKI of Russia of 13 November 1993 N 763 "On Several Questions on the Application of the Provisional Methodological Instructions on the Evaluation of the Value of Objects of Privatization."

The value of property shall be evaluated on the basis of the financial balance for the accounting quarter preceding the evaluation.The value of the fixed assets of unfinished construction and equipment not yet installed shall be determined during the evaluation with no account taken of the results of the reevaluation of fixed assets conducted in accordance with the Resolution of the Government of the Russian Federation of 14 August 1992 No. 595 "On the Reevaluation of Fixed Assets in the Russian Federation," and also subsequent reevaluations of fixed assets.

The actual profits earned by enterprises in 1993-1994 shall not be used as the source of a privatization fund for the workers of the enterprise and shall not be excluded from the value of the property for the determination of the initial price of the enterprise.

5.3.4. The amount of the charter capital in the transformation of state/municipal enterprises into open joint-stock companies shall be determined by the financial balance of 1 July 1992 with no account taken of the results of the reevaluation of fixed assets conducted in accordance with the resolution of the Government of the Russian Federation of 14 August 1992 "On the Reevaluation of Fixed Assets in the Russian Federation" and subsequent reevaluations of fixed assets and currency holdings.

In this case, for the determination of the variant of privileges offered to members of the work collective, the following shall be used:

the minimum remuneration for labor as of 1 June 1992 (900 rubles);

the average manpower of the enterprise according to the data for the first six months of 1992.

All changes in the makeup and value of the property of the enterprise after 1 June 1992 shall apply to the makeup and value of the property owned by the joint-stock company. The actual profit earned by the enterprise in 1993-1994 shall not be used as a source for a privatization fund for the workers of the enterprise and shall not be excluded from the value of the property in the determination of the charter capital.

5.3.5. The size of the charter capital of joint-stock companies formed via the transformation of state/municipal enterprises formed (founded) after 1 July 1992 shall be determined by the financial balance in the accounting quarter preceding the evaluation.

In determining the size of the charter capital, the value of fixed assets, unfinished construction, and uninstalled equipment shall be determined in the evaluation with no account taken of the results of the reevaluation conducted in accordance with resolution of the Government of the Russian Federation of 14 August 1992 "On the Reevaluation of Fixed Assets in the Russian Federation," and subsequent reevaluations of fixed assets.

In this case, for the determination of the variant of privileges offered to members of work collectives,the following shall be used:

the minimum remuneration for labor in effect at the time of formation (foundation) of the state/municipal enterprise;

the average manpower of the enterprise according to the data of the six months prior to the evaluation.

5.3.6. In order to safeguard the rights of shareholders, increase in the charter capital of the joint-stock company shall be forbidden until 90 per cent of the shares of the privatizing enterprise have been sold.

B. Privileges for members of work collectives and administrations of privatized enterprises, provided after the completion of the sale of stocks for privatization vouchers

5.3.7. In the case of sale of more than 80 per cent of stocks of a joint-stock company and sale of a quantity of shares established by legislation for privatization vouchers, the right is provided:

for members of work collectives of privatized enterprises to begin to buy out (and partly to receive free) shares from the enterprise employees shareholding fund, if this fund was included in the privatization plan confirmed before the release of the Program;

for joint-stock companies in the process of privatisation to buy out a tract of land under enterprises being privatized in accordance with current legislation. Moreover, the appropriate property funds shall be the vendors of the tracts of land. The distribution of funds received from land tracts is carried out according to the standards laid set out in appendix no.1 to the Program.

C. Privileges for members of work collectives and administrations in the case where a controlling interest in state/municipal ownership is held

5.3.8. In the case where a controlling interest in state/municipal ownership is held, the privileges for the workers of enterprises are provided in the following order:

if a controlling interest constitutes 51 per cent of shares, then registered preferred shares shall pass once and without charge to all members of the work collective and those equivalent to it. These shares constitute 25 per cent of the charter capital, but not more than 20 times the minimum wage of one employee as established by the legislation of the Russian Federation. Further than this, privileges are not provided;

if a controlling interest constitutes 38 per cent of shares, then privileges for members of work collectives and those equivalent to it are provided in accordance with the first benefits option (point 5.3.1. of the Program).

In both cases, the enterprise employees shareholding fund shall not be established, all remaining nonallocated shares are subject to sale at specialized voucher auctions (after 1 July 1994, at secondary auctions).

If in state ownership 25.5 per cent is secured, then privileges for members of work

collectives and those equivalent to it are provided under the first benefits option.

D. Receipt (sale) of shares from the enterprise employees shareholding fund

5.3.9. For enterprises, requests for privatization submitted after 1st February 1994, the establishing of enterprise employees shareholding funds (hereinafter EESF) is not provided for.

Receipt (sale) of shares from the EESF is conducted in the manner established by the government of the Russian Federation and this Program.

During the transformation of state and municipal enterprises into open joint-stock companies upon the proposal by labor collectives, the enterprise employees shareholding fund can be formed by means of an investment of the appropriate property fund. The size of this investment shall not exceed 10 per cent of the charter capital of the enterprise in the case of the selection of benefits package options 1 and 3, and 5 per cent in the case of the selection of option 2 of the benefits package for members of labor collectives.

Transfer of shares from the EESF is conducted in the case where not less than 80 per cent of shares are sold and after the sale of the quantity of shares established by legislation has been completed.

Furthermore, from the total quantity of shares, a portion of the shares, which constitutes one tenth of the total number of shares sold for privatization vouchers of this joint-stock company (with the exception of shares sold or transferred to a work collective for preferential conditions), shall be subject to gratuitous transfer to members of the work collective.

The EESF shall be formed in a time period of not less than two years from the moment of registration of the joint-stock company. Members of the work collective, for whom this joint-stock company is the basic workplace, shall have the right to acquire shares from the EESF.

5.4 THE SALE OF SHARES OF A JOINT-STOCK COMPANY IN SPECIALIZED CHECK AUCTIONS

5.4.1 Before 1 July 1994, the basic form of selling shares shall be the sale of shares at specialized voucher auctions, the conduct of which is defined by the GKI of Russia, and also at interregional specialized voucher auctions and interregional all-Russian specialized voucher auctions, to be carried out in accordance with the resolution of the Council of Ministers of the Government of the Russian Federation No. 786 of 10 August 1993 "On the Sale of Shares at Interregional Specialized Voucher Auctions".

The conditions for the conduct of interregional and interregional all-Russian specialized voucher auctions shall be regulated by the GKI of Russia.

All owners of privatization vouchers, recognized as buyers in accordance with the legislation of the Russian Federation, shall be permitted to participate in specialized voucher auctions.

5.4.2. The specialized voucher auction shall be the method of selling shares at auction, under which:

all auction winners shall receive shares at the same price; participation in the auction shall be defined by means of submitting one of the two types of requests with indication either of only the quantity of privatization vouchers (request type 1) or of the quantity of privatization vouchers for buying shares with indication of the minimum quantity of shares of nominal value for one privatization voucher (request type 2);

persons submitting request type 1 shall always be among the auction winners.

The appropriate property fund, property management committee and stock-issuing enterprise shall carry out the sale of shares at specialized voucher auctions in accordance with Decree of the President of the Russian Federation No. 1229 of 14 October 1992 "On the Development of the System of Privatization Vouchers in the Russian Federation".

The use of procedures for the conduct of specialized voucher auctions other than those established by the regulation of the GKI of Russia No. 701 of 4 November 1992.

The sale of the shares of enterprises under privatization at specialized voucher auctions shall be carried out in accordance with the privatization plans, ratified by property management committees, and with the work plans for the conduct of specialized voucher auctions, which shall be mandatory for property funds.

Furthermore, the sale of shares at specialized voucher auctions shall be permitted until the closed subscription to shares among the members of the work collective has been completed.

5.4.3. Interregional specialized voucher auctions shall be auctions to be carried out in the manner established by the Resolution on specialized voucher auctions, ratified by the regulation of the GKI of Russia No. 701 of 4 November 1992. Furthermore, the collection of requests for participation in interregional specialized voucher auctions must be simultaneously organized in the territory of at least five subjects of the Russian Federation.

5.4.4. Interregional all-Russian specialized voucher auctions shall be auctions to be carried out in the manner established by the Resolution on specialized voucher auctions, ratified by regulation of the GKI of Russia No. 701 of 4 November 1992. The collection of requests for participation in such an auction shall be simultaneously organized in the territory of at least 25 regions of the Russian Federation.

Upon the conducting of an interregional all-Russian specialized voucher auction, the organization of the collection of requests in Moscow shall be mandatory.

5.4.5. Property Funds shall ensure the sale of at least 29 percent of the shares of the joint-stock company exclusively at specialized voucher auctions, in accordance with the privatization plan (with the exception of joint-stock companies established from fuel and energy enterprises that are being privatized in accordance with Decrees of the President of the Russian Federation No. 923 of 15 August 1992, Nos. 1333 and 1334 of 5 November 1992, No. 1403 of 17 November 1992, and No. 1702 of 30 December 1992), within two months of the moment of transformation.

The shares of joint-stock companies being established in the privatization process and which were formerly state-owned, having on 1 January 1992 a net value of fixed assets of more than 250 million rubles, shall be subject to sale exclusively at interregional and interregional all-Russian specialised voucher auctions, to be carried out by property funds in accordance with the Resolution on the conduct of interregional all-Russian specialised voucher auctions, ratified by regulation of the GKI of Russia No. 1853 of 28 October 1993, and in accordance with the work plan ratified by the GKI of Russia.

5.4.6 In the case where shares of a joint-stock company are used as payment for charter capital of a different joint-stock company (holding company), the quantity equivalent to the nominal value of the shares of the latter must be sold at a specialized voucher auctions and indicated in the privatization plan of the former joint-stock company. The sale of shares must also be carried out in the region where the joint-stock company, the shares of which were invested in the holding company, is located.

After 1 July 1994 shares shall be sold at auctions for money in accordance with the

resolution of the GKI of Russia.

5.5 THE SALE AT AUCTIONS OF ENTERPRISES THAT ARE NOT JOINT-STOCK COMPANIES

Auction sale is the acquisition into private ownership by physical or legal persons at open tenders auctions of objects of privatization in cases where buyers do not need to fulfil any conditions relating to the object of privatization.

Furthermore, the right of ownership shall be transferred to the buyer offering the highest price at the auction.

In the case where workers of an enterprise under privatization and persons dismissed from this enterprise due to staff reduction after 1 January 1992 and registered as unemployed are deprived of ownership rights as a result of the auction, they shall receive 30 percent of the receipts, but not exceeding 40 times the minimum wage for one worker as established the legislation of the Russian Federation.

5.6 THE SALE OF ENTERPRISES THAT ARE NOT JOINT-STOCK COMPANIES BY COMMERCIAL TENDER (WITH RESTRICTED PARTICIPATION)

5.6.1 Sale by commercial tender is the acquisition into private ownership by physical or legal persons of objects of privatization in cases where buyers need to fulfill particular conditions relating to objects of privatization. The list of conditions of tender is determined in accordance with the Resolution of the Privatization of State and Municipal Enterprises in the Russian Federation by tender. Conditions not provided for in the above Resolution are acceptable.

The mandatory conditions for the sale of all objects of commerce of the food-service industry and of basic services are to preserve the line of operation and to prohibit cessation of the work of the privatized object for more than two months after the conclusion of the deal and/or cumulatively 3 months in the course of the calendar year. Reducing the work schedule of the privatized object is only permitted by agreement with local administration.

In the case where workers of an enterprise under privatization, and persons dismissed from this enterprise due to staff reduction after 1 January 1992 and registered as unemployed are deprived of ownership rights as a result of the tender, then they shall receive compensation amounting to 20 percent of the receipts, but not exceeding 30 times the minimum wage for one worker as established by the legislation of the Russian Federation.

5.6.2 Commercial tender shall be conducted in the form of open or closed tenders. Furthermore, in commercial tender the right of acquisition shall belong to the buyer offering the highest price.

Sale at commercial tender with restricted participation is permitted (in accordance with local privatization programs) only during privatization of enterprises of commerce, of the food-service industry and of basic services situated in rural areas, urban posyoloks, raions of the Far North and similar areas.

Only workers of the enterprise under privatization and inhabitants of the region are permitted to participate in the tender.

5.7. THE SALE OF THE SHARE PACKAGES OF JOINT-STOCK COMPANIES BY INVESTMENT TENDER

When buyers are required to make investments, share packages of state-owned joint-stock companies shall be sold by investment tender.

The criterion for selecting tender winners shall be the total size of the investment, discounted to its maturity and taking account of the rates of the Central Bank of the Russian Federation at the moment of carrying out the tender.

The obligatory requirements for the conduct of the tender are:

that, in the month following the completion of the investment tender, the tender winner shall deposit at least 20 percent of the total volume of the investment into the settlement account of the enterprise (0.5 percent of this amount shall be transferred by the investment tender winner in equal portions to the accounts of the appropriate property management committee and the appropriate property fund) and furthermore,in individual cases, the size of the initial payment may be reduced to 10 percent by a decision of the government of the Russian Federation;

that the investment shall be finalized in not more than three years;

that payment for a share package being sold at an investment tender shall be made at its nominal value.

All investment tenders shall be open, i.e. any interested physical or legal persons may participate in them.

Investment tenders shall be conducted in accordance with the Resolution ratified by the GKI of Russia.

The debt of an enterprise, whose shares are sold at an investment tender, shall be paid off by the winner of the investment tender as a part of the investment.

5.8. Upon the sale of state and municipal enterprises (and also the property of liquidated enterprises) by tender or at auction to a partnership (joint-stock company) including at least one third of the listed workers of an enterprise (subdivision) under privatization, a discount of 30 percent from the selling price shall be granted as well as an extension of the payment deadline of up to three months. Furthermore, the amount of the initial payment defined by the privatization plan, or, in the absence of the necessary deed, by the vendor, may be less than 25 percent of the selling price and may be submitted by the buyer in the following form: up to 80 percent in privatization vouchers, and the remainder in money.

5.9. Physical and legal persons who are owners of state and municipal enterprises at auction (tender) shall be granted the right to conclude long-term lease agreements on nonresidential state/municipal premises, buildings and structures which are being used by these enterprises but are not part of the property acquired by them. In this case, the appropriate property management committee shall be the vendor. Such a buy out shall be conducted according to the price established on the basis of a system to be approved by the GKI of Russia.

Owners of privatized state/municipal enterprises shall have the exclusive right to acquire tracts of land being used by these enterprises.

Alteration of the conditions of lease agreements on the above-mentioned premises, buildings and structures, in comparison with those earlier concluded, shall only be permitted upon agreement of the parties, unless otherwise provided for in the conditions of the agreement.

5.10. In cases, during the conducting of an auction (tender) for the sale of enterprises under privatization, where the physical or legal person recognized as the buyer in accordance with article 9 of the Law of the Russian Federation "On the Privatization of State and Municipal Enterprises of the Russian Federation" is the only participant in the auction (tender), then the enterprise shall be sold to this person for 10 times the value if it is situated in rural areas and in labor posyoloks, and for 100 times the value if situated in a city, the value being defined in accordance with its appraisal certificate.

Privileges shall not be granted to workers of an enterprise who have become its buyers or to partnerships (joint-stock companies) in the case provided for in 5.8.

5.11. Upon the sale of an enterprise in the process of privatization by tender or at auction, the amount of the down-payment (deposit) collected from the participants shall be set at 100 percent of the initial price of the object, but it shall not exceed 1000 times the minimum wage as established by the legislation of the Russian Federation.

5.12. THE SALE OF THE PROPERTY (ASSETS) OF ENTERPRISES WHICH ARE EITHER CURRENTLY OPERATING, UNDER LIQUIDATION OR WHICH HAVE ALREADY BEEN LIQUIDATED, BY TENDER, AT AUCTION, OR AT INVESTMENT TENDERS. THE SALE OF INCOMPLETELY CONSTRUCTED OBJECTS BY TENDER, AT AUCTION, OR AT INVESTMENT TENDERS

5.12.1. The sale of property (assets) of enterprises under liquidation or which have already been liquidated shall be conducted exclusively at auction by the appropriate property funds (property management committees) in accordance with the resolution to be ratified by the GKI of Russia.

In this case, workers of the enterprise, and persons dismissed from this enterprise due to staff reduction after 1 January 1992 and registered as unemployed, shall be paid a sum amounting to 50 percent of the remaining monetary receipts of the property (assets) after the requirements of the creditors have been met, but not more than 40 times the minimum monthly wage for one worker as established by the legislation of the Russian Federation.

5.12.2. The sale of the property (assets) of currently operating state/municipal enterprises shall be carried out exclusively for money with authorization of the appropriate property management committee at an auction organised by a property fund, in the manner established by the GKI of Russia.

Furthermore, 80 percent of the proceeds received from the sale of property shall be left at the disposal of the enterprise and may not be used to pay wages, and 20 percent shall be allocated in accordance with the standard allocation of proceeds from privatization, as established in Appendix 1 to the Program.

The outcomes of the auction shall be drawn up in the form of a purchase and sale contract.

5.12.3. Privatization of assets of incompletely constructed objects shall be conducted exclusively for money taking into account the opinions of the ministries and departments:

by means of the sale of the assets of these objects at auction or by tender;

by means of the establishment of an open joint-stock company with 100 percent state capital with the subsequent sale of stock.

The distribution of monetary proceeds from the sale of assets of incompletely constructed objects shall be conducted in the following manner:

50 percent to the enterprise from whose property aggregates the assets of incompletely constructed objects were extracted;

the remaining monetary proceeds shall be distributed equally between the appropriate property management committee and property fund, and shall be directed to the financing of the privatization process.

The decision on the selection of one of the above-mentioned methods for the privatization of incompletely constructed objects shall be taken by the appropriate property management committee. Labor commissions for the privatization of state/municipal enterprises shall have the right to decide on the exclusion of incompletely constructed objects

ownership with the purchaser or until more than 75 percent of the stock in the enterprise being privatized has been sold, in order to protect the interests of the employees of enterprises being privatized, the following actions are prohibited without the assent of the appropriate property management committee and without taking into account the opinion of the appropriate sectorial ministry and department:

reorganization, liquidation, or a change in the structure of the enterprise; amending or terminating the validity of previously concluded lease agreements on nonresidential premises, buildings, structures occupied by enterprises being privatized, or amending or terminating the validity of lease agreements for property leased to prospectors' artels;

changing the manpower plan of the enterprise, reducing the size of the workforce without a decision by the labor collective of the enterprise (subdivision) or organs empowered by them, to terminate or transfer to other duties workers and management personnel of the enterprise (subdivision) who are members of privatization labor commissions, except in cases of voluntary resignation.

5.15.2 During the transformation of enterprises to open joint-stock companies, in accordance with Decree of the President of the Russian Federation No 721 dated 1 July 1992 the date of adoption of a decision by a labor collective to privatize shall be the date of release of the order by the chief executive officer of the enterprise or the date of the decision by the general meeting of the labor collective to form a working commission on the privatization of that enterprise.

5.15.3 From the moment of the adoption of a decision by the labor collective to apply for privatization, and until the sale of more than 75 percent of the stock in the enterprise being privatized, the sale of property, including real estate, and the transfer of it from the assets of the enterprise being privatized without the assent of the appropriate property management committee is prohibited.

The employees of an enterprise being privatized - shareholders - shall be exempted from the payment of tax on the sale of stock belonging to them.

5.16. ADDITIONAL BENEFITS IN THE PRIVATIZATION OF STATE/MUNICIPAL ENTERPRISES

The following additional benefits shall be established in the privatization of state/municipal enterprises:

partnerships, consisting only of employees of enterprises whose workforce is made up of more than 50 percent handicapped persons at the time of the adoption of a decision by the labor collective to apply for privatization and if the partnership contains no less than half of the total number of handicapped employees, in accordance with a resolution approved by the GKI of Russia, shall have the priority right to acquire such enterprise at its residual value with up to 80 percent of payment made in privatization vouchers (for the period until 1 July 1994);

if the number of handicapped employees is less than 50 percent but greater than ten percent of the total number of employees, then the conditions for the sale of the enterprise must include a requirement by the buyer to preserve the number of job positions determined by the privatization plan for the handicapped and to provide them with special working conditions;

partnerships consisting of not less than two-thirds of the total number of employees of a state/municipal arts and crafts enterprise shall have a priority right to acquisition of the enterprise at its residual value with up to 80 percent of payment made in privatization

vouchers (for the period until 1 July 1994);

regardless of the benefits package option chosen by the labor collective in the transformation of arts and crafts enterprises into open joint-stock companies, the leading artists and craftsmen shall be afforded the right to acquisition of stock at nominal value in an amount of five percent of the charter capital greater than that provided for in the labor collective benefits, with payment for this additional acquisition made exclusively in privatization vouchers;

in the privatization of enterprises located in settlements with a population of less than 10,000 people, as well as in closed administrative and territorial units, with the assent of the labor collective, all the inhabitants may participate in a closed subscription for stock in the enterprise being privatized which is subject to sale to that labor collective, this provided that the number of employees of the enterprise being privatized comprises more than half of the employable population of such settlement;

in the privatization of rural basic services enterprises, the labor collective shall enjoy privileged right to acquisition of the enterprise, provided that the participants observe the conditions set forth for tenders.

5.17 In calculating the benefits to members of labor collectives in the process of privatization by means of transformation of a state/municipal enterprise into an open joint-stock company on the basis of minimum wage, that minimum wage shall be defined as that which was fixed by legislation as of 1 July 1992, and in privatization by other means, at the moment of the adoption of the Program, unless otherwise established by privatization legislation. The determination of down payments or fines shall be based on the minimum wage on the date of their remittance.

5.18. REORGANIZATION AND DEMONOPOLIZATION OF ENTERPRISES DURING THEIR PRIVATIZATION

5.18.1. The creation of joint-stock companies (including holding companies) on the basis of concerns, unions, associations and other amalgamations of enterprises, who have among their participants state and/or municipal enterprises shall be prohibited, with the exception of cases where their organizational-legal form is brought into compliance with articles 9-12 of the Law of the Russian Federation "On Enterprises and Entrepreneurial Activity.'"

5.18.2 The creation of holding companies in the transformation of state and municipal enterprises into joint-stock companies shall be conducted in accordance with the temporary regulation on holding companies formed during the transformation of state enterprises into joint-stock companies approved by Decree of the President of the Russian Federation No 1392 dated 16 November 1992 "On the Methods for Fulfilling Industrial Policy in the Privatization of State Enterprises".

No more than ten percent of the stock of any joint-stock company formed in the process of privatization of a state/municipal enterprise may be invested into the charter capital of a joint-stock company formed with state participation (including holding companies).

Holding companies may be created only with the prior assent of the appropriate authorities and administrations of subjects of the Russian Federation, on whose territory the enterprises comprising the holding company are located.

5.18.3 The creation of enterprises, as well as the contribution of property investments into the charter capital of enterprises (of any organizational-legal form) by

amalgamations of state/municipal enterprises whose organizational-legal form has not been brought into compliance with articles 9-12 of the Law of the Russian Federation "On Enterprises and Entrepreneurial Activity" shall not be permitted.
The legal successors to the abovementioned amalgamations as founders and participants (shareholders, stockholders) shall be the enterprises/participants in the abovementioned amalgamations (if there is documented evidence that the latter's investments were composed of purpose-oriented and other contributions by these enterprises), or the appropriate property management committee (in all other cases).

5.18.4 The creation of or investment into the charter capital of enterprises (of any organizational-legal form) by any state administrative bodies, organs of local self-government, or state or municipal institutions, with the exception of property management committees and property funds, shall not be permitted.

5.18.5 The privatization of state and municipal enterprises by means of sales of stock shall be after their transformation exclusively into open joint-stock companies. Enterprises of other organizational-legal forms, previously created during the transformation of state/municipal enterprises, shall be subject to transformation into open joint-stock companies during privatization.

The rights of the state as a participant (shareholder, stockholder) in these enterprises shall be exercised by the appropriate property management committees and property funds.

The latter shall be required to provide for the transformation of these enterprises, and to conduct the privatization of any state or municipally-held interest in these enterprises in accordance with current privatization legislation.

5.18.6 Upon the acquisition of property, interest (shares), or stock in enterprises being privatized (joint-stock companies, partnerships) for money:

legal persons (residents and nonresidents) shall present, in cases of transactions for sums greater than 500,000 times the minimum wage established by legislation, evidence (an official document) of the source of the funds and their legality in accordance with the procedure approved jointly by the Federal Counterintelligence Service of the Russian Federation, the GKI of Russia;

individuals shall present, in cases of transactions for sums greater than 5000 times the minimum wage established by legislation, an income statement in accordance with the procedure approved jointly by the Federal Counterintelligence Service of the Russian Federation, the GKI of Russia and the State Tax Service of the Russian Federation.

5.18.7 Decisions on the segregation of organizational subdivisions from the aggregate of enterprises in the process of their privatization shall be adopted by the appropriate property management committees in accordance with antimonopoly organs and sectoral ministries and departments, on the basis of the decisions of the labor collectives of the enterprises (organizational subdivisions). Decisions on the segregation of organizational subdivisions from amalgamations of enterprises, in the process of bringing their organizational-legal form into compliance with current legislation shall be adopted on the basis of the decisions of the labor collectives of the enterprises, taking into account the opinions of antimonopoly organs and sectoral ministries and departments (except for enterprises in foreign trade amalgamations).

The decision to segregate an organizational subdivision must not violate the integrity of a manufacturing complex.

5.18.8 Monopolist enterprises are subject to reorganization during or after

privatization in accordance with current legislation.

In the privatization of enterprises recognized in the established manner as dominating the Russian (federal) market, the GKI of Russia, and property management funds who are empowered with the rights of agency of the GKI, are within their rights as representatives of the State Committee of the Russian Federation for Antimonopoly Policy and the Support of New Economic Structures or its territorial administrations (hereinafter - antimonopoly organs) to adopt a decision:

to include in the charter of the joint-stock company being created requirements for the mandatory prior approval by antimonopoly organs of any acquisition by such company of stock, shares, or interest in the charter capital of any other institution selling on the market similar or identical goods (or services);

to include in the privatization plan requirements for the mandatory prior conclusion of an agreement (contract) with antimonopoly organs which would set forth the requirements for the enterprise in deterrence of monopolistic activity and unethical competition, and responsibility for failure to abide by such agreement.

5.19 THE DISPOSAL OF STATE-OWNED OBJECTS LOCATED ABROAD

5.19.1 Privatization and disposal of state property located abroad shall be conducted in the manner set forth by the laws of the Russian Federation, decrees of the President of the Russian Federation, or resolutions of the Government of the Russian Federation.

5.19.2 The privatization (sale) of state-owned objects of the Russian Federation, located within the territory of independent states - the former republics of the USSR, shall be conducted after the settling of issues of ownership rights on the basis of intergovernment and interstate treaties.

6. SECTORAL SPECIFICS OF THE PRIVATIZATION OF STATE/MUNICIPAL ENTERPRISES

6.1 The privatization and transformation into joint-stock companies of state enterprises and of industrial and scientific-industrial associations in the fields of electrical power, nuclear power, gas, coal, oil, oil refining and petroleum products, the defense complex, mining and processing of precious metals and stones, objects of social-cultural and community importance to the enterprises being privatized, railway transportation, objects of the Russian joint-stock company "Rossiiskii Nikel'", shall be regulated by the current decrees and orders of the President of the Russian Federation.

6.2 The creation of new all-Russian integrated monopolies (holding companies and enterprises which administer the shares of the joint-stock companies being created) is permitted exclusively in the fuel, power, and nuclear complex, and only in cases provided for by decree of the President of the Russian Federation, with the assent of the state governing and administrative bodies of subjects of the Russian Federation, and of the State Committee for Antitrust Policies and the Support of the New Economic Structures of the Russian Federation.

6.3 Within six months after the adoption of this privatization Program, for the purpose of the creation of a competitive market and for the protection of consumer interests, the Government of the Russian Federation shall provide for the creation of independent oil stock companies, which will provide for the extraction of oil, oil refining, and also the sale of

oil and petroleum products, by means of the consolidation of shareholdings under the administration of the state enterprise "Rosneft', with their subsequent sale on the secondary market.

Members of paramilitary units of the Ministry of Fuel and Energy of the Russian Federation (responsible for gas and oil disaster response and gusher containment), of paramilitary mining rescue units belonging to metallurgical mining enterprises and the gold and diamond industries, who provide mining safety, shall be granted special privileges to the acquisition of stock in the enterprises which they service within the framework of general benefits which are granted to members of the worker's collective of those enterprises.

6.4 The privatization of enterprises involved in the primary processing of agricultural products, fish, seafood products and of enterprises providing maintenance and logistics to the agroindustrial complex shall be conducted in accordance with the Decree of the President of the Russian Federation dated October 27, 1993, No. 1767, "On the Regulation of Land Relationships and the Development of Agrarian Reforms in Russia," and with this Program. Furthermore, the issuing of stock in these enterprises shall be conducted regardless of the number of workers and value of its fixed assets, with benefits to members of the worker's collective being offered under options one and three.

All the remaining stock shall be offered, within three months after the adoption of a decision on privatization, at closed voucher auctions to agricultural and fish product producers, suppliers or consumers of services, recognized as purchasers in accordance with article 9 of the Law of the Russian Federation "On the privatization of state and municipal enterprises in the Russian Federation", and also to the rural population of the production zone of these enterprises in accordance with the regulation approved by the GKI of Russia on specialized closed voucher auctions.

Nonassigned shares of enterprises in the agroindustrial complex shall be sold at specialized voucher auctions without restrictions on the composition of the participants. A decision on the issuance of "Golden Shares" (Zolotye Aktsii) shall be adopted upon the transformation of tobacco manufacturing enterprises into open joint-stock companies.

6.5 The privatization and selling of released military property (except armaments and ammunition) shall be conducted by the Ministry of Defense of the Russian Federation in the manners established by the decrees of the President of the Russian Federation dated November 30, 1992, No. 1518, "On the procedure of reorganizing and utilization of released military property," and December 28, 1992, No. 1659, "On measures for the social welfare of military personnel, veterans their family members".

6.6 The privatization of publishers, printing houses and wholesale book trading enterprises of the Press Committee of the Russian Federation shall be conducted in accordance with regulations approved by the Government of the Russian Federation. "Golden Shares" (Zolotye Aktsii) shall be issued for a period of three years upon the transformation of wholesale book trading enterprises into open joint-stock companies. The right to participate in a closed subscription for stock shall be granted, upon the transformation of publishing houses into open joint-stock companies, to workers of the editorial staff of newspapers and magazines, who were earlier a part of the staff of these publishing houses, including writers and editors on the editorial staff of newspapers and magazines.

6.7 The privatization of objects of the scientific-technical field shall be conducted in accordance with the regulation approved by the Government of the Russian Federation.

6.8 The privatization of objects and enterprises related to the field of Communications (except objects and enterprises of the retail network "Rospechat'") shall be carried out in accordance with the resolutions of the Government of the Russian Federation.

6.9 The privatization of objects and enterprises of a sanatorium-resort nature which are federally owned shall be conducted in accordance with resolutions of the Government of the Russian Federation.

Upon the transformation of enterprises of wholesale trade, objects and enterprises of a sanatorium-resort nature, which are federally owned, into open joint-stock companies, benefits to members of the worker's collective shall be granted only benefits option 1 of the established in this Program.

6.10 The privatization of objects of amateur and professional sports shall be carried out in accordance with resolutions of the Government of the Russian Federation.

6.11 Upon the privatization of timber farms by means of the sale of stock in open joint-stock companies, and in the event of the segregation from such farms of organizational subdivisions engaged in milling activities, all workers of the former amalgamated forestry enterprise shall be allowed to participate in a closed stock subscription. In the case of sale at voucher auctions of stock in wholesale trade and food service industry enterprises which serve the enterprises and organizations of the Russian Federal Forestry Service, only inhabitants of lumbering settlements may be purchasers.

This procedure shall apply to all organizational subdivisions engaged in milling activities (the preparation of lumber from raw timber and its processing) segregated from amalgamated forestry enterprises of the Russian Federal Forestry Service.

6.12. Released motor vehicles and water transport vessels of organizations, institutions and enterprises (including those being privatized) shall be sold at auction. Furthermore, a special privatization system with a mixed form of payment shall be used: until July 1, 1994, 50 percent in voucher and 50 percent in cash, and after July 1, 1994 - only in cash, and furthermore:

30 percent of monetary proceeds shall go to the organization, institution or enterprise from whose holdings the indicated property was released;

70 percent of monetary proceeds shall be divided equally between the property management fund and the property fund. These proceeds, received by these privatization organs, shall be allocated for the financing of the process of privatization.

6.13 The privatization of federally-owned cultural objects (including objects and enterprises of cinematography) shall be carried out in accordance with regulations approved by the Government of the Russian Federation.

Upon the privatization of federally-owned cultural objects (including objects and enterprises of cinematography) by means of the sale of stock in open joint-stock companies, "Golden Shares" (Zolotye Aktsii) may be issued and held in state ownership for a period of three years; this in the interest of preventing the restructuring of the object.

6.14 If objects of social or community significance or residential real estate are not included in the charter capital of an enterprise being privatized, and if these objects or real estate are earmarked for transfer into municipal ownership, then the appropriate organs of self-government must, within six months of the day of adoption of the privatization plan, receive the objects or real estate into their assets and conclude a contract with the enterprises for the maintenance of such objects; and if necessary, must preserve contractual

relations with the privatized enterprise/former owner, which is fulfilling the obligations of the new owner in the maintenance of the residences or social and community objects.

6.15 Sales at auction are prohibited in the privatization of enterprises which produce baby food, and if they are transformed into open joint-stock companies, a decision to issue "Golden Shares" (Zolotye Aktsii) shall be adopted.

6.16 Objects of departmental commerce and of the food-service industry which serve institutions, enterprises and organizations of the Russian Federal Forestry Service shall be privatized in accordance with a special regulation approved by GKI of Russia, taking into account the proposals of the Russian Federal Forestry Service.

6.17 In the privatization of state/municipal enterprises, the new owner inherits all the rights and responsibilities for the fire safety of the enterprises.

6.18 The privatization of foreign trade associations of the Ministry of Foreign Economic Relations of the Russian Federation and other ministries and departments of the Russian Federation shall be conducted in accordance with a regulation approved by the Government of the Russian Federation, upon presentation by the GKI of Russia and the MFER of Russia.

6.19 The privatization of civil defense objects, except those indicated in section 2.1, shall be conducted in accordance with a regulation approved by the Government of the Russian Federation.

6.20 A decision to issue "Golden Shares" (Zolotye Aktsii) shall be adopted in the transformation into open joint-stock companies of testing factories which are part of the system of the Russian Federation Committee for Standardization, Weights and Measures, and Certification.

6.21 Enterprises of the Ministry of Education of the Russian Federation shall be transformed exclusively into open joint-stock companies, regardless of the value of their fixed assets. GKI of Russia may adopt a decision to issue "Golden Shares" (Zolotye Aktsii) in the transformation of these enterprises into joint-stock companies.

It shall be a mandatory condition in the transformation of enterprises of this ministry that two-thirds of their production output (both in type and volume) as measured at the moment remain dedicated to the production of study materials.

6.22 Enterprises and objects of the motor-vehicle and highway industries which are objects or which are assigned permanent mobilization tasks shall be privatized with consideration for the opinion of the State Committee for Emergency Situations.

6.23 All enterprises, scientific research and design organizations which are under the jurisdiction of the Russian Federation Committee of Metallurgy shall be privatized with consideration of the opinion of that committee, and only by means of sale of stock in open joint-stock companies, regardless of the size and value of their fixed assets.

6.24 The privatization of folk arts and crafts enterprises shall be conducted with mandatory preservation of their line of activity and with consideration for the opinion of the State Committee of the Russian Federation for Industrial Policy.

6.25 In the transformation of federally or municipally-owned hotel complexes, hotels, motels, pensions, campgrounds, and tourist/excursion objects into open joint-stock companies, benefits shall be provided to members of the labor collective only under benefits option 1, as set forth in this Program.

6.26 "Golden Shares" (Zolotye Aktsii) shall be issued in the transformation of the following into open joint-stock companies: objects and enterprises of the medical industry, pharmaceutical warehouses, medical equipment warehouses, as well as enterprises and objects in the scientific and technical fields of the chemical complex, which contain sites with toxic substances of hazard classes 1 and 2.

6.27 A decision on the privatization of enterprises and objects which manufacture poisonous substances and temporary exterminants shall be adopted only after the completion of destruction of those substances and the decontamination of equipment.

6.28 The privatization of passenger transport enterprises which are also involved in cargo transfer shall be conducted in accordance with the resolutions of the Government of the Russian Federation.

6.29 The transformation into open joint-stock companies and the privatization of enterprises and objects of the Russian Federal Geodesy and Cartography Service, indicated in section 2.2 of this Program, shall be conducted with mandatory preservation of their line of activity and with consideration for the opinion of the Russian Federal Geodesy and Cartography Service.

6.30 Objects and enterprises of rural commerce, of the food service industry, and of basic services with a net value of fixed assets as of 1 January 1992 of less than 0.5 million rubles are subject to sale exclusively at tenders and investment tenders.

6.31 In the privatization of geological enterprises, those organizational subdivisions and objects not subject to privatization are segregated from the body of the enterprise. Shares of geological joint-stock companies held in federal ownership may be sold prematurely on the basis of decisions of the Government of the Russian Federation.

6.32 Per resolution of the Government of the Russian Federation, in the privatization of objects and enterprises involved in the processing of precious metal ores, precious and semi-precious stones, one of the following property appraisal options shall apply, at the behest of the labor collective:

option 1 - without inclusion of precious and semi-precious stones, precious metals in the value of property to be bought out. In this case precious and semi-precious stones as well as precious metals shall remain in state ownership and shall be used by the enterprise in accordance with a contract concluded with the Committee of the Russian Federation for Precious Metals and Precious Stones;

option 2 - with inclusion of precious and semi-precious stones, precious metals in the value of property to be bought out, at the current price at the moment of the approval of the privatization plan.

6.33 In the privatization of state and municipal enterprises, the procedure for assessing ecological impact and workplace safety at sites with potential chemical, explosive, fire, and toxic hazards shall be established by the GKI of Russia with consideration for the

proposals of the Ministry of Environmental and Natural Resources Protection of the Russian Federation and the appropriate sectoral ministries and departments, and shall include the issues of: ecological survey; reflection of ecological and safety issues in the conditions for privatization plans and tenders; presentation of requirements for environmental cleanup, preferential appraisal property on nature reserves; and the creation at enterprises of environmental cleanup funds.

The abovementioned ministry and GKI of Russia shall approve the list of ecologically hazardous enterprises for consideration in the process of privatization.

The privatization of enterprises subject to an assessment of ecological requirements shall be conducted in accordance with the Regulation approved by the Government of the Russian Federation.

7. CONDITIONS FOR ISSUING PRIVATIZATION CREDITS.

Commercial banks of the Russian Federation and foreign banks may issue credit for privatization transactions in accordance with current legislation.

Credit resources may be allocated by the Central Bank of the Russian Federation only for the holding of voucher auctions.

Credit resources may be allocated for local privatization programs only from those funds at the disposal of the appropriate local authorities.

The Government of the Russian Federation, on behalf of the Russian Federation shall provide for the issue of preferred credits from international financial institutions (banks) to support the privatization process in Russia.

8. THE USE OF PRIVATIZATION VOUCHERS.

This program shall implement the system of privatization on the basis of use of privatization vouchers in accordance with the decrees of the President of the Russian Federation No. 914 dated 14 August 1992; No 1228 dated 14 October 1992; No 1229 dated 14 October 1992, No 1304 dated 26 October 1992, No 1391 dated 16 November 1992; No 1705 dated 31 December 1992; No 7 dated 10 January 1993; No 216 dated 12 February 1993; No 2004 dated 24 November 1993, within the validity period for privatization vouchers which ends 1 July 1994.

8.1. Citizens of Russia and other persons entitled to receive privatization vouchers can use privatization vouchers issued in 1992 with a nominal value of 10 thousand rubles for the acquisition of objects of privatization.

The deadline for issue of privatization vouchers shall be extended for those persons on extended voyages and on extended tours of duty.

8.2. Privatization vouchers may be used as payment by buyers of the following objects during privatization:

enterprises, their subdivisions, property, shares in Joint-stock companies and interests in the charter capital of enterprises federally or state-owned by republics within the Russian Federation, krais, oblasts, autonomous oblasts, autonomous okrugs, the cities of Moscow and Saint-Petersburg, or municipally owned;

tracts of land, in the procedure provided for in the decrees of the President of the Russian Federation No 631, dated 14 June 1992 "On the approval of a procedure for the sale of land tracts during the privatization of state and municipal enterprises, and land tracts offered to citizens and their associations for entrepreneurial activity"; and No 1228 dated 14

October 1992 "On the sale of residential property, land tracts, and municipal property for privatization vouchers."

shares in voucher investment funds;

shares in social welfare voucher investment funds;

leases and rights of purchase.

The size of payments which must be made in privatization vouchers shall be established by decrees of the President of the Russian Federation and this Program.

With consideration of the sectorial and regional particularities of privatization, the size of payments made in privatization vouchers may be changed in accordance with decrees of the President of the Russian Federation.

8.3. No other systems shall be permitted for the gratuitous transfer of state or municipal property to the ownership of citizens of the Russian Federation in republics, krais, oblasts, autonomous oblasts, autonomous okrugs, the cities of Moscow and Saint-Petersburg, in raions and cities, except for the transfer of shares from EESFs and under the first benefits option during share issue in the process of privatization, provided for in this program.

8.4. It shall be forbidden to refuse to accept privatization vouchers as a form of payment during privatization. No fees may be charged for the acceptance of privatization vouchers by property funds as a form of payment during privatization.

Brokers who conduct voucher auctions in accordance with Russian Federation privatization legislation under the auspices of property funds shall be exempt from Value Added Tax for the expenses incurred in holding voucher auctions, which are reimbursed to them by property funds.

8.5. The state shall guarantee to the owner of a privatization voucher the right to use it for the acquisition of objects of privatization, in accordance with the legislation of the Russian Federation.

8.6. Privatization vouchers may be circulated in certificate or non-certificate form.

To provide for the issue, circulation, and safekeeping of shares in privatized enterprises, and privatization vouchers in non-certificate form (as entries in accounts), as well as to accept and process the mandates of the owners of privatization vouchers and of shareholders, depositories shall be created. A regulation on these depositories shall be approved by the GKI of Russia in collaboration with the Securities and Exchange Commission of the President of the Russian Federation.

8.7. Purchase and sales of privatization vouchers and the acquisition of securities on them, including shares in voucher investment funds and shares in enterprises being privatized, shall be tax exempt. The value of a privatization voucher issued to a person who has the right to receive it under current legislation, is not included in the receiver's total taxable income, and is exempt from income taxation.

Income realized from the profitable sale of shares in voucher investment funds shall be exempt from taxation.

Voucher investment funds and investment institutions are exempt from property tax. The services of depositories and auditing firms provided by voucher investment funds and investment institutes are exempt from V.A.T.

8.8 The Government of the Russian Federation and higher organs of executive power of subjects of the Federation guarantee financial training and the publication in each region of

comprehensive information on privatization and property fund bulletins with obligatory publication of time tables for the sale of objects, including the conducting of voucher auctions, plans to privatize enterprises, lists of privatized enterprises, and also methodological and normative documents on the problems of privatization.

8.9 In order to prevent abuse, it shall be forbidden to borrow or lend privatization vouchers, to receive or give privatization vouchers as tax payments, and to carry out other operations with privatization vouchers which are not stipulated by legislation of the Russian Federation on privatization.

8.10 The financing of issue, safekeeping, redemption, and destruction of privatization vouchers shall be funded from the republican budget of the Russian Federation, and also by means for privatization which are forthcoming in the orders of the appropriate property-management committees and property funds.

All organizations, enterprises and institutions which issue certificates of deposit of privatization vouchers, collect, hold for safekeeping, redeem or destroy privatization vouchers, must keep records and present accountability on the movement of privatization vouchers in the manner established by GKI of Russia.

8.11 Up to 10 percent of the total shares of a JSC sold at a voucher auction (provided that at least 29% of the shares of the JSC were sold at voucher auction) may be sold for rubles, with the proceeds from the sale allocated to cover the expenses for holding the voucher auction. Thirty percent of the proceeds from such sale shall be allocated for financing the safekeeping and destruction of privatization vouchers, and the remaining proceeds shall be allocated to property funds to cover expenses for holding voucher auctions and for the redemption of privatization vouchers.

In this case, there is no need to amend Section II of the privatization plan.

9. DEVELOPMENT OF A SECONDARY MARKET

9.1. In order to provide a system for capital circulation (purchase and sales of shares), and in order to introduce shareholder registers and noncash transfer of privatization vouchers and shares within the country, independent registrars, depositories, and accounting organizations shall be created.

The regulation on shareholder registers shall be approved by the Russian State Property Committee, in collaboration with the President of the Russian Federation's Commission for securities and funds markets.

9.2. Property funds (or in their absence, the appropriate property administration committee) shall bear responsibility for accruing and redemption of invested vouchers. Property administration committees shall bear responsibility for the destruction of vouchers.

9.3. No type of investment fund shall have the right to exchange shares issued by itself for shares of a joint-stock company created during the process of privatization , the holder of which are property funds.

9.4. Legal persons conducting investment activity in the manner established for investment funds must bring their charter documents into conformity with that Russian Federation legislation which regulates the creation and activities of investment funds. Specialized privatization investment funds which accrue privatization vouchers from individual

citizens are within their rights to hold in their assets not more than 25 percent of the securities of one issuer; and to acquire and hold in their assets the shares of other investment funds.

The investment activities of specialized privatization investment funds which accrue privatization vouchers from individual citizens shall be exempted from the following for the first two years following their registration:

advance payments of profit taxes;

taxes on dividends paid out by enterprises on their shares, which are held by specialized privatization investment funds which accrue privatization vouchers from individual citizens;

taxes paid on the registration of securities issue prospectuses.

Specialized privatization investment funds which accrue privatization vouchers from individual citizens shall be exempt from payment of value added sales tax on the purchase of shares of an enterprise being privatized.

9.5. In the interest of regulating the development of the securities market, until the implementation by the Russian Federation of standard regulations governing the activities of investment banks:

banks may not purchase interests (shares, stock) in enterprises being privatized or in specialized privatization investment funds which accrue privatization vouchers from individual citizens, neither for money nor for privatization vouchers acquired by them; nor may they own more than 10 percent of the shares of any joint-stock company, nor may more than 5 percent of their assets consist of shares in joint-stock companies;

banks may accept from individual citizens and legal persons privatization vouchers, securities of enterprises being privatized and of investment funds for safekeeping.

9.6. Should no deadline be indicated in the privatization plan for the sale of share packages which are to be disposed by the appropriate property fund, then those packages must be sold within three months of their transfer to the fund.

9.7. Government administrative organs shall provide all possible assistance to current and future military social security voucher investment funds in disposing of vouchers owned by military personnel, civilian personnel of the Armed Forces of the Russian Federation and other military and paramilitary ministries and administrations, veterans and the family members of all the above mentioned groups.

A military social security voucher investment fund may be one in which at least 75 percent of the stockholders are individual citizens belonging to one of the above categories.

9.8. The chairman of the appropriate property fund shall bear personal responsibility for conforming with deadlines for sale of an enterprise's shares, as set forth in the privatization plan (plan - schedule for voucher auctions). In case of violation by a property fund of the deadline for sales of an enterprise's shares, (resulting in non-fulfillment of the enterprise's privatization plan), the property administration committee must commence the sale of those shares which have been turned over to the fund, within 15 days of the deadline set forth in the privatization plan.

9.9. Property administration committees are responsible for the creation in each region of the necessary network of independent registrars and depositories sufficient to meet the needs of joint-stock companies in implementing shareholder and investment fund registers.

9.10 PROTECTION OF SHAREHOLDER RIGHTS

9.10.1. In the interest of protecting shareholder's rights:

all common shares of an open joint-stock company shall entitle their holders to equal rights and shall pay equal dividends, regardless of their date of issue;

an annual shareholders' meeting of an open joint-stock company shall be held within 120 calendar days of the end of the fiscal year. In addition, the joint-stock company's balance sheet, profit and loss records (annual report), and report of the auditing commission on the results of its annual review, all of which are presented at the annual shareholders' meeting, shall be approved by the joint-stock company's board of directors no later than 60 days after the end of the fiscal year. Should the board of directors fail to approve the JSC's balance sheet, then the balance sheet shall be turned over to the tax inspector's office, which shall commission an audit at the JSC's expense.

9.10.2. Decisions relating to the following actions may be made only by a shareholders' meeting, at which the holders of three-quarters of the company's common shares are either present in person or represented by duly appointed proxy, and consent to the decision:

changes or additions to the JSC's charter;

changes in the size of the JSC's charter capital;

except in instances of redemption of shares purchased by the company: any mortgaging, lease, sale, exchange or other alienation of any property which is indicated in the charter documents of the company; as well as cases where the size of a transaction or the value of property which is the object of a transaction exceeds 25 percent of the charter capital; or in cases where the JSC's auditing commission has not made any determination on approval of the transaction;

participation in holding companies, amalgamated enterprises and financial-industrial groups;

reorganization or liquidation of the JSC. This point applies to open JSCs, created in the process of privatization of state/municipal enterprises, if at the moment of the general meeting of shareholders not more than 25 percent of the company's shares are state/municipally-held.

9.10.3. Any limitations or conditions on the sale by shareholders of shares in an open JSC owned by them are forbidden.

9.10.4. The board of directors of an open JSC is elected at a meeting of shareholders and shall consist of not less than seven members, and for JSCs with more than ten thousand shareholders, not less than nine members. during elections to the board of directors, each share shall carry a number of votes equivalent to the number of board members being elected. During voting, each shareholder has the right to cast part or all of the votes to which he is entitled from each share held by him, for one or several candidates to the board of directors. Those candidates receiving the greatest number of votes shall be elected. to the board of directors.

Each member of the board of directors shall have one vote at meetings of the board of directors. Shareholders who are employees of the JSC may not comprise more than one-third of the board of directors of that company.

9.10.5. Shares of a JSC which are held by the JSC which issued them shall not participate in voting at the general meeting of shareholders. A quorum shall be determined without consideration of such shares.

9.10.6. An open joint-stock company may not be reorganized into a closed joint-stock

company or a limited liability association.

9.10.7. A joint-stock company is required to send to each shareholder, via registered mail, no later than 30 days before the meeting of shareholders:

written notice of the time and place the shareholders' meeting is to be held;

an agenda for the shareholders' meeting, approved by the board of directors;

information on shareholders' meeting agenda issues, including a ballot for elections to the board of directors and a ballot for elections to the auditing commission.

The procedure for preparing and conducting the general meeting of open joint-stock companies shall be approved by the Securities and Stock Exchange Commission of the President of the Russian Federation.

10. USE OF FOREIGN INVESTMENT

10.1 Foreign investors may participate in auctions (including voucher auctions), tenders, and may purchase privatization vouchers for use as a means of payment in the process of privatization; The Russian Ministry of Finance must be subsequently informed of these actions.

No additional permits from state committees, ministries, or departments of the Russian Federation, krais, oblasts, autonomous oblasts, or autonomous okrugs, or of the cities of Moscow and Saint-Petersburg are required for use of privatization vouchers by foreign physical or legal persons in the process of privatization.

In the conducting of transactions with foreign investors, the appropriate property funds (property administration committees) shall act as the sole and exclusive vendors of state and municipal properties.

If a foreign investor is the sole participant in an auction, tender, or investment tender, then an enterprise may be sold to him. In this case the appropriate property fund conducts a special appraisal of the property of the enterprise, according to a system approved by the Russian State Property Committee together with the Russian Ministry of Finance.

Participation by foreign investors in the privatization of objects falling into the following categories shall be permitted only by decision of local authorities or organs authorized by them: trade organizations, food industry, service industry, and small industrial, construction, and road transport enterprises (with an average payroll of less than 200 persons, or with assets of less than 1 million rubles, as of 1 January 1992).
Decisions to admit foreign investors into participation in the privatization of the following categories of enterprises shall be rendered only by the Government of the Russian Federation or by the governments of the republics within the Russian Federation (depending on the type of state property), simultaneously with a decision on the feasibility of privatization of such enterprises: objects and enterprises of the defense industry (where the amount of their sales is more than 30 percent defense-related); oil and gas industry; mining and processing of strategic ores and raw materials, precious and semi-precious stones, precious metals, radioactive and rare-earth elements; transportation and communications enterprises as listed in section 2.2 of this program. In addition, after the voucher (stock) auction (tender), the organizers shall forward information on the foreign winning bidder to the Government of the Russian Federation and to the Federal Counterintelligence Service of the Russian Federation. The Federal Counterintelligence Service of the Russian Federation shall have the right within one month to present grounds for denying the acquisition by the foreign investors of shares, interests, or property. On the basis of these findings the Government of the Russian Federation may pass an appropriate ruling.

The use of foreign investments in the privatization of state and municipal enterprises

located within closed territories, except as provided by rulings of the Government of the Russian Federation.

No other restrictions shall be placed on the participation of foreign investors in privatization.

10.2. Settlements with foreign investors (residents and nonresidents) in the conducting of transactions shall be executed in the currency of the Russian Federation or in privatization vouchers.

10.3. Foreign individuals not registered as entrepreneurs in their country of origin, shall be recognized as foreign investors as regards their participation in privatization.

11. MUTUAL RELATIONS OF STATE PRIVATIZATION ORGANS, AND THEIR RELATIONS WITH OTHER STATE AUTHORITIES AND WITH BUDGETS OF ALL LEVELS.

11.1. Unless otherwise provided by current privatization legislation, property funds, acting in accordance with accordance with the Regulation on the Russian Federal Property Fund (property fund), approved by Decree No 2173 of the President of the Russian Federation dated 17 December 1993, shall be the vendors of state/municipal enterprises and other state-owned objects.

In regions where property funds do not operate, their functions shall be carried out by the appropriate property administration committees.

The right of sale of federal property being privatized (with the exception of enterprises with a charter capital greater than 500 million rubles) shall belong to the Property Funds of republics, krais, oblasts, autonomous oblasts, autonomous okrugs, cities of Moscow and Saint-Petersburg (and other major cities -- upon approval of the Russian Federal Property Fund).

11.2. From the moment a decisions taken either by the worker's collective or by the appropriate property fund to privatize an enterprise, any powers delegated to a ministry, administration, or local authority become invalid, with the exception of the right to execute contracts with the upper management of the enterprise being privatized.

11.3. Russian Federation ministries and departments shall develop recommendations connected with the particularities of privatization in their fields; they shall corroborate such recommendations with the Russian Federation State Committee for Antitrust Policy and Support of New Economic Structures, and submit them to GKI of Russia, unless otherwise provided in section 6 of this Program.

The GKI of Russia shall develop recommendations on the procedure for privatization of objects and enterprises of various fields, as indicated in section 6 of this Program, taking into account the opinion of Russian Federation State Committee for Antitrust Policy and Support of New Economic Structures.

11.4. In order to exercise the powers of an owner at shareholder meetings of joint-stock companies whose share packages are secured in state property, or in cases where a decision has been taken to issue "golden share" (Zolotye Aktsii), the property administration committees on the appropriate levels may recruit representatives from the relevant Russian Federation ministries or departments to represent such ministries or departments. Representatives of the administration of and employees of joint-stock companies may not act as representatives of the state at shareholder meetings or on the board of directors.

11.5. Privatization organs of the Russian Federation (property administration committees and property funds) shall conduct the privatization of federally-owned objects without the additional consent of any state authorities or departments of the Russian Federation, with the exception of those objects restricted in privatization in accordance with articles 2.1, 2.2, and 2.3 of this Program.

11.6. Local property administration committees and property funds shall maintain records and accountability on privatization, and shall present to statistical bureaus accounting information on the progress of the privatization. This shall be accomplished in the form established by the State Committee of the Russian Federation for Statistics, and GKI of Russia; and shall be financed at the expense of the State committee of the Russian Federation for Statistics. The enterprises and organizations shall bear responsibility for the validity of this information.

12. REQUIREMENTS FOR LOCAL PRIVATIZATION PROGRAMS.

12.1. Local privatization programs shall be developed by property management committees of the republics within the Russian Federation, krais, oblasts, autonomous oblasts, autonomous okrugs, cities (except cities subordinate to raions) raions (except raions within cities); and are approved by the appropriate local authorities, who are in turn within their rights to assign privatization targets to subordinate authorities and administrations (organs of local self-government).

12.2. Local privatization programs must be developed in accordance with this Program, and approved no later than 2 months after this Program's publication. Thereafter, local programs must be published in the press of the appropriate authorities and presented to GKI of Russia.

12.3. Local privatization programs must:

not contradict this Program, nor introduce additional limitations on the privatization of objects or enterprises;

ensure the complete fulfillment of the requirements and targets set forth in this Program.

Local privatization programs must include:

a listing of enterprises subject to privatization;

proposals for the privatization of enterprises in cases which require the permission of the Government of the Russian Federation and GKI of Russia;

a listing of objects which have been temporarily closed down and incomplete constructions which are state or municipally-owned, whose construction deadlines have not been met and which are subject to privatization;

targets for the privatization by local authorities of municipally-owned objects, with a breakdown by categories in accordance with the accounting figures defined by this Program; furthermore, these targets must include those mandatory targets set forth in the 1992 State Privatization Program, unless they have already been met;

a schedule for holding voucher auctions for all enterprises being transformed into open joint-stock companies;

a forecast for funding, including in the form of privatization vouchers.

12.4. The GKI of Russia, in collaboration with the State Committee of the Russian Federation for Statistics, shall determine the forms and time limitations for the presentation of accountability for the fulfillment of the targets set forth in this Program.

12.5. The Chiefs of Administration, and chairmen of the property administration committees and property funds at all levels shall bear personal responsibility for the execution of local privatization programs.

12.6. The GKI of Russia shall oversee the execution of local privatization programs.

13. METHODS FOR STIMULATING THE FULFILLMENT OF THE STATE PRIVATIZATION PROGRAM OF THE RUSSIAN FEDERATION.

In order to raise the interest level of the regions, enterprises, committees, and property management funds, which shall conduct privatization, the following shall be accomplished in the implementation of this Program:

enterprises being privatized under appropriate programs and on a competitive basis may be rendered state assistance and benefits. Furthermore, those enterprises who actively cooperated with the property funds in the complete and timely fulfillment of their privatization plan under standard conditions, shall have unconditional priority in receiving state aid and benefits;

regions shall be provided with funding with consideration for their fulfillment of state privatization plans. Regions which have not met the requirements of Russian Federation privatization legislation, including those regions failing to accept privatization vouchers, shall receive no financial assistance;

those subjects of the Russian Federation, as concerns their property, and appropriate local bodies of self-government, as concerns municipal property, who take a decision to sell a greater percentage of shares (property) for privatization vouchers than that minimum percentage set forth in this program shall have a priority right to obtain financial assistance and preferential credit treatment from federal authorities during the creation of the federal budget;

the GKI of Russia and the Russian Federal Property Fund shall have the right to pay bonuses from funds realized from privatization, except funds realized from the sale of former military property (that which is under the operational command of the Armed Forces of the Russian Federation, The Federal Counterintelligence Service of the Russian Federation, the Ministry of Internal Affairs of the Russian Federation, and other ministries and administrations of the Russian Federation) in an amount not less than ten percent of the funds remaining at their disposal, to employees of the following: the State Committee of the Russian Federation for Antitrust Policy and the Support of New Economic Structures and its territorial administrations; sectorial ministries, committees, and administrations; local property committees and funds. These employees shall be those who have achieved the best results in the implementation of this program. The bonuses shall be paid without limiting the salaries of the staffs of the above-listed state administrative bodies.

Enterprises involved in the manufacturing sector, and whose charter capital consists of less than 25 percent state property (except those listed in section 2.1 and point 2.2.6), shall enjoy preference in the receipt of foreign technical assistance and foreign credits, unless otherwise specified by international (intergovernmental) agreement.

Monies and valuables, presented as foreign technical assistance, and foreign credits, allocated for privatization support in the Russian Federation, shall be exempt from any taxation, as well as from customs tariffs and fees.

14. THE PARTICULARITIES OF PRIVATIZATION IN THE REGIONS.

14.1 Property management committees and property funds of subjects of the Russian

Rural raions	Sales of objects of trade, food industry, and community services at commercial tenders, with a preservation of the form of the enterprise for up to five years, and with annual subsidies to the privatized enterprises
Regions which achieved the best .esults in the conducting of privatization (per the list approved by the Government of the Russian Federation)	All decisions on the privatization of objects listed in point 2.2 (except 2.2.4, 2.2.5, 2.2.6, 2.2.12, 2.2.15, 2.2.21 of the Program) shall be taken directly by the property management committees of republics, krais, oblasts, autonomous oblasts, autonomous okrugs, cities of Moscow and Saint-Petersburg without the permission of the Government of the Russian Federation.

14.5. The privatization of sanatorium/resort and tourist/excursion objects in the Kavkazsie Mineralnye Vody region shall be conducted in accordance with the Decree of the President of the Russian Federation.

15. PROVIDING INFORMATION ON THE PROCESS OF PRIVATIZATION

15.1. At the regional level, property management committees shall be required to allocate no less than 10 percent of their earnings from privatization for information and clarification.

15.2. The GKI of Russia, the Russian Federal Property Fund, and local property management committees and property funds and shall be responsible for publicity, clarification, information, and education tasks.

The above organs, in conducting privatization, shall be responsible for publishing: in newspapers:

information on the substance of privatization, the role of privatization vouchers and means of using them, voucher auctions and investment funds.

in the privatization bulletin "The Russian Federal Property Fund Bulletin", which is jointly published at their own expense by the Russian Federal Property Fund and GKI of Russia: information on the progress of privatization, including voucher auctions, the time and place they are to be held, and on enterprises being offered at them.

in special mass-produced brochures: schedules for holding voucher auctions, information on the role of privatization in centers and at sites, the use of privatization vouchers, the manner for acquisition of shares in enterprises being privatized, on investment funds, and on the progress of holding voucher auctions.

15.3. The GKI of Russia and the Russian Federal Property Fund, and property funds and committees at the local level shall provide for the broadcast on television and radio of: reporting in news programs on a regular basis of the progress of sales for privatization vouchers, and about the more significant objects being offered for sale;
regular broadcasts of information on future sales.

15.4. All the mass media which receive subsidies from budgets on all levels are required to give space or air time of a value up to ten percent of such subsidies to reporting on object being privatized on all levels of ownership.

15.5. The GKI of Russia, in collaboration with the Russian Federal Property Fund and other interested organizations must provide for gratis publication in the "Bulletin of the Russian Federal Property Fund" of announcements on auctions and investment tenders to be held.

16. SOCIAL WELFARE FOR EMPLOYEES OF ORGANS CONDUCTING PRIVATIZATION

16.1 In the interest of increasing the workplace prestige at organs conducting privatization, and of raising the interest level of their employees in performing professionally:

A mandatory state personal insurance program shall be set up, to be funded from budgets at all levels and from proceeds from privatization:

they shall be provided with means for personal protection per a list approved by the head of the privatization organ with the assent of the Ministry of Internal Affairs of the Russian Federation, purchased from the funds of the organs conducting privatization, and organize training in the use of those means.

16.2 It shall be established that:

upon the liquidation of property management committees and property funds at all levels, their employees shall be provided with a severance pay in an amount equal to one year's wages, which shall be paid from the appropriate budgets;

should a staff member die in the line of duty, his family shall receive a lump-sum payment in an amount equal to two year's wages of the deceased, which shall be paid from the appropriate budget;

should an employee receive serious injuries, which result in permanent disability, a lump-sum payment shall be made to him in an amount equal to one year of his wages, and for 10 years his pension shall be supplemented to the level of his former salary. This shall be paid from the appropriate budget.

Should an employee receive less serious injuries, a lump-sum payment shall be made to him equivalent to five months of his wages. This shall be paid from the appropriate budget.

Should an employee's property be damaged in the line of his duty, full compensation shall be paid from the appropriate budget, with subsequent recompensation to the budget to be made by the offender.

17. PRIVATIZATION AND STRUCTURAL POLICY

17.1 Certain procedures and conditions shall apply for the provision on a competitive basis of the following special purpose credits to firms being privatized, and which are involved in comprehensive state programs:

for the replenishment of turnover capital for investment needs;

for military industry conversion programs;

for environmental protection;

for other needs, as determined by the government of the Russian Federation, including import subsidies funded from centralized resources.

The procedure for conducting special competitions for preferred credits is defined by a

Standards for the allocation of proceeds from privatization to the appropriate property funds and committees for the management of property are in effect from 1 January 1994

** Funds are allocated in accordance with conditions developed by the appropriate ministries, whereupon one percent of these funds are used as incentive for the organizers of the privatization process

*** Not less than 50 percent of the proceeds from privatization received by the GKI of Russia must be chanelled into the holding of voucher auctions. If, after voucher auctions and voucher investment tenders are held, insufficient funds remain for remittance into privatization bodies according to these standards, then the shortfall shall be compensated from the local budget.

Administration of these funds shall be carried out by a combined group consisting of representatives from the GKI of Russia and the Russian Federal Property Fund.

APPENDIX II

THE INTERREPUBLIC PROGRAM OF PRIVATIZATION OF STATE AND MUNICIPAL ENTERPRISES IN RAIONS OF THE FAR NORTH AND SIMILAR REGIONS

The Interrepublic Program of Privatization of State and Municipal Enterprises in Raions of the Far North and Similar Regions, which was developed in accordance with the Law of the Russian Federation "On the Privatization of State and Municipal Enterprises in the Russian Federation" and the Resolution of the Supreme Soviet of the Russian Federation "On the Implementation of the State Program of Privatization of State and Municipal Enterprises in the Russian Federation in 1992," establishes the goals of privatization, delineates the circumstances for granting priveleges under privatization, and determines the general conduct of, as well as restrictions on, the privatization of objects and enterprises located in the specified regions.

The Program is an integral part of the State Program of Privatization of State and Municipal Enterprises in the Russian Federation and supplements the latter as concerns the creation of a system of measures which take into account the peculiarities of implementing privatization in the Far North and in similar regions.

1. Provisions of the Program apply to state and municipal enterprises located in the following territories:

Republic of Altai -- the Kosh-Agachkii and Ulaganskii raions;

Republic of Buryatiya -- the city of Severobaikal'sk; the Bauntovskii, Kurumkanskii, Okinskii, Muiskii, and Severo-Baikal'skii raions;

The Republic of Komi;

Republic of Kareliya -- the city of Kostomuksha; the Belomorskii, Kemskii, Loukhskii, Kaleval'skii, and Senezhskii raions;

The Republic of Sakha (Yakutiya);

Krasnoyarskii Krai -- the Evenkiiskii and Taimyrskii (Dolgano-Nenetskii) okrugs; the cities of Igarka, Lesosibirsk, Noril'sk, and Eniseisk; the Boguchanskii, Eniseiskii, Kezhemskii, Motyginskii, Severo-Eniseiskii, and Turukhanskii raions;

Primorskii Krai -- the city of Dal'negorsk; the Dal'negorskii, Kavalerovskii, Ol'ginskii, and Terneiskii raions; the labor posyolok of Vostok; the Boguslavetskii, Vostretsovskii, Dal'ne-Kutskii, Ismailikhskii, Mel'nichnyi, Roshchinskii, and Taezhnenskii rural soviets of the Krasnoarmeiskii raion;

Khabarovskii Krai -- the cities of Amursk, Komsomol'sk-na-Amure, Nikolaevsk-na-Amure, and Sovetskaya Gaban'; the Ayano-Maiskii, Okhotskii, Vanenskii, Verkhnebupeinskii, Komsomol'skii, Nikolaevskii, im. Poliny Osipenko, Sovetsko-Gavanskii, Solnechnyi, Tururo-Chumikanskii, and Ul'chskii raions; the Amurskii raion, including the labor posyolok of El'ban; the Voznesenskii, Paalinskii, Achanskii, Dzhuenskii, and Al'minskii rural soviets;

The Chukotskii autonomous okrug;

Amurskaya Oblast -- the cities of Tynda and Zeya; the Zeiskii, Selendzhinskii, and Tydinskii raions;

The Arkhangel'skaya Oblast;

Irkutskaya Oblast -- the cities of Bratsk, Bodaibo, Ust'-Ilimsk, and Ust'-Kut; the Bodaibinskii, Bratskii, Kazachinsko-Lenskii, Katangskii, Kirenskii, Mamsko-Chuiskii, Nizhneilimskii, Ust'-Ilimskii, and Ust'-Kutskii raions;

The Kamchatskaya Oblast;

The Magadanskaya Oblast;

The Murmanskaya Oblast;

Permskaya Oblast -- the Komi-Permyatskii autonomous okrug; the Gainskii, Kosinskii, and Kochevskii raions;

The Sakhalinskaya Oblast;

Tomskaya Oblast -- the cities of Kedrovyi, Kolpashevo, and Strezhevoi; the Aleksandrovskii, Bakcharskii, Verkhneketskii, Cargasokskii, Kolpashevskii, Krivosheinskii, Molchanovskii, Parabel'skii, Tegul'detskii, and Chainskii raions;

Tyumenskaya Oblast -- the Yamalo-Nenetskii and Khanty-Mansiiskii autonomous okrugs; the Uvatskii raion;

Chitinskaya oblast -- the Kalarskii, Tungiro-Olekminskii, and Tungokochinskii raions;

All islands in the Northern Artic Ocean and its seas, as well as islands in the Bering Sea and the Sea of Okhotsk.

Requirements set forth by this Program are binding for state governing and administrative bodies of the Russian Federation, republics within the Russian Federation, krais, oblasts, and autonomous oblasts, and for organs of local self-government, located in raions of the Far North and in similar regions.

Issues on the privatization of objects of property that have not been settled by this Program are governed by the provisions of the State Program of Privatization of State and Municipal Enterprises in the Russian Federation and by local privatization programs.

2. SPECIFICS OF THE GOALS OF PRIVATIZATION

In addition to the main goals of privatization in the Russian Federation, which are set forth in section 1 of the State Program of Privatization of State and Municipal Enterprises in the Russian Federation, the following are supplementary goals of privatization in raions of the Far North and similar regions:

to achieve a sensible union of the traditional economic activities of the peoples of the North with industrial production;

to promote the sensible employment of the population and the social development of the regions;

to create real conditions for the establishment of ownership rights for the population living in raions of the Far North and similar regions, and also for communal economic enterprise collectives and isolated inhabitants among the sparse peoples of the North.

3. SUPPLEMENTARY RESTRICTIONS ON PRIVATIZATION

3.1 It is forbidden to privatize cultural objects and enterprises, as well as objects and enterprises of amateur and professional sports, located in the arctic zone of the Far North, in places of habitation and economic activity of the sparse peoples of the North, or in mining posyoloks.

3.2 With regard to enterprises, and organizations and their organizational subdivisions held in the assets of enterprises, performing work involving expeditionary tours of duty in

... regions, including trucking enterprises, as well as enterprises engaged in freight traffic involving expeditionary tours of duty, decisions on privatization shall be made directly by the GKI of Russia based on the conclusions of the State Committee of the Russian Federation for Socioeconomic Development of the North and the appropriate sectoral ministries, departments, and committees.

3.3 The participation of foreign investors in the privatization of objects and enterprises involved in commerce, the food services industry, and basic services, and also of small industrial, construction, and motor vehicle enterprises (with a net value, as of 1 January 1992, of less than 1 million rubles), is permitted only by a decision of local self-governing bodies, or, in places of habitation of the sparse peoples of the North, with the consent of regional associations of these peoples.

A decision to allow foreign investors to participate in the privatization of objects and enterprises in the fuel and energy complex or objects and enterprises for the extraction and processing of ores of precious and semiprecious stones, precious metals, and radioactive and rare-earth elements must be made by the Government of the Russian Federation or the governments of the Republic of Altai, the Republic of Kareliya, the Republic of Buryatiya, and the Republic of Sakha (Yakutiya) (depending on the type of ownership) and must be made simultaneously with the initial decision to allow privatization of these objects and enterprises.

3.4 A decision to privatize objects and enterprises involved in the traditional economic activities of peoples of the North must be made with the consent of both regional associations of the sparse peoples of the North and representatives of collectives of these peoples.

Objects and enterprises involved in the traditional economic activities of peoples of the North shall be defined as (i) those enterprises for which not less than half the members of the work collective belong to a sparse ethnic community related to the indigenous population of a given territory; (ii) those enterprises located in places of habitation and economic activity of the sparse peoples of the North and using as raw materials secondary products of traditional professions (reindeer breeding, hunting, fishing and hunting of sea animals, gathering of wild plants), as well as those objects of the industrial infrastructure serving the given enterprises, including enterprises for the processing and preservation of buckskin, velvet antlers, and by-products, and the processing of fish, sea animals, and sea products, enterprises and works for the tanning of deer hides and the processing and preparation of fur products, enterprises for the manufacture of folk arts and crafts, the tailoring of fur clothing, and the cobbling of shoes, and enterprises providing raw materials for the production of medical biological compounds.

4. ENTERPRISES SUBJECT TO MANDATORY PRIVATIZATION

The following are subject to mandatory privatization:

enterprises working with small reserves of mineral deposits, including those previously abandoned, which are considered substandard, with the exception of enterprises for the extraction of precious metals and precious stones;

enterprises in all areas of the national economy which have been temporarily shut down, with the exception of enterprises in the precious metals and stones industry, including

property remaining after the liquidation of an enterprise.

5. SPECIFICS OF CHOOSING THE METHOD OF PRIVATIZATION

In determining the method of privatization, the following factors are considered:

the size of the enterprise (the average manpower and the net value of fixed assets), its socioeconomic significance for attaining goals of both national and local importance;

special characteristics of the enterprise being privatized; the advisibility of maintaining the line of activity of the enterprise; ecological conditions in the region in which the enterprise operates; the degree to which enterprises either hold a monopoly, in relation to consumers of their products and services, or are affected by a monopoly, in relation to the suppliers of material resources, in regions where they operate.

investment requirements, including foreign investment;

the opinion of the work collective of the enterprise being privatized;

the opinion of regional associations of the sparse peoples of the North and of representatives of their economic collectives, if the objects of privatization are directly located in places of habitation and economic activity of these peoples.

6. SUPPLEMENTARY METHODS OF PRIVATIZATION

6.1 When enterprises involved in the traditional economic activities of the peoples of the North (with a net value of fixed assets, as of 1 January 1992, of greater than 1 million rubles) are privatized by means of transforming them into open joint-stock companies, all members of the work collective of an enterprise shall be granted the right to receive gratuitous common (voting) shares constituting up to 50 percent of the charter capital. These shares are alloted among the members of the work collective by a decision of its board (conference).

The balance of the shares shall be distributed in the following manner:

29 percent -- for sale in closed voucher auctions, the procedure for the holding of which is determined by the Government of the Russian Federation;

the remaining shares -- for sale for money at auction among inhabitants of republics within the Russian Federation, krais, oblasts, and autonomous okrugs, wholly or partially associated with raions of the Far North. An enterprise employee shareholder fund (EESF) is not formed in this case.

6.2 When enterprises involved in the traditional economic activities of the peoples of the North (with a net value of fixed assets, as of 1 January 1992, of less than 1 million rubles) are privatized, a partnership which comprises not less than half the members of the total workforce of an enterprise shall have the right to acquire the enterprise for the residual net value within a period of three months after the adoption of the privatization plan of the given enterprise.

If the workers fail to acquire the enterprise, privatization shall be carried out at auction or on a tender basis in accordance with the legislation of the Russian Federation.

6.3 Stock in enterprises in the oil, oil-refining, and petroleum-products industries may

be sold to the population of oil-producing regions associated with the sparse peoples of the North, or to members of work collectives of enterprises and associations for oil transport, in ad hoc closed check auctions conducted in accordance with Resolutions adopted by the GKI of Russia. It is established that specialized voucher investment funds, in which are accumulated the privatization vouchers of citizens in the categories mentioned above, may act as representatives of these citizens in such auctions. In this case, these special funds shall bear the responsibility for proving to the vendors - the appropriate property funds or their representatives - that their shareholders (not counting the establishers) are all citizens in the above-mentioned categories.

6.4 For the privatization of enterprises involved in commerce, the food services industry, or basic services located in isolated raions of the Far North or in similar regions (corresponding to a list developed by the State Committee of the Russian Federation for the Socioeconomic Development of the North and approved by the GKI of Russia), the appropriate committees for the management of property may decide to permit sale of these enterprises at tenders with the following mandatory conditions of the sale: that the output level of specific types of merchandise, work, and services shall be maintained for a period of three years, taking into account the existing demand; that an interruption in the work of the object being privatized for a period of greater than two months after the purchase/sale and (or) for a total of more than six months in a calender year shall be forbidden; that changes in the work schedule of the object being privatized which curtail the operations of the object shall be approved by the local administration; and also that one of the following conditions shall be fulfilled by the buyer:

that they not allow a curtailment of production (service) volume;

that they adhere to established ecological regulations, and also that they cut back on environmental damage;

that they finance the construction of objects of environmental protection and objects of the social infrastructure;

that they maintain the number of job positions, including reserving jobs for representatives of the sparse peoples of the North;

that they guarantee a required amount of investment in the development of production.

6.5 The privatization of objects and enterprises in the mining industry that are temporarily shut down shall be carried out exclusively at investment tenders for money with discounts of 50 percent and with the imposition of mandatory conditions of investment in environmental protection works and of reopening of the enterprises within six months of the acquisition of ownership.

6.6 The privatization of enterprises acknowledged as ecological hazards, corresponding to a list compiled by the Ministry of Environmental and Natural Resources Protection of the Russian Federation and the State Committee of the Russian Federation for Socioeconomic Development of the North and approved by the GKI of Russia, shall proceed only at commercial or investment tenders (for privatization vouchers before 1 July 1994, and for money after 1 July 1994) with the mandatory conditions of investment in improving the ecological condition of the environment.

6.7 When state and municipal enterprises located in raions of the Far North and in similar regions are privatized, in response to the proposal of a work collective and the assent of local self-governing bodies, it shall be permissible to include social, cultural, and basic services objects that are part of the assets of an enterprise in the aggregate of property being privatized.

6.8 When airports of regional and local importance, transport enterprises serving the arctic zone of the Far North, sea ports of regional and local importance, and port areas are transormed into open joint-stock companies, and when a decision is taken to hold share parcels in state/municipal ownership, the object or enterprise in question shall be brought under the control of governing bodies of subjects of the Russian Federation.

6.9 When state and municipal enterprises located in raions of the Far North and in similar regions are privatized, members of the work collectives of these enterprises and persons equivalent to them shall be entitled to priveleges specified by the State Program of Privatization of State and Municipal Enterprises in the Russian Federation depending on the chosen method of privatization, and shall also be entitled to priveleges set forth by this Program.

6.10 In order to determine the amount of compensation given to work collectives that did not receive ownership rights as the result of a tender, the minimum monthly wage shall be applied, as established by the legislation of the Russian Federation, calculated for one worker taking into account the correction coefficient of the raion and a percentage increase in salary.

6.11 The right to priveleged acquisition of shares in open joint-stock companies being formed from enterprises located in raions of the Far North and in similar regions shall be granted to the former employees of an enterprise whose working tenure in the enterprise being privatized is no less than five years for men and three and a half years for women.

6.12 When enterprises whose production is seasonally dependent and who are involved in the primary processing of agricultural raw materials, fish, and ocean products are privatized in accordance with local programs, work collectives of these enterprises shall, during the period of high-volume receipt of these raw materials and corresponding increase in the level of working capital, be granted extensions of regularly scheduled payments for objects of privatization until the completion of settlements for sales of their products, but these extensions shall be for no longer than six months.

6.13 When enterprises in the mining industry located in raions of the Far North and in similar regions are privatized, priveleges specified by this Program for members of work collectives shall apply only to former employees of these enterprises whose working tenure in the enterprise is no less than five years for men and three and a half years for women, irrespective of their place of residence, and to those members of prospectors' artels leasing the property of these enterprises, who have worked in them for no less than five seasons.

6.14 If an enterprise is situated outside raions of the Far North and similar regions, but performs work by expeditionary tours of duty amounting to not less than 75 percent of

the general volume of performed works (services) in these areas, then members of the work collective of the enterprise shall be granted priveleges given to collectives of enterprises located in raions of the Far North and in similar regions. When separate subdivisions of an enterprise operate in the system of expeditionary tours of duty, then workers of a given subdivision shall be granted priveleges specified for workers in raions of the Far North and in similar regions if that subdivision obtains the status of a juridical person in the process of privatization of the enterprise. These priveleges shall not be extended to other subdivisions of the enterprise.

7. MEASURES FOR SOCIAL PROTECTION OF THE POPULATION DURING THE PROCESS OF PRIVATIZATION

7.1 Proceeds into the Federal Fund for Enterpreneurial Support can also be used to grant lump-sum aid packages for the resettlement of people moving to regions of Russia where there is an insufficient work force, or to a village owing to a loss of work.

7.2 If the reservation of job positions for the sparse peoples of the North is made a condition of privatization, then associations of those peoples are granted the right to monitor the hiring and employment of individuals from among them in both enterprises engaged in traditional economic activities and enterprises engaged in other activities located in places of habitation and economic activity of the sparse peoples of the North.

8. THE PROCEDURE FOR RELATIONS BETWEEN STATE BODIES IMPLEMENTING PRIVATIZATION

8.1 For a decision on the privatization of state- or municipally-owned property in places of habitation and economic activity of the sparse peoples of the North, the opinion of regional associations of these peoples representing the interests of ethnic groups shall be considered.

8.2 Ministries and departments of the Russian Federation shall develop recommendations for the accounting of specific features of enterprises, located in raions of the Far North and in similar regions, in the process of privatization and assumption of ownership powers. They shall approve these regulations with the State Committee of the Russian Federation for Antitrust Policy and Support of New Economic Structures, and shall present them to the GKI of Russia.

8.3 When a deficit exists in the finances of bodies implementing privatization (property management committees and property funds) in areas located in raions of the Far North and in similar regions, the GKI of Russia and the Russian Federal Property Fund shall render them financial assistance.

9. FORMATION OF PURPOSE-ORIENTED FINANCIAL FUNDS FOR THE PROCEEDS FROM PRIVATIZATION

9.1 Monetary proceeds received from privatization and put at the disposal of the appropriate local self-governing bodies, apart from funds formed in accordance with the State Program of Privatization of State and Municipal Enterprises in the Russian Federation, shall be channeled into the formation of the following purpose-oriented funds for raions of the Far North and similar regions:

the fund for support of the unemployed and those desiring to move to regions of Russia where there is an insufficient work force or to pursue agricultural activity. Proceeds of this fund shall help pay for departure and resettlement of migrants;

the fund for environmental protection measures;

the fund for economic and cultural development of the sparse peoples of the Far North.

9.2 The procedure for formation and allocation of purpose-oriented funds, and also the level of proceeds channeled for the above purposes, shall be determined by the Government of the Russian Federation.

10. REQUIREMENTS ON LOCAL PRIVATIZATION PROGRAMS

10.1 Local programs of privatization of state and municipal enterprises located in raions of the Far North and in similar regions shall be developed by the appropriate property management committees of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, cities (except those subordinate to regions), and raions (except those in cities). The programs shall be implemented by the appropriate local self-governing bodies, taking into account the opinions of associations of the sparse peoples of the North on those parts of the programs concerning their active lives.

10.2 Local privatization programs must be developed (refined) in accordance with the requirements of this Program and approved (reapproved) no later than one month after their publication. Local privatization programs must be published in the printing offices of the appropriate local self-governing bodies and must be presented to the GKI of Russia.

10.3 Local privatization programs must:

not contradict the State Program of Privatization of State and Municipal Enterprises in the Russian Federation or this Program;

not include proposals for the privatization of enterprises which are not subject to privatization and not introduce supplementary restrictions on the privatization of enterprises;

include listings of specific enterprises (groups of enterprises) subject to privatization, with the delineation of enterprises located in places of habitation and economic activity of the sparse peoples of the North;

include forecasts for the receipt of proceeds from privatization, as well as the priority and destinations for the channeling of these proceeds;

consider the nonuniformity of the territories inside administrative and territorial units with respect to natural and climatic conditions, the extent of their assimilation and their transportational accessibility;

consider the possible social ramifications of liquidating ineffective enterprise, most of all in small towns and population centers with single-sector production;

include definite measures for demonopolization and creation of a competitive atmosphere, in aggreement with the appropriate territorial administrators of the Committee of the Russian Federation for Antitrust Policy and Support of New Economic Structures, and measures for social protection of the population, support and development of entrepreneurship, and environmental protection, and to use for this the resources of extrabudgetary funds and foreign investments.

Property management committees of republics within the Russian Federation, krais, oblasts, the autonomous oblast, autonomous okrugs, cities, and raions (except raions in cities), with the consent of the appropriate local self-governing bodies, can introduce changes into republican and local privatization programs.

Supervision of the fulfillment of local programs of privatization of state and municipal enterprises located in raions of the Far North and in similar regions shall be entrusted to the GKI of Russia and the State Committee of the Russian Federation for Socioeconomic Development of the North.

This document is the last version
of the Law of the Russian Federation
"On Health Insurance of the Citizens
of the Russian Federation" which includes
all amendments and corrections to
the 1991 Law by the 1993 Law
of the Russian Federation
"On the Amendments and Additions
to the Law of the RSFSR "On Health
Insurance of the Citizens in the RSFSR".

Unofficial translation

THE LAW
OF THE RUSSIAN FEDERATION
ON HEALTH INSURANCE OF THE CITIZENS OF THE RUSSIAN FEDERATION

This Law defines legal, economic and organizational foundations of the health insurance of the Russian Federation population. The Law is aimed at strengthening the motivation and responsibility of the population and government, enterprises, institutions, organizations in the cause of citizens' health protection in new economic conditions and at ensuring the constitutional right of the Russian Federation citizens to health protection.

Chapter 1. Basic Principles

Article 1. Health Insurance

Health insurance is a form of social protection of the interests of the population in the sphere of health protection.

The goal of health insurance is to guarantee, in case of insured accident, that the individual will receive medical care paid for by the accumulated installment premiums, as well as to finance preventive services.

Health insurance is to be carried out in two forms: compulsory and voluntary.

Compulsory health insurance is part of the state social insurance and provides equal abilities for all citizens of the Russian Federation in obtaining medical and medicinal care, which is funded through compulsory medical insurance moneys in the volume and on terms, which conform compulsory health insurance programs.

Voluntary health insurance is carried out on the basis of

Programs of Voluntary Health Insurance and provides the population with any additional medical and other services not covered in the Programs of Compulsory Health Insurance.

Voluntary health insurance can be both collective and private.

Article 2. Subjects of Health Insurance

The subjects of health insurance are: citizens, insurant, health insurance company, medical facility.

Under compulsory health insurance the insurants are: for the non-working population - Councils of Ministers of republics inside the Russian Federation, governmental bodies of autonomous oblast, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg, local administration; for the working population - enterprises, institutions, organizations, self-employed individuals and individuals of free occupation[1] (thereafter called "enterprises").

Under voluntary health insurance the insurants are legally capable citizens and (or) enterprises representing citizens' interests.

Health insurance companies are legal entities practicing health insurance and possessing an official right (license) to deal in health insurance.

Medical facilities in the framework of health insurance are license-holding medical establishments, scientific research and medical institutes, other institutions offering medical services, as well as persons practicing medicine both individually and in groups.

Chapter 2. The System of Health Insurance

Article 3. The Object of Voluntary Health Insurance

The object of voluntary health insurance is the insurance risk connected with the cost of providing medical assistance in the event of insured accident.

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[1] The "individual of free occupation" are those people engaged uncreative activities who are not members of their professional union.

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Article 4. The Health Insurance Contract

Health insurance is carried out in the form of a contract between the subjects of health insurance. The subjects of health insurance are to fulfil their obligations under contract in accordance with the legislation of the Russian Federation.

The health insurance contract is an agreement between the insurant and the health insurance company according to which the latter takes upon itself the obligation to organize and finance the provision to the insured individuals medical assistance of defined volume and quality or other services in the framework of the programs of compulsory and voluntary health insurance.

Health insurance contract should include:

- the names of the parties;
- the term of the contract;
- the number of the insured;
- the volume, timing and means of payment of the insurance premium;
- the list of medical services covered by the programs of compulsory or voluntary health insurance;
- the rights, obligations and responsibilities of the parties and other conditions which do not contradict the legislation of the Russian Federation.

The typical form of compulsory and voluntary health insurance contract, as well as the terms and conditions of the issue of contract are established by the Council of Ministers - Government of the Russian Federation.

Unless otherwise stated in the contract, a health insurance contract is considered effective immediately after the first premium is paid.

If the insurant stops being a legal entity due to liquidation or reorganization of the enterprise while the compulsory health insurance contract is still valid, the rights and obligations under the contract are transferred to its successor.

If the insurant is officially (in court) recognized as legally incapable or limited in legal capability while the voluntary health insurance contract is still valid, his rights and obligations under the contract are transferred to his guardian or trustee acting in the interests of the insured.

Article 5. Health Insurance Policy

Every citizen in whose name a health insurance contract was concluded or who independently concludes such a contract receives a health insurance policy. The health insurance policy is held by the insured individual.

The form of health insurance policy and the instructions how to fill it out are to be issued by the Council of Ministers - Government of the Russian Federation.

Health insurance policy is valid on the entire territory of the Russian Federation a swell as on the territory of other republics which signed the joint agreement on the health insurance of citizens.

Article 6. The Rights of the Citizens of the Russian Federation in the System of Health Insurance

Citizens of the Russian Federation have the right to:

- compulsory and voluntary health insurance;
- choice of the health insurance company;
- choice of the medical facility and physician in accordance with the contracts of compulsory and voluntary health insurance;
- receiving medical care on the entire territory of the Russian Federation, including that outside the place of permanent residence;
- bringing an action against the insurant, health insurance company, medical facility, including action for damages inflicted by the above mentioned parties, regardless of the fact whether or not this right is specifically indicated in the contract;
- getting back part of the premium paid in under the voluntary health insurance plan if this is stated in the contract.

Regulations of compulsory health insurance which are put forward in this Law and other official documents pertaining thereof are to be applied to the working citizens immediately after they sign the labor agreement.

The interests of the citizens are protected by the Councils of Ministers of the Russian Federation and republics within the Russian Federation, by the government bodies of autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg, local administration, professional, public and other unions (organizations).

Article 7. The Rights and Responsibilities of People Without Citizenship in the System of Health Insurance

On the territory of the Russian Federation people without citizenship have the same right and obligations in the system of health insurance as citizens of the Russian Federation.

Article 8. Health Insurance of the Citizens of the Russian Federation Abroad and Health Insurance of the Foreign Citizens on the Territory of the Russian Federation

Health insurance of the citizens of the Russian Federation abroad is carried out on the basis of bilateral agreements between the Russian Federation and foreign country the citizen is visiting.

Health insurance of foreign citizens temporarily living in the Russian Federation is carried out according to the regulations set up by the Council of Ministers of the Russian Federation - Government of the Russian Federation.

Foreign citizens enjoying the right of permanent residency in the Russian Federation have the same rights and obligations in the system of health insurance as citizens of the Russian Federation, unless otherwise stated in the international agreements.

Article 9. Rights and Obligations of the Insurant

The insurant has the right to:

- participation in all kinds of health insurance;
- free choice of insurance company;
- control over the fulfillment of health insurance contract;
- taking back part of the premium paid in to the insurance company under voluntary health insurance plan in accordance with the contract.

In addition to the rights indicated above, institutional insurants (enterprises) have the right to:

- allocation of financial resources out of profit or income of the enterprise for the purposes of voluntary health insurance of the employees.

The insurant is obliged to:

- conclude the contract of compulsory health insurance with a health insurance company;
- pay the installment premium on time in the way described by this Law and the contract of health insurance;
- take measures, as far as it is possible, against the events that may be dangerous to the health of the citizens;
- provide the insurance company with all the information required concerning the health of the individuals that should be insured.

Article 10. The Sources of Financing the Public Health Care System in the Russian Federation

The financial resources of public health care system in the Russian Federation are:

- funds from Republican (the Russian Federation) budget, budgets of he republica within the Russian Federation, and budgets of the local Councils of People's Deputies;
- funds of state and public organizations (amalgamations), enterprises and other economic agents;
- personal funds of the citizens;
- charitable donations and contributions;
- income on securities;
- loans of banks and other credit institutions;
- other sources not forbidden by the legislation of the Russian Federation and the republics within the Russian Federation.

These resources are used in the formation of funds for the state and municipal health care systems and funds for state system of compulsory health insurance.

Article 11. Moneys for the State and Municipal Health Care Systems

Moneys for the state and municipal health care systems are for realization of the state policy in health protection of the population. Councils of ministers of the Russian Federation and republics within the Russian Federation, government bodies of autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg, local administration determine the amount of funds allocated to state and municipal health care systems.

Moneys for the state and municipal health care systems are used as following:

- financing the development and implementation of earmarked programs put forward by the Councils of Ministers of the Russian Federation and republics within the Russian Federation, government bodies of autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg, local administration;
- provision of the professional training of the personnel;
- financing scientific research;
- upgrading medical facilities;
- subsidizing certain territories in order to equalize the condition of provision of medical care to the population under the compulsory health insurance;
- covering the cost of the most expensive types of medical services;
- financing medical facilities providing care for socially significant diseases;
- providing medical assistance in times of epidemics, in disaster zones, and in other cases of emergency.

Financial resources that haven't been spent during the current year cannot be taken away and are not taken into account in the formation of the next year's budget.

Article 12. Moneys for State System of Compulsory Health Insurance

Moneys for the state system of the compulsory health insurance are formed by the insurants' assignments for compulsory health insurance.

The Federal and territorial funds for compulsory health insurance are established as independent non-commercial finance

and credit institutions for implementation of the state policy in the sphere of compulsory health insurance.

The Federal fund for compulsory health insurance is established by the Supreme Soviet of the Russian Federation and carries out its activity in accordance with the legislation of the Russian Federation.

Territorial funds for compulsory health insurance are established by the Supreme Soviets of the republics within the Russian Federation, by the Soviets of People's Deputies of autonomous oblasts, autonomous okrugs, krays, oblasts,cities Moscow and St. Petersburg and carry out its activity in accordance with the legislation of the Russian Federation, republics within the Russian Federation and normative legislation acts of autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg.

Funds for compulsory health insurance aim to accumulate insurance premiums, to provide financial stability of the state system of compulsory health insurance and to equalize financial resources for it.

Moneys of funds for compulsory health insurance are the state property of the Russian Federation; they are not included into budgets or other funds, and can not be withdrawn.

The procedure of collecting insurance premiums for compulsory health insurance is worked out by the Government of the Russian Federation and approved by the Supreme Soviet of the Russian Federation.

Article 13. Taxation of Moneys Allocated for Health Care

Moneys allocated to citizens and legal entities for financing state and municipal system of health care are deducted from the taxable moneys.

Legal entities contributing part of their profit for the purposes of voluntary health insurance of their employees, their families and retired employees enjoy tax benefits of up to 10% of the amount contributed.

Chapter 3. The Activity of Health Insurance Companies

Article 14. Health Insurance Company

Health insurance companies are legal entities which are independent economic agents of any kind of ownership allowed by the legislation of the Russian Federation, which have capital fund large enough to provide resources for health insurance

operations, and which organize their activity according to the legislation of the Russian Federation.

Health insurance companies are not part of the health care system.

Government bodies supervising the health care system and medical facilities cannot set up health insurance companies.

Government bodies supervising the health care system and medical facilities may own share of stock of health insurance company.

Their total share in any of the health insurance companies cannot exceed 10% of its capital fund.

Article 15. The Rights and Responsibilities of a Health Insurance Company

A health insurance company has the right to:

- free choice of medical facility for purposes of providing medical assistance to its clients according to health insurance contracts;
- participate in the accrediting of medical facilities;
- determine the size of voluntary health insurance premium;
- participate in determining the size of medical service fees;
- bring an action against medical facilities and/or its employees for material or moral damages inflicted to the insured person.

Health insurance company is obliged to:

- to carry out the health insurance activity on the non-commercial basis;
- contract medical facilities to provide medical assistance and care to the insured individuals in the framework of compulsory health insurance;
- contract any medical or other facilities to provide medical recreational, social and other services to their clients in the framework of voluntary health insurance;
- issue an insurance policy to the insured or the insurant immediately upon the conclusion of the contract;

- pay back part of the insurance premium to the insured or the insurant if this is envisaged by the contract;
- control the volume, quality and timing of the medical services granted according to the terms of the contract;
- defend the interests of the insured.

To ensure stability of insurance operations health insurance companies shall set up reserve funds.

Health insurance company cannot refuse to sign an compulsory health insurance contract unless it does not conform to the current health insurance regulations.

Article 16. The Issuing of Health Insurance Licenses

State license allowing the health insurance activity is issued by the Ministry of Finance of the Russian Federation and by its bodies according to the legislation of the Russian Federation.

Article 17. Health Insurance Premium

Health insurance premium is determined as a rate of payment for compulsory health insurance in the amounts sufficient for the implementation of the health insurance programs and for the operations of the health insurance company.

Compulsory health insurance premiums for the non-working population are paid by the Governments of the republica within the Russian Federation, governmental bodies of the autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg, local administration out of respective budgets according to the time schedule for each year; these payments should be adjusted to the price level changes.

In case local budget resources are not sufficient to pay the insurance premium in full, adequate amounts of money are to be provided from the upper-level budgets according to the order set up by the Council of Ministers - Government of the Russian Federation.

The size of premium tariff for compulsory health insurance for the enterprises, organizations, institutions and other economic entities of any type of ownership is established in percentage to the wage bill and should be approved by the Supreme Soviet of the Russian Federation.

Voluntary health insurance is financed through the profit of the enterprises and personal savings of the citizens by signing the contract.

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The size of voluntary insurance premium is determined in the course of negotiations between the paries involved.

Article 18. The Taxation of Health Insurance Companies

Health insurance companies pay taxes according to the fiscal laws of the Russian Federation.

Article 19. Reorganization and Liquidation of Health Insurance Companies

Health Insurance companies are reorganized and liquidated according to the legislation of the Russian Federation.

Chapter 4. The Activity of Medical Facilities in the System of Health Insurance

Article 20. The Rights and Responsibilities of Medical Facilities.

Medical assistance and care in the framework of health insurance can be provided by formally accredited medical facilities with any kind of ownership. They are independent economic agents and operate according to the contracts with health insurance companies.

In accordance with their licenses medical facilities can participate in voluntary health insurance programs unless it prevents them from fulfilling their obligations under the compulsory health insurance programs.

Medical facilities that fulfil their obligations in the system of health insurance may offer medical services not connected with the health insurance system.

Medical facilities in the system of health insurance have the right to certify temporary disablement of the insured individuals.

Article 21. The Licensing and Accrediting of Medical Facilities

Licensing is the process of issuing a state permit allowing the medical facilities to deal in specified fields and to provide a certain range of services under compulsory and voluntary health insurance programs. Each medical facility regardless of its type of ownership has to obtain a license.

Licensing is performed by licensing committees set up by the government bodies, city and district local administration; members of such committees are chosen among representatives of government bodies supervising the medical care system, medical professional associations, medical facilities, public organizations.

The accrediting of medical facilities is the process of determining whether they are up to the accepted standards. Each medical facility regardless of its type of ownership has to be officially accredited.

The accrediting of medical facilities is carried out by the accrediting committees composed of the representatives of government bodies supervising the health care system, medical professional associations, health insurance companies.

The accredited medical facilities receive certificates issued by the Councils of Ministers of republics within the Russian Federation, government bodies of the autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg and local administration.

Article 22. Programs of Compulsory Health Insurance

The basic program of compulsory health insurance is worked out by the Ministry of health of the Russian Federation and approved by the Council of Ministers - Government of the Russian Federation. On the basis of the basic program the Councils of Ministers of the republics within the Russian Federation, government bodies of the autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg and local administration approve territorial programs of compulsory health insurance. The volume and quality of medical services provided according to the territorial programs cannot be any lower than described in the basic program.

Article 23. The Contract for the Provision of Medical Care (Medical Services) under the Health Insurance

A contract for the provision of medical care (medical services) is an agreement between a health insurance company and a medical facility according to which the medical facility has to provide the insured individuals with the medical care of stated volume and quality and within the specified period of time.

The relations between the parties are determined by the terms of contract. The contract must include the following:

- the names of the parties;
- the number of the insured;

- the types of medical care (medical services) provided;
- the cost of services and the system for their estimation;
- the system of control over the quality of services and over the use of financial resources;
- responsibilities of the parties and other terms unless they contradict the legislation of the Russian Federation.

Article 24. Tariffs for the Services in the System of Health Insurance

Tariffs for medical services under the compulsory health insurance are determined by the agreement between health insurance companies, the Councils of Ministers of the republics within the Russian federation, government bodies of the autonomous oblasts, autonomous okrugs, krays, oblasts, cities Moscow and St. Petersburg, local administration and medical professional associations. The tariffs should be sufficient to ensure profitability of the health insurance companies and a modern level of medical care.

Tariffs for medical and other services under the voluntary health insurance are determined in the course of negotiations between the medical insurance company and the organization providing these services.

Article 25. Taxation of Medical Facilities

Income earned by medical facilities through completion of compulsory health insurance program is not taxed.

Chapter 5. The Regulation of the Relations Between the Parties in the System of Health Insurance

Article 26. The Regulation of the Relations Between the Subjects of Health Insurance

The relations between the subjects of health insurance are regulated by this Law, by the legislation of the Russian Federation and other normative acts, and also by the terms of the contract concluded between the parties.

Any conflicts concerning health insurance should be examined in courts according to their competence and in the order set up by the legislation of the Russian Federation.

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Article 27. Penalties of the Parties in the System of Health Care

The insurant that refuses to pay insurance premiums for compulsory health insurance is officially liable to pay the fine equal to the corresponding insurance premium. The payment of the fine does not relieve the insurant of his duties under health insurance program.

According to the legislation of the Russian Federation and the terms of the contract medical facilities are responsible for the volume and quality of the services provided and are penalized for the refusal to provide the necessary services to the insured party. In case of the violation of the contract on behalf of the medical facility the health insurance company may partially or in full refuse to pay for the services provided.

The insurance company is legally and materially responsible to the insured part for the fulfillment of the contract. The specific amounts of compensation for damages is to be stated in the health insurance contract.

Insurance companies should pay for the services provided by medical facilities in the way and within the time period specified in their mutual agreement, but no longer than one month after the reception of the bill. The penalties for delays in payment are to be determined in the contract.

For a groundless refusal to sign a compulsory health insurance contract the insurance company may be deprived of its license.

Article 28. The Right of the Insurance Company to Demand the Compensation of Expenditures

The insurance company has the right to demand that legal entities or individuals responsible for damaging the insured individual's health should compensate its expenses for medical services, unless the damage was inflicted by the insurant.

Basic Provisions
of Ordinance of the Council of Ministers -
Government of the Russian Federation
"On Measures for Enforcing RF Law "On Amendments and
Additions to RSFSR Law "On Medical Insurance of
Citizens in the RSFSR" (Dated October 11, 1993, No. 1018)

The Council of Ministers hereby DECREES:

*1. **Executive authorities of the subjects of the RF shall, prior to** November 1, 1993:*

a) appoint executive directors of territorial funds for compulsory medical insurance (TFCMI) and resolve all logistic issues related to the arrangement of their activities.

b) approve territorial programs for compulsory medical insurance (CMI) built on the basic CMI programs.

*2. **The Federal CMI Fund (FCMIF) shall:**[1]*

a) in consultation with the Ministry of Health of the RF and the Ministry of Finance of the RF, prior to November 1, 1993, approve procedures for determining average per capita rates of financing the territorial CMI programs;

b) in consultation with the Federal Service of Russia for Supervision over Insurance Activities, prior to November 1, 1993, approve standard CMI Rules and a format for a standard agreement between TFCMI and an insurance medical agency;

c) in conjunction with the Ministry of Health of the RF, professional medical associations, TFCMI, prior to November 1, 1993, develop training programs for the CMI system and implementation of research studies in this area;

d) in conjunction with the Ministry of Health of the RF, prior to November 15, 1993, submit proposals for improving reporting documentation within the CMI system;

e) furnish to the Council of Ministers - Government of the Russian Federation of the RF, along with a draft republican budget for 1994, proposals related to procedures for calculating payments for CMI of unemployed citizens.

3. FCMIF, the Federal Service of Russia for Supervision over Insurance Activities, the Ministry of Health of the RF, and the Ministry of Finance of the RF, shall, prior to December 1, 1993, approve accounting procedures for CMI funds and medical institutions operating within the CMI system.

*4. **The Ministry of health of the Russian Federation shall:***

a) develop, in preparing a 1994 budget, and submit to the Council of Ministers -Government of the Russian Federation proposals on

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[1] CMI is equivalent to CHI in the text, FFMCI to FHIF, and TFCMCI to RHIF. The author.

procedures for financing medical institution which are not part of the system of the Ministry of Health of the RF as well as medical institutions of the federal level which are under the Ministry of health of the RF;

b) in consultation with the Ministry of Finance, FCMIF, prior to December 1, 1993, approve settlement procedures between health authorities and territorial CMI funds for provision of the medical care under CMI.

5. The Federal Service of Russia for Supervision over Insurance Activities, the Ministry of health of the RF and FCMIF shall, prior to November 1, 1993, submit for approval by the Council of Ministers - Government of the RF rules for licensing the activities of insurance medical agencies involved in CMI.

6. TO APPROVE attached:

a) Instructions on Procedures for Collecting and Accounting for Contributions to CMI;

b) standard CMI agreements for employed and unemployed citizens."

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TASK ORDER FOUR

FINAL REPORT

Annex 1 - Part 2

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February 28, 1995

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FINAL DRAFT

MEDICAL CARE AND HEALTH CARE REFORM IN RUSSIA

1994

CONTRIBUTIONS TO THE DESIGN OF A POLICY PAPER

Submitted to USAID/RUSSIA and GKI

by

Robert Hay, M.D. and Robert LeBow, M.D., M.P.H.

April 1994

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A. Executive Summary

Health care reform is taking place in Russia today. Reform has been evolving slowly since the decentralization of the system in the late 80's. In the past few months, with the implementation of the new compulsory insurance funds, there are suddenly new forces which are already accelerating the pace of change. Meanwhile, work is being done on a new legal code for the health care system that will permit progressive changes in the system to make it more effective and responsive to the needs of the Russian people. This new legal code will include the legal framework to allow change in ownership in the health care system so that privatization can become a real option.

This study was carried out at the urging of USAID and GKI to look at the medical aspects of the health care system in Russia in light of the ongoing changes. One goal of the study was to identify areas in medical care that require further study as the various options for legal reform are being considered. Another goal was to identify options for pilot projects in the health care system. We were also to look at how legal changes might affect the current system favorably or unfavorably.

The two authors are physicians. Robert LeBow, MD, MPH, is a Family Practice and Public Health physician with long experience is international health and the design of health systems. Robert Hay, MD, is a cardiologist who has had much experience in the management of hospitals and polyclinics.

We found a strong sentiment on the part of health care providers and administrators to preserve the ideal of universal health care coverage for all Rusians. At the same time, there was no objection to experimenting with privatization -- as long as it wasn't compulsory. There was unanimous consent among the people we interviewed, both in the oblasts and at the center, that there was a lack of leadership at the federal level.

The health system itself has seen very little change for decades, so it has become antiquated, inefficient, duplicative, and wasteful while generally failing to meet consumer needs and wants. It has also become very oriented to hospital-based curative medicine despite the epidemiological reality of Russian disease patterns which indicate that preventive interventions would be most important. Prevention has been largely forgotten, especially health promotion.

Surprisingly we found a great variety of approaches to problem-solving as well as a spirit of entrepreneurship in the health sector at the hospital/polyclinic level. Private practice seems to be quite widespread and generally accepted, although not yet a very significant part of the total picture.

Many aspects of the health care system besides financing are in a state of flux. There are questions about the effectiveness of current medical training, and there is recognition of the need to change medical standards. The whole issue of ownership, both from a provider and consumer point of view, is being examined in this time of change.

In light of this changing situation, we felt that it would be worthwhile to examine in more detail the issues of consumer and

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provider attitudes. We also felt that there were huge potential savings that could be accomplished by improving the efficiency of the hospitals and polyclinics, so we recommended doing a few in-depth "spot" studies in those institutions.

We suggested creating a central Russian agency much like the U.S. Public Health Service in order to provide grant moneys and technical assistance to stimulate and encourage innovative health system experiments. Such an agency could supply the much-needed leadership and coordination which the Ministry of Health has been unable to do.

We felt that it would be feasible to do a medical pilot project involving one or more polyclinics in a rayon or district. A model similar to that of Bolivia's "Pro-Salud," which is a private-public mix, might serve as an example. We outlined some recommendations for legal change that would facilitate and encourage improvement of the health care system. These suggested legal changes included eliminating the legal and tax barriers to privatization while guaranteeing continued universal access to a basic benefit package.

B. Background

1) Health Status/ Disease Patterns

The health status of the Russian people has mostly remained static or has deteriorated over the past 30 years, in contrast to the improvement in health status seen in most industrialized countries. Life expectancy for males has stayed at about 63 years over the past three decades. The infant mortality rate is about 18, over twice that of most European countries; maternal mortality is high; and the overall death rate, at about 14/1000, is also almost twice that of most of Europe. Meanwhile, the Russian birth rate has plummeted, to about 0.8 per 1000, and there are one to two abortions for every live birth.

The leading causes of death are heart disease and stroke, cancer, and accidents/ violence/ homicide. These causes of death are largely attributable to causes amenable to prevention: smoking, alcohol abuse, and a deteriorating environment.

2) Status of the Health System

Twenty years ago, the Russians felt that they had the best health care system in the world -- at least in terms of universal access and coverage. But the system has become frozen in time, and, in many respects has regressed in recent years. It has become inefficient, wasteful, antiquated, based on curative medicine instead of prevention, and, with a few exceptions, unresponsive to consumer needs and wants.

There is still an oversupply of physicians: about one to every 250 population. There are three times as many hospital beds per population (13.9 per 1000) as there are in the U.S. and the average length of hospital stays (24 days) is three or four times as long. Russians average 9 to 10 outpatient visits a year -- also very

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high.

The system is based on a regionalized network of hospitals and polyclinics which usually have totally separate medical staffs. Medical care is done mostly by specialists with the result that multiple visits and fragmentation of care is the norm. On the positive side, there is a tradition of home visits. With the worsening economic situation in recent years, there has been a shortage of pharmaceuticals and some equipment. On the other hand, advanced tertiary care equipment, such as MRI scanners and lithotriptors, are available.

The medical care system used to be highly centralized, but since about five years ago, it has been nearly totally decentralized to the oblasts. As a result, there is now local autonomy, but a vacuum in leadership from the federal government. There is a great need to develop managerial capacity, especially with the rapidly changing situation in health care financing.

3) Health Care Financing and the Health System

Traditionally, the health care system was financed through budgetary funds and the support of industries, many of which still have their own parallel health care systems. In the old centralized system, the budgetary funds largely came from the center (Moscow).

Central funding is now nearly non-existent, but local budget support and help from local enterprises still form an important part of the funding. However, the entire major basis of funding was radically changed last year with the creation of insurance funds. These are in the process of being implemented, and, even without legal changes in the health care system, they are beginning to force changes in medical practice.

With the current unstabile economic situation, budget and enterprise support for the health care system will likely shrink, and the new compulsory insurance funds will probably become the main source of funding. Patient fees, long a small part of extra funding for physicians and the system, will probably become more important as some form of privatization becomes more accepted. Private practice is widespread and well established within the system, although it is still looked upon unfavorably by some. Overall, the whole system is in a radical process of change with regard to health care financing, and there is a great need to provide a legal framework for the new system that is evolving.

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C. Methodology of Study

Accompanied by a IBTCI consultant (Mr. Brandon Bennett) and interpreter (Oksana Chekhov), the two authors, Dr. Robert Hay and Dr. Robert LeBow, visited health care facilities in four oblasts (Tver, Tula, Ekaterinburg, and Moscow). They conversed with health care personnel at two rural ambulatory care centers, seven polyclinics, five hospitals, and two maternity units in the four oblasts. They observed the operation of all these facilities. They also met with officials in health administration at the local level in the four oblasts. In addition, they interviewed high level officials from the Russian Academy of Medical Sciences, the Ministry of Health, and the State Committee for Sanitary and Epidemiological Surveillance. They also met with a group from a Russian NGO, the International Institute for Mother and Child. And they interviewed people working with USAID and GKI, the Russian agency responsible for privatization. Five days were spent outside of Moscow on field trips.

By conversing with a variety of people involved with the Russian health care system, as well as through hearing many anecdotal reports from a consumer's point of view, the authors were able to form some ideas of what the key issues are in medical care in Russia today. A consistent set of data was collected at each health establishment visited.

D. Findings

1) The Polyclinics/Primary Care

Outpatient care in Russia is provided through a country-wide system of polyclinics, where doctors are grouped together much as a "group practice" would be in the U.S. These polyclinics vary in size, may include even hundreds of doctors, and usually include most, if not every specialty. In more rural areas, there are small ambulatory care clinics, which may have from two to five doctors. And in even more remote areas, there are feldscher posts (like a physician assistant), where there is also sometimes a midwife. All the clinics are well staffed because Russia has a full supply of doctors, about one for every 200 population.

The polyclinics we visited appeared to be busy, although they did not really seem to be as busy as their reported utilization figures would imply. The pediatric polyclinics seemed better equipped, better organized, and busier than the adult clinics, but our observations may be a result of the small number (7) of polyclinics visited. There was a sense that no one was rushed, that there was a great number of staff. Sometimes it appeared there was more staff than clients. The polyclinics we observed seemed very basic generally (with the exception of a pediatric polyclinic we visited in Tula), slightly worn but clean, and supplied with very basic equipment. The fancy new pediatric polyclinic in Tula had wonderful new high-tech machines, like an EEG and a phonocardiogram, but no running water in one bathroom.

All the polyclinic doctors do home visits as part of their

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work; the adult generalists (or therapists) and pediatricians do home visits every day; the specialists, less often. Polyclinic doctors have ~~much~~ less status than the hospital doctors. An informant described the doctor's view of working in a polyclinic as being in "exile." The polyclinics all seemed to have heavy emphasis on electrical gadgetry for physiotherapy, and we observed many patients getting this kind of treatment for a variety of ailments. From both the physicians' and the consumers' point of view, there seems to be some question about the quality of care at the polyclinics, but we felt that the quality of care probably varied considerably. We observed inconsistencies which could indicate unevenness in the quality of care. For example, it was easier to find an EKG machine or a "laser therapy" device than an otoscope. The laboratory services that we observed in the polyclinics were minimal.

There was also some inconsistency in how the polyclinics relate to the hospitals; sometimes they were coordinated well, even shared resources; other times, they appeared to be totally separate. Usually polyclinic doctors and hospital doctors in the same geographic area didn't work in the others' facility, but we did find a few exceptions.

Staffing of the polyclinics with physicians has traditionally been done by a strict formula: one therapist (G.P.) for every 1700 registered adult patients, one pediatrician for every 700 children, etc., but just recently, there has been more flexibility allowed in staffing, so that the chief doctor of the polyclinic can recruit staff more in line with real needs.

2) The Hospitals

The hospitals were remarkable because of their sheer size and their vast number of beds. Russia has over three times (14 beds per 1000 population) the number of beds per capita as does the U.S. And their average length of stay (24 days) is over three times that of the U.S. Health care providers are only beginning to question these lengths of stay. A person with an ordinary heart attack stays in the hospital for 24 to 28 days, compared to about 7 days in the U.S. But we found that the cardiology service in a Ekaterinburg hospital was experimenting with letting M.I. patients go home after 12 days. A cardiologist and nurse followed them at home afterwards.[14] The patients did as well as those they had kept in the hospital. Up to now, the financial incentives have been to keep people in the hospital as long as possible, since reimbursement has been usually based on patient-days in the hospital. At least in part due to the new compulsory health insurance funds, the hospital length of stay is already changing in some hospitals.

Change comes slowly to the hospitals in terms of administration and established "standards." The maternity units especially seemed frozen in time, maybe even 40 years behind practices in the West. Overall, the hospitals were fragmented, duplicative, inefficient, and antiquated (most notably in their plants). Hospitals take 65 percent of the health budget, compared to 20 percent that goes to primary care, and 3 percent that goes to

public health. The hospitals were not at all consumer oriented (for example, brief visiting hours, no amenities for patients unless they had a private room -- although we did see a few special rooms with TV sets).

There was a lot of remodeling going on at most of the hospitals we visited. Efforts being made to upgrade the facilities. Meanwhile, there is often an atmosphere of impermanence.

3) Health Care Administration

There is a dearth of administrators, let alone trained administrators. Nearly all administration has in effect been decentralized to the local level, with no consistency from one region to another. Administration is variably done at the oblast, rayon, municipal, community, and/or hospital/polyclinic level. In some districts (rayons), such as in parts of the Moscow and Ekaterinburg oblasts, the chief doctor of the hospital is also the health care administrator for the district. There just isn't anyone else. There does appear to be a small cadre of eager young de facto health administrators, but there does not appear to be any depth of adequately trained personnel to even start meeting the administrative needs -- especially in light of the imminent health care financing changes. Given the long ingrained inefficiencies and the current financial crisis facing the hospitals and polyclinics, adequately trained and motivated administrators will be crucial if the system is to survive. There is also a need for better administrative equipment, namely: computerization.

The key people in the administration of the hospitals and the polyclinics are the chief doctors, who occupy a unique position of autocratic power in the institutions. They used to be appointed by the party, but are now apparently elected by their medical staffs.

4) The Providers

There is no lack of health care providers. Russia has about one physician for every 200 people, and three times as many nurses. By the statistics and the number of reported patient visits (for polyclinics about 9 visits per person per year) as well as high hospitalization rates, they are busy enough. Included in the outpatient encounters are the doctors' home visits. Half the adult generalists' and pediatricians' time is spent on home visits.

The compensation of the polyclinic doctors, as well as of the hospital doctors, varies across the board. The complaints that the system is restricted by rigid compensation rules for physicians may be true in theory, but are just not the case in practice. There are undoubtedly some polyclinics who reimburse their physicians on the basis of "grade" and longevity alone, but the polyclinics we visited had developed many more incentives. These included extra pay for extra shifts, extra pay for administrative work or being chief of a department, and extra pay (or penalties) based on

quality and quantity of work. In the case of the hospital doctors, hospitals were paying extra for call. One hospital in Ekaterinburg was even using a productivity-based reimbursement formula which divided a percentage of insurance receipts among the doctors in each specialty group. We saw a great deal of improvisation in physician compensation, with a range of salary from 50,000 to 500,000 rubles a month. Polyclinic at Yekaterinburg

5) The Consumers

The Russian health care system is oriented towards consumers only in theory. The promise of universal access to free health care is a political statement which has great importance. We found that many people felt it was of paramount importance to retain this fundamental right to health care.

Yet in fact, the consumer commands almost no respect in the health care system. A 1988 survey found that over half the people questioned (sample size 54,000) were dissatisfied with the system. Their most frequent complaint was the long waiting times.

Consumers have no input into the system. There are no consumer boards. There are no official consumer complaints. "Not a one," said the administrator at an Ekaterinburg hospital. Consumers are usually treated as if they were invisible. Anecdotal stories relate how extra payments ("tips") must be made to providers or nurses if special comforts or treatments are desired.

And consumers have learned to play the role. They are entirely passive. It is expected that they are unable to take responsible care of themselves. Parents expect the doctors to take care of their children. Or so we were told by a pediatrician who also said that they didn't give childrens' immunization cards to the mothers because "the mothers would lose them." The system itself appears to be reinforcing the dependency of consumers. It will be difficult to effect the lifestyle changes so important to improve health status in Russia (smoking, drinking) unless consumers learn to take more responsibility for their own health care. And that's not where the Russian health care consumer is now.

6) The Special Place for Children

"Our children are our future." So reads a home-made poster with a picture of local triplets. It's hanging in the pediatrics department of a small ambulatory clinic in rural Tver Oblast. Children get super-special care. Expensive equipment for testing. Swimming pools at a clinic for hydrotherapy. Routine examinations by a battery of specialists at age one month. Home visits when they're sick. Free medications up to age three (other people must pay for pharmaceuticals). So many doctors take care of children, especially newborns, that we were told that there were many sick children. There's probably a direct relationship. Perhaps children get too much medical care. Perhaps one reason children get too much medical care (also maybe too many diagnoses, too much

dependence on the medical system) is because the system has likely maintained the same number of pediatricians while the number of children has diminished markedly with the declining birthrate, which has dropped to about 8 per thousand, even less in the oblasts we visited. In fact, in Russia the birth rate is about half the death rate. So, obviously, children are important. There aren't many of them.

7) Health Care Financing

Health care financing is in a state of flux at present. With the introduction of the health insurance funds -- and we observed that they had been instituted to a variable degree in the establishments we visited, there is much uncertainty in the health care system.

Actually, there was a wide variety of sources for health care funding (see Table 1) in the health care establishments we visited. These included municipal, rayon, community, and oblast budgets; insurance funds; direct gifts from enterprises, and an assortment of other sources, such as the Chernobyl fund. In addition, there were direct patient receipts from a range of services.

The economic situation is the greatest threat to stabile funding. If enterprises fail, there will be no taxes for the budgets of cities or districts, and there will be insufficient funds to put into a 3.6% obligatory insurance fund.

Free health care for poor people remains a strong conviction for most people we talked with, so it will be hard to increase the patients' share if other funds are short. Co-payments would not be popular, although there were a few providers who thought they might be appropriate when the patient can afford to pay. For some government officials, the "worst possible" solution would be fee-for-service.

There have been very mixed reviews -- mostly based on insufficient reimbursement -- on the compulsory insurance fund. There were complaints that the reimbursement rate was too low, didn't come near covering costs, and didn't account for inflation.

We found the administrators and chief physicians to be extremely innovative and energetic in securing funding for their operations. Their tasks may become even more difficult in the months ahead unless their local economies improve. There has been no federal level budget support that we were aware of at the sites we visited, although theoretically a percentage of the employment tax goes to the federal level for redistribution to the oblasts.

An important source of funding for some establishments has been local enterprises. In Tula, the enterprises gave health care establishments large sums of money, making possible the purchase of expensive equipment.

8) Provider Attitudes towards Privatization

Generally, providers did not seem friendly towards the term "privatization," but we felt they really didn't understand what it

Table # 1

Organization	Munin cipal	Rayon	Oblast	Insurance	Enterprise	Private
Foundation for Child & Mat Welfare						+++
Radichenko ambulatoria		+++				+
Tver Muni #6	+++				++	+
Torzhok District	+++					
Torzhok Ambulatoria		+++			+	
Tula Muni #1	++			+++	++	+
Tula Ped Polyclinic	+++				++	?
Ekaterinburg Ped Polyclinic		25%		75%	0	0
Ekaterinburg Muni #1		++		+++	0	1-5%
Ekaterinburg Ped Inf Dis				+++	0	0
Balashikla		++		+++	+	?

Crude estimates as to sources of funds for Hospitals or Clinics

implicit - "what would happen if the system failed"

meant. We were told that some physicians were afraid that privatization might be associated with the loss of their jobs. The overwhelming sentiment we heard expressed was: "You can go ahead and create a parallel private system if you want, but don't privatize the current system." They feared that the system might collapse, that poor people (95 percent of Russians) wouldn't be able to afford health care, or worse. Their advice was also to go slowly. It was clear that they were equating privatization in health care with privatization of businesses. It was also very clear that they hadn't been given specific options to evaluate. Of course, these options haven't really been developed yet.

9) Providers and Private Practice

We found a wide variety of private practice being done at all the sites we visited. Moscow has had private practice clinics for 30 years. The practice of charging for special services, even beyond the unofficial "tipping" is well established almost everywhere and accepted, if somewhat frowned upon.

In Tver, there are private clinics, and we were told that "very many" physicians were doing private practice as a means of generating extra income. There are also private sanatoria near Tver. Certain kinds of "alternative" and specialist care has always been accepted as "private practice" as well.

In Tula, the hospitals were renting out space and equipment to doctors doing private practice on their own. Apparently this practice was curtailed when someone from the Ministry of Health came out and complained, but there are still many doctors doing private practice in Tula. Charging for expensive diagnostic services is routine, and apparently the diagnostic services at Tula's diagnostic center became so lucrative that the city and the oblast government have been arguing over who should have control of the center's operations.

There are private clinics as well in both Moscow oblast and Ekaterinburg. Consumer-wise, people who can afford private clinics much prefer to go to them (anecdotal information). Private practice is well established in Russia, a fact of life. However, it currently probably affects only a small part of the population, more so in the major urban areas. On the other hand, fee-for-service for pharmaceutical products has long been the norm for at least the adult population.

10) Public Health Activities

Since the State Committee for Sanitary and Epidemiological Surveillance (SCSES) was broken off from the Ministry of Health two years ago, it has been responsible for public health programs. We found evidence in the sites we visited of cooperation between the SCSES and the polyclinics. Immunization services seemed well integrated, and we noted that the SCSES computers were being used in Ekaterinburg for keeping track of childrens' immunizations, both in the schools and in the clinic. Infectious disease reporting was

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also being done.

11) Prevention/ Health Promotion

Although we found evidence that screening mammography, pap smears, chest X-rays, well-child exams and blood pressure checks were being done, there was very little evidence of any health promotion programs at the sites we visited. We found very few posters on the walls. We saw no booklets for prevention. We were told by the director of preventive programs at the Ministry of Health that a new comprehensive program for prevention was approved on 2/28/94. We're not sure how this will be implemented.

There seems to be much theoretical support for prevention, especially among pediatricians, but in practice there seem to be only very conservative individual efforts, such as regular physical exams and screening for childrens' deficits. Community efforts and school programs seem almost non-existent. The MOH's chief of prevention confirmed that almost nothing was being done in schools. There have been a few anti-smoking ads on television, but the effort has minimal compared to the avalanche of cigarette advertising.

12) Pharmaceuticals

Though not the focus of our study, we did confirm that certain pharmaceuticals were in short supply at the establishments we visited. The most frequently named drugs were cardiac drigs, oral hypoglycemics, and certain antibiotics. Hospitals were acting independently, doing their own procurement, to assure an adequate supply of medications. We were told that the situation wasn't as bad now as it had been.

13) Information Systems

It was apparent from what we saw that meticulous data was being collected and laboriously inscribed by hand. Medical records, at least for inpatients in the hospital, appeared well documented. We saw no computers except the two SCSES-supplied computers for tracking immunizations at a pediatric polyclinic in Ekaterinburg. We did obtain or see information compendia, so we know information is being collected. An information center -- separate from the immunization tracking -- at the pediatric polyclinic in Ekaterinburg was staffed by a physician and two other people. keeping records by hand

The financial data we saw was all hand written. With the increasing complexity of the financing systems for health care, more efficient means for financial information will become essential.

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14) Equipment

Incredible paradoxes. While lacking very simple equipment, a hospital or polyclinic (more often the hospital) may have very sophisticated tertiary care type equipment. Otoscopes seem to be limited to ENT specialists, but we did see a lithotriptor (it was still in boxes awaiting installation). Everyone seemed to want equipment, better equipment. We found a good variety of certain kinds of equipment: EKG machines, X-ray machines. But in other spheres, such as the labs or the exam rooms, there wasn't much. Equipment seems to be a status symbol, both for providers and patients. Maybe that is part of the reason physiotherapy, with all its unusual equipment, seems so popular in the Russian system. The physiotherapists seemed very determined to demonstrate their wares to us. "They don't even have this radio wave machine in Moscow," said one doctor.

"Physical therapy is an important part of practice"

15) Training/ Retraining

Russian physicians receive training in quite a different way than their U.S. counterparts. They basically have a six-year course of study after high school. During this time, they follow some degree of specialization and graduate as an adult generalist (therapist) or pediatrician. Most graduates will then do one year of additional study or speciality fellowship (loosely called intership) at a hospital and become a specialist. Seven years after high school, a doctor could be considered a cardiologist or a surgeon. Doctors then can progress by examinations through a series of steps to become "top" doctors. A shorter course of study produces a type of provider, the equivalent of a physician assistant, for which Russia used to be famous: the feldscher, who still serves communities in the more remote areas throughout Russia.

Paradoxically, the system produces a large number of specialists who are not really specialists in the Western sense -- at least in terms of formal education. The system worked well to supply manpower for a far-flung comprehensive system of health care coverage based on polyclinics and feldscher posts. But times have changed and the system has not. Many Russians realize that their system has become inefficient and antiquated -- frozen in time. We found widespread interest in the concept of Family Practice, which may represent to the Russians an advanced concept of their therapist/pediatrician combined with general hospital doctor. Currently, the limited training of Russian doctors perpetuates fragmentation of health care, multiple visits, and the separation of outpatient and inpatient care -- inefficiency. For example, a pediatrician doesn't use an otoscope to look in a child's ear. The ear, nose, and throat specialist does.

In terms of continuing education and post-graduate courses, thr Russian medical system seems well organized. There seem to be adequate conferences for doctors as well as some requirements for re-training. There is a requirement that all physicians do a substantial re-training (one or two months) every five years. The

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Russian Academy of Medical Sciences plays a key role and seems to still be active in providing leadership in designing standards and educational opportunities for medical personnel.

16) The Ministry of Health

We asked at nearly every opportunity about what people thought the role of the Ministry of Health should be. With decentralization of the health system and budgetary decentralization to the oblast (or lower) level, which occurred in the late '80s, the Ministry of Health lost most of its power. Although most people interviewed thought the role of the MOH should be to provide leadership, set guidelines, and provide information, there was unanimous consent (in our small but wide sample) that the MOH was performing poorly and had in fact not provided leadership or coordination.

Major public health functions were taken away from the federal MOH two years ago when the SCSES was separated from the Ministry and made independent. This separation organizationally made no sense but undoubtedly reflected political reality. The federal MOH had almost no presence that we could detect in the oblasts we visited -- with the exception of a few unwanted regulatory intrusions. Practically speaking, providers in the oblast wanted nothing to do with the MOH. Unfortunately, the result of this bad feeling is that public health is lacking leadership in Russia.

17} Integration of Health Systems

Whereas there is a well established system of regionalization in Russia, the lack of leadership at the national level has led to a fragmented system where each local provider institution fends for itself. It seemed that there was often uncertain leadership at the oblast level, and we found that at the local levels of government (i.e., municipalities, rayons), there was little or no health administration capability.

Hospitals are improvising and scrambling to find whatever resources they can on a very individual basis. They often order many of their own drugs, sometimes purchasing directly internationally. And, whereas we did find some examples of coordination of services between the polyclinics and hospitals, more often than not the coordination of services was minimal and the duplication of services great. Delegation of power and responsibility to the local level is good to some degree, but in the current Russian system, the extreme decentralization is also promoting insecurity, inefficiency, and unevenness of care,

18) Standards of Care

There are probably standards for everything in Russia. But the standards in medicine, especially for hospital practice (notably length of stay) are outdated. We got the impression that

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outdated standards were stifling flexibility, but we did see some evidence of efforts to question standards and improve the quality of care and efficiency. The Russian Academy of Medical Sciences has been involved in updating standards. Updated standards will be important to improve the efficiency of the system.

There are quite elaborate standards for the payment of inpatient hospital services under the new system of reimbursement from the compulsory insurance funds. These are now being used instead of the old system based on bed occupancy rate in hospitals which have begun to receive payment from the insurance funds. There were complaints that these new payment standards were based on care from 1984, and that the standards needed updating.

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E. Conclusions

1) The Russian system of health care, while extensive and comprehensive, has become inefficient, fragmented, seriously outmoded, and unresponsive to consumer wants and needs.

2) There have been marked demographic changes directly relevant to the health care system, such as a plummeting birth rate and a rapidly growing population of elderly poor, especially in rural areas; the health care system has not yet responded adequately to these demographic changes.

3) With a few exceptions such as home visits, the system is mostly consumer unfriendly. The consumer has no input and assumes a largely passive role, which is in fact encouraged by the providers. The consumer has little sense of his own responsibilities with respect to his own health.

4) The system is oriented towards curative and hospital-based medicine. Although certain screening tests are done, especially in pediatrics, health promotion and primary prevention have largely been ignored.

5) There is overutilization of the hospital. This is primarily due to (a) financial incentives that encourage overutilization, (b) failure to adopt more up-to-date standards for hospital length of stay, and (c) failure to distinguish between acute care patients and long-term or custodial care. As a result, hospitals are much larger than would be necessary, use more staff, and waste resources. The authors feel that the hospital beds could be reduced by up to two-thirds if the system were run more efficiently. We realize that the functions of the hospitals are not entirely medical and that, particularly as the population ages, the hospitals serve social and custodial functions as well.

6) The quality of care is often questionable or inadequate for a variety of reasons, including old standards, built-in inefficiencies, aging and/or deteriorating facilities and equipment. and inappropriate incentives.

7) With the possible exception of the limited role of the SCSES, there is no federal level leadership in health care. The oblasts, municipalities, rayons, and individual local health care entities are fending for themselves. There appears to be little coordination or sharing of information. Without leadership at the federal level, there is much fragmentation and duplication of services and increased inefficiency.

8) The whole health system is seriously underfunded. Only three percent of the GDP goes to health care. The economic crisis in Russia may be about to create an even greater crisis in the health care system as adequate funding becomes a more

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immediate and crucial problem.

9) There is a great deal of enterpreneurship already in the health care system. Although still small scale, the principles of private practice and fee-for-service for some services are well established -- and de facto accepted. There is greater variety from one region to another than had been expected, both in clinical arrangements and in approaches to financing. Local initiative is alive and well. On the other hand, there appears to be a growing gap in the system between the well off and the poor.

10) Although there are some resilient and resourceful young leaders at the local level, in general managerial expertise in health care is sorely lacking. This managerial capacity is becoming more and more critical now with the changes already taking place in health care financing and insurance.

11) The system is still very authoritarian in nature. The chief doctor's role as CEO puts remarkable power and responsibility in the hands of that person.

12) There needs to be consideration in changing how Russian doctors are trained if the system is to be more efficient. The keenly expressed interest in Family Practice may be a promising direction to take.

13) There is great reluctance to surrender the Russian ideal of health care for all, and great distrust of the concept of privatization, although providers do not know what privatization means for them. Conversely, privatization options for the health care system have not yet been defined at the central level.

14) Medical information systems are antiquated, cumbersome, tedious, and outdated. Their updating and computerization has become even more critical now with the changes already taking place in health care financing.

15) Legal changes are generally perceived as necessary to allow effective health care system change that will permit the system to become more efficient and consumer responsive.

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F. Recommendations

1) Studies/ Background Papers/ Surveys related to Medical Care

a) Studies/ Background Papers

i) Paper on the various spontaneous initiatives in creative financing that have sprung up around Russia. Would be useful information to share to show what is feasible. LOE: Two weeks of consultant time. Consultant in health care financing.

ii) More in-depth study on overutilization of hospitals to elicit medical and non-medical rationales for overuse, since hospitals represent 65 percent of the health budget, and savings in this sector would be most effective. Take 3 representative hospitals and actually analyze the patients there, their diagnosis and length of stay. Estimate what degree of care is not medically necessary and analyze reasons for same. Goal: to show how efficiency can be improved, and understand better factors creating need for so many hospital beds. LOE: Two weeks of 2 consultants' time: medical care specialist (MD) and social scientist.

iii) More in-depth study to really understand utilization patterns in the polyclinics. Again: to see where efficiency is possible. LOE: 2-3 weeks of 2 consultants: medical care specialist (MD,PA, or NP) and health care clinic management specialist.

iv) Follow-up on HMO-type experiences in St. Petersburg, Kemerovskaya Oblast, and Samarskaya Oblast, if not already done. Want to examine positive and negative outcomes. LOE: Could be done (if not already) as part of ongoing USAID project or 7-10 days of consultant time (health care financing expert).

v) Explore additional areas for possible pilot projects, e.g., Vladamir.

vi) Study state of hospital/polyclinic administration to identify needs for training. (May have already been done, as we noted that some administrators were already chosen to go for training in the USA.)

vii) Review epidemiological data to get a better sense of overall disease patterns that have impact on the medical care system. Probably most of this data already exists. LOE: 7 days of epidemiologist time if documents are ready for review. Would require Russian language capability.

viii) Regarding health care financing: explore the feasibility of carrying out a mini-study to see what

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level of funding from the compulsory insurance funds would be necessary to deliver the current health care benefit package. This may actually be a theoretical framework, as there are several variables involved. Discuss with Dov Chernichovsky.

b) Surveys

a) Consumer survey to understand better what real consumer needs and wants are.
Suggest survey of 100-200 consumers in 6-8 different oblasts.

b) Provider survey to understand better their concerns, attitudes, and ideas on how they think the system should be changed.
Suggest survey of 75-100 physicians/feldshers/nurses in 6-8 different oblasts.

c) Survey of chief doctors in polyclinics/hospitals to find what they would think would most improve efficiency/ motivation.

2) Options for Pilot Projects

Apparently at least two types of pilot projects are being considered, one in medical care and one in pharmacy. As regards the medical care pilot(s), we would make the following suggestions:

a) Use rayon size or smaller, not oblast size (too many variables), suggest area easily accessible to Moscow.

b) Pick pilot with relatively assured funding -- from any of the usual sources: budget, insurance fund, enterprise support.

c) Requires motivated leadership at local level and some degree of managerial capacity (additional training would be funded under the pilot anyway for management skills)

d) Requires support (and participation) of oblast health officials and the local or municipal officials who are the usual funding source for the establishment/ unit.

e) Could be polyclinic alone or polyclinic/hospital combination, or all the health establishments in area up to size of a rayon. Managed care model would be encouraged. HMO model possible, but may be too ambitious for first step.

f) Pilot funding would provide T.A. for management, organizational work, MIS, supply (including pharmaceuticals).

Pilot grant moneys would provide training for key pilot personnel, equipment needed for administrative functions, office materials, other costs for setting up the pilot.

g) Probably at this point require "privatized" not-for-profit status of pilot as opposed to "for profit" status. If privatization is chosen, then should fit suggested criteria for privatization law as outlined below. But at this stage, the primary goal and motivation should be health care reform, not just privatization.

h) For a comparable pilot done elsewhere: could be patterned after a private-sector model similar to "Pro-Salud" in Bolivia, with limited scope and potentially easy replication.

3) The Leadership Gap: One Option

With the Ministry of Health's failure to provide leadership from the center, and the dangers and inefficiencies associated with that vacuum, there needs to be some other mechanism to provide some leadership and guidelines for the already decentralized health system.

We would propose the creation of a structure similar to the U.S. Public Health Service, which would ideally be administratively within the MOH, but probably could not be at present for political reasons. This agency, possibly with a cut of the federal insurance funds, could provide funding and incentives for local projects to restructure the health system. Such an agency, through the use of grant funds, guidelines, and evaluation, could spark change and encourage creativity. These grants could go to either existing polyclinics and/or hospitals, or to newly created entities. The establishments receiving grant funds and technical assistance from the new agency could be either non-profit or for profit, but privatization in some form would be encouraged.

These grant funds could be used to provide the resources to carry out the conversion of the ownership patterns within the current health system, and to encourage both providers and consumers (e.g., the creation of community boards) to take more ownership of the system. There would need to be funding from the new proposed agency to provide technical assistance for the local preparation of grant proposals.

4) Considerations for Legal Change in the Health Sector:

The objective: to improve the health status of the Russian people while continuing to assure access to health care for all Russians.

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The Key Elements in Reform:

a) Remove barriers, both economic and structural, to health care reform, including provisions for options for privatization.

b) Define a basic benefits package which would be available to all Russians. This package must include preventive services, health promotion, and treatment for substance abuse.

c) Assure geographic portability of benefits as a cornerstone for both access and choice.

d) Provide for federal leadership in the health system, including mechanisms for setting standards and guidelines, both economic and medical.

Other legal considerations include:

e) Remove tax disincentives for privatization, especially for "non-profits" while creating tax incentives for "non-profits." Allowing tax deductions or credits for local and international enterprises who donate funds or equipment to public and non-profit health care instititions.

f) Allow for alternative models of health care structures, privatized or not, such as cooperatives, managed care, primary care case management, or HMO's. Capitation and HMO models should be specifically permitted and encouraged with special tax benefits. The point: use tax incentives to encourage more cost-effective systems than fee-for-service.

g) Where privatization does occur, safeguards should be included to assure universal access to care and a basic benefits package. E.g., require that privatized entities accept any patients choosing to use their services for the "basic benefits" package without co-payment if they are unable to pay.

h) On the other hand, the possibility for co-payments should be explored and allowed for those able to pay.

i) Voluntary insurance should continue to be encouraged.

j) Quality assurance and licensure requiremwnts must be included in both public and private options.

k) Criteria developed, in connection with licensure, to assure the enterprise has basic managerial expertise, a business plan, and approval at the various levels of local government. For HMO's,. there should be contingency fund requirements as well. There must be provisions for evaluation, including an adequate medical information system.

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РЕФОРМА СИСТЕМЫ ЗДРАВООХРАНЕНИЯ В РОССИИ

1994

РЕКОМЕНДАЦИИ ПО РАЗРАБОТКЕ ПРОГРАММЫ

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Апрель 1994

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А. ВВЕДЕНИЕ

В настоящее время в России осуществляется реформа здравоохранения. С конца 80-х годов, когда произошла децентрализация власти, эта реформа развивалась медленно. В последние же несколько месяцев, в связи с образованием фондов обязательного медицинского страхования, неожиданно появились новые силы, которые уже ускоряют ход перемен. В то же время, идет работа по созданию нового законодательства для системы здравоохранения, которое позволит осуществить прогрессивные изменения системы, сделать ее более эффективной и более отвечающей потребностям населения России. Это новое законодательство создаст юридическую основу для изменения форм собственности в сфере здравоохранения, что позволит приватизации стать реальной возможностью.

Это исследование было проведено по запросу Агенства Международного Развития США и Госкомимущества с целью рассмотрения медицинских аспектов системы здравоохранения России в свете происходящих изменений.Одной из целей исследования явилось выявление областей здравоохранения, которые требуют дополнительного изучения по мере рассмотрения различных вариантов законодательной реформы. вторая цель - определение возможных вариантов пилотных проектов в системе здравоохранения.Мы также попытались рассмотреть возможности благоприятного и неблагоприятного влияния законодательных изменений на существующую систему.

Оба автора являются врачами. Роберт ЛеБоу, доктор медицины и магистр здравоохранения, врач общей практики и семейный врач, обладает большим опытом в области международного здравоохранения и создания систем здравоохранения. Роберт Хей, доктор медицины- кардиолог с большим опытом в области управления больницами и поликлиниками.

Мы обнаружили сильное желание со стороны работников здравоохранения и администраторов остаться верными модели общедоступного здравоохранения. В то же время, никто не возражает против эксперементов с приватизацией, до тех пор пока она не является обязательной. Все опрошенные нами, как в центре России так и в различных областях, высказали единодушное мнение, что ощущается недостаток руководство на федеральном уровне.

Сама система здравоохранения очень мало изменилась за последние десятилетия, и таким образом стала устаревшей, неэффективной, дублирующейся и неэкономичной, в то время как потребности и желания потребителей оставались неудовлетворенными. Кроме того, она слишком ориентирована на лечение с госпитализацией, несмотря на эпидемиологический характер типичных российских заболеваний, и это показывает, что наиболее важным явилось бы профилактическое лечение. Профилактика, и особенно пропаганда здорового образа жизни, были преданы забвению.

К своему удивлению, мы обнаружили разнообразие подходов к решению проблем и дух предпринимательства в больницах и поликлиниках. Частная практика кажется довольно широко распространеной и общепринятой, хотя она все еще не занимает существенного места в общей системе.

Многие аспекты системы здравоохранения, помимо финансирования, находятся в состоянии изменения. Возникают сомнения в эффективности существующей медицинской подготовки, признается необходимость изменения медицинских стандартов. В ходе реформ подвергаются анализу все аспекты вопроса о собственности, как с точки зрения поставщиков медицинских услуг, так и с точки зрения потребителей.

В свете этой меняющейся ситуации, мы считаем полезным рассмотреть более детально вопросы, связанные с позицией потребителей и медицинских работников;мы также почувствовали,что в этой области существуют значительные потенциалы, которые могут быть использованы при увеличении эффективности больниц и поликлиник, и поэтому мы рекомендуем провести несколько углубленных "локальных" исследований в этих организациях.

Мы предлагаем создать центральное Российское агенство, подобное Службе здравоохранения США с целью выделения денежных дотаций и технической помощи для стимулирования и поощрения инновационных экспериментов в области здравоохранения. Такое агенство могло бы обеспечить столь сильно необходимое руководство и координацию, которые оказались не под силу Министерству здравоохранения.

Мы чувствуем возможность проведения медицинского пилотного проекта в рамках одной или нескольких поликлиник в одном районе. Примером мог бы послужить боливийский проект "Pro-salud" ("За здоровье"), являющийся одновременно и частной и общественной инициативой. Мы выдвинули несколько рекомендаций по изменениям законодательства, которые могли бы упростить и поощрить улучшение системы здравоохранения. Эти предлагаемые изменения включают уничтожение законодательных и налоговых барьеров для приватизации при гарантии общедоступности основных медицинских услуг.

Б. ОСНОВНЫЕ ПРЕДПОСЫЛКИ

1.Состояние здоровья/Типичные заболевания.

Состояние здоровья россиян за последние 30 лет, главным образом. не изменилось, либо же ухудшилось,в противовес наблюдаемому в развитых странах улучшению состояния здоровья их жителей. Средняя продолжительность жизни мужчин за последние три десятилетия составила приблизительно 63 года. Уровень детской смертности составляет около 18,что более чем в два раза превышает показатели европейских стран. Очень высока материнская смертность,а общий коэффициент смертности составляет 14 человек на 1000,что также почти в два раза превышает общеевропейский уровень.Между тем, российский уровень рождаемости упал до 0.8 на 1000 и на каждого новорожденного приходится два аборта.

Ведущее место среди причин смертности занимают сердечно-сосудистые заболевания,рак и несчастные случаи , насильственная смерть и убийства. Эти причины смертности в большой степени соотносятся с иными причинами,которые возможно предотвратить: курение, злоупотребление алкоголем и ухудшение состояния окружающей среды.

2.Состояние системы здравоохранения.

Двадцать лет назад россияне были уверены,что они обладают самой лучшей системой здравоохранения во мире - по крайней мере,с точки зрения общедоступности медицинского обслуживания. Но эта система не развивалась , и во многих отношениях она ухудшилась за последние годы.Она стала неэффективной,неэкономичной, устаревшей, основывающейся на лечении заболеваний,а не на их профилактике и ,за некоторыми исключениями, не отвечает нуждам и желаниям потребителей.

Все еще наблюдается переизбыток врачей - на 250 человек приходится один врач. Обеспеченность населения больничными койками составляет 13.9 на 1000 ,что в три раза больше, чем в США.Средняя продолжительность пребывания пациента в больнице - 24 дня - тоже в три или четыре раза превышает американские показатели. Среднегодовое количество амбулаторных визитов - 9-10 в год - тоже очень велико.

Система российского здравоохранения базируется на региональной сети больниц и поликлиник,которые обычно имеют полностью независимые медицинские штаты. Медицинское обслуживание производится главным образом специалистами,в результате нормой становится множество посещений различных врачей и фрагментарность самого обслуживания.Положительной чертой сисиемы российского здравоохранения являются посещения пациентов на дому. С ухудшением экономической ситуации в последние годы наблюдался дефицит фармацевтических препаратов и некоторого медицинского оборудования.С другой стороны,в наличии имеется передовое оборудование,такое как аппараты для сканирования и литотрипторы

Система здравоохранения была полностью централизованной,но около пяти лет назад произошла ее децентрализация по областям. В результате, это привело к автономии на местах, и к отсутствию централизованного руководства со стороны федеральных властей. Существует крайняя необходимость в развитии систем управления медициной, особенно, в связи с быстрыми изменениями в системе финансировании здравоохранения.

3.Финансирование здравоохранения и система здравоохранения.

Традиционно. система здравоохранения финансируется из бюджетных фондов при поддержке производственных структур, многие из которых имеют собственные параллельные системы медицинской помощи. При старой централизованной системе бюджетное финансирование шло, главным образом, из Москвы.

Финансирования из центра в настоящее время почти не существует,но финансовая поддержка из местных бюджетов и помощь местных прндприятий до настоящего времени составляет важнейшую часть финансирования. Однако. основная финансовая база радикально изменилась в последний год с созданием страховых фондов. Система срахования еще только развивается,но даже без законодательных изменений в здравоохранении,она стимулирует изменения в медицине.

В связи с существующей нестабильной экономической ситуации в стране, вероятно, будет сокращаться финансирование из бюджета и помощь со стороны предприятий,основным же финансовым источником станут новые фонды обязательного медицинского страхования. Оплата со стороны пациентов, которые

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долгое время составляли лишь незначительную часть дополнительного финансирования здравоохранения, возможно, станут более значительной статьей дохода по мере того, как будет развиваться приватизации в той или иной форме. Частная практика широко распространена и хорошо вписывается в общую систему, хотя до сих пор некоторые видят в ней нечто неблаговидное. Вообще,вся система здравоохранения переживает в настояшее время радикальные изменения в области финансирования, и насущной необходимостью становится создание юридической базы для новой развивающейся системы.

В.МЕТОДОЛОГИЯ ИССЛЕДОВАНИЯ.

В сопровождении консультанта IBTCI г-на Брэндона Беннетта и переводчика Оксаны Чеховой два автора данной работы др.Роберт Хэй и др.Роберт ЛеБоу посетили медицинские учереждения в четырех областях (Тверь,Тула,Екатеринбург и Москва). Они беседовали с медицинским персоналом в двух сельских амбулаторных пунктах, семи поликлиниках, пяти больницах и двух родильных домах в четырех областях.В этих же областях они встречались с представителями местных органов здравоохранения. Кроме того, они обсуждали вопросы здравоохранения с высшими должностными лицами из Российской академии медицинских наук, Министерства здравоохранения и Государственного комитета по санитарному и эпидемиологическому надзору.Они также встречались с группой руководителей российских неправительственных организаций,из Международного фонда охраны здоровья матери и ребенка. Они беседовали с людьми,работающими с USAID, Госкомимуществом и Российским центром приватизации. Пять дней они провели вне Москвы в поездках.

После общения с различными людьми, имеющими отношение к российской системе здравоохранения, услышав курьезные рассазы,содержащие точку зрения самих пациентов,авторы смогли сформулировать основные идеи относительно сегодняшнего положения дел в российском здравоохранении.Нижеизложенные факты были собраны при посещении медико-санитарных учереждений.

Г.ВЫВОДЫ.

1.Поликлиники/Первичная медико-санитарная помощь.

Амбулаторное обслуживание в России обеспечивается широкой сетью поликлиник по всей стране,где врачи составляют группы по типу "групповой практики" в США. Поликлиники варьируются по размерам. В некоторых работают более сотни врачей, представляющих большинство, если не все медицинские специальности. В большинстве сельских районов существуют небольшие амбулатории,в которых могут работать от 2 до 5 врачей. Даже в наиболее отдаленных районах имеются фельдшерские пункты , где иногда работает и акушерка. Штаты поликлиник хорошо укомплектованы, так как Россия обеспечена врачами, один врач - на 200 человек.

Поликлиники, которые мы посетили, оказались переполненными пациентами, хотя не до такой степени, как это изображают. Кажется, что детские поликлиники оснащены и организованы лучше, но и более загружены, чем взрослые поликлиники, но наше наблюдение является основывается на посещении лишь семи поликлиник.Также, сложилось впечатление,ни разу не изчезавшее впоследствии,что в поликлиниках работает очень много персонала. Иногда казалось,что штатных

работников больше, чем пациентов. В большинстве случаев складывалось впечатление, что поликлиники предоставляют только основные медицинские услуги (за исключением педиатрической поликлиники,которую мы посетили в Туле), они казались несколько устаревшими, но чистыми и оснащенными только самым необходимым оборудованием. Новая педиатрическая поликлиника в Туле обладает прекрасным высокотехнологическим оборудованием типа электроэнцифалографа и фонокардиографа,но при этом в одном из туалетов нет вода.

Частью работы всех врачей в поликлиниках является домашнее посещение больных.Терапевты и педиатры ходят по вызовам каждый день.Другие специалисты-реже.Врачи в поликлиниках имеют более низкий статус,чем больничные врачи.Один из собеседников охарактеризовал работу врача в поликлинике как "пребывание в ссылке". Кажется, во всех поликлиниках придается особое значение электрическим приборам для физиотерапии,по крайней мере,мы видели многих пациентов с различными заболеваниями,котрорым назначались данные прцедуры.И врачи,и пациенты ставили вопрос о качестве обслуживания в поликлиниках,но мы почувствовали,что качество этого обслуживания значительно варьируется.Мы наблюдали противоречия,которые выявляют неравномерность медицинского обслуживания.Например,в поликлиниках гораздо легче найти электрокардиограф или устройство для лазерной терапии,чем отоскоп. Посещенные нами лаборатории проводят лишь минимум анализов.

Некоторое противоречие существует и в том,как связаны поликлиники и больницы.Иногда их деятельность очень хорошо скоординирована,даже в сфере ресурсов. В других случаях они кажутся полностью разделенными.Обычно врачи из поликлиник не работают в больницах, расположенных на той же территории, и наоборот.хотя встречаются и исключения.

Штат врачей в поликлиниках традичионно набирается по следующей формуле: один терапевт на 1700 зарегистрированных взрослых пациентов,один педиатр на 700 детей и так далее.Но с недавнего времени допускается большая свобода при наборе персонала,и таким образом главный врач поликлиники может набирать штат в зависимости от реальных потребностей.

2.Больницы.

Больницы примечательны своими размерами и количеством коек.Россия в три раза превосходит США по количеству больничных коек (14 коек на каждую 1000 человек). Среднее время пребывания в больнице (24 дня) тоже более чем в три раза превышает американские показатели. Необходимость длительного пребывания в больнице только еще начинает подвергаться сомнению.Так пациент с сердечным приступом находится в больнице 24-28 дней,в то время как в США - только около 7 дней.Но мы заметили,что в кардиолоческом отделении Екатеринбургской больницы, в качестве эксперимента, пациентов с данным диагнозом разрешено выписывать на 12-ый день.Кардиолог и медсестра после выписки наблюдают за ними дома. Пациенты выздоравливали также быстро, как и те, кто оставался в больнице. До настоящего времени система финансирование стимулировала максимально длительное содержание пациента в больнице,поскольку денежное обеспечение базировалось обычно на койко-днях в больницах.Теперь,по крайней мере, блгодаря созданию новых фондов медицинского страхования, изменяется и время пребывания пациентов в некоторых больницах.

Медленно происходят преобразования в сфере управления больницами и и в сфере установленных нормативов. Кажется,что родильные отделения как бы остановились в развитии на уровне, который соответствует европейскому уровню сорокалетней давности.В целом,больничная система фрагментарна, во многом дублирует сама себя,неэффективна и архаична,что особенно заметно в ее материальном обеспечении. Больницы поглащают 65 процентов от общего бюджета здравоохранения,тогда как на первичную медико-санитарную помощь идет лишь 20 %,а на общественное здравоохранение - 3%.Больницы не ориентированы на нужды пациентов (например, слишком короткое время для посещений, нет удобств для пациентов.если они не размещены в индивидуальных палатах - мы также видели несколько специальных комнат с установленными там телевизорами).

В большинстве больниц,которые мы посетили,идет реконструкция.Усилия направлены на расширение возможностей.Зачастую - в атмосфере обшего застоя.

3.Управление здравоохранением.

Ощущается недостаток в управленческих кадрах,в особенности-в кадрах квалифицированных.Почти вся система управления была децентрализована, управление осуществляется на местном уровне без какой-либо координации между регионами. Управление осуществляется на различных уровнях: в области,районе,муниципалитете,округе,поликлинике или больнице.В некоторых районах,таких как отдельные районы Московской и Екатеринбургской областей,главврач районной больницы является и руководителем районной системы здравоохранения.Кроме него иного администратора не существует.Это производит впечатление немногочисленности кадрового состава недавно созданной реальной системы управления,но это не означает соответствие подготовки этого управленческого персонала положению дел в этой области - особенно в свете имеющих место перемен в системе финансирования.Из-за давно укоренившейся безрезультатности и финансового кризиса,с которым столкнулись лицом к лицу больницы и поликлиники,должным образом подготовленные административные кадры сыграют решающую роль,если сама управленческая система выживет.Необходимо также административное оборудование,а именно - компьютеризация.

Основные фигуры в администрации больниц и поликлиник-главврачи,которые сосредотачивают в своих руках всю власть. Когда-то они назначались партийными органами. но. кажется,теперь их выбирает персонал их учереждений.

4. Медицинский персонал.

Недостатка в медицинском персонале не существует.В России один врач приходится на 200 человек,в три раза больше медсестер.Согласно статистике и некоторым докладам,этот штат достаточно загружен благодаря высокому уровню госпитализации и амбулаторным визитам пациентов (на поликлиники приходится 9 визитов одного пациента ежегодно). В счет амбулаторных больных включены и визиты врача на дом.Половину времени терапевты и педиатры проводят,совершая эти домашние посещения.

Оплата труда врачей в поликлиниках ,также как и в больницах, значительно различается в регионах. Жалобы на то,что система оплаты труда врачей является очень жесткой,могут быть верными в теории,но не на практике.Несомненно существуют некоторые поликлиники,которые оплачивают труд своих врачей лишь в

зависимости от"категории" и стажа,но в поликлиниках,которые мы посетили, разработана значительно более сложная система учета.Эта система включают дополнительную оплату работы в дополнительные смены, оплату административной работы или должности заведующего отделением,дополнительное вознаграждение (или штрафы) в зависимости от качества и количества работы.Что же касается больничных врачей,то больницы платят надбавки за вызовы.В одной из больниц Екатеринбурга даже разработана формула оплаты,основанная на продуктивности работы врача и разделяющая проценты от страхования среди врачей в каждом отделении. Мы наблюдали значительную разницу в оплате врачей,заработная плата которых колебалась от50000 до 500000 рублей в месяц.

5.Потребители медицинских услуг.

Российская система здравоохранения ориентирована на потребителя лишь теоретически.Обещание общедоступного бесплатного медицинского обслуживания - лишь политический лозунг большой важности.Мы нашли,что многие граждане ощущают первостепенную важность сохранения этой основы всей системы здравоохранения.

Однако, на деле требования потребителей в российской системе здравоохранения не учитываются.Исследование 1988 года обнаружило,что более половины опрошенных (от исходных 54 000) не удовлетворены ею.Наиболее частые жалобы относились к долгому ожиданию в очередях.

Потребитель не включен в общую систему.Не существует Советов потребителей.Не существует официальных потребительских жалоб."Ни одной",- сказал администратор в екатеринбургской больнице.Пациентов обычно обслуживают как невидимок.Рассказывают забавные истории о том, как необходимо давать взятку врачам или медсестрам, если нужны особые комфортные условия или лечение.

И потребители научились играть свою роль в системе. Они совершенно пассивны.Предполагается,что они не могут взять на себя ответственность о своем здоровье.Родители ожидают ,что врачи позаботятся о здоровье их детей.Это нам рассказал педиатр,который добавил,что они не отдают матерям карты прививок детей,т.к."матери их потеряют".Кажется,что сама система здравоохранения строится на сильной зависимости потребителя. Невозможно будет изменить образ жизни, что является столь необходимым необходимые для улучшения состояния здоровья россиян (курение,пьянство), пока сами потребители не научатся брать на себя ответственность за собственное здоровье. И в настоящее время российские граждане не чувствуют этой ответственности.

6. Детям - особое внимание.

"Наши дети - наше будущее",- провозглашает плакат местного изготовления с изображением тройняшек. Он висит в педиатрическом отделении маленькой амбулатории в сельском районе Тверской области. Дети являются предметом особой заботы.Дорогостоящее оборудование для исследований.Плавательные бассейны в поликлиниках для гидротерапии. Общепринятой нормой является обследование младенцев в возрасте 1 месяца множеством специалистов. Визиты на дом,когда дети больны.Бесплатные медикаменты для детей в возрасте до 3 лет (остальные должны платить за фармацевтические препараты).Так много докторов заботятся о

детях,особенно о новорожденных, что нам объяснили наличием множества больных детей.Возможно,здесь существует прямая взаимосвязь.Может быть,дети окружены слишком плотной медицинской заботой.Возможно,одна из причин данного факта/(как впрочем и слишком большого количества диагнозов,и слишком большой зависимости от медицинской системы) заключается в поддержании самой системой определенного числа ставок педиатров,в то время,как количество детей значительно сократилось с падением уровня рождаемости до 8 на каждую тысячу жителей и даже до еще более низкого уровня в областях,где мы побывали.Является фактом то,что в России уровень рождаемости составляет лишь половину от уровня смертности.Итак,ясно,что дети занимают особое место. Потому что их немного.

7.Финансирование здравоохранения.

Финансирование системы здравоохранения в настоящее время находится в состоянии изменений.С введением страховых медицинских фондов,создание которых,как мы заметили,находится на разных этапах в посещенных нами областях, появилось много неопределенности в системе здравоохранения.

В действительности существует множество различных источников финансирования системы здравоохранения (см.табл.1) в медицинских учереждениях,которые мы посетили.Они включают в себя бюджеты муниципалитета,района,округа и области,страховые фонды,прямое вложение средств со стороны предприятий и иные источники ,типа Чернобыльского фонда .Кроме того,существует система прямой оплаты некоторых медицинских услуг пациентами.

Таблица 1

Учреждение	Муниципальн	Район	Область	Страхование	Предприятие	Частное
Фонд мат и ребенка						xxx
Радченковск амбулатория		xxx				x
Тверск.гор. б-ца № 6	xxx				xx	x
Торжок районн.б-ца	xxx					
Торж.амбул.		xxx			x	
Тула гор.б-ца № 1	xx			xxx	xx	x
Тула дет.п-ка	xxx				xx	?
Екатеринбург дет п-ка		25%		75%	0	0
Екатеринбург гор б-ца № 1		xx		xxx	0	1-5%
Екатеринбург дет.инф.б-ца				xxx	0	0
Балашиха		xx		xxx	x	?

Экономческая ситуация в стране представляет собой серьезную угрозу стабильности финансирования.Если предприятия обанкротятся,то не будет поступлений в городской и районный бюджет,и не будет средств для отчислений 3,6% от фонда заработной платы в фонды обязательного медицинского страхования.

Система бесплатного медицинского здравоохранения для бедных слоев населения остается в сознании большинства людей,с которыми мы

переговорили,поэтому будет сложно увеличить долю платежей пациентов,если сократятся другие фонды.Оплата непопулярна,хотя было несколько представителей медицины,которые думали,что они могут получать плату от пациента,если тот в состоянии ее предложить.Некоторым правительственным чиновникам худшим выходом кажется платное обслуживание.

Существуют различные точки зрения на создание фондов обязательного страхования. Разница во взглядах базируется,в основном,на недостаточности финансирования. Имеются жалобы на низкий уровень финансирования, которое не покрывает расходов и не учитывает инфляцию.

Мы обнаружили,что администраторы и главврачи являются крайне изобретательными и энергичными в поисках средств для своих учереждений Их задачи могут осложниться в ближайшие месяцы,если не исправится экономическая ситуация в их районах.Уже не существует поступлений из федерального бюджета в тех областях, где мы побывали,хотя теоретически определенный процент от налогов идет из областей в федеральный бюджет для перераспределения по областям.

Важным источником финансирования некоторых учереждений являются поступления от предприятий.В Туле предприятия отчисляют на здравоохранение значительные суммы,дающие возможность покупать дорогое оборудование.

8.Отношение медицинского персонала к приватизации.

Кажется,что в основном,медицинские работники не слишком положительно относятся к термину "приватизация",но мы почувствовали,что они реально не понимают,что он означает.Нам сказали,что некоторые медицинские работники боятся,что при приватизации они могут потерять работу. Услышанное нами преобладающее мнение выражалось следующим образом:"Если вы хотите,вы можете пойти дальше и создать параллельную частную систему здравоохранения,но не приватизируйте существующую систему".Они боялись,что система здравоохранения может рухнуть,что бедные слои населения, составляющие 95% от общего числа россиян, не смогут обратиться за медицинской помощью,или что произойдет что-то еще худшее.Они советовали реформировать здравоохранение медленно. Ясно,что они уравнивали приватизацию в здравоохранении с приватизацией в бизнесе.Также было ясно,что они не представляли себе других вариантов реформ, а следовательно, и не могли их оценить. Собственно, варианты еще и не разработаны.

9. Медицинские работники и частная практика.

Мы выяснили, что в тех областях, которые мы посетили, существуют разнообразные виды частной медицинской практики. В Москве уже 30 лет существуют хозрасчетные поликлиники.Практика оплаты специальных услуг и даже неофициальных чаевых прочно установлена и принята,хотя кое-что в ней вызывает недовольство.

В Твери есть хозрасчетные поликлиники,и нам сказали,что "очень многие" медицинские работники имеют частную практику как дополнительный вид дохода.Около Твери также находится частные санатории. Некоторые виды альтернативого и специального здравоохранения также всегда признавались как "частная практика".

В Туле больницы сдавали в аренду врачам, имеющим частную практику, оборудование и помещения .По-видимому,данная практика была сокращена,когда

чиновники из Министерства здравоохранения пожаловались на это,но до сих пор многие тульские врачи имеют частную практику.Система оплаты дорогостоящих диагностических услуг традиционна,и поэтому Тульский диагностический центр стал настолько выгодной организацией,что городские и областные власти оспаривают право контроля над деятельностью этого центра.

Частные поликлиники существует и в Московской,и в Екатеринбургской областях.Умные потребители,которые могут позволить себе воспользоваться услугами частных клиник,предпочитают ходить туда /информация получена из рассказов/.Частная практика глубоко укоренилась в России как жизненная реальность.Однако она затрагивает лишь небольшую часть населения,главным образом-городского.С другой стороны,оплата Медицинских препаратов уже стала нормой,по крайней мере, для взрослого населения.

10.Здравоохранительная деятельность.

С тех пор,как два года назад от Министерства Здравоохранения отделился Государственный комитет по санитарному и эпидемиологическому надзору,он несет ответственность за выполнение программ по общественному здравоохранению.Мы нашли на местах доказательства сотрудничества между этим комитетом и поликлиниками.Система вакцинации и прививок производит впечатление единого комплекса,и мы заметили,что в Екатеринбурге компьютеры этого комитета использовались для хранения сведений о детской вакцинации,которая производится и в школах,и в клиниках.Также производилась регистрация инфекционных заболеваний.

11.Профилактика/ укрепление здоровья.

Хотя мы увидели что проводится маммографии,взятия мазков,рентген грудной клетки,детские медосмотров и измерения давления,мы обнаружили на местах лишь немногие следы наличия каких-либо программ по укреплению здоровья.Мы увидели очень немного плакатов на стенах,но не нашли ни одного буклета, рассказывающего о профилактике. По словам начальника лечебно-профилактического отдела Министерства Здравоохранения, новая уплотненная программа в этой области была принята 2.28.94.Но мы не совсем понимаем,как она будет реализована.

Кажется,что существует значительная теоретическая основа для профилактики,особенно в педиатрии,но на практике проводятся лишь консервативные индивидуальные мероприятия,такие как регулярный осмотр и скрининг детских заболеваний.Но всеобщие мероприятия и школьные программы практически отсутствуют.Начальник лечебно-профилактического отдела в Министерстве Здравоохранения сообщил,что и в школах почти ничего не делается в этом направлении.На телевидении показывается несколько рекламных роликов против курения,но эти усилия незначительны по сравнению с лавиной рекламы сигарет.

12.Фармацевтические препараты.

Хотя данная тема не является центральным объектом нашего исследования, нам поддтвердили на местах,что отмечается нехватка некоторых лекарственных препаратов.Чаще всего в разряде дефицитных называли кардиологические препараты,оральные гипогликемики и некоторые антибиотики.Больницы работали независимо,своими силами доставая необходимые медикаменты для того чтобы

обеспечить необходимое наличие лекарственных препаратов. Как нам сообщили, в настоящее время ситуация не настолько плохая,как была раньше.

13.Информационные системы.

Очевидно, что все данные собираются и подробно записываются от руки.Медицинская регистрация,по крайней мере,стационарных пациентов в больницах показалась хорошо документированной.Мы нигде не видели компьютеров,за исключением двух в Комитете по санитарному и эпидемиологическому надзору для ведения контроля за вакцинацией в педиатрических поликлиниках Екатеринбурга.Мы видели информационное резюме,и таким образом,знаем,что информация собирается.Информационный центр,отдельный от карт вакцинации,в педиатрической поликлиние Екатеринбурга был создан врачем и двумя другими людьми.

Вся финансовая документация,которую мы видели, была написана от руки.С усложнением системы финансирования здравоохранения будет необходимо создать более эффективную систему финансовой информации.

14.Оборудование.

Невероятный парадокс.При недостатке элементарного оборудования,больницы или поликлиники /чаще больницы/ могут иметь и новейшее оборудование.
Оказывается, отоскопы есть только у отоляринголого в,но в тоже время мы видели литотрипторы/еще не распечатанные и не установленные/.Похоже,что все хотят заполучить оборудование,лучшее оборудование.Мы видели самые разнообразные аппараты:электрокардиографы,рентгеновскую аппаратуру.Но с другой стороны, на наш взгляд, лаборатории и смотровые кабинеты недостаточно оборудованы. Аппаратура является основным критерием как для врачей,так и для пациентов.Может быть,это одна из причин,почему физиотерапия с ее необычным оборудованием, кажется столь популярной в российской системе здравоохранения.Все физиотерапесты решительно настаивали на демонстрации нам своей новейшей аппаратуры. Один из докторов сказал,что подобной излучающей радио-волны аппаратуры нет даже в Москве.

15.Обучение/переподготовка.

Российские врачи получают образование иным образом,чем их американские коллеги.В основном они проходят шестилетний курс обучения в высшей школе.В это время они проходят некоторые ступени специализации и после окончания вуза им присваивается квалификация терапевтов или педиатров.После этого они обычно проходят год дополнительного обучения и специализации в интернатуре при больнице и становятся узкими специалистами.После семи лет обучения в высшей школе врач получает специальность кардиолога или хирурга.После этого доктор может пройти несколько квалификационных экзаменов и стать врачем высшей категории. Если студент прослушал сокращенный курс, он получает квалификацию помощника врача /фельдшера/,которыми была известна Россия. Фельдшеры до сих пор обслуживают население в наиболее отдаленных районах страны.

Пародоксально,но российская система мед.образования выпускает огромное количество специалистов,которые не являются таковыми в западном смысле - по крайней мере,с точки зрения формального образования.Эта система хорошо

обеспечивала рабочей силой все систему здравоохранения,базировавшуюся на поликлиниках и фельдшерских пунктах.Но времена изменились,а система мед.образования нет.Многие русские понимают,что она неэффективна и архаична - застыла во времени.Мы обнаружили значительный интерес к коцепции "семейного врача",которая может быть осуществлена в России следующим образом: совмещение функций терапевтов, педиатров в соединении с больничным врачом. В настоящее время несовершенная система медицинского образования, является одной из причин того, что в целом система здравоохранения остается неэффективной: усиливается дробление целостной системы здравоохранения, увеличивается количество вызовов, разделяется амбулатороное и стационарное лечение, присутствует явление узкой специализации: например,педиатры при осмотре уха не исползуют отоскоп,в то время как его применяют отолярингологи.

В области системы дальнейшего образования и послеинститутских курсов повышения квалификации российская мед.система кажется хорошо организованной.Предусматриваются как ряд конференций для докторов, так и некоторые требования для их переподготовки. Обязательным требованием является переобучение медицинского персонала на курсах повышения квалификации 1 или 2 месяца каждые пять лет.Российская Академия медицинских наук играет ключевую роль и,кажется,до сих пор активно обеспечивает себе лидерство в области определения стандартов и образовательных возможностей для медицинского персонала.

16.Министерство Зравоохранения.

Мы использовали любую возможность для выяснения,какую роль отводят люди Министерству Здравоохранения.После имевших место в конце 80 годов децентрализации системы здравоохранения и бюджетной децентрализации до уровня областей/или более низкого уровня/.Министерство Здравоохранения /МЗ/ потеряло большую часть своей власти.Не смотря на то, что большинство опрошенных считаютают,что роль МЗ должна заключаться в обеспечении руководства,установлении основных направлений и предоставлении информации, мнение о том, что МЗ плохо выполняет свою роль и на деле не обеспечивает руководства и координации действий, было единогласным.

Большая часть управленческого персонала была выведена из МЗ России два года назад,когда от министерства был отделен и стал независимым Гос.Комитет по санитарному и эпидемиологическому надзору.Это отделение было бессмысленным, но, несомненно, отразило политическиу реальность. В областях, которые мы посетили, влияния Федерального МЗ не ощущалось, за исключением нескольких еговторжений организационного характера, в которых никто не нуждался. Практически, областной медицинский персонал не хотел иметь дел с МЗ.К сожалению,результатом такого плохого отношения является то,что российскому народному здравоохранению не хватает руководства.

17.Интеграция систем здравоохранения.

Хотя в России создана хорошо продуманная система районизации,отсутствие руководства на общенациональном уровне привело к дроблению системы,при котором каждое местное медицинское учереждение обеспечивает само себя.Руководство на областном уровне зачастую казалось неопределенным,и мы пришли к мнению,что

местные власти /муниципальные,районные/ имеют лишь небольшок количество или вообще не имеют способной администрации в сфере здравоохранения.

Больницы вынуждены самостоятельно находить новые пути,чтобы обеспечить себя хоть какими-то ресурсами.Они сами заказыват медикаменты,закупая их зачастую напрямую заграницей.И хотя мы нашли некоторые примеры скоординированности работы поликлиник и больниц,гораздо чаще такая координация отсутствовала, и услуги, предоставляемые этими медицинскими учреждениями, зачастую дублировались. Делегирование полномочий и ответственоcти на места хороша до определенной степени,но для всей российской системы при чрезмерной децентрализации способствует лишь небезопасности,неэффективности и неравномерности здравоохранения.

18.Стандартизация здравоохранения.

Практически все в России стандартизировано. Но медицинские стандарты,особенно для больничной практики /время пребывания в больнице/, устарели.У нас сложилось впечатление,что устаревшие стандарты не слишком давили,но мы видели некоторые попытки подвергнуть их сомнению и улучшить качество здравоохранения и его эффективность.Российская Академия медицинских наук уже вовлечена в работу по модернизации системы стандартов.Они будут важны для повышения эффективности всей системы.

Существуют вполне проработанные стандарты по оплате больничного обслуживания,приспособленные к новой системе компенсации из фондов обязательного медицинского страхования.Сегодня они используются вместо старой системы,основанной на койко-местах, и больница уже начинает получать оплату из страховых фондов.Были жалобы,что новые стандарты оплаты были основаны на системе здравоохранения 1984 года,и поэтому они нуждаются в модернизации.

ЗАКЛЮЧЕНИЕ.

1.Российская система здравоохранения,несмотря на всю свою широту и многообразие, стала неэффективной, фрагментарной,во многом устаревшей и не отвечающей нуждам и желаниям потребителей.

2.Должны быть отмечены демографические изменения,прямо связанные с системой здравоохранения,такие как падение рождаемости и быстрое увеличение числа бедных людей пожилого возраста,особенно в сельских районах; система здравоохранения не отвечает адекватно этим демографическим изменениям.

3.За некоторыми исключениями,таками как посещение на дому, вся система здравоохранения враждебно настроена против потребителя. Потребитель не может влиять на нее, и при этом играет пассивную роль, которая поддерживается медицинскими работниками.А так же чусвтво ответственности за собственное здоровье находится у потребителя на низком уровне.

4.Система ориентирована на лечение и на больничную медицину.И хотя проводятся диспансеризации,особенно в педиатрии,укрепление здоровья и профилактика заболеваний во многом игнорируются.

5.Наблюдается чрезмерное использование стационарных лечебных учереждений.Это существует изначально,благодаря а/финансовым стимулам,которые поддерживают такое чрезмерное использование;б/недостатку более современных стандартов срока пребывания в больнице,в/отсутствию разницы между неотложным

лечением пациента с острым заболеванием и необходимым длительным лечением или опеки.В результате,больницы значительно превышают по своим размерам реальную необходимость,требуют многочисленного штата и значительных ресурсов.Авторы чувствуют,что количество больничных коек могло бы быть сокращено до двух третей,если система работала бы более эффективно.Мы осознаем,что функционирование больниц носит не только медицинский характер и что, особенно для старших слоев населения, также выполняют социальные и защитные функции.

6.Качество лечения часто сомнительно и неадекватно по многим причинам,включая устаревшие стандарты,основанность на неэффективности,устаревшие и/или испорченые средства обслуживания и оборудование,неподходящие стимулы.

7.За исключением ограниченной роли Государственного санитарно-эпидемиологического комитета,в системе здравоохранения нет федерального уровня руководства.Областные,муниципальные,районые и местные учереждения народного здравоохранения обеспечивают себя сами.Их деятельность кажется плохо скоординированной, а так же отмечается недостаточныц уровень обмена информацией. При отсутствии руководства на федеральном уровне растет неэффективность медицинского обслуживания,которое становится фрагментарным и дублированным.

8.Вся система здравоохранения серьезно расшатана.Только 3%валового внутреннего продукта поступает в медицину.Экономический кризис в России может спровоцировать значительный кризис системы здравоохранения,так как адекватное финансирование становится самой насущной проблемой.

9.В системе здравоохранения есть также широко присутствует явление частного предпринимательства. Установились, хотя еще в небольших масштабах, принципы частной практики и оплаты за некоторые виды услуг - они приняты de facto.В этой сфере существует несколько превосходящее ожидания разнообразие ситуации в регионах,как в организации клиники, так и в подходах к финансированию.Местная инициатива живет и процветает.С другой стороны,кажется,что увеличивается разрыв в системе между состоятельными и бедными.

10.Хотя на местах есть гибкие и полные сил руководители,в целом прослеживается прескорбный недостакок квалифицированных управленцев.Способность управления начинает теперь все более и более подвергаться критике в связи с переменами,уже имеющими место в финансировании здравоохранения и в страховании.

11.Система очень авторитарна по своей сути.Роль главврача как главного администратора вкладывает значительную власть и ответственность в руки этому человеку.

12.Необходимо принять во внимание изменения в системе подготовки врачей,если система обучения должна быть более эффективной.Проявленный интерес к "семейной практике" может послужить одним из направлений наиболее преспективных путей развития.

13.Существуют большое нежелание отказываться от системы здравоохранения для всех и значительные сомнения относительно концепции приватизации,хотя медики не знают,что означает для них эта приватизация.Наоборот,возможные пути приватизации системы здравоохранения еще не определены на центральном уровне.

14.Медицинские информационные системы устарели,они громоздки,утомительны и нёсовременны.Необходимость их модернизации особенно остро ощущаетс после введения изменеий в системе финансирования здравоохранеиня.

15.Изменения в законодательсве понимаются главным образом как

необходимость,позволяющая провести эффективные преобразования в системе здравоохранения,что сделает ее более действенной и отвечающей требованиям потребителя.

Е.РЕКОМЕНДАЦИИ.

1.Исследования/Материалы/Опросы,связанные с медицинским обслуживанием.

а.Исследования/Материалы.

I.Материал по различным спонтанным инициативам в области финансирования,которые появились по всей России.Было бы полезно получить информацию для демонстрации возможностей. Необходимые затраты: Две недели с консультантом.Консультант по финансированию здравоохранения.

2.Более углуболенное исследование явления чрезмерного использования больниц для выявления его медицинских и немедицинских рациональности, т.к.больницы представляют 65% бюджета здравоохранения и экономия на них была бы очень эффективной.Взять три больницы и проанализировать их пациентов,диагнозы и время пребывания в больнице.Оценить,какие виды ухода за больными не являются необходимыми с медицинской точки зрения и проанализировать причины их использования.Цель:показать,как может быть исправлено положение дел,и лучше понять факторы,вызывающие необходимость в такого большого кличества коек. Необходимые затраты: две недели с двумя консультантами:специалистом по здравоохранению /доктор медицины/ и социологом.

3.Более углубленное изучение для должного понимания использования схем лечения в поликлиниках.Снова:проанализировать,где возможна эффективность. Необходимые затраты: Две-три недели с двумя консультантами:специалистом в области здравоохранения/доктор медицины,фельдшер, старшая медсестра/ и специалистом в области управления амбулаторным лечением.

4.Продолжить изучение опыта типа Организации медицинского обеспечения в Петербурге,Кемеровской и Самарской областях,если оно еще не закончено.Хочется изучить положительные и отрицательные результаты. Необходимые затраты: это может быть выполнено /если еще не сделано/ как часть проекта USAID или путем 7-10 дневных консультаций со специалистом в обласи финансирования здравоохранения.

5.Исследовать дополнительные территории для возможных экспериментальных проектов,например,Владимир.

6.Изучить положения дел в больничной и поликлинической администрации для определения нужной подготовки специалистов для этой области /это могло быть уже сделано,т.к. мы заметили,что некоторые администраторы уже были отобраны для получения соответствующей подготовки в США/.

7.Просмотреть эпидемиологические данные для получения полной клинической картины заболеваний,которая должна повлиять на систему здравоохранения.Возможно,большинство этих данных уже существует.Необходимые затраты: 7 дней эпидемиологического времени если документы готовы для просмотра. Потребуются русскоговорящие специалисты.

8.В сфере финансирования здравоохранения:изучить возможности выполнения кратких исследований для того,чтобы увидеть,какой объем финансирования из обязательных страховых фондов был бы необходим для разрешения насущных поблем

здравоохранения. Сейчас это может быть теоретическая основа, так как в ней участвуют несколько составляющих. Обсудить с Черниховским.

б.Опросы.

1.Опрос потребителей для того,чтобы лучше понять их нужды и желания.Предполагается опросить 100-200 человек в 6-8 различных областях.

2.Опрос медицинского персонала для того,чтобы лучше понять их интересы,позиции и их представления о том,как должна измениться система здравоохранения.Предполагается опросить 75-100 мед.работников /врачей, фельдшеров, медсестер/ в 6-8 областях.

3.Опрос главврачей поликлиник и больниц для выявления их мнений по поводу увеличения эффективности / мотивации.

2.Варианты пилотных проектов.

В настоящее время рассматриваются два вида пилотных проектов.Один - в области медицинского обслуживания, а другой - в области фармацевтики.Касательно проекта по медицинскому обслуживанию,мы могли бы сделать следующие предложения:

а/.Использовать районный масштаб либо еще меньший,но не область (где существует слишком большое разнообразие), предложить территорию, легко достижимую из Москвы.

б/.Выбрать объект с относительной гарантией финансирования из обычных источников:бюджет,страховые фонды,поддержка предприятий.

в/.Мотивированное руководство на местном уровне и некоторая подготовка управленческого персонала (дополнительная профессиональная подготовка администраторов будет предоставлена в плане эксперимента).

г/. Поддержка и участие областных, местных или муниципальных медицинских руководящих органов,которые обычно являются источниками финансирования для медицинских организаций.

д/.Можно использовать только поликлинику или комплекс поликлиники и больницы,или все медицинские учереждения на данной территории районного масштаба.Поощрялась бы модель управления.Возможно - модель американской Организации медицинского обеспечения,но на первом этапе эта модель будет слишком сложная.

е/.Пилотный проект должен предусмотреть техническую помощь управленческому персоналу, организацию работы, Службу медицинской информации,обеспечение /включая фармацевтическое/.Предоставляемые на эксперимент денежные средства обеспечили бы обучение основного персонала для данного эксперимента,необходимое административное оборудование,служебные материалы,другие затраты на проведение эксперимента.

ж/.Возможно,потребуется "приватизированный" некоммерческий объект противопоставить коммерческим.Если выбрана приватизация,то она должна соответствовать определенным юридическим критериям, предлагаемым ниже.Но на данном этапе,основной целью и мотивацией стала бы реформа здравоохранения,а не приватизация.

з/.Для подобных экспериментов, которые будут проводиться в других местах, можно использовать модель частного сектора, похожую на боливийскую модель "За здоровье", несколько ограниченная и потенциально легко применимая.

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3. Отсутствие руководства: единственный вариант.

После неудачной попытки Министерства здравоохранения обеспечить централизованное руководство, и при угрозе неэффективности системы, возникающей в вакууме управления, необходимы иные механизмы руководства уже децентрализованной сиситемой здравоохранения.

Мы бы предложили создание структуры, похожей на американскую Службу общественного здравоохранения,которая бы в идеале входила в состав Министерства здравоохранения,но в настоящее время это невозможно по политическим причинам.Это агенство,возможно вместе с сокращением федеральных страховых фондов,могло бы обеспечить финансирование и стимулы для местных проектов реформ здравоохранения.Такое агенство,при использовании предоставляемых фондов,руководства и оценок,могло бы привести к изменениям и поддержать создание чего-то нового.Эти дотации могли бы быть выданы в существующие поликлиники и/или больницы,либо в созданые недавно учереждения.Учереждения,получая фондовые дотации и техническую помощь от нового агенства,могут быть коммерческими или некоммерческими, но приватизация в определенных формах поощрялась бы.

Эти фондовые дотации могли бы использоваться в качестве источников финансирования при изменении форм собственности в системе здравоохранения, для поддержания и медицинского персонала, и потребителей (например,создание совместных наблюдательных советов) для того,чтобы они взяли на себя больше прав собственности в системе здравоохранения.Это бы потребывало финансирования и технической помощи со стороны предлагаемого агенства.

4.Замечания по поводу изменения законодотельства в области здравоохранения.

Задачи:улучшить состояние здоровья россиян, сохранив гарантированный доступ к медицинскому обслуживанию для всего населения.

Ключевые моменты реформы:

а/.Устранить экономические и структурные барьеры,стоящие на пути реформы здравоохранения,включая обеспечение возможностей приватизации,

б/.Определить основной пакет услуг, доступных для всех россиян.Этот пакет должен включать профилактическое обслуживание,укрепление здоровья и лечение наркологических заболеваний.

в/.Гарантировать равномерность услуг вне зависимости от местонахождения, что явится краеугольным камнем общедоступности и выбора.

г/.Обеспечить федеральное руководство системой здравоохранения, а так же механизм выработки стандартов и общего курса, как экономического,так и медицинского.

5.Другие замечания по поводу законодательства:

д/.Устранить непомерные налоги в области приватизации,особенно - для некоммерческих объектов,в то же время создавать налоговые стимулы для приватизации некоммерческих объектов.Введение налоговых льгот или предоставление кредитов для местных и международных организаций, предоставляющих средства или оборудование общественным и некоммерческим медицинским учереждениям.

е/.Позволить выбирать среди альтернативных моделей системы здравоохранения,приватизированных или неприватизированных,кооперативных,первичной медико-санитарной помощи,административных,или типа Организации медицинского обеспечения.Модели типа ОМО должны развиваться особо и поощряться специальными налоговыми льготами.Цель:использовать налоговую политику, а не цены для поощрения эффективных систем.

ж/.Пока идет приватизация,необходимо предусмотреть общедоступность лечения и основного пакета медицинских услуг. Например,требуется,чтобы в приватизированных мед.учереждениях пациент мог воспользоваться основными медицинскими услугами бесплатно,если он не в силах их оплатить.

з/.С другой стороны,необходимо воспользоваться вариантом доплат со стороны пациентов, когда они способны заплатить.

и/.Необходимо продолжать развитие системы добровольного страхования.

к/.Гарантия качества и лицензионные потребности должны быть включены как в общественную,так и в частную систему.

л/.Разработан критерий лицензирования, гарантирующий наличие у предприятия высококвалифицированного управленческого персонала, бизнес плана, одобренный на всех уровнях местного руководства . Кроме того, городские органы здравоохранения должны представлять смету расходов. Должны быть обеспечены условия для оценки, включая адекватные медицинские информационные системы.

PRIVATIZATION OF HOSPITALS AND POLYCLINICS IN RUSSIA

Briefing Note for Draft Privatization Law

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PRIVATIZATION OF HOSPITALS AND POLYCLINICS IN RUSSIA

Introduction

This memorandum provides advise to the Russian Ministry of Privatization (GKI) on the issues involved in privatization of health care. The memo makes recommendations regarding hospitals, polyclinics, and to some extent, health care finance.

The memo is intended to provide practical, top-level advice as requested by the GKI. It is intended to provide a *directional* focus for the drafting of the law, not to examine the details of health care reform or the options for implementing proposed changes.

The starting point for assessing the situation and making recommendations is the premise that Russia *should continue to provide universal access to health care, free at the point of consumption. The majority of health care providers would benefit from becoming private, non-profit institutions*. However, the government should continue to provide the majority of finance for the health care system, in line with all other OECD countries (except the USA). The key element is for health care purchasers to be separated from health care providers, and to ensure that the purchasers are capable of fulfilling this function.

Most providers should be turned into "hybrids"; self managing, non-profit institutions, combining state ownership of assets with competition and patient choice. Additionally some institutions can be privatized in the traditional sense.

This memo will cover six areas:

I. Brief assessment of the Russian health care system
II. Hospitals
III. Specialist institutions
IV. Polyclinics
V. Health care finance
VI. General comments .

I. Russian Health Care System

The Russian health care system has a number of positive features. Although there is a clear need to reform many aspects of the system, it is important to retain and build upon the features which are attractive. These include:

- *Universal access*: The Russian system provides universal access, which is the hallmark of a modern, west European style health care system. It is essential, as free market principles are introduced, that the Russian government maintain its commitment to provide universal access for its citizens, with special emphasis on providing care to the unemployed, the elderly, and children.

- *Polyclinics*: The concept of a polyclinic, in which primary physicians, specialists, and medical staff together provide primary care, is good. Polyclinics make a sensible starting point for privatization.

- *Supply of doctors*: There is a large supply of doctors in Russia. This fact must be distinguished from the fact that doctors generally do not have the right incentives to treat patients in an efficient manner, and may not have access to the best training or equipment. It will be important to encourage these doctors to take part in the reform process and to help upgrade their skills.

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Having said this, it is also true that the Russian health care system has some serious problems in terms of financing, efficiency, and performance:

- Overall health expenditure as a percentage of GDP appears to be very low, (even considering lower medical salaries, etc.) around 3%; vs 8% or more in most western countries;.
- Standard measures of efficiency and effectiveness, such as average length of stay in hospital, suggest that Russian systems are inefficient compared to most western hospitals;
- Health care seems to focus on treatment, rather than on prevention, screening, etc;.
- Health status along such variables as life expectancy and infant mortality is below western norms.

In summary, the Russian health care system has many positive features, but it also has serious flaws. All western countries are struggling, to some extent, with similar problems. The challenge is to correct the inefficiencies, thereby releasing capital and making the system more effective, and better able to provide adequate health care to the population.

II. Hospitals

Hospitals in Russia vary enormously and our assessment is based on a small sample. There are many hospitals which are suitable to be turned into hybrid "NHS Trust" style institutions. However, *the majority of hospitals in Russia are not yet in a position to become fully private.* Insurance schemes are not operating adequately to finance care, or to fulfil the purchasing function, as of yet.

The key issue at present is how to improve hospital facilities and treatment. There are only four possible ways to generate the necessary capital:

- Borrowings,
- Increased state contributions,
- Sale of assets,
- Improved efficiency.

With no private or public capital available for this purpose, and the sale of assets likely to be limited, the crucial task is to improve efficiency, which could release cash now tied up in hospital operations. It should be possible to achieve certain efficiencies in the short term. However in the longer term, it is our view that the only way to ensure that hospitals have efficiency incentives is to separate the providers from the purchaser of care. This is the *intention* of the health reforms in place, and it may occur naturally as the Sick Funds (insurance funds) extend coverage to the whole population. At present, however, the purchaser and provider are not fully separated and so the incentives appear to reward inefficiency and poor management.

Length of Stay

Nowhere is this efficiency problem more apparent than in the 24-day average medical length of stay in hospital. (This compares unfavourably with every western country. As a healthcare system becomes more market driven, the length of stay shrinks; the lowest length of stay is in the USA). In Russia, despite the fact some patients may require long stays due to poor home conditions, at present there is no incentive for a doctor to discharge a patient as quickly as

possible. Thus each patient incurs a large extra expense, in terms of the costs of unnecessary nursing, food, and in-patient care. Additionally, the long hospital stays create an environment in which general infections spread rapidly; and indeed Russian hospitals, maternity wards in particular, suffer from a much higher degree of secondary infections than most western institutions.

Modern Equipment and Medicines

Secondly, modernising the techniques and drug therapies could produce efficiencies (for example switching to automatic rather than manual blood counting; use of anti-ulcerants rather than hospitalising ulcer patients). Although upgrading machinery is not sufficient, there are specific areas in which more modern technology could produce dramatic improvements in efficiency. Therefore hospitals (and clinics) should be able to acquire these machines, and medicines which may reduce hospitalization. This requires a form of low cost financing to be made available (as outlined in section V). It also requires a change in attitude: so the health care system begins to *think* about efficiency, and shortening or avoiding putting patients in hospital.

Doctor/Nurse Allocation of Responsibilities

Staffing responsibilities and doctor/nurse demarcations need to be rethought. There is a high number of doctors compared to other western countries suggesting that doctors are being used to perform many functions that could be carried out more cost-effectively by trained nurses.

Hygiene

Standards of hygiene require urgent attention. This is an area where the Ministry of Health (MOH) should be able to make progress quickly if the government allows it to set financial incentives for those hospitals meeting standards.

Role of the Hospital Manager

The hospital manager seems to have a fair degree of managerial control but not enough to fundamentally change the situation at his hospital. For example he cannot determine staffing levels, wages, and trade-off between wages and treatment. We suggest that hospital managers, should be empowered and motivated to run the hospital as efficiently as possible. This would mean granting them power to:

- Rent out space in the hospital, where available, up to some agreed percentage of space;
- Charge fees for special services not covered by the state; and
- Negotiate medicine supply and other contracts.

Sale of Land and Assets

In terms of hospital land and assets, the state should probably retain the majority ownership of these for the time being. There is no obvious buyer or market value for many hospitals. At a minimum, the government should establish strict guidelines for prospective buyers. However, over the long-term it will be more efficient to close some of the older facilities in the center and use the funds generated by the sale to construct modern, purpose-built facilities elsewhere.

Therefore for the bulk of ordinary hospitals the following is recommended:

1. Hospitals should be majority owned and maintained by the government for the time being. The government should set out criteria and restrictions for the transfer of ownerships including the service profile of the hospitals.

2. The MOH should consider how to introduce greater efficiencies and performance targets into the system, in particular how to expedite the separation of purchasing from provision.

3. Hospital managers should be given greater authority over the decisions in their hospitals, including rental of space.

4. Money should be directed to achieving desirable outcomes. Government funds should be tied to specific improvements in efficiency and performance targets.

III. Top Level Hospitals and Specialist Facilities

If the GKI wishes to introduce privatization into the hospital sector, there are some "special" high reputation hospitals which could be privatized in the traditional way. These are those which have an international reputation that would make them attractive to prospective buyers. We could envisage a system whereby the government retains a controlling share but sells off a stake to an international purchaser, who would perhaps bring in an international management company to run the facility. A portion of the shares could be sold to the public, as well.

The objective would be to create fully private hospitals, with independent management and operating responsibilities. Hospital management would set its own investment and service strategies based on what customers want. Current purchasers of care at such facilities could continue to buy care there by negotiating block contracts for certain categories of people. (This is now done at the Kremlin Clinic).

There are a number of advantages to privatizing such facilities. It is likely to inject fresh capital, and management skills into the institutions. They would also acquire access to borrowing. It would be a way of capitalizing on the high quality of the medical personnel already there. And if successful, this initial wave of privatization would serve as encouragement for the rank and file hospitals which will be watching them closely. The key requirements for the government, should it wish to pursue this avenue; are as follows:

1. To pass enabling legislation for certain types of health care institutions to become private;

2. For the government to set certain conditions on who can purchase (such as that they must be experienced in the health care industry etc); and

3. For the government to retain a controlling interest so as to ensure political acceptance.

<u>Hospitals Suitable for Achieving "Hybrid" Status</u>

Many hospitals are suitable for semi-privatization, to become units similar to NHS Trust Hospitals in Britain. These are non-profit, self-managing hospitals which sell care and are required to earn a reasonable return on assets. NHS Trust Hospitals are empowered to set their own employment policies, investment strategies, and service strategy, based on what their purchasers want. The only restrictions are that they cannot make major changes, investments, and acquire or dispose of assets without government approval and a plan to show what they intend to do with the proceeds of a sale. Such hospitals must also meet strict financial criteria, and meet the demands of their purchasers, if they are to survive.

Russian hospitals suitable for this kind of status would need to meet the following criteria:

- Management capable of organising and running a hospital,
- Basic information systems available for tracking cost and monitoring outcomes,
- Sound financial basis for the hospital,
- Adequate level of equipment, medicine, and staff for the patient population.

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The NHS Trust type model (similar models exist in Scandinavia and Israel), which can be introduced gradually, would appear to be a good one for Russian hospitals which meet these criteria. Additionally, the following conditions must be in place:

- The system of provider/producer separation must be in place, completely, with health insurance schemes covering the whole population, and acting as purchasers of health services;

- The purchaser must be able to ensure that the health needs of the local population are understood and met
  - it is especially important that provision be made for the elderly and unemployed during the transition and launch of the insurance system;

- The government must establish strict financial criteria for such hospitals, which will be obliged to meet those criteria.

It is important to be clear that the purpose of setting up such hospitals is to make providers responsive to, and led by, the purchaser. By forcing them to compete for funds and patients, hospitals have an incentive to become efficient. Britain, Scandinavia and Israel have used this concept as a way to introduce market efficiency into their previously state-run systems.

IV. Polyclinics

We believe that most ordinary polyclinics could become private or semi-private entities. We recommend that polyclinic doctors take ownership of their practice. This would mean transferring the business and operations of the clinics to the polyclinic doctors. The clinics would become non-profit institutions where the doctors have decision - making power over what to do with their premises, which specialities to provide, employment, services provided, number of doctor hours available in the clinic or home, and whether to do some fee-paying extra services (e.g. orthodontics). Government would rent or lease the land and building assets to the practice.

The polyclinics are suitable for this kind of reform because, unlike hospitals, it would be feasible to introduce patient choice into the polyclinic level. *Government reimbursement must be changed to a per capita basis* (per person, weighted for demographic factors), so that it will be possible for patients to choose which polyclinic they wish to be registered with and attend regularly. The patient should also be able to choose which doctor within the polyclinic they wish to see, as their main doctor.

Pilot projects along these lines are being carried out at present in three *oblasts*, and it makes sense to evaluate the pilot schemes before expanding the concept. In theory, at least, the system would provide an incentive for the polyclinics, and individual doctors, to become more patient-friendly, in order to attract the largest number of patients and thus funding. Within constraints set down by government, polyclinic doctors managing the clinic (or solo practices) would be able to choose how to spend their revenues, thus gaining a further incentive to be efficient and to provide services for which there is greatest demand.

In order to ensure that all public health needs are met, the government needs to stipulate: a list of services the clinic *must* provide for its population; and that the polyclinic facility is used for providing primary health care services. The government could also provide bonus revenues for polyclinics hitting certain targets, especially in preventative medicine (such as immunisation, cervical screening, etc).

The government should pass "enabling" legislation to make private and semi-private primary care possible. This would entail the following changes:

1. Make non-profit polyclinic institutions possible;

2. Change reimbursement to a (demographically weighted) per capita basis (more sophisticated methods to be introduced over time);

3. Enable patients to choose their clinic and doctor;

4. Enable solo practices to be set up on a for-private basis;

5. Enable a variety of primary care arrangements to be set up (eg specialist clinics).

In order for the system to work, polyclinic doctors need to become, essentially, small scale businessmen as partners in their own practice. They will therefore require some training on how best to run a clinic. They will also need software packages and other support to assist them in tracking and monitoring their costs and patient flows.

Most polyclinics, under this scheme, would be hybrids. Their premises would continue to be state-owned, but all budget would be controlled by the doctors themselves, (who could in fact be given a share in the premises as well) and would be free to allocate budget to equipment and facilities.

Polyclinics in Enterprises

A separate issue is the status of polyclinics at state (and/or newly privatised) enterprises. These are different from the ordinary polyclinics in several respects. Firstly, some of them provide above-average health care. Second, patients often have no choice as to whether to use them; they are the only local primary care, and it may be impossible to introduce normal competition in the short-term.

We advise that short-term, the enterprises should be encouraged to *retain* the polyclinics. It is essential that in the transition period to a market system that people do not suddenly find themselves without health care. In the longer term, these polyclinics could also become semi-private (as described in the previous section), or diversify as they wish to meet the needs of the local community.

Where enterprise polyclinics only care for employees and their families, there may suddenly be a large unmet need if the enterprise loses jobs in a restructuring programme. In this case the most efficient way to avoid leaving people without care is for the government to *reimburse the polyclinics directly* for treatment of former employees and their families. This should be done until the Sick Funds (insurance) for unemployed persons are functioning properly.

V. Health Care Financing

Russian health care financing is complex, and in flux at the moment; so we have not attempted to deal with it comprehensively here. However there are a few items which deserve mention as part of our overall recommendations:

Equipment Financing

There is a need for low-cost financing of basic equipment. Once providers have become non-profit and tax exempt, they should be eligible for loan guarantees, interest free financing through leasing, tax exempt donations and sales of below-market value equipment. The priority is to assist institutions that wish to acquire *basic* equipment, with priority for equipment that increases efficiency or effectiveness, or helps with preventative care.

Much of this equipment should be eligible for *export credits*, which comprise a large share of western aid designated to Russia. At present the ordinary hospital or polyclinic has difficulty capitalising on this benefit, because they are not familiar with the process of securing these credits.

In the USA, some 10-15% of the operating budgets of non-profit hospitals are funded through tax exemptions to the providers *and* contributions of money, credit, and equipment which are tax exempt to the *donor*. In Russia, manufacturers of health care equipment and medicines are anxious to secure a foothold in the Russian market - and are taxed at high rates. It is critical that such tax exemptions be made available; this may provide an important source of funding for the hospitals and clinics. The law should be drafted in such a way that providers can obtain the full tax benefits of becoming non-profit private or semi-private entities.

Insurance (Sick Funds)
The insurance mechanism, planned to be along the lines of the Dutch and German Sick Funds, is just beginning to take shape. The concept is sensible, but the mechanisms are not yet functioning properly. It will take some time before the insurance funds are fully in place, and the system has adjusted to the introduction of insurance.

We have not attempted to address the subject of health insurance here. However, for the purposes of this memorandum, *the key issue is whether the insurance funds can function effectively as separate purchasers of health care.* In order for the recommendations in this memorandum to be implemented, the insurance funds must become purchasers. This may involve greater government participation; not less. In the German and Dutch systems, for example, the funds are tightly regulated by Government, which guarantees solvency.

The western European systems which rely upon insurance funds as purchasers still finance, on average, some 70% of public health care. It is unlikely that the Russian system will work unless the government contributes this kind of percentage of health financing. However, the government needs to shift the way it subsidises so that it is contributing to the public health care needs through the *financing mechanism* - not by underwriting inefficient providers.

VI. General Comments

There are several general comments which should be noted in this report:

1. Russia spends less as a percentage of its GDP on health than any western country. This argues that, in addition to introducing efficiencies and privatising where possible, *the government will eventually have to increase the absolute level of funding for health care if it is to achieve western standards.*

2. *The best place to spend more money is at the primary level*, and in health education, prevention, and screening. The clearest lesson from the west is that the most cost effective way to achieve high standards of health is to devote more resources to primary care.

3. In the UK, the move away from a large centralised bureaucracy to smaller units, such as Trust Hospitals and GP fundholders, has been fraught with complications. It is important that a public education campaign accompany the health reforms, in order to explain and prepare the public, and health care workers, for these vast reforms (A separate memorandum has been prepared on this subject).

4. In order to protect the *most needy*, such as seniors, unemployed, and handicapped persons, the government *must ensure that the financing mechanism is fully in place before the old system is dismantled.* Otherwise the neediest groups may suddenly find themselves with no health care.

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5. As the system becomes more private, Russia needs a strategy for the training of doctors. Training will never be a function that generates money, it is an investment. As hospitals become more market-orientated, separate funding needs to be arranged for medical training.

6. In general, *it is better to devolve decision-making to the lowest level.* The system has been plagued by being overly-bureaucratic, and in general, the closer the decision can be to the individual doctor and patient, the better and more efficient that decision is likely to be.

7. It is very difficult to implement these changes in an environment of high inflation. Hospitals at present are setting monthly budgets, and so inflation is consuming both time and resources. The higher inflation runs, the more it is important to proceed slowly with health care reform.

8. All types of care should be encouraged to develop and flourish in the new system, such as day surgery centers, and specialist clinics for women and therapeutic categories. The law should not discriminate in any way against new approaches, which in many cases will provide better quality and more efficient care.

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Denationalization[1] and Privatization of Medical Care Institutions: Hospitals, Polyclinics, other Providers of Different Types, and Health Insurance Institutions

Preliminary Concept and Issues Note (Feb. 28, 1994)

A. Objectives

1. In accordance with the Presidential decree of Dec. 24 1993 (#2284), GKI has started developing the legislation proposal concerning the denationalization and privatization of different institutions providing medical care to the Russian population.

2. The process of denationalization and privatization in the health sector, which the proposed legislation should promote, needs to be consistent with the principles of the Health Insurance Legislation signed by the president on April 16th, 1993. The proposed denationalization and privatization legislation (DPL) needs to reflect also the uniqueness of the sector and the social and political sensitivity associated with medical care. Consequently, the legitimate concerns of the medical profession, the Federal Ministry of Health (FMOH) and regional health authorities need to be carefully considered.

3. The objectives of this note are (1) to outline the "constitutional" framework for proposed legislation of medical services and facilities, (2) to identify the specific institutions that can be denationalized and privatized; and (3) to highlight the special complexities of privatization in the health sector that the proposed legislation needs to address.

B. The "Constitutional Framework" - The Russian Health Insurance Legislation

4. The Russian health insurance law (HIL), while dealing with the health finance system, stipulates far-reaching changes in the organization and management of the Russian health sector. This legislation falls conceptually in line with the systemic reforms that have been taking place in other developed economies. The adoption of a new law was an important step in moving the Russian health sector toward non-governmental organization, management and provision of services - thus increasing the quality of care and service - while retaining public control over finance in an attempt to deal with a basic inability of markets to provide socially efficient solutions in health care, and maintain the solidarity principle which guarantees a basic package of care to every Russian citizen.

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[1] Denationalization refers to the creation of non-governmental legal entities such as not-for-profit institutions and public trusts. Such institutions not yet common in Russia are common in all other health systems.

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C. Institutions under the HIL

5. The HIL would effectively allow separation of (a) the funding of care in Russia: (b) the organization and management of care for consumers by "insurance companies" or sickness funds wherever possible: and (c) the provision of care.

6. The HIL legislation aims to offer Russian citizens two levels of choice -- under the auspices of public finance. The first is the right to enroll in any insurance company or sickness fund they wish. without going through an employer. The second level of choice is among alternative competing care providers. The HIL envisions non-governmental competing "insurers" as well as providers of care. The proposed DPL should promote these institutions, moving the system from its current state to a reformed system in line with other modern health systems. Consequently the HIL stipulates the following institutions.

7. **Federal and Regional (Social) Health Insurance Funds (FHIF and RHIF)** The central institutional feature of the amended law would be the creation of separate, social, compulsory health insurance (CHI) funds at the federal and territorial levels for the management of compulsory insurance revenues from a wage-bill tax and federal and territorial governments' contributions. The funds are to be established as independent non-commercial finance and credit institutions. The federal CHI fund is given the function of achieving cross regional equity objectives.

8. **Health "Insurers."** Fund managers would contract with insurers or sickness funds for the management of care for their constituent or enrolled populations. Where such insurers were not available (1993), branches of territorial CHI funds would assume their functions. The insurers (and by implication the territorial branches) would be reimbursed under contract on a capitation basis. An important aspect of the HIL is that it would allow insurers to perform the functions of care managers and providers either by using salaried personnel in their own medical institutions or, as stipulated by the HIL. by buying services from independent providers of care. Thus, such "insurers" may become owners of care facilities. thus becoming Health Maintenance Organizations (HMO)-type institutions.

9. **Providers of Care.** Provision of care under the HIL is handled through hospitals. polyclinics. solo practices. pharmacies (for their part in supplying pharmaceuticals) and by a variety of institutions providing all kinds of services (laboratory, imaging, specialized treatment. etc.).[2]

D. Privatization and Denationalization of Medical Providers and Insurers

Perspective

10. In line with other developed health care systems, the Russian HIL allows for competing insurers and providers. but is flexible with regard to the ownership of these institutions. The legislation to be proposed by GKI needs to consider carefully the different types of ownership possible for different types of institution according to type of care and location.

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[2] Pharmacies are not explicitly the subject of this note.

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11. The proposed DPL needs to support the following systemic objectives:

(1) to promote health through quality care:
(2) to promote efficiency in the provision of care;
(3) to promote responsiveness to clients needs and desires:
(4) to guarantee universal access;
(5) to maintain budgetary discipline among providers and insure their economic viability.

12. Base on the experience of other nations, decentralized and autonomous management. the basic feature of private enterprise, of competing health care institutions is best suited to achieve the first three objectives. The Russian health care system has seriously lagged behind other developed economies in the achievement of these objectives.

13. The last two objectives are best achieved through principles of public finance as stipulated by the HIL. Indeed. if Russia is to follow the example of OECD countries (the USA being an exception). public health care finance will stay at the level of 70-80% of the national health expenditure. even when the provision of care is private (e.g. Canada. Australia. the United Kingdom). Thereby. Russia would be able to preserve its major achievement in health care. mainly universal access.

14. It is therefore in the interest of the state to subject even private institutions in the sector to legislation and regulations that would be consistent with the budgetary discipline of state finance and. at the same time. secure the other systemic objectives.

Relevant Experience in Industrialized Democracies

15. At the outset. there is little world experience with privatization of health providers because all health systems in industrialized economies started out with private and non-state finance and provision of care. By and large provision of care stayed private even as finance has become mostly public in virtually all OECD nations. except the USA.

16. Some relevant experience is now building up mainly in the United Kingdom. Israel. and the Scandinavian countries with regard to so called denationalization of state hospitals. Self-Governing Hospital Trusts (SGHT) are organized in these countries where like in Russia the state has direct control--which it wants to relinquish--over hospitals. Hospitals become "public trusts" which are not-for-profit organizations. This status removes mainly the management of the institution from Government.

17. Such hospital trusts run on variable income from the sale of services rather than on fixed budgets based on inputs. Because money "moves" with the patients. SGHTs must focus their energies on patient care and satisfaction in marketing their services if they are to remain viable. Under this system. control over the allocation of hospital resources to hospitals shifts from bureaucrats and hospital consultants to the buyers of hospital services in the community.

18. Yet. even in the nations mentioned above, the process is painful because of ideology. intricate conceptual and legal requirements. as well as vested interests.

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Relevant Experience in Russia

19. The DPL can benefit by adopting some fundamental principles of the experimentation with a new economic mechanism which began in the health sector in the late 1980s and is unfolding in some areas of Russia. The experiment, which involves some of the principles just mentioned with regard to hospitals, originally took place in three areas: the city of St. Petersburg, Kemerovskaya oblast and Samarskaya oblast; other regions have been subsequently pressed to experiment on their own because of changes in the Russian administration and economy. The new mechanism stipulated radical changes aiming at decentralizing the management of medical care institutions, and increase their efficiency and responsiveness to the population.

20. A Territorial Medical Association (TMA) was established as the organ responsible for managing and providing treatment and preventive care for a particular unit of the population. The concept behind the TMA is close to that underlying the Health Maintenance Organization (HMO) in the United States. The HMO is essentially a non-governmental, for or not-for-profit body that becomes a "budget holder" and assumes the responsibility to provide care for an enrolled population. A TMA may comprise polyclinics (for adults, for children, stomatological diseases, etc.), women's consultation stations, dispensaries, hospitals, maternity hospitals, children's sanatoria, emergency care stations, etc. Each particular TMA structure is defined by local circumstances.

21. Financing under the new mechanism was marked by a transition from budgeting by line inputs to financing by standard definitions of need. Medical facilities were given an option to obtain additional sources of finance through the sale of services to the population at large and to enterprises.

22. The polyclinic has played the leading role in the TMA. Polyclinic-based TMAs were primarily budgeted according to a capitation formula based basic demographic characteristics of the registered population. These Polyclinics have become "budget holders": they were allocated funds for medical services provided by other institutions such as hospitals.

23. In turn, hospitals were to have been reimbursed for patients' treatment according to type of illness and complexity (i.e. various types of Diagnostic Related Groupings). The norms guiding the budgeting of institutions had been developed and approved by the appropriate health management bodies of republics, krais, oblasts, and by the TMAs.

24. In-spite of flaws, which need to be rectified, this economic experiment in health system has been institutionally and politically bold, as well as conceptually innovative by international standards. In a number of respects it had promising results. Inpatient care declined in favor of care in community polyclinics; work performance increased.

25. It is highly desirable therefore that the DPL follows up on this unique experience.

Fundamental Pre-requisites for Denationalization and Privatization

26. The major issue remains that in almost all developed countries medical care is publicly financed and the health care market is not subject to common competitive forces. In most situations governments set the fees and compensation mechanisms for institutions operating under public finance. Consequently, along with the option to be private, prospective private institutions need to be insured of compensation mechanisms that would lead to their economic viability and a fair return on

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their investment. Such mechanisms and structures are not yet in place in Russia, although stipulated in the Decree issued by the Government on October 11, 1993.

27. Private and other denationalized institutions need to be guaranteed equal opportunities of access to patients as well as to resources to that of public institutions. Private institutions in the current system have no access to publicly financed patients and thus have no access to the majority of patients and finance. This may be a serious matter especially during the period of transition when authorities with vested interests may try to discriminate against private entities.

28. Substantial help can be given to denationalized and privatized institutions by enabling them to lease state property and equipment.

29. It is also in the public interest to assure the viability of private and denationalized institutions through strong management. In the United Kingdom, for example, where the government has been establishing free-standing hospital trusts, only economically viable and best run institutions qualify for the new status, while managerially weak hospitals remain under the auspices of government until they improve their capabilities and thereby qualify to become trusts.

30. Privatization would be easiest with institutions which constitute natural monopolies, provided they can exploit their monopoly position. Such monopolies dominate the Russian health scene today. Some such institutions mainly associated with national research centers are not subject to privatization under the Decree of Dec. 24, 1993 (#2284). Other institutions could be encouraged to privatize through striking a balance between the incentive of investors to invest and the welfare of the population they serve. Still others need to be broken up in the process of denationalization and privatization; by and large it is not the intention of the DPL to replace state monopolies with unregulated private monopolies.

Feasibility of Privatization of Different Institutions

31. World experience with the nature and viability of medical care institutions operating under public finance suggests that it would be easy to maintain, particularly in urban areas, private pharmacies, laboratories, specialized diagnostic institutions, and clinics including solo practices.

32. The DPL should enable and foster the breakup of polyclinics many with as many as 200 employees. These polyclinics can and should be broken up (on the same premises) into individual privately or semi-privately owned units, including those which provide management services to care providers. Thereby the polyclinics will become private and quite desirable "medical centers" in the community, a common and efficient concept for delivery of community care in other developed countries.

33. Hospitals will remain an issue, however, even in urban areas. It is very likely that Russia will have to follow the experience of the United Kingdom and develop a new legal entity of Public Trusts and a framework for not-for-profit institutions. The experience of the city of St. Petersburg may be helpful too.

34. In general franchising should be encouraged by the DPL as a lever to promote privatization and competition across the country. Investors should be offered "bundles" of institutions, including lucrative facilities, say in urban centers, and facilities in areas that otherwise would not be attractive

to investors as in outlying rural areas. The privatization process should avoid creating a situation whereby outlying and socially and economically weak areas cannot benefit from private enterprises after all. This may lead to undesirable regional disparities in quality of care and service.

35. Special attention needs to be given to insurers in the health sector and their association with providers. Although such insurers are not considered explicitly in the President's Decree, their legal status in the health system needs careful attention: they can be promoted as a catalyst for change. As the main purchasers of care, instead of the state, these institutions would constitute the "first line" reducing the role of the state in the management and provision of care.

36. Second, these entities may acquire medical facilities from the government in different territories and serve as a good vehicle for franchising. Third, "insurers" may acquire monopsony power vis a vis monopoly providers, thereby reduce the regulatory role of Government. The existing experience of TMAs in Russia could be helpful in this regard.

Summary

37. In sum, the health sector is unique. It is in the interest of society and the economy to maintain principles of public finance in this sector in order to secure universal access to a basic package of care and social efficiency. At the same time, the provision of care can be denationalized and privatized in order to promote quality care and service, and efficiency in provision. Denationalized and privatized providers may and can operate under auspices of public finance.

38. The DPL should make possible a wide spectrum of ownership options in the Russian health system that are common in other systems. Such options accommodate (a) the public finance nature of the sector, (b) different types of care and technology, and (c) a variety of local circumstances.

39. The DPL needs to promote regulatory frameworks that would (a) protect the financial viability of investors operating in a market dominated by public finance, and (b) protect the population from monopolies which are inevitable within the sector.

40. The DPL should also facilitate the geographical and social spread of reform in the sector by fostering denationalization and privatization of medical services (not finance) across the Russian Federation through a variety of franchising arrangements.

This note was prepared by Dov Chernichovsky, Ph.D., Ben Gurion University, Israel.

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PRIVATIZATION OF PHARMACEUTICAL PRODUCTION ENTERPRISES

Briefing Note for Draft Privatization Law

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OVERVIEW OF PHARMACEUTICAL PRODUCTION ENTERPRISES

The state of Russian pharmaceuticals manufacturing is poor and is getting worse. Some of the problems stem from the structure of the sector and the companies within it, others from the economic and policy environment in which companies are forced to operate.

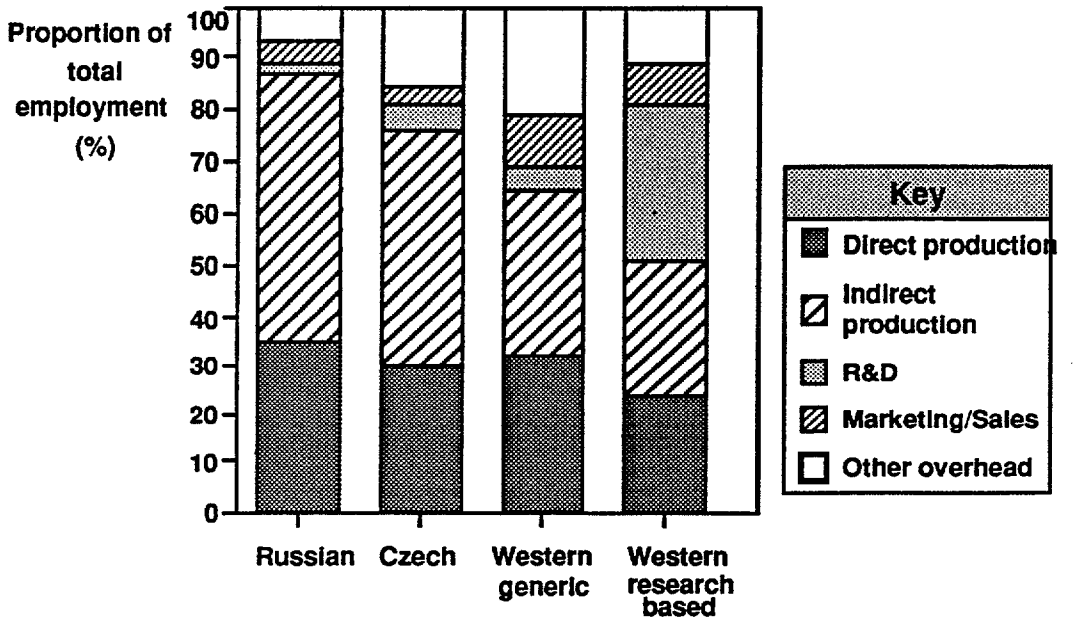
Structural problems

Plants are obsolete. Virtually no new plant (aside from the Akrihin joint venture with Bristol Myers Squibb) has been built in over 15 years, and some actually date from the turn of the century. Not only are these plants inefficient, they also pose significant risks- to the consumers who buy their inconsistent and often impure products and to surrounding populations, which are threatened by existing and continuing environmental problems.

Russian producers lack expertise in the production of many pharmaceuticals. Under the previous system, Soviet producers focused mainly on the production of substances while the production of finished forms was left to the East Europeans. This helps to account for the fact that even today imports from Eastern Europe account for nearly 40% of the market. Thirty percent of essential drugs were never produced in Russia.

Product ranges are outdated and excessively complex. In a given therapeutic category, leading Russian products are often one or more generations behind leading Western products. Western companies are often unwilling to provide newer licenses, both for economic and for quality control reasons. Some Russian companies produce as many as 150-200 products, creating complexity which increases costs as well as contamination risk.

Organisational structures are inefficient. The ratio of indirect to direct production employees is far too high. At the same time, marketing and sales departments are embryonic or ineffective. Distribution networks tend to be poorly developed, given the breakdown of the old central system. The graphic below compares the typical employment structure for Russian enterprises, versus Czech , Western generic and Western research-based producers.



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Russian producers have excessive employment in indirect production areas, but are understaffed in marketing and sales.

The Economic and Policy Environment

The structural problems faced by Russian pharmaceutical producers are multiplied by the difficult economic and policy environment in which the companies must conduct business. High levels of receivables, inflation and the unavailability of credit are problems which, while not specific to this sector, nonetheless affect it tremendously. What is specific to the sector is an inflexible system of price controls which appears to all but preclude making a profit on pharmaceuticals manufacturing.

Why Privatize?

The performance of Russia's pharmaceutical manufacturing sector is suffering at present. Many firms operate at only a fraction of capacity. At the same time, demand for pharmaceuticals far outstrips supply, and imports hold at least a 50% market share. Given these circumstances, it comes as no surprise that some are calling for a return to command production and a closed domestic market. Such a step would be misguided - leading to higher, rather than lower health care costs. Under a closed, command system even existing incentives to improve efficiency would disappear - and it's apparent that the existing incentives are inadequate to stimulate the needed levels of production at a reasonable cost to the government and consumers.

Rather than reverting to previous economic models, *the government should proceed as quickly as possible with the privatization of this sector*. The basic justification for privatization of this sector is no different from that applicable to other sectors. Private producers, pursuing their own economic self-interest, should be far more efficient, and should therefore produce their products more cheaply, than state-owned producers responding to bureaucratic authority and interests.

We disagree with those who would claim that this sector, because it produces such a critical product, cannot be privatized. *Regulation, not ownership* is the appropriate policy instrument to achieve legitimate government objectives. The government has a number of mechanisms for regulating the types and quality of products available. Precisely *because* of the government's important regulatory role, it is particularly important that ownership not be allowed to present a conflict of interest.

The need for private ownership of pharmaceutical production has been recognised in most countries of the world, including the countries of Eastern Europe. Privatization is in progress in Hungary, the Czech Republic and Poland. There is no reason why Russia should follow a different path.

How to privatize

Type-one privatization, in which the majority of shares can be sold to an outside investor, is most appropriate for the pharmaceutical sector. It is of crucial importance that privatization of existing enterprises go beyond a simple transfer of ownership. Privatization can only succeed if new owners have a greater interest in the long-term success of the enterprise. Independent, profit-driven investors - be they Russian or foreign - are likely to manage for future, as well as current, profitability.

While privatization can provide new owners with the incentive to restructure, it is of utmost importance that they also have the authority to restructure. In particular, they should have the authority to fire management and employees if necessary and change the

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product portfolio.(In cases where particularly critical drugs are to be discontinued, the Government might place restrictions or require some form of advance notification.).

Privatization must be supported by additional policy changes

While privatization of the Russian pharmaceutical industry is a prerequisite for improving the quality of Russian health care, additional policies will be required in order to attract investment, and ensure the viability of privatized enterprises.

Reform Pricing Policy

The current price control system needs to be changed. Under the current system, producers are allowed a 30% markup over costs. Whereas the cost of raw materials must often be paid in advance, manufacturers receive payment for finished products much later, in rubles which are worth considerably less than those which were paid for raw materials. Because the 30% markup is based on historical (i.e.. time-of-purchase) costs, a profitable transaction is by no means guaranteed.

Some producers try to soften the impact of inflation by using dollars as the basis for internal bookkeeping. If all costs are converted to dollars at current exchange rates, the 30% markup can be more or less preserved. Such a practice is apparently illegal. Nonetheless, companies need to be at least partially insulated from the effects of inflation on margin calculations. One solution would be to allow the use of inflation adjusters in calculating the costs upon which margins are based. At the very least, companies could be allowed to use current rather than time-of-purchase exchange rates for calculating the margins on hard currency purchases (eg. active substances).

Even disregarding the effects of inflation, it would seem that the current cost-plus pricing system sends all the wrong signals to current and potential investors. Unless the market is highly competitive, producers have little incentive to improve efficiency, given that they can pass costs along to the consumer. At the same time, the 30% cap limits the amount of profit available for reinvestment in an industry in dire need of restructuring, and places the industry at a disadvantage vis a vis unregulated industries in competing for investment capital.

There are several alternatives to the current unsatisfactory *margin* caps system. The first is free pricing combined with control via reimbursement based on reference prices (see discussion on reimbursement below). The second is drug-specific *price* caps, which can be based on the lowest international price for specific drugs. Both would provide Russian producers with clear incentives to increase production efficiency.

Reform Reimbursement System

The Russian government currently reimburses roughly 25-30% of retail drug sales (relatively low compared to 35-45% in EC countries) and 100% of drugs consumed in hospitals. Additionally, discretionary subsidies are paid to loss making manufacturers. Increased government reimbursement would provide a stimulus to consumers, and therefore to producers - both domestic and foreign. Reimbursements should be directed to consumers rather than pharmacies, wholesalers or manufacturers per se.

No explicit rationing mechanism for reimbursement cost containment is currently in place. Western experience suggests three options for reimbursement cost rationing: via purchasing power of large buyers with no explicit government interference (HMO system in US), reference price system (only a fixed percentage of the least expensive appropriate drug is reimbursed), and price caps (reimbursement cap is set directly for certain types of drugs).

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Any of the above options would be better than the current reimbursement scheme. However, the reference price system could be recommended as the preferred option. It combines flexibility, objectivity, and effectiveness in cost containment. Price caps may be considered as the second best option. It is less flexible and objective and can lead to bureaucratic inefficiencies. If set too low, caps may drive certain drugs out of the market.

Reimbursement should *not* be limited to domestic drugs, since such a limit would undoubtedly lead to domestic price increases while simultaneously limiting patient's choice.

Encourage competition

Given the urgent need for restructuring which privatisation will encourage, it is essential that Russian monopolies be exposed to competition from foreign producers. A general tariff on imported pharmaceuticals would be unwise. Liberalization of registration policy will further increase the competitive pressure on monopolistic Russian producers. The recent move to accept FDA registrations should be supplemented by similar provisions to automatically accept, or at least favour, the registration of drugs which are already registered in high developed countries.

Selective tariffs could in theory be used to provide temporary protection for specific new investments. This policy option should, however, be used with utmost caution. Such tariffs could easily lead to the Government and consumers purchasing over-priced, lower quality pharmaceuticals. Even providing a mechanism for introducing such tariffs may be opening Pandora's box.

Ensure tariff-free imports of active substances

Russia currently allows tariff-free imports of finished forms, while placing tariffs on imported active substances. Not only does such a policy fail to protect local producers, it actively discriminates against them. *Tariffs on active substance imports should be eliminated.* The same is true for tariffs on packaging materials, production equipment, and other items necessary for pharmaceutical production.

Encourage equity investments by selected Western manufacturers

Western manufacturers have been extremely cautious with regard to investment in Russian manufacturing. While there have been a number of production experiments, none involved a major commitment of resources, and none can be called an unqualified success. The experience in Eastern Europe has been broadly similar, with a number of joint ventures with western producers, but very few major equity investments in large existing producers. The only significant investment to date have been Sanofi's majority investment in Chinoin of Hungary, and IVAX, a major US generics producer, in Galena (Czech Republic).

Western manufacturers will be even more cautious in Russia with regard to equity investments in existing producers. In additional to the normal business risks, western producers fear the legal and public relations liabilities which could result from their involvement in companies making inferior products or polluting the environment. American companies, in particular, fear that a disaster could expose them to tremendous liabilities, not just in Russia, but also in the United States.

Without new incentives, equity investment by leading foreign producers is highly unlikely. Such incentives might include effective (i.e.. enforced) Western-style patent protection (for products as well as processes), favourable tax treatment and guaranteed purchase contracts (if prices are competitive and if drugs are essential).

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Above all, however, the liability issue must be addressed. Possibilities for indemnifying producers against certain environmental risks, not just in Russian but also in their home markets, should be actively investigated.

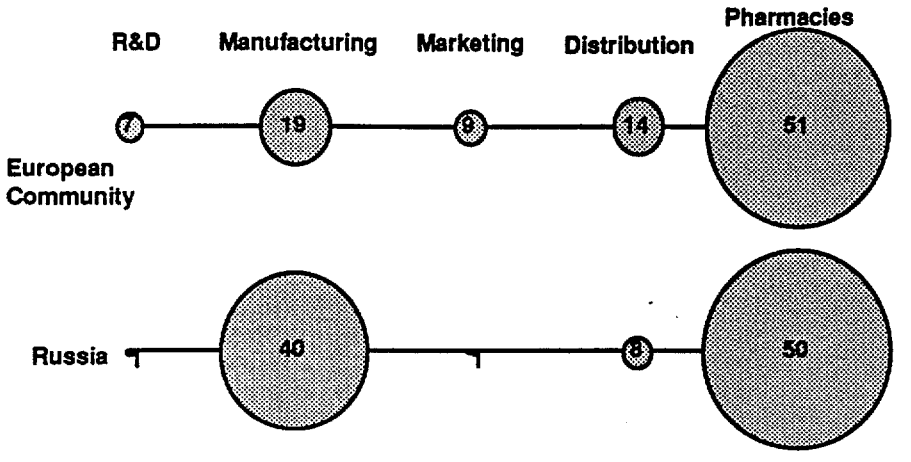
GMP

Russian manufacturers are generally far from meeting GMP (Good Manufacturing Practice) standards. In most cases, it is unrealistic to expect that such standards can be met in the near future. A sensible policy might include selective, but progressive, enforcement of internationally accepted GMP standards, with a focus on enforcing those standards which relate most directly to public health.

Although it might be easier to privatize firms which meet at least minimal GMP standards, we believe that it would be wrong to link privatization to the achievement of such standards, because this would unnecessarily delay privatization. Following privatization, producers will be exposed to market forces which encourage GMP investment. Companies wishing to export will increasingly discover that non-GMP production is of little interest to prospective buyers. Eventually, the Russian government should also require that the drugs it purchases be produced in accordance with GMP-standards, and set a timetable for reaching GMP in the future. Special tax incentives for investments in GMP might be considered.

Encourage the development of an effective distribution system

The privatization of Russian producers will be of limited value if these producers lack access to an efficient wholesale distribution system. Government policy should encourage the development of a private, competitive national distribution network (see accompanying memorandum on wholesale and pharmacy privatization).
The underdevelopment of the distribution network in Russia relative to Western Europe, is shown in the bubble display below (the circle size represents the percentage of employment in each part of the pharmaceutical value - chain).



It also indicates the need for the Russian pharmaceutical companies to develop their marketing capabilities, and the disproportionate amount of employment in manufacturing, reflecting low productivity, specially in indirect production areas.

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Use Government purchasing power effectively

The Russian Government is in a position to behave as a large Health Management Organisation (HMO) - i.e. to use its purchasing power (or that of its citizens) in negotiating with foreign and domestic pharmaceutical manufactures. Not only price, but also quality and consistency should be taken into account in evaluating bids for large purchase contracts, or even for preferential access to the Russian market. Government purchases should generally be limited to essential drugs. Decisions should be made as transparent as possible, and the negotiating /decision-making process should be handled by an independent authority subject to the strictest ethical standards and control.

Three options should be considered for the sale and distribution of drugs covered by Government price negotiations:

1) *Producers could sell drugs through normal channels at the negotiated price.* This option is probably the easiest to implement and the most difficult to subvert.

2) *Producers could sell drugs through normal channels at a discount chosen by the Government. The Government would then reimburse producers for the difference between the negotiated and the discounted price.* This option is administratively complicated. In addition, producers would reasonably fear that the Government might not follow through with reimbursement, or might reimburse late, using rubles made less valuable by inflation.

3) *Producers could sell drugs through normal channels at the negotiated price, but consumers would pay a discounted price at the pharmacy. The pharmacies would be reimbursed by the Government.* While not quite as complicated as option 2, this option would still require a reimbursement bureaucracy. As with option 2, non- or late reimbursement would be a real danger.

Apparently there is considerable support for requiring local production of so-called "strategic" drugs. Any discussion of "strategic drugs" should be viewed with suspicion. Strategic drugs might include drugs which Russia would need, but might not be able to obtain, in an international war or crisis, or important drugs produced by a monopolist, foreign supplier, upon which Russia fears becoming dependent.

We believe that Russia can ill afford to force or maintain inefficient local production, based on fears of international isolation. If such fears absolutely need to be addressed, we believe that strategic stockpiles of selected drugs, purchased at the lowest possible price on the domestic or international market, would be preferable to inefficient local production, maintained "just in case" disaster strikes. Drugs for which production could be geared up quickly in a crisis would not need to be stockpiled at all. If it should become politically impossible to avoid requiring that certain drugs be domestically produced, the Government should at least be sure to promote open, competitive bidding by domestic producers.

As is the case with protective tariffs, special treatment for "strategic" drugs threatens to open a Pandora's box of subsidies and non-economically-based decision making. It should be avoided.

Summary

Privatization of existing pharmaceutical enterprises will not, by itself, solve Russia's health care crisis, or even eliminate shortages of important drugs. Given the acute shortage of drugs, *it is probably at least as important to create attractive conditions for investment in new pharmaceutical enterprises as it is to stimulate investment in existing enterprises*. Fortunately, many of the recommended policy changes will support both kinds of investment.

In general, **it should be possible to privatize the pharmaceutical production enterprises like these in other sectors. However,** a numbers of changes in the *regulatory framework* will be necessary to ensure their viability as privatized enterprises and to attract badly needed new investment into the sector:

- **eliminate the current cost plus pricing system,** and substitute it with a reference pricing system in combination with reimbursement policy, or with price caps at lowest international levels;
- **reduce or eliminate tariffs on imported active substances** and other critical inputs;
- build-on recent initiatives to **speed up registration of new drugs;**
- **adopt a long-term program to reach GMP standards, but do not make it a prior condition for privatization.**

These changes should provide the necessary conditions and incentives to privatize the industry and build a strong pharmaceutical sector in the future.

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES

Mr. David A. Caplin, IBTCI's
Comments on Mr. Mark Turley's Note on Pharmaceutical and Medical Equipment Enterprises

February 25, 1994

Privatizing any pharmaceutical industry, particularly those in Easten Europe and the CIS. On the one hand, there is no questions that the pharmaceutical industry throughout the world operates better in the private sector than in the public sector.The industry needs entrepreneurship, vision, quick reaction to changing market conditions, and the ability and readiness to take risks, particularly in R&D, where you must wait perhaps 15-20 years to recoup today's R&D expenditures. On the other hand, economies of scale, in virtually every aspect of the pharmaceutical industry, are of prime importance, and are probably more significant than in any other major industry. These economies apply not only to capacity/capital cost ratios, but also in purchasing raw materials and intermediates, marketing, R&D, quality control and production economics. (This is one reason why the wide Russian product ranges lead to high costs. It's alos why it's often cheaper to import than to produce, unless the size of the market is sufficiently large, and why the multinationals are often unwilling to erect new production facilities in developing countries while there is spare capacity available in their home producing country). Because of the pervasive nature of these scale economies, there is a natural tendency to monopoly at both the national and international levels, and it is certainly true that the there has been a constant movement to mergers among the research based multinational and major national companies (and the trend, even among generics producers, is now becoming apparent).

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So, while the privatization process virtually demands a prior condition of demonopolization (a private monopoly being even more dangerous than a public one), the industry, being concerned with maintaining or achieving competitiveness, wants as large a market as possible in order to capture these economies of scale. We believe the issue can be resolved by permitting any individual privatized enterprise to maintain, in the short to medium term, a domestic monopoly production of a specific product, while other enterprises are free to compete with other products in the same therapeutic group. This domestic production monopoly must however be limited by import liberalization of the product in question, with reasonable tariffs being levied during the short to medium term , in order to give the enterprise a breathing space to re-equip with modernized, more efficient, production facilities.

Now to the specific points:

1. Page 1. "Structural Problems". While agreeing with everything you say in this section , we think that it is worthwhile to add some further points here. For instance, the absence of any adherence to GMP standards (buildings, equipment, production procedures and adequate quality control) not only endangers the Russian pharmaceutical consumer, but, with the increasing adoption of the WHO GMP Certification procedure by exporting and importing countries, means that Russian pharmaceutical products, when not in short supply, cannot be exported. It is likely that the certification procedure will be adopted by many of the CIS states (I believe that the Baltic States have already adopted it). These markets would then be closed to Russian (non GMP) production, limiting the market size and hence increasing unit production costs. This point is particularly important as regards products which must be manufactured in sterile conditions. Few Russian pharmaceutical plants and buildings meet the sterility requirements laid down in international GMP standards. GMP refers not only to the standards of equipment and buildings; it also lays down strict procedural rules for recording and analyzing process conditions, intermediate and final product batches etc. Russian industrial discipline was not of a comparitively high level before the freak up of the Soviet Union; could it pose a problem today in the adoption of GMP?

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One reason that the Russian pharmaceutical product range is obsolete is the outdated nature of the Russian pharmacopoeia, and the cumbersome procedures that were in force for the registration of new (usually imported) drugs. The Baltic States, when they broke away, intended to adopt the Scandinavian pharmacopoeia, and automatically to register any drug on that list; I don't know if they have as yet implemented this, nor if the Russians have followed suit. Adoption of such a list would require retraining of doctors and other practicioners in the efficacy and appropriate conditions (and counter indications), as well as when and how the Western drugs should be prescribed.

2. Page 2, para2; "Regulation, not ownership, is the proper instrument for government control of pharmaceuticals production". We think this is ambiguous. Regulation of the types and quality of products offered for consumption, production procedures (through adherence to GMP) and quality control are proper subjects for government regulation, but, as far as possible, not those factors affecting commercial operations, e.g. prices. Government should interfere in the market place not only to encourage competition, by breaking up monopolies (where scale economies are not overriding), by liberalization of imports and by encouraging transparent tendering processes such as International Competitive Bidding or, if at all possible, a corruption-free local competitive bidding procedure wherever appropriate. Also, the authorities should not insist on maintaining the "self-sufficiency' or "strategic" myths, but, as virtually throughout the Western world, look to foreign trade for the supply of drugs which can be importd more cheaply than being produced domestically.

3. Page 3. "Reform Pricing Policy". We believe that all attempts at price control produce undesirable side effects. The encouragement of both internal and external competition (internal - by breaking up of monopolies in production and distribution; external - by liberalization of imports) can do more to stabilize prices at reasonable levels and ensure a satisfactory supply than any attempt at governmental price control. The Russian market could well be big enough to permit economic production from more than one producer for several of the more common generics, but such production should not be dictated by the Government. In any case, competition between alternative products in the same therapeutic group is common in the international pharmaceutical industry. If price fixing must be undertaken , then, at

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most, maximim internal prices should be fixed at the opportunity cost of imports plus, in the short term, a reasonable tariff of 15-25% to give local industry resources and time to re-equip with competitive processes and products.

4. Page 3. "Reform reimbursement policy". The issue of reimbursement is a thorny one; it has not been satisfactorily solved in most Western European economies. We suggest that it should be examined in the context of a comprehensive reform of health insurance, which, we expect, would be carried out in the medium term.

5. Page4. Paragraphs on tariffs. We agree with all your proposals. Temporary tariffs should not exceed 15-25% and should be limited to a term of 5-10 years.
Tariffs on imports of active substance imports should, of course, be eliminated. So should tariffs on packaging materials, where a similar problem exists.

6. Page 4. "Encourage equity investments..." Unless (often inferior) processes are licensed from e.g. Italian or Spanish manufactures, the only way to get modern production know-how will be from the majors, who, on several counts, will be reluctant to license (e.g. lack of patent protection , difficulty of quality control etc.) . Our experience elsewhere leads us to believe that joint ventures with the know-how holders stand the best chance of success. However, we realize how reluctant Western manufactures are to enter into such arrangements in Russia, particularly with existing companies.The establishment of new pharmaceutical companies would to some extent be facilitated if, apart from the incentives which you list, product patent laws were introduced and process patent enforcement were to be strengthened. None-the less, there is a real difficulty here, and we do not know of any panacea to solve the problem.

7. Page 5. "Three options..." We much preferthe first option, which should be pushed. The second is open to abuse (the government doesn't pay, or pays so late that inflation has made production uneconomic). The third is administratively complicated and in any case should await a comprehensive review of health insurance. It is not sufficient simply to privatize the distribution system; it must first be demonopolized, to

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encourage competition in supplying hospitals, retail outlets etc. who should be free to choose their source of supply. Incidentally , the standard of distribution and warehousing which I have observed throughout Eastern Europe leads me to believe that some form of technical inspection and control of the operations of the sector is mandatory. In the warehouses which I have visited. pilferage was a major problem; random sampling of inventory indicated a large proportion of drugs with an expired shelf life in the system. Drugs were not stored at the right temperature and in some cases away from direct sunlight. Narcotics were not kept under lock and key. In one case, a refrigerator intended for storing insulin was full of bottles of Coca-Cola. I don't believe that you will find a substantially different state of affairs in the Russian distribution system.

8. Page 5 Last paragraph. Resist as hard as you can the uneconomic domestic production of pharmaceuticals on specious grounds such as "strategic needs". Subsidized credits for the purchase of active substances should be avoided. If Government support is really necessary, direct Government budget allocations keep the issue out in the open.

9. Overall, we think that you could usefully distinguish further between short to medium term and longer term considerations. In the first category we would place reduced government price regulation, import liberalization (but with tariffs in the range of 15-25%, not higher) demonopolization and pilot privatization (mainly pharmacies and distribution). In the latter category we would place privatization of production facilities and joint ventures (mainly because of our percieved reluctance of international companies to undertake investments in Russia at this time) and health sector reform, including the issue of reimbursement.

10. It seems to one of us (D.A.C.) that while the report well diagnoses the ills of the industry, the TOR doesn't really address all major problems in depth, particularly how the industry can be physically restructured i.e. how to attract the necessary technology, know-how and capital in order to make it modern and effective.

I hope that these comments will prove useful to you. Please don't hesitate to contact me to clarify obscurities etc.

Best regards,

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICALS ENTERPRISES

MARK NOVITCH, M.D., IBTCI

February 26, 1994

Russian Pharmaceutical Production--Committee on Draft of 1/14/94

I believe the draft contains exellent and useful suggestions. I have the following comments:

1. **Good Manufacturing Practices.** Observations about the obsolescence of Russian production are particularly relevant to foreign investment. It is difficult, if not impossible, to find a Russian plant that can meet internationally recognized Good Manufacturing Practices (GMP) regulations. Without GMP drug production carries some obvious health risk. In terms of privatization , however, the lack of GMP compliance means simply that Russian production cannot move in international commerce and forms a serious impediment to long term investment. The Russian government needs to adopt and, as efforts are made to build and rehabiliate facilities, progressively enforce GMP requirements.

2. **Regulatory Considerations.** Other regulatory considerations are of equal importance. Historically, the new drug approval process has been cumbersome and inconsistent. The Ministry of Health has required foreign sponsors of new drugs to provide samples to the MoH for local testing. Foreign studies have not been recognized. This situation has taken a dramatically positive turn, however, at least with regard to the United States. On February 15, 1994, the MoH signed an agreement with the US FDA acknowledging FDA approval as sufficient for the marketing of new products within Russia. A copy of the document is attached. Over the long term , western nations should help the Russian government to build a compatible regulatory system. Efforts in this direction are being made by a niumber of multinational groups, including the International Foundation on Drug Safety and Efficacy.

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Apart from GMPs and compatible approval requirements, these should include laboratory practices clinical practices, pharmacopeial standards, labeling and other basic requirements.

3. **Essential Drugs.** Considering the serious drug shortages throughout Russia, efforts should be made to develop a meaningful Essential Drug List. Such a list has been developed and regularly updated by the World Health Organization. Russia has a list of its own , promulgated in 1992, but it apparently contains a number of natural substances and other products of unproven efficacy and fails to meet WHO standards. Such a list could be used as incentive for investment. If, for example, investors agree to produce certain listed essential drugs, they could be granted "most favored pharmaceutical producer" status and given priority in the purchase of such products by government and other institutions.

4. **Foreign Debt.** A potentially serious deterrent to foreign investment is the persistent outstanding debt owed by the Russians to foreigns for pharmaceutical supplies. The payment of these longstanding obligations would greatly enhance the confidence of western firms in the determination of the Russian government to privatize its industrial holdings.

5. **Legal Structure.** Potential investors are deterred by the lack of a firm and consistent legal structure to undergirdof the formation of private enterprise. Moreover, corruption is acknowledged to be a continuing deterrent to investment.

6 **Prices and Distribution.** I agree completely with the author that prices paid or pharmaceuticals in Russia should be based on competitive world prices. No less important than the internal production and fair pricing of drugs is the establishment of a competitive and reliable distribution system.

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PRIVATIZATION OF PHARMACEUTICAL WHOLESALE AND RETAIL DISTRIBUTION IN RUSSIA

Briefing Note for Draft Privatization Law

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RETAIL DISTRIBUTION
General overview

The data available indicates that pharmacies in Russia, though not very numerous (~16,000, i.e. 1 for 9,400 inhabitants), have limited sales (typically $100 to 200,000 annual drugs sales per pharmacy, versus 500,000 to 1,000,000 in the West)

This is consistent with the market size of approximately $2.5 billion in Russia at ex-manufactures' or importers' prices. Though a large part of the demand is still unmet (~50%?), this is apparently more an issue of lack of funds, and in some cases lack of products at importers' or wholesalers' level, rather than an issue affecting the pharmacies per se.

The table below compares the Russian pharmacies sector with various Western and Eastern European countries:

Country	Pharmacies		Inhabitants/ pharmacy	No of items	
	No (000)	Avg. sales (K$)		Drugs (000)	Total (000)
Germany(w)	18.1	884	3400	45.0	130.0
France	22.1	678	2600	7.0	20.0
Italy	16.0	625	3500	7.5	13.7
UK	11.9	630	5000	7.0	11.0
Spain	18.0	333	2200	9.5	18.0
Average EC	na	632	3300	17.0	38.0
Hungary	1.9	333	5400	2.7	6.0
Poland	5.2	115	7300	12.0	na
Russia	16	100-200	9400	1-2	na

Given the comparatively low penetration of pharmacies relative to population, the number in the future is likely to double from the current 16,000 over the next several years. Hungary and Poland had roughly similar numbers prior to their beginning the reform process; since then, numbers of new pharmacies have increased sharply. Licensing and other regulations in Russia affecting the establishment of new pharmacies should be liberal to permit this process to occur, consistent with the requirements of maintaining high professional standards and safety.

The table above also indicates the relatively reduced product offering of ethical drugs and especially of OTC and non-pharmaceutical products such as herbal medicines, cosmetics, and hygiene products. These other products provide an important underpinning to the profitability of pharmacists in the rest of Europe, as well as improving service to the consumer. The expansion of the product line will bring a concommitant need for sophisticated computer information systems to handle the product complexity. A profitable privatized pharmaceutical sector will best be able to afford these investments in the future.

Pharmacies should be relatively straightforward to privatize. These are small retail businesses, operating today with regulated markups of 50 % minus the wholesalers' and/or importers' mark-up. The graphic below shows the legal maximum margins applicable at the retail and wholesale level in various European countries.

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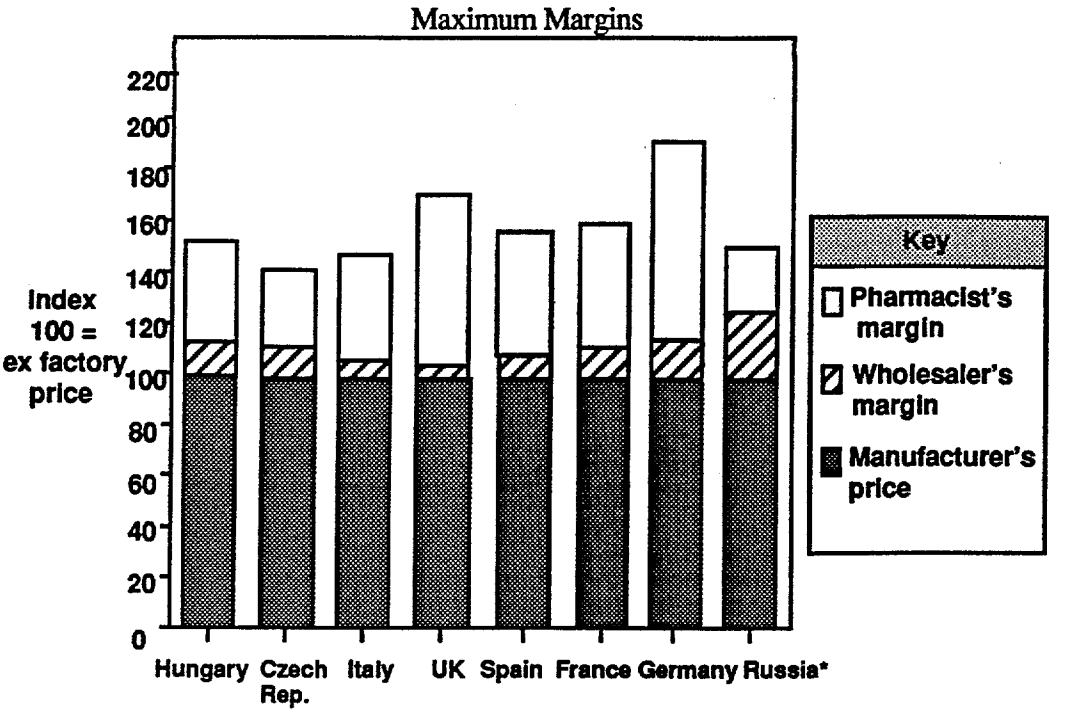

* Typical division of 50% legal margin between wholesaler and retailer

The typical division in Russia of the 50% maximum mark-up for the combined wholesale and retail level is about 10%-25% for wholesalers and around 25-35% for pharmacies, according to interviews. As the graphic above indicates, this provides an excessive margin at the wholesale level and a very reduced one for the pharmacies compared to other Western, and even Eastern European countries. It seems that the current wholesale level of costs is not efficient today in Russia and this is depressing retail margins. (Where they are enforced; interviews would suggest that the margin regulations are often ignored in various parts of Russia).

Given today's 50% cap on distribution margins and wholesalers' inefficiencies, pharmacies' profits are expected to be close to zero, even with municipal privileges such as low rent. As these privileges gradually disappear, the need to increase pharmacies' margins, to ensure financial viability, will become even more important.

Virtually all OECD countries (with the exception of the US) regulate pharmacies' margins. This is generally achieved through degressive percentage markups, though in the UK for instance, margins are regulated through a flat dispensing fee (on a per box basis).

To ensure the financial viability of privatized pharmacies, there is a need to amend the law on the 50% mark-up. Although elimination of all margin controls is one policy option, the continued role of the state at the federal and oblast levels in funding drug purchases probably requires the continuation of some margin controls, at least in the medium-term. A change in the regulation to allow a separate margin for retailers is probably needed. It is likely this should be in the range of 35%-50%, although field work during the proposed pilot program on the economics of Russian pharmacies should confirm this.

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Given current shortages in the availability of some products, enabling pharmacies to substitute products (therapeutic equivalents) is important. A flat margin system that eliminates the incentives to a private pharmacist to dispense the most expensive alternative is an option.

With the change in margin rules, the pharmacies should be profitable and easy to privatize. In most European countries, operating a pharmacy is a profitable small businesses; the business is typically valued at one times annual sales. The experience of privatization of pharmacies in the Eastern European countries indicates the relative ease of sale of this part of the pharmaceutical sector.

Sources of further gains in profitability probably lie in the gradual reduction of overstaffing. For instance, a pharmacy in Moscow, with 4 kiosks, generating overall sales of $750,000, employed 28 people, versus 4 to 5 people for a comparable pharmacy in the West. The differences in staff levels also reflect the lack of sophisticated computerized information systems in most Russian pharmacies.

Regulations governing the product line to be sold by pharmacies are an important element of control in almost all OECD countries. A key issue in Russia, given the low coverage of pharmacies relative to population, is whether pharmacies should be required to carry a full line of drugs. Certainly during the next few years, before an expansion of the number of new pharmacies occurs, a requirement such as that advocated by the Ministry of Health for pharmacies to carry a basic line of drugs seems reasonable. What is required is for the Ministry of Health to issue a **list of essential drugs**, similar to the WHO one of between 150-300 drugs, that could form the basis of a stocking requirement for the pharmacists as well as for other policies related to imports and development of the pharmaceutical sector.

Beyond the requirement to carry the essential drug list, **a liberal approach to allow pharmacies to sell a range of other products**-herbal medicines, nutritional aids, cosmetics, hygiene products, etc.-would be desirable, in order to improve the profitability of privatized pharmacies and to attract new entrants to expand the number and coverage of pharmacies in Russia. Liberal rules on the extent of sales of over-the-counter (OTC) drugs - medicines that can be sold to the public without a doctor's prescription would also contribute to this goal. In the European Community, OTC drugs represent around 10% of pharmacy sales, and in the USA **21%**, and are expanding rapidly in both markets.

In most OECD countries (aside from the UK and USA), many restrictions apply to the right to own pharmacies and to dispense drugs. Typical restrictions include:

- Only licensed pharmacists can be owners of pharmacies;
- Transfer or sale of the right of ownership are limited (various regulations);
- A pharmacist can only buy one pharmacy (in some cases, he can also be a minority shareholder in additional pharmacies);
- To open a new pharmacy, a local base of a certain number (e.g. at least 5000) of people is needed.

The geographical coverage type restrictions are meant to even out size of the outlets and to ensure coverage of less populated rural areas. The maximum of one pharmacy per pharmacist is intended to prevent chains (at least for the short-term), since chains could destabilize the wholesale activities before these are able to compete.

To ensure rapid privatization with minimum disruption of supply and rapidly create a class of small professional owners, we would recommend majority ownership by pharmacists, with one or a relatively few outlets as a maximum number per owner. The wholesalers (*pharmaciyas*) should therefore not be allowed to buy pharmacies, in an attempt to reestablish the old torg relationships with the anticompetitive implications this would have.

The selection of applicants in the privatization process should therefore probably favor the pharmacist's experience and qualifications, rather than price. In some countries undergoing a pharmacy privatization process, such as Hungary, price only counts for 20% of the total score for selecting bidders, while experience and professional qualifications count for 80%. This implies that most pharmacies will be purchased by their existing pharmacist (s).

Summary - Pharmacies

Pharmacies can be privatized rapidly and successfully and should be a key short-term priority in the privatization of the health care sector. Pilot programmes in a few regions should be undertaken to refine privatization approaches and the regulatory framework, prior to beginning an accelerated national program.

The most important single step needed is to change the current 50% retail/wholesale margin regulation to allow the pharmacies a margin of at least 35%, consistent with practice in other countries.

Other aspects of the **regulatory framework** recommended are:

- **Wide product line**: pharmacies should be required to stock the list of essential drugs, but otherwise should be allowed to carry a wide range of other related products;
- **Licensing of new pharmacies should be eased** and rapid, to allow a needed expansion in the number of pharmacies. Geographic coverage requirements may be necessary during a transitional period to ensure adequate coverage especially of rural areas.

Beyond this change, the key suggestions in terms of *privatization approach* are:

- **Purchasers should be licensed pharmacists only;**
- **Wholesalers should not be allowed to buy privatizing pharmacies;**
- **Each pharmacist should be allowed to buy only one (or a limited number) of pharmacies;**
- **The professional qualifications and experience of the pharmacist should take preference over price in selecting bidders.**

WHOLESALE DISTRIBUTION

General overview

Data available indicates that, apart from a few new entrants, the current Russian pharmaceutical wholesale system is inefficient and will need significant restructuring.

The wholesale margin level mentioned previously (10 to 25%), and its ratio to the retail margin level, are a strong indicator of this efficiency problem. Wholesale activities are characterised by low inventory turns, high administrative costs, and low service levels.

The current structure consists of approximately 100 wholesalers, with about 130 warehouses. The table below compares the Russian pharmaceutical wholesaling sector with various Western and Eastern European countries:

Country	Warehouses No.	Warehouses Average sales ($ million)	Pharmacies/ Warehouses
Germany	105	152	172
France	227	66	97
Italy	353	28	45
UK	65	115	183
Spain	189	32	95
Average EC	na	58	92
Hungary	32	16	63
Russia (est.)	133	3-25	120

The average size in terms of sales is smaller than in Western Europe, reflecting lower drug prices in Russia and, the absence of related product lines like cosmetics, parapharmaceuticals, etc mentioned earlier. However, the number of pharmacies served per warehouse is very high - only surpassed by Germany and the UK, which have highly efficient, fully automated warehouses with sophisticated information systems. In order to improve service to pharmacies - frequent deliveries, wide product line - an expansion of the number of warehouses is probably needed, particularly taking into account the likely increase in the number of pharmacies mentioned earlier.

The other key differences with the structure in developed market economies are:

- Degree of competition,
- National vs. regional coverage.

The *pharmaciyas* are monopolies in their regions, although new private wholesalers have entered the market in Moscow, St Petersburg and a few other major cities in Russia. This structure is very different to the structure in most countries, where a relatively few national wholesalers compete intensively with each across the country. The presence of national wholesalers also provides an efficient service to pharmaceutical manufacturing companies, who do not have to deal with 100 plus regional wholesalers, as is the case in Russia today. The differences in structure are shown below:

Country	National full-line wholesalers				Regional full-line wholesalers			
	No. Com-panies	No. of Ware-houses	W/h per com-pany	% of total market	No.	No. of Ware-houses	W/h per com-pany	% of total market
Germany	5	70	12.0	80	17	35	2.0	20
France	17	218	12.8	97	2	7	3.5	3
UK	2	39	19.5	70	24	27	1.2	30
Italy	8	120	15.0	50	100	160	1.6	50
Spain	3	60	20.0	30	82	140	1.7	70
Sweden	2	7	3.5	100	0	0	0	0
Switzerland	2	8	4.0	70	4	4	1.0	30
Hungary	1	3	3.0	22	23	29	1.3	78
Russia*	3	5	1.7	<10%	100**	130	1.3	<90%

* Estimated

** The number would be increased by 50-100 wholesalers if small dealers operating without storage facilities are included.

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In Hungary, like Russia, the break-up of the old national monopoly distribution system has led to fragmented series of regional monopolies. However, in the privatization process groups of regional wholesalers are being "bundled" together for sale to lead to a structure of 4-5 national wholesale companies, improving both the level of competition and service levels. A similar privatization approach - ie bundling of regional warehouses into 4 groups - was applied successfully in the Czech Republic.

There are basically **two options for privatizing** the *oblast pharmaciyas*:

- The first one is to **privatize individually the regional monopolies and let market forces act to produce the needed restructuring.** This will probably lead to competition from greenfield operations in the neighbouring regions, and/or purchase of regional entities by others. A number of mergers or bankruptcies are likely to occur;

- The second option is to **pre-structure a few national or supraregional players, by bundling regional wholesalers at time of privatization.** Non adjacent regions would be needed, to ensure overall national or multiregional coverage. The size of the regional clusters or constitutive elements of these national or supraregional wholesalers should be sufficient to enable local restructuring if needed. This is the privatization approach followed in the Czech Republic and Hungary.

Although the second option has the advantage of leading rapidly to a competitive and efficient national distribution system, it would in practice be very hard to implement in current circumstances in Russia, particularly given the importance of *oblast* decision-makers in regard to the *pharmaciyas*.

Greenfield operations are probably the most attractive option for new entrants, in particular foreign distribution groups. The transition towards an efficient and competitive system can be brutal under the first option as the existing regional wholesale structures are exposed to greenfield competitors. It will probably mean bankruptcy of a number of the newly privatised regional wholesalers.

This could bring a risk of disruption of supply of drugs in certain regions, with the concomitant problems for the pharmacies and patients. Therefore, *new wholesalers' licences over the first 1-2 years of intensive restructuring after privatization should probably impose the obligation to carry at least the essential list of drugs* (as discussed before). This would prevent competition from new entrants carrying only the highest volume or value products (mainly imported drugs) from causing a collapse of the *pharmaciyas*. Service level requirements such as the maximum delay to deliver any given product to a pharmacy might also be considered.

Maximum wholesale margins could be regulated in the short term, potentially with differences to take into account transportation costs to serve different parts of the country. The experience of other countries indicates that competitive forces result in actual wholesale markup normally significantly below maximum legal limits, as wholesalers pass on discounts to pharmacies to increase their market penetration.

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Country	Legal average wholesalers' margins (% ex-factory price)		Real operating wholesalers' margins (% ex-factory price)
Germany	15.0		10.0
UK	12.5		4.5
Spain	12.0		5.0
Italy	10.5	Discounts to pharmacists	6.5
France	9.5		6.0
Hungary	12.7		9.5 to state pharmacies 7.5 to private pharmacies
Russia	50% (wholesale plus pharmacies)		5-35%

The some thing is true in Russia, where competitive markets like Moscow and St. Petersburg are observed to have margins as low as 5%, whereas remote regions like Irkutsk with little competition have margins as high as 35%. To prevent monopolistic abuse in regions with little competition, most governments have put maximum wholesale margins of around 15%. Given the importance of government reimbursement for a significant part of drug purchases/consumption, maximum margin caps serve to control government expenditures on the drug budget. The pilot project should investigate the economics of wholesale distribution to determine what an appropriate upper limit on wholesale margins might be.

Summary - Wholesalers

Wholesalers can be privatized relatively quickly as well, but the post-privatization needs are likely to be significantly greater than with pharmacies. At the individual *oblast pharmaciya* level, there is a need to improve stock turns and service levels, invest in EDP systems and necessary sanitary conditions (GMP regulations), and reduce personnel.

At the national level there is the need for the emergence of a number of strong wholesalers with national coverage. Although a "bundled" privatization option is one way to accomplish this, the most realistic approach in Russia today is to individually privatize the *pharmaciyas*, and assist with post privatization restructuring assistance if possible.

For a limited period, a requirement for new entrants to offer at least the essential drug list is probably necessary to ensure no interruption of vital drug supplies in the regions. Maximum margin requirements will also probably be necessary to control anticompetitive behaviour in remote regions and to control the government drug budget.

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Mr. Jim Rankin, IBTCI's
COMMENTS ON MR. OLIVER TURLEY'S NOTE ON WHOLESALE AND PHARMACIES

Re: Draft report from BCG

Thanks for sending the draft report; per your request I offer the following comments (and questions).

General Issues

During our discussion in Moscow, we covered several issues which are likely to be important when considering privatization in the pharmaceutical sector:

* Management of existing debt at all levels of the system would seem to be an urgent concern in privatization, along with mechanisms to avoid a similar situation in the future.

* Would state subsidies continue to "private" warehouses and pharmacies? If so, is this sustainable, and if not, can the privatized entities survive in the short and long term?

* Although there are some pharmacy directors, and probably some wharehouse managers, who are prepared to take on a private role as entreprenuers and managers, these skills and attitudes are less common than in most countries. Substantial training and support may be needed to allow most of the pharmacies and ex-government wholesalers to adapt to private sector methods and demands.

* If rapid privatization is adapted, how many entities would survive? Would bankruptcies be allowed to happen , and if so, what would be the social impact in various oblasts and municipalities?

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As I read the draft BCG report, it seemed that some of these issues are not addressed, such as debt and subsidies, attitudes and capabilities of managers and stuff, "safety net", and regulations relating to quality assuarance in wholesale and pharmacy practice and regulations concerning types of merchandise sold. Perhaps this report is not the place for these discussions, but I hope the issues are understood by both BCG and GKI.

I did find the report very interesting; it has several useful observations and suggestions. There are some specific comments and questions concerning the information which is in the report; these comments are divided as was the report into "retail" and "wholesale" sections.

Retail Distribution (Page 3 of report)

The assumption that pharmaciesshould be relatively straight forward to privatize may be optimistic, particularly outside the major urban areas.

If Russian regulations do forbid sales of "front end" items in pharmacies, can this be changed? This would have a particular adverse impact on smaller pharmacies with smaller prescription volumes.

While reduction in over-staffing may be desirable and feasible, if done rapidly on a whide scale the reverberations may be unpleasant.

The issue of regulated mark-ups or margins and dispensing fees is complex. Flat dispensing fees per se do not affect the type of drug dispensed (moderately priced versus expensive); flat markups or margins, however, do encourage the pharmacist to dispense the most expensive prodict allowed, particularly when the payment is subsidized. Do most Western countries regulate margins? I know, some do, but many prefer the reference price approach, whereby payment is made at a stipulated rate for a generic drug no matter which vendor's product is dispensed.

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Incidentally, I think the current regulations refers to markup rather than margin, which as all of you know are two distinctly different concepts (but which may not be clear to all readers). The report seems to switch back and forth between the terms, which probably should be changed for consistency.

Does the report mean to encourage generic substitution (same drug, different source) or therapeutic substitution (different generic drug with similar therapeutic effect). Therapeutic substitution, which is advocated in the report, is rarely practiced in Western countries outside the context of an institutional formulary, and it might be strongly resisted by Russian doctors. As noted above, the flat margin system <u>does</u> give incentives to dispense the most expensive product.

It is unclear why one would necessarily need to regulate the size of pharmacies; a limited franchise approach in metropolitan areas would likely reduce competition (and thus promote higher prices). In some settings, smaller pharmacies may indeed be able to survive if they are well run, particularly if they are located near to health providers and if they can supplement drug sales with "front end". It is unlikely that "geographical coverage regulations" wouls assure viable pharmacies in rural areas of Russia. At least in many rural areas of the United States, successful private pharmacies are not fpund; coverage is provided through publicly funded programs.

While pharmacists as a profession support restrictions on pharmacy ownership, it may not be useful or necessary for the public good to restrict ownership of pharmacies to a licensed pharmacist or to limit the number of pharmacies owned by any individual or company. Certainly in the United States chains are the most viable pharmacy providers. A chain could become the best customer of wholesalers rather than destabilize them, depending upon the situation.

The section on "next steps" should expand the data collectiopn to address some of the issues we discussed earlier.

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Wholesale distribution

The observation in the report (Retail section) comparing Russian wholesaler markups of 10-15% with Western wholesalers who survive with 5-8% should be leaned with a discussion of how Western wholesalers do this (for example, most U.S. wholesalers depend on the difference in payment times between their accounts payable and receivable). Also, it must be remembered that wholesalers cannot survive on even 10-15% if they cannot turn their merchandise quickly enough to beat inflation. Finally, I suspect we may in Western cases be talking about margin rather than markup.

What is envisioned in "bundling" of wholesalers? It is mandatory mergers into a limited number of privately operated wholesalers? Or is the report suggesting that multiple individual wholesalers would form consortiums? In either case, it seemes to us that many would need significant assistance to convert to successful private operation. In either case, how will the new entities deal with existing debt and what sorts of subsidies will be continued?

Are the wholesale structures in Russia valueless? This may be true in some situations , but not so true in others. The report suggests that there is significant interest in "greenfield" development of wholesale business. Is this true (other than in the case of Russian entrepreneurs)? Where is the interest coming from?

The siggested obligation to be a "full line" wholesaler is debatable. First, what does this mean - all products from all manufacturers or all products from each manufacture represented? In either case, it may not be economically viable (although drug manufacturers like such regulations). It might be preferable to mandate that a certain list of essential drugs, in specific strengths and forms, be caried by each wholesaler.

Regulations concerning service levels and maximum lead times (which are not really the same thing) may be difficult to enforce.

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It may be preferable to use something other than regulated margins to govern wholesale operations, considering instead reference pricing (assuming lists could be updated in a timely fashion) or perhaps preferential markups or margin to promote use of moderately priced drugs which meet public health needs.

Again, the next steps section should probably be expanded with respect to the types of information needed concerning current wholesaler operations and coverage. The relevant issues are those discussed earlier (debt, financial and human resources and capacities, attitudes, regulations and enforcement, quality assurance, etc.)

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ASSISTANCE TO GKI IN DRAFT LAW ON PRIVATIZATION OF PUBLIC HEALTH INSTITUTIONS AND PHARMACEUTICAL ENTERPRISES

Mr. David A. Caplin, IBTCI's
COMMENTS ON MR. OLIVER TURLEY'S NOTE ON WHOLESALE AND PHARMACIES.

February, 1994

Dear Mr. Kolotra,

I have discussed the document on pharmaceutical wholesale and retail distribution with my colleague David Kochav. We are again in basic agreement with everything which you have written, but have a few comments on questions of details. These I'll outline below.

1. **Over-staffing of pharmacies.** While 28 people in a pharmacy with a turnover of US$750,000 is clearly excessive, one should not necessarily aim for a staffing level of Western standards. The ratio of usage unit to equipment cost in Russia is much lower than that in the West, and the different labour/capital costs ratio must be taken into account.

2. **Pharmasists' margins.** A flat margin system (as in the UK) that does not encourage the pharmacist to dispense the expensive alternative is clearly preferable, particularly if registration of Western brand name drugs is to be permitted.

3. **Potential restrictions on pharmacies.** Only pharmacists should be owners of pharmacies, but is the supply of qualified pharmasists sufficient and is the standard of existing pharmacists high enough? In other words, do yoy need an educational and training program as part of the restructuring program?

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Some countries permit e.g. supermarkets to have a pharmacy department, providing a qualified pharmacist is always on duty. This is to be discouraged. New pharmacies should be permitted not only if the users' base is big enough but also if the location is sufficiently distant from existing pharmacies in the area.

4. **Wholesale Distribution.** The discussion in the paper nowhere refers to other outlets than the retail pharmacies. However, institutional users of the wholesale distribution system (e.g. hospitals, polyclinics, etc.) probably represent larger demands in toto than the retail pharmacies. They should be mentioned, as location and structural factors are affected by the need to service these outlets.

In our earlier fax, we mentioned the need for some form of inspection and regulation on warehouse operation. It is relevant in this section.

In your discussion of the restructuring alternatives (concentration at the regional, than national level) we suspect that the possibility of greenfield operations proving a serious threat to existing units may be a bit overstated. We think that any greenfield units would be most likely to be initiated by foreign investors, but the marked reluctance of foreign companies to consummate investment deals in Russia at this time is all too obvious. Privatization of existing units may have to be the way to go. However, the introduction of competition into the system is of prime importance. Have you considered the Chinese model? There the system was formerly a centrally directed three tier (national, provincial and municipal warehouses) monopoly through which all producers had to market and all users had to purchase. Today, any user can approach any producer, or any level or location of the three tier system for the suppliers which it needs. This was implemented at the same time as virtually all price controls were abolished on pharmaceuticals. The effect on response of all parts of the system has been beneficial. Your alternative of prestructuring a few national or regional places could be viable if you can find a way to introduce the competitive element , without which the system will be inefficient and open to corruption.

4. **Next steps.** Detailed data needs to cover locations and capacities of supply points including producers, importers, etc. Warehouse location depends on supply sources as well as demand points.

Best regards,

David A. Caplin

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COMMUNICATING THE HEALTHCARE REFORM PROCESS IN RUSSIA

Briefing Note for Draft Privatisation Law

Prepared for
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COMMUNICATING THE HEALTHCARE REFORM PROCESS IN RUSSIA

1. Sweeping health care reform is being introduced in Russia

The health care reforms being introduced by the Government[1] will affect the most fundamental aspects of life in Russia. If reform is successful, Russians will enjoy a wider choice of health care providers, better diagnosis and treatment of illness, safer conditions for childbirth, and more dignified care in old age. Medical staff will have an incentive to be more responsive and sympathetic to the ordinary patient. Health care institutions will be forced to operate in a more efficient way.

However, these enormous potential benefits depend upon a radical shift in mentality - both among health care workers and ordinary Russians. For many people, the overhaul of the health care system will be a more visible and controversial change than any privatizations to date. The population will need to pay for some of its health care, both indirectly (through employee contributions) and via direct contributions to insurance funds and medical institutions. Even more significantly, consumers will need to learn how to choose among hospitals, doctors, primary care clinics, and health insurers. They will need to take responsibility in demanding quality care.

For hospitals, polyclinics, and other health care providers, the reforms will be equally radical. Until now, these institutions have received government money and spent it according to instructions. Now, many health care providers will become independent revenue earners, with responsibility to manage budgets, draw up contracts, borrow money, hire and fire personnel, and make hundreds of decisions which affect people's lives. Although the government will continue to finance most health care, this financing will be separated from the provision of care. So health care providers will for the first time be forced to compete with other providers for funding and patients.

2. The public is likely to find the new system confusing and frightening

The need for health care reform - and the consequences of failure - cannot be understated. However, any transition on such a large scale is bound to be puzzling and difficult for the public. Experience in Britain, Scandinavia and Israel, which have introduced similar kinds of health care reform in recent years, suggests that health care reform is often unpopular, despite the fact that people are unhappy with the pre-reform health care system. In particular, those who are highly dependent on health care assistance, such as the elderly, the disabled, parents of young children, and veterans, have been fearful of any change in the health care system.

3. Better understanding is necessary to ensure support for health care reform

To increase the political and social acceptability of health care reform, the public needs to understand the issue of health care more fully. In particular, the public needs to know why health care reform is being undertaken, how it will work, and what the impact will be on their lives. Without such understanding, there is the risk that the reform program will arouse unrealistic expectations followed by disillusionment and failure.

[1] Health insurance and privatisation/denationalisation of health care providers

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4. A carefully designed communications program can increase public understanding

It is possible to bridge the gap in understanding by adopting an explicit communication program, to explain the objectives of health care reform and to shape and manage public expectations. The program would be designed in collaboration with the relevant ministries in the Russian government. Key elements would be to:

- Understand (through focus groups and market research) how the public presently thinks about the health care system and preliminary reforms.
- Analyse how and when different groups in society are likely to be affected by health care reform.
- Develop targeted messages to educate and communicate with each group so as to match expectations more closely with the likely evolution of health care reforms:
    - a) Ensure that the public understands why the government is embarking on such a radical shake-up of the health care system;
    - b) Try to convince people and health care providers that they will benefit from the reforms, if successful;
    - c) Provide people with the knowledge base to enable them to choose intelligently among insurance funds and health care providers;
    - d) Help the public realize the part they must play in making the reforms succeed.
- Translate these messages into communication programs using the most effective channels. For different groups in society, these could include some combination of television (via news programs, soap operas, documentaries, personal testimonials, infomercials, or animation), radio, publications, lectures, town meetings, and training courses.
- Set clear simple benchmarks against which the public can measure the progress of the reforms over time and incorporate them into the communication program.
- Monitor public opinion (through opinion surveys) to provide feedback and guidelines for developing additional phases of communication.
- Ensure that booklets and brochures are available at all health care facilities.

5. The content of the communication program should demonstrate that health care reform is absolutely necessary and that the proposed plan is a sensible one for Russia

The communications package should be designed using the basic forensic formula

- There is an inherent need
- There is a serious need
- There is a plan to meet the need
- The plan is workable and practical
- The plan will not create more problems than it will solve

Inherent and serious need should be demonstrated by citing the appalling Russian health care statistics on basic items such as life expectancy, infant mortality, infection rates, and disease prevalence.

This section should also focus on the problem within the international context, explaining that all western countries, including the US, Britain, France, Germany, Scandinavia, and The Netherlands, are struggling with the issue of how to provide high quality health care to their population in a cost effective way.

The second part of the communications campaign should then explain the workability of the Russian health reform plan:

- Spell out the specifics of the Russian health care reform package and place them squarely in the context of other health care reforms, explaining how Russia has drawn from some of the best features of the American, British, Dutch and German systems.

- Map out what people should expect to see from the reform plan, how it will affect their lives, and the timeframe in which to anticipate changes taking place.

Finally, the message should be why this proposed scheme is superior to other types of health care reforms. The package should outline why it is better to embark upon these reforms, difficult though they may be, than to allow the health care situation in Russia to continue as it is.

6. The costs involved in such a program are low relative to the benefits

The Russian government could commence public awareness activities on a modest scale. It would make sense to begin with a communications program in the oblasts which will initially be at the forefront of health care reform - likely to be St Petersburg (which has already begun many health care reforms), Sverdlovsk, and three or four other regions.

The main budget items are market research and media production. Television production costs are low in Russia and most of the work can be done using local facilities and personnel.

Add re medication

Summary and Conclusions

Interviews by Robert E. Hay, M.D. 5/17-6/15/94

This information was combined with selected interviews 4/4/94-4/13/94

Hay-LeBow-Bennett

I. **Executive Summary**

II. **Purpose**

A. The primary purpose of these interviews was to get a sense of the views of higher level individuals in and out of the health care industry. This information will compliment qualitative information from employers and specific quantitative poling nationwide of consumers and providers. It necessarily includes information about what each provider or area is doing.

B. A secondary purpose was to obtain specific information regarding areas where information was particularly scant such as care of the aged, quality assurance mechanisms, enterprise facilities, medical education, and the status of nursing.

C. A third and final purpose was to search for phase 1 and phase 2 pilot sites.

III. **Methodology**

A. Contacts were made outside of Moscow primarily through the Oblast and city health departments. These interviews are weighted towards high level health officials and providers in each area. These were conducted at both the Oblast and city level at Jaroslavl, St. Petersburg, and Nizhniy Novgorod. Interviews in Moscow covered a broader range including health officials, hospital officials, several from the Ministry of Privatization and the Ministry of Health, physicians , a nurse, a medical school dean, and an official from the Federal Insurance Fund.

B. The above interviews were combined with relevant information from a recent previous visit with officials from the Ministry of Health and with a member of the State Committee for Sanitary and Environmental Surveillance and with data from field visits in Tula, Tver, and Yekaterinburg.

C. Subject matter for the interviews closely paralleled a provider survey prepared by Matthew Freedman and the outlines of a qualitative employer survey prepared by myself. All broad ares of interest were covered except in the most brief visits. Beyond this the format focused on the knowledge and interest of the varied interviewees.

IV. **Basic subject matter**

A. Opinions regarding the status of health care, problems with the system, and possible solutions.

B. Territorial Insurance Fund (TIF) and financing of health care in general.

C. Issues of universal access, the basic package, and quality of care

D. Public education

E. Empowerment of the administrator

F. Role of market incentives and relevance of privatization

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V. **Findings**

A. **General status of health care**--All of the interviewees reaffirmed that the major problem with the system was **underfunding**. Though exact financial data could rarely be obtained the numbers from Yekaterinburg--$7.00/hospital day, and Nizhniy Novgorod--$20.00/day in intensive care--provide some perspective. Physicians and nurses are poorly paid receiving along with all other employees $2.20 of that $7.00. It is uniformly recognized that **hospital stays** are grossly excessive and most hospitals and/or TIF's have financial incentives for reducing length of stay (LOS). This change is occurring rapidly in some Oblasts and is imperceptible in others.

There is general recognition that the future will be based on **preventive medicine** but with rare exception little is happening in this area. The Western trend of an emphasis on less costly **outpatient medicine** is largely ignored. The polyclinic--the primary outpatient facility-- generally has a less competent and less well regarded staff and meager diagnostic facilities. There is a useful trend of **sharing of diagnostic facilities** by the clinic and hospital rather than duplicating them.

Decentralization is striking and except for activities of the SCSES and monitoring of the TIF by the Federal Insurance Fund there is little central direction and less control. Some say this tendency has gone too far.

People generally blamed the financial status of the country for the problems and there was little tendency to further focus the blame. There is an incomplete realization of the stagnation in the medical system. The programs of leadership visiting the United States and other countries has been very useful based on the individuals I interviewed.

B. **Financing health care and the Territorial Insurance Fund (TIF)**

1. TIF--varied responses
   - a. As the TIF has put money into the system, the Oblast and/or city have decreased their contribution either by choice or necessity. This is the most common response
   - b. TIF has provided a real increment to ongoing financing
   - c. TIF fund have been directed to special projects such as 1x equipment enhancement or totally funding 2/17 rayons in Jaroslavl.
   - d. Investment with limited distribution of the money

The TIF is generally held in low regard because it doesn't provide enough money. Almost no one suggested disbanding the system but all suggested the tax be raised to 6-12%. Improper management on the part of the TIF was not an issue except to

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the extent that money was invested rather than disbursed. Overhead of the TIF is approx 3% Nizhniy Novgorod does not have a TIF. The employers tax instead goes directly into the general budget.

2. **Employers** seemed genuinely interested in the health of their workers. A second motive was to provide a better facility for themselves, their family, and key staff. Some invested significantly in addition to the 3.6% tax. The investments were variable but took the form of all or a part of some salaries, buildings, equipment, and occasionally operating funds. Another frequent option was to contract with local or regional hospitals to provide special services. Some benefits were available only to key personnel. The World Bank and others have suggested that the major firms divest themselves of the health care facilities and one suspects that there will be a decrease in employer sponsorship but a major trend in this was not seen in our limited sample.

3. Generally the idea of getting more money in the system was thought to depend on a general improvement in a still worsening economy. A change in **national priorities** was conceptional feasible but not seriously considered as likely.

4. **Private sources** were considered as a source of additional funds. This would clearly increase the salaries of some physicians. There are occasional instances where state diagnostic equipment is "leased" for private patients. This adds money to the state system but the general feeling was that this is quantitatively insignificant.

5. **Co-payments were suggested as an option.** This concept was very difficult to explain. If used it would have to be based on the ability to pay. Experts elsewhere have suggested that administrative costs would be too high. People did not accept that notion as there are plenty of people to do the checking. A far larger obstacle is the widespread concealment of income to avoid taxes. Everyone would plead low income and on the basis of tax returns could prove it.

6. Increased efficiency through the shift of money to outpatient facilities is very minimal. This was clearly demonstrated only in St. Petersburg. There is however a striking national trend to decrease the length of hospital stay. Over the past couple of years length of stay may have been decreased by as much as 10 days from +/- 22 to +/-12 days average stay. This has occurred in part through a shift in the payment mechanism to treated case rather than number of beds but has occurred even in those facilities using the old style reimbursement. Unfortunately the empty beds created by

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decreased length of stay are immediately filled by patients with a less urgent need for hospitalization. Exceptions again are in St. Petersburg with a 20% decrease in patients hospitalized and in other areas where these beds are used for private patients.

C. **Universal access**

1. Universal access is not negotiable. It is defined as easy and immediate access into the system as well as free care
2. **Basic package** was defined by the federal Ministry of Health about two years ago as a very broad collection of services that each Oblast or other administrative unit was required to deliver. All felt there were various services that need not be covered and no one wanted to expand the already generous list.
3. **Extra services**--Everyone accepts the current system for extra personal services. There was more debate about the common practices of paying for "extra" tests and getting tests preferentially. The need for ordinary people to pay for special and sometimes ordinary drugs was of concern. It was generally acknowledged that those with prestige and/or money achieve quicker access to a higher level than those without.
4. **Rationing** was discussed as an option and did not evoke strong feelings.
5. **Co-payment** was a foreign concept difficult to comprehend. It wasn't opposed in principle but was discounted for the previously discussed reasons.

D. **Public Education**--All agreed that public education is inadequate. Individual providers with the exception of Western affiliated Saviors hospital are not involved in public education. This was generally thought to be a role of the MOH.

E. **Quality of care is a very sensitive issue**. The physician led providers have quality as a major concern. Any change in the system must not compromise quality in any way. Every hospital has a quality review mechanism. A usual quality process would include an evaluation of the physician by his chief on a monthly basis. This might be through a case by case score card or an examination of monthly averages. There is a system of rewards and penalties. Good work would lead to bonuses given largely at the discretion of the department chief or the chief physician.. Penalties in the form of a 5-50% cut in pay might be assigned in the same manner based on major or minor faults ranging from record keeping to patient mismanagement. This often results in favoritism and concealment "in other institutions". There is just the earliest hint of more advanced quality techniques not yet reaching the level of CQI-TQM, benchmarking etc

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which have represented the trend in business and health care for the past few years.

F. **Administrative empowerment**--This was not discussed in all interviews. The greater the latitude given managers the greater the demand for management information. The more innovative the region the greater the demand as well. Every interview in St. Petersburg led to a request for management teaching. Hospital directors in Nizhniy Novgorod have "complete" control over purchasing, hiring , organization. The large and unequivocal problem is that of discharging an employee. Russian law makes this extremely difficult except in the most unusual circumstances. Administrators in some areas are now writing one year contracts with their key employees spelling out terms of employment and consideration of discharge for failure to perform. The latter option has not been exercised and the physician-managers concede that under current law they might not be able to.

G. **Market incentives and privatization**--This area covers a spectrum of market incentives of which privatization would be one option.

1. **Choice of physician** was almost universally accepted as appropriate. This choice was sanctioned by the government several years ago but it never became compulsory. Choice of hospital or polyclinic was for most people not relevant as people traditionally don't go out of their district. There was no philosophical objection to that extension of choice. A privatized polyclinic in Nizhniy Novgorod does attract people from a broader area.

2. **Physician incentives** were reviewed in detail on each visit. Almost no one was opposed to more pay for more work. At its most primitive form this included extra pay for extra shifts. The concept was also extended to include increased quality and number patients seen though it never exceeded a 100% increment of pay. At its highest form were the 6 physician units in St. Petersburg functioning as miniHMO's. Fee-for-service care received a much more diverse response. It was generally perceived as leading to rich doctors but no improvement of care. It was clear that those who had preceded me, whether Germans, French, English, Scandinavian, or Americans has described in precise terms what a flawed system it was. Even so, there was a general willingness to permit a parallel private and fee-for-service system as a matter of consumer choice provided tat the state system would remain fully available. The possibility of a state clinic or even hospital being entirely private was not discounted provided there s a mechanism to assure quality and the basic package was delivered free of charge to those who could not afford to pay. A likely model extrapolating from a number of hospitals would have a mixture of public and private services depending on financial class of patient and

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amenities desired.

3. **Physician contracts** are an interesting addition to the spectrum of physician incentives. The contract spells out the performance goals for the physician for the next years. If they are achieved the physician would receive previously specified bonuses in the form of increased pay and/or vacation time. It lacks a full legal base but is gaining in popularity

VI. **Special areas of interest**

A. **Care of aged**--The use of the smallest rayon hospital as a nursing home seems universal. The care of the aged falls under the Department of social welfare.

B. **Quality Assurance** mechanisms were reviewed in some detail. The concern is universal and of greater importance than efficiency. The system of QA takes various forms. There is no uniformity from one region to the next.

1. visual search for outliers on the part of the dept chief or chief physician
2. Score card of each case based on adequacy of record and correct diagnosis
3. Direct and indirect indices of patient care such as time from presentation to time of admission for acute MI.
4. Financial penalties were the chief enforcement mechanism

The concern is great that privatization would compromise quality

C. **Enterprise facilities**--The enterprises are still actively involved in the system in a variety of ways with little convincing evidence that this has changed in the past year.

D**Medical education** is under attack because of a perceived decline in quality of students, lack of adequate clinical training, old textbooks, and a general failure to modernize. Family practice is in early but enthusiastic development. Its unclear that speciality training is advancing to a comparable degree.

E. **The nurse** has very low status in the system. The education is minimal, duties relegated to basic care giving, pay is exceptionally poor, and there is.essentially no opportunity for career advancement.

F. **Specific legal requests** include legal basis for leasing hospital facilities to private groups, buying buildings, and a stronger basis for physician contracts. The whole concept of the parallel private system needs a stronger legal basis.

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ANNEX 2

Field Notes 4/4/94--4/13/94

Robert LeBow, Robert Hay, Brandon Bennett

4/4 met with Jack LeSar, M.D. and reviewed scope of work and work schedule. We met with **Bill Prazowski,** local project director of ABT. He had recently been in Poland and. described the difficulties of attempting any reforming of the health sector there in spite of a very positive attitude towards reform. The physicians have a stranglehold on the system controlling the state system and its facilities which they use at another time for their extensive private practice. The reform has been most effective in Czechoslovakia where strong public insurers have controlled physician abuse.

Another visit was to a **child and maternal welfare institute** an international foundation in multiple countries and in Moscow owning a bank, setting up a BC pill factory, an IUD factory, a hearing aid factory, a pediatric intensive care unit and are currently developing a women s service hospital which would be for profit polyclinic with relationships with the state hospitals when required. They are lobbying the federal legislature for laws which would permit a private parallel health care system which would not threaten or replace the public system but give them more choice.

4/5 breakfast at the Embassy cafeteria with Jack LeSar and his secretary. A decision was made to

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focus on the professional aspects and that some one else would write the outline for the "white paper" and that it would be useful to go out into the field. We now plan to go north tomorrow and spend two days in Tver examining polyclinics, feldsher, and hospitals. We would then return to Moscow and the next day take the bus to Tula for a day. We would return Friday night. It was not possible to schedule a clinic or hospital visit over the weekend. We will fly to Yekaterinburg Sunday afternoon. This city is large, became open only two years ago and only now becoming westernized. It is one of the major industrial hubs with metallurgy, mines and other manufacturing. The town of Asbest is about 60 K's away. This is the major source of asbestos in Russia. Business is poor there because the other countries don't use it anymore. Ecologist environmentalist **Elena Gurvich, MD, Ph.D.** reviewed the regarding the extraordinary pollution there and also at Magnitogorsk.

Dov Chernichovsky was in town. We were able to talk with him for almost an hour. He is developing a scheme for privatizing polyclinics. We suspect that it is a good idea for a variety of reasons but the mechanisms for doing it are not really defined.

4/6/94

Ambulatoria at Radichenko

5 physician ambulatoria on the way to Tver. The ambulatoria is at the frontier preceded only by the feldsher if such exists in a particular area. This group serves a population base of about 2500

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people probably in several villages. The primary physician is the **"therapist"** the adult medicine general practitioner of the group. There is also a physiotherapist, a pediatrician and a gynecologist. Other discussions suggest that there is a therapist for every 1800 to 2500 people. There are not family practitioners is the sense of these U.S. with a wider and deeper base of skills. Instead, even at a low level such as this the specialists are used very intensively for routine care. This is an important characteristic of the Soviet and now Russian system and is worthy of special emphasis. The polyclinics at a fairly low level are composed primarily of specialists (though a quota of therapists remains.) At a higher level as in the major cities many of the polyclinics have single or area specialities such as pediatrics or a womens clinic. At this ambulatoria the head physician is a gynecologist.

For hospitalization patients are sent to a regional hospital at Konokovo or less likely to the oblast hospital at Tver. The regional hospital is slightly farther than the oblast hospital ?45-50km vs 35km and ?40 minutes away but as we find out the system is very rigid in its referral patterns. Patients must work their way up the system usually from ambulatoria for instance to local hospital to regional hospital to oblast hospital according to services required. The local hospitals (we have not seen one) at least in some areas are fading out of the system and are being used at least in the Tver oblast as long term care facilities for the elderly possibly as nursing home like facilities. We will later visit a regional hospital in this area but have not yet seen an oblast facility.

In Radichenko and by inference in other areas we see that the young are moving to the city leaving a declining and rapidly aging population in the rural areas. The move to the city was illegal

for a long time but the reality has been common knowledge for an equally long time. "the state secret" was not very secret. The pediatrician notes as all others do later that the birth rate is plummeting in the cities as well as in the more peripheral regional facilities and the death rate is rapidly increasing. An adverse ratio of 2:1 is usually cited. Other data extensively deals with the rising death rate and I will hopefully summarize that data. Basically it demonstrates that death from heart disease and stroke has failed to parallel the 50% reduction in the West and may actually have risen. Equally importantly there has been a marked increase in the violence and primarily alcohol related deaths following a breakdown in the Gorbachev era antialcohol campaign. Death rates fell 1986-1988 but have gradually risen with a precipitous rise in 1992 and 1993 due to violence. Even this small community felt these striking changes.

In Radichenko there are about 15-18 visits per physician per day. One would ordinarily in the first shift work in the office 8-12 AM and then spend about 4 hours in the afternoon making home visits. Other sources suggest that 5-10 visits every afternoon would be routine for all physicians in the countryside. In the city the specialists might make visits only 2-3 days per week. There is some scarcity of medicines particularly oral hypoglycemics, higher level antibiotics, and cardiac medicines. Children always get the medicines they need. They state the greatest problem is medicines for the population over 40 years of age.. The presumption is that for these people they pay instead of getting free medicines. For pay essentially everything seems to be available.

There is little being done in the way of preventive medicine except for vaccines(there are limitations particularly on the extent of diphtheria immunization in the adult population which is

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gradually being addressed 42% vs desired 95%) pap smears mammograms, annual physicals--but little in the way of community antialcohol and antismoking campaigns. Most of the physicians smoke but are a little embarrassed by it and clearly recognize that it is wrong. They describe their primary public health problems as food, water and the ecology.

Physicians salaries run 50,000-80,000/month ($30-50) at Radichenko though we see that there are exceptions to this in out discussions at Tula.

The Russian Passport

Oksana Chekova explains her passport. It contains place and date of birth, parents, and race. The legal residence is recorded here though it is often not the actual place of residence. The polyclinic with which she is registered is recorded and in Moscow it must coincide with the legal address. One can however use another clinic if one pays a rather nominal sum.. There are incidentally required photographs taken at age 16, 25, and 45.

Tver

At Tver we met with Vladimir Podyachev, the deputy minister in charge of social services. This includes not only health care but the arts etc. He first wanted to know why IBTCI had returned and didn't we have a report of our previous conversations. Brandon Bennett, our IBTCI rep pulled out an inch thick file to assure him we had been briefed. We explained our medical focus and increased interest in Tver to his satisfaction.. **Boris I Mogilevsky** chief assistant of the

Health executive committee's department Kalinin region was also present. He had recently been to the United States and was interestingly flexible. He noted that he liked the Canadian system and was very amused by President Clinton's problems. He and others did suggest that quick privatization was not good. The suggest was of a parallel private system which would not dismantle the current system but would create private options for pay for those who wished them. Mr. Mogilevsky was also head of the Insurance Fund and indicated that administratively this was his most pressing current problem. The insurance fund does seem to be in operation here and almost everywhere. The head of the property committee and deputy head of oblast administration **Valyeriy Fyodorov** indicated that there was no property available in the city for private health care. The property is owned by the various local governments including the city and probably the oblast. There are some legal constraints but they would seem to be able to find places for the things they like. **Larise Ivanova** is young, bright chief of the city public health council. She became our host for the rest of the day. She also advocated a parallel private system..

Municipal hospital #6 acts as a district hospital for the local city population. They are close to the oblast hospital in quality but would refer some patients to them for cardiac surgery. The chief physician **Svetlana Yevdokimova** is director of over 1000 physicians including this 600 bed hospital and associated 2 polyclinics and cancer center on campus as well as some other facilities. The chief physician is also the CEO and has deputies for medical affairs budget etc under her. In no instance now or later do we find a professional administrator. We learn later that the chief physician was in the past picked by the communist party and then approved by the relevant govt body. Beginning in 1990 or 1991 the medical staff began to elect their own

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leadership and present it to the govt. This has obvious hazards but our source indicated that there is much training in administration for these lead physicians. There is a definite network for CME for both medical practice and administration though we have no sense as to its quality. Financing of Metro # 6 comes +/- 60% from the municipal health care dept. 5-6% comes from private pay and the remainder of what they actually get comes from industry of enterprise. We continue to explore why the enterprises give a lot to the hospitals and clinics(usually for special equipment) They say it is for the health of their workers and we are unable to articulate any other motive. The workers do get a higher level of care at least part of the time but this is paid for at the time of service. There is the feeling that as the insurance fund(all from employers at a rate of 3.6%) is more important, gifts are and will be more difficult to come by. These funds permitted recent purchase of new ultrasound and CT scanner.

We have another discussion of specialist house calls, role of therapist, the fact of regular nursing visits as well. The therapist acts as a preventative physician The quota is about 1/1500. Mammograms are provided for women over 40. Tb x-rays are provided on a regular basis apparently using the radiation intensive radioflourograph.

Treatment protocols. The physicians do follow protocols but we could not get a clear idea as to sanctions if protocols are not followed. This seems to be a more informal process. There are very specific data regarding expected length of stay for various conditions in this 600 bed hospital. Examples would be 27 days for acute infarct, cardiology 24 days, pulmonary conditions 30 days, general medical 19, surgery 12, GB surgery 10 days, appendectomy 5-7 days. The director denies

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that a physician would be censured if a patient with an acute infarct was sent home in 17 days but it is important to recognize that the hospital is paid on the basis of occupied bed very specific questioning indicates that this is literal in every sense without qualifiers. More occupancy directly leads to increased pay to the hospital. There are incidently 70 cardiology beds.

Medical societies

There are speciality societies in the city and a union of chief physicians but not a physicians union as such.

The hospitals have a strong sense of specialization. At a trauma center is in one hospital, eye disease and surgery in another and orthopedics in a third. This is similar to U.S. except more formalized. This is expressed more clearly in out visit to Tula. The oblast hospital does not support all the specialities.

The question of privilege is raised the next day 4/7 at breakfast. The physicians freely acknowledge that if one wants"extra" one pays for it. There is apparently some variation in the definition of "extra" and the extent to which it is important. When we go to a district or regional hospital we see single rooms and double rooms which not surprisingly cost more. The question of preferential use of medicines and diagnostic equipment needs to be explored more. Jokes were made about Municipal hospital #5 where the communists stayed and clearly received preferential Rx. The physicians state that though the preference system was not a elaborate as in Moscow, it

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was present in every city. Now the preference is by paying.

L. Ivanova discusses infectious disease problems in this part of Russia. Diphtheria is important perhaps because of the shame of the systems failure but I am sure that the 6 deaths are insignificant as compared to hepatitis (A,B, and C) and tb(complex forms) that she mentions. AIDS is not a big problem. There was one case of a visiting Arab and a handful of HIV positive patients. At the district hospital we find that everyone admitted is tested for HIV. There have been no positives in three years in the district hospital.

Privatization is casually discussed at dinner. They mention the concept of a new parallel system (when the parallel system was discussed before it referred to a parallel system of physicians, polyclinics and in some areas hospitals). They also mention that a highly specialized polyclinic for plastic surgery is private and is acceptable to these people...It may be O.K. to privatize the polyclinics if the basic package is still provided for the registered subscribers.

The physicians seem dedicated to their profession and to their patients. They also have a genuine desire for good equipment and training. There is also a tremendous fixation in the old way. At breakfast the next day another hostess spoke at length about our not drawing any favorable conclusions about privatization from the conversation of the preceding evening.

The next day, 4/7/94 after breakfast we went to the **regional hospital at Torzhok**. Our escort

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was the loser in the contested election for director of the oblast hospital. He was on the faculty at the university and now is in the health administration. The hospital at Torzhok was built in 1963 with a listed capacity of 160 but currents beds are 480. This includes 400 therapy beds 8 ICU beds and 60 cardiology beds. The 1960's were apparently a good time for Soviet medicine as they confirm that there was much building then. Now everything at Torzhok and elsewhere is "under repair". There were two patients in the ICU, one an infant clearly in trouble. The other patient had an acute infarct. He was obviously critically ill. He was ashen but not conspicuously in pain. He had complete heart block with a heart rate of 36/minute. No oxygen was running and the blood pressure was not taken during the 10 minutes we were there. A pacemaker was not available and there were no plan for transferring the patient to the oblast hospital. The cardiologist indicated that his block was being treated with pharmaceuticals. A monitor was connected and a defibrillator was immediately available. Other tools included an M-mode echocardiogram. A bare breasted lady was being examined at the time. She cried in surprise as we entered but no one offered her a robe or other privacy. There was a holter system with 2 recorders. The EKG files occupied about 2 square meters of wall space. There are major problems regarding maintenance of the equipment. A maintenance team covers all of these hospitals and one can wait a year for repairs. The hospital was generally dirty. The urological suite still had blood and related material in a receptacle though the nurses appeared to have finished their work.

This hospital reviewed the AIDS testing with us. STS were routinely done and hepatitis antigens were done on select groups.

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We went next door to a **birthing hospital.** Patients are walked through an outside door, showered, shaved, and placed in the surgical suite which represented the birthing room. We were all appalled by the lack of regard for any **consumer sensitivities.** The delivery house has 45 beds including 15 for pathology. The number of births has fallen in the period 1987 to 1993 from 1200 to 621. Mothers stay in the hospital for 6 days and after a C-section 10 days. There are 3 obstetricians and one neonatologist. The C-section rate is 8-9%. There is a 5% prematurity rate. Prenatal care is carried out at a womens polyclinic at a different site. The delivery house was built in 1963 along with the rest of this facility.

The Tarzhok hospital services a town of 53,000 and an additional rural area of 83,000. There are 6 country hospitals that feed it. These smaller hospitals are becoming more aid stations as well as long term facilities for the aged. Not all have X-ray. 38 feldshers and 3 ambulatoria also serve this hospital. There is a tendency to treat the rural hospitals as departments of the district hospital.. The primary problem with medicines is the same list--semisynthetic antibiotics, oral hypoglycemics, and cardiac meds.. Some of the more expensive medicines are purchased by bartering blood donor blood for the medicines.

A brief interlude to discuss placement of physicians and physician supply. By western standards there is perhaps a 25-50% oversupply of physicians with physicians performing many of the tasks of paramedical personnel such as home visits(I am not convinced that this is wrong). Russian physicians from the former Soviet states are returning to Russia. They are mostly practicing in the rural areas which in the past tended to be less popular and underserved. Medical students are no

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longer assigned but are encouraged to contract for a period of time after which they may move. One is not required to contract but may have a hard time finding a job. The medical schools are not contracting in size. There is a sense of an oversupply of physicians. Physician salaries are set by region, rank achieved by examination, and length of time at a post. This is discussed more fully at Tula. The physicians have a basic training of 6 years after high school. It is described as a trade school .. Feldshers have a training period of 3 years and nurses train for 2-4 years. The medical schools are also taking some foreign students for pay. I am not clear as to whether they can practice in Russia. 70% of all students are women. The profession has always been considered one of high prestige if not high pay.

Back to the **polyclinic at Torzhok.**

There was an emphasis on preventative medicine by the therapists as characterized by BP, eye pressure, GYN, Pap smears, Mammograms, and fluoroscopy for tbc. There were 40 docs doing 800 patient visits/day as well as home visits. One should emphasize that the polyclinics and the hospitals always have entirely separate medical staffs. In addition to the polyclinic there is a separate womens center and a separate pediatric polyclinic. The polyclinics are paid according to the number of patients registered with them. This is classic capitation relative to the clinic but does not affect the doctors pay in any way. Again, one can go to another clinic but then one must pay. The fee is not great however even by Russian standards at no more than 50 cents U.S.

A striking characteristic of Russian care is the emphasis on physical medicine. Every clinic and I believe, hospital had hydrotherapy, ultrasound, galvanic stimulation, some sort of Laser therapy

for a variety of internal diseases, and in the more advanced centers , swimming and group exercising. Mountain air (O2 content of 11.5% without change in the CO2) was popular.

We visit an **ambulatoria** in the same region fairly close to Tarzhok. The staff includes one therapist, a stomatologist(dentist), a physiotherapist, and a feldsher. The latter acts as the physician when the doctor is not there. The feldsher writes prescriptions. When the physician was gone for 2 months for post graduate training the feldsher took over..The location was on a collective farm but the ambulatoria served 4 farms and ?9 villages. The service population was 2000 including 500 children and the service are 80km2. Home calls were made on foot though on occasion the collective provided a car.

The ambulatoria was clean, seemingly well organized. The physician was bright and interested. Post graduate medical education is important. The physician must take major review every 5 years but I believe the usual is more nearly every year. He functions primarily as a gatekeeper for specialists at the polyclinic or the hospital. One notes that even here there is a major emphasis on physical therapy.

Positive Qualities of the Russian System

1)caring, intelligent personnel

2)Universal access (the significant and growing variations do not negate this)

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3)The pyramid an asset and a liability good potential for allocation of resources

4)home visits

5)caring for children

Negative features

1)Rigidity of the system (it seems frozen in time and local innovation is suppressed)

2)No consumer orientation

3)growing inequalities

4)serious question of overspecialization of the hospitals and clinics though this may be less expensive than having so many full service facilities

5)inappropriate utilization of hospitals

6)loss of emphasis of 3rd generation preventive medicine (life style)

Tula Tula is an industrial city of 600,000. Major industries are armament, metals and metal processing and chemicals. There is a pollution problem but Tula is unusually well funded because of gifts from this industry, a fairly good payment into the insurance fund due to fairly heavy employment and a significant influx of Chernobyl money. We did not explore where this came from. We met with **Victor Vasiljev**-chairman of city health services and medical insurance committee and **Alexander Arkhipov**, manager of the Tula territorial Insurance fund and an enthusiastic supporter of HMO's, voluntary insurance, hospital DRG's , and polyclinic DRG's! They have had exposure to at least 2 western groups including Warren Bailey allegedly one of Clinton's advisors. We are a little uncertain as to the health care base but there are apparently

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5000 hospital beds in the city?! There is a little confusion in terms of exactly how far along some of the innovative projects have proceeded and in which region.

Mr. Vasiljev indicated that one of the problems was that patients could not choose their own physician. This is primarily due to the fixed territories that each polyclinic is assigned. Detailed questioning didn't lead to an expansion of this. He stated that as additional problems the hospitals needed better equipment. Another problem may relate to the fact that 40% 0f the patients at the Oblast hospital are from Tula. I'm not sure that this is a problem and what it relates to. He states that in some of the hospitals a patient has only 2M2 of space. He does indicate that they have developed an ambulance response of maximum 15 minutes.

Mr. Arkhipov states that the insurance fund was authorized 1/93 and was available for use 9/93. The insurance council was approved by the oblast parliament. He states that it is or will be similar to BlueCross-BlueShield. He had been in New Hampshire studying HMO's and other aspects of the new American system. He said there would be three steps in development. 1)money for equipment and the institutions 2)money per treated cases at least in the hospitals and probably in the polyclinics as well. 3)the development of voluntary insurance so that ultimately 80% of reimbursement would be from the obligatory fund and 20% voluntary. The voluntary insurance is important as it will give people an additional stake in their own health. The key area of experimentation will be a single region **Kosaya Gora** a small region of 30,000 people. This would include issuing certificates of insurance which would give those people more choice. Some sort of an HMO would be set up there and the hospital would be started on some sort of DRG length

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of stay. This region was picked because a new clinic was being built to replace an old one and there was some openness to experimentation. Problems that Mr. Arkhipov expressed included 1)a need for better computer equipment 2)physicians don't understand what this is all about. 3)they want help in explaining the advantages of this system to the people. He specifically asked for methodology documents and advertising material.

Mr. Vasiljev indicated that he needed legislative help with respect to the regulation fixing physicians salaries. He also wanted to legalize the system that permits better quality Rx for those who can pay. He wanted changes in the property laws permitting the formation of different kind of property.

We went to **municipal hospital #1** 300 beds for children and 300 beds adult. This hospital was much better equipped than Municipal # 6 in Tver. The intensive care unit had an integrated monitor system all parts of which worked. We saw holter monitors, defibrillators, and a bicycle ergonometer. 5 of the cities ambulances have defibrillators. The chief physician feels that this is enough. A patient with an acute infarct might spend 2-3 days in the ICU and a total of 20 days in the hospital. He might or might not then go to a convalescent hospital as in the Polish system.

As an addendum to the discussion on physicians earlier, there are 4 levels of physicians no class, 2nd class, 1st class, high class. Pay is based on class and experience. Rank is achieved by study and examination both written and oral. In Tula salaries may range from 150,000 for a no class beginner to 500,000 for a high class experienced physician. There is also some discussion

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regarding private practice. The chief physician indicates that about 5% of the physicians do a fair amt of private practice. The physician in the Tula system is actually paid by the city although the city gets its money from the oblast or at least the oblast insurance fund. At the polyclinics they try to set it up so that the patient can see the same therapist. The patient can allegedly also choose the specialist he wants.

We briefly discuss the **polyclinic.** It is responsible for 21500 adults and 4500 children. There are 51 docs in the polyclinic who have 60,000 visits/month. We spend a lot more time at the **pediatric polyclinic.** This is a rather amazing institution with 55 docs and 1000 visits/day. It covers 23,000 children and has 100 hospital beds--40 infection, 30 endocrinology(primarily diabetes and thyroid) and 30 cardiac. Chernobyl played a role in the latter. It would be useful to have a better understanding of the impact of Chernobyl. The childrens clinic is unique in its marvelous ambience devoted to the children and their parents and the thoughtful attention to detail in every department. There are sofa and easy chairs, toys, teaching materials mother figures for teaching, several therapeutic and ? recreational pools. If the mothers are unable to come in for well baby teaching a pediatrician and others will go to the home and provide same. The childrens clinic which is 2 years old is apparently well funded from the enterprises, city, oblast, and the Chernobyl fund. Note is made of the many CME opportunities in Tula. Equipment seen included 2-D echo doppler, EMG, EEG, image intensifier (but manual X-ray processing). The crown jewel of Tula is the diagnostic center. We don't know exactly how this works but there is clearly a fairly large private clientele. The institute is sufficiently profitable that the oblast and the city are fighting over the profits. The institute has an MRI and there may be two in the city. We did not

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visit the diagnostic center.

The industries contribute substantially into the system. We don't fully understand their motives. The health of the workers is expressed as a major concern. We postulate other possible reasons being a long tradition of factory hospitals and physicians, now thought to be less than desirable economically, possible tax benefits- though no one can describe them-(it may be cheaper to give money to the hospitals in leu of salary rises as a real worker benefit) and possible management perks. There are 36 enterprise physicians in Tula. The **"parallel " enterprise system** really needs to be better understood.

Public health again under discussion. The therapists are supposed to do 4 hrs/mo in community education though there is some question as to whether they actually do it.

Ekaterinberg

4/11/94

Ekaterinburg is on a river on the east side of central portion of the Urals. It is a major industrial town population of 1.3 million. Many of the factories are old, inefficient and on difficult financial times. This generally does not seem to be an affluent area.

Pediatric Polyclinic of Hospital #13 Chief Doctor **Maria Vladimirova Maltseva**--she is actually the deputy chief for the polyclinics. There are 50 physicians in the polyclinic which covers 27 of

the 47 areas of the rayon. The 47 areas cover some 33,000 children and the apparatus includes 3 hospitals and 4 polyclinics. Each area is covered by a pediatrician and a nurse and in addition all of the specialities including ENT, surgery, cardiorheumatologist, immunologist ,eye, dermatology, physiotherapy, and functional diagnosis. There is a 25 bed rehab center in the hospital and there are also gastroenterologist, nephrologist, and urologist. There is also a dept of neonatology and neurology. There is apparently here and elsewhere a large number of neurologic diseases specifically seizure disorders..

The immunization program is controlled by computer entry for each child. Immunizations that are missed in the clinic are given in the kindergarten which is also a direct clinic responsibility. A state committee some how receives monthly vaccination reports and epidemiologists may visit patients with certain infectious disease.

The chief physician feels that the health of the children is gradually worsening because of alcohol, young mothers, unhealthy mothers genetic problems and congenital heart disease. There are social problems and problems with the country. Every child is examined at the age of 1 month by a cardiologist, chief pediatrician, neurologist , and surgeon. "there has been no cerebral palsy for 2 years."

There has been no input from the federal ministry of health and on our next visit we are told that Americans come more often than does the ministry. As others have stated she indicates that they should have some over all control or supervision of the health system.

The physician compensation system. Physician salaries vary from 70,000 to 160,000 and up to 200,000. A monthly record is kept of number of office visits, whether they are 1st or follow up visits and also of home visits . The variation in the number of visits varies by 2-3X from one Dr. to the next. A big producer would do 450 office visits and 155 home visits. The maximum # of home visits was 244 in one month. A low volume of office visits might be 150/month. A distinction is also made as to whether they are emergency, prophylactic, or group conference visits. There is in addition an extensive of quality of work. This included completeness of the work as in recorded exam and history, requests and appropriateness of referrals, and vaccinations. The chief pediatrician does the scoring. The chief also speaks with mothers and nurses check on the home visits to confirm and check quality. There are in addition a system of penalties that include being late for work, not following orders of the chief, or if a nurse, failure to follow physicians orders. A compensation committee meets each month. It is composed of the chief physician, 3 chief pediatricians, and the chief nurses one of whom is a member of the trade union.

The system has a significant effect on the pay as it may increase the guaranteed state salary by as much as 2.5X. The guaranteed salary is set every 3 months?. A physician and 2 nurses represent the statistical team and an accountant, chief nurse and chief doc are involved in the process..The highest priority in the system is quality. This is followed by number of visits and type of visits. A home visit equals 1.5X an office visit. There is no private practice in part because the system makes it superfluous and in part because the chief physician can not fathom the possibility of asking a child to pay for care. The system has been in effect for as long as 3 years. It was set up with the permission of the oblast health council. An economist participated in the setup. The

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system was first set up by the chief physicians and chief specialists. The chief physician did a lot of one on one arm twisting. At this point there has not been a cap and more work leads to more pay overall though there is concern as to when the district will run out of money. Current funding is 25% from the district and 75% from the insurance fund. There is no enterprise funding.

There has been a significant impact on physician behavior. Care is provided to every patient with more eagerness. Waiting times have almost disappeared. Because of the intense quality factor the physicians study more. In addition to personal study there are weekly conferences that the physician must attend. The physicians and the polyclinic itself are happy to see patients from neighboring districts though these patients are usually former residents of this particular district. There is pretty unrestricted patient choice of physicians.

The program for compensation is being marketed and one of the autonomous republics has bought on to it. The asking price is 500,000 Rubles or about $250.

Practice notes --The clinic is open from 8AM to 7PM. There are four shifts each 2 1/2 hours long. After the office shift the physician makes home visits. Most of the home visits are made on food but the clinic has three cars for visits into the more remote areas. He will work more than one shift to cover for vacations etc. The physicians get a 4 week vacation. The lab and X-ray are at the hospital. The sick children are usually seen at home and well children and chronic disease are the subject of most of the office visits. When asked about specific needs the chief physician suggested a phonocardiogram!! and assistance with medicines. Up to age 3 the medicines are free

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and after 3 years the medicines are 1/2 price if selected from a specific list. When questioned specifically about environmental concerns she indicated that this was primarily a problem for the adult workers in specific industries.

Municipal Hospital # 1 This district has 7 coordinated medical institutions which included:

2 dental polyclinics

childrens hospital of 170 beds

2 adult polyclinics

1 adult hospital # 25 of 160 beds

Municipal hospital # 1 with 690 beds

There was an emergency facility of 200 beds covering 3 districts of the city and the facility also included cardiovascular, neurologic, 3 therapy departments, an eye dept of 60 beds and a maternity house.

Funding was on the basis of each treated case and all funding came from the territorial insurance fund. The enterprises contributed nothing . The reasons for this were not entirely clear though there were enterprise hospitals in the area and the local industries were more than usually hard pressed. The average cost billed to the insurance fund was 115,000R for cardiology patients to 213,000 for surgery patients. (additional figures given were 213,000 for pulmonary, 158,000 for neurology, and 158,000 for therapy or general medical patients. The Oblast health care council had a detailed text 2cm thick listing the specific categories of patients and the details of allowed compensation. Physician salaries were in this hospital also determined by a combination of

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guaranteed salary, work done such as number of operations of a particular type, and quality of work. We were told that about 40% of the billed sum was for the physician. The chief physician indicated that the insurance fund paid as little as 35% of the actual costs and that the hospital was experiencing a severe cash squeeze. Psychiatry, tb, and venereal disease were paid directly out of state funds and did not involve the insurance fund. Possible solutions offered by the chief were making the system private and raising the tax rate into the insurance fund. Details of the local system included payment of the 3.6% tax, return of 3.4% to the territorial(oblast) insurance fund which would in turn pay out to the rayon insurance funds which would in turn pay the providers. Private pay was minimal except for some "expensive diagnostic services" and was estimated first at 5% of total revenues and later at 1%. We did not pursue the measurement of quality in the hospital. The physicians salary ranged from the lowest base salary of 49,000R (everyone got more than this) To the highest actually paid of 500,000R/mo. The highest guaranteed pay was 145,000. The average physicians salary was 170-190,000 and nurses received 100-120,000 and other staff of undefined qualifications was 16,000-45,000.

We briefly visited the maternity hospital. It was definitely though minimally more consumer friendly, cleaner, and used more modern OB techniques than the similarly sized unit outside of Tver. The patient was in the hospital 4-5 days post delivery. The C-section rate was a very low 5-7% with about 50% repeat sections. 100% of the babies were breast fed. They related that they were the first hospital in the USSR to keep the mother and child together after delivery. This was in 1979.

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We returned to the surgical part of the hospital and walked through the emergency department. There were diagnostic facilities in the building including X-ray, Laboratory, and ultrasound. The 10 bed reanimation unit was here as well though we did not see it. This unit is the most intensive care and is described as having monitors, defibrillators, and system O2. The unit was run by anesthesiologists and intensive care specialists. The unit was used in the traditional sense for critically ill patients whether or not they had specifically arrested.

The coronary care unit was in the main building. There was a single monitor available for 4 beds. A defibrillator was noted. The hospital had pacing electrodes but no pacemaker, either temporary or permanent. A patient with an acute infarct was expected to stay about 24 days though for the past 2 years they had conducted an experimental study of keeping the patient in the hospital for only 12-14 days with followup at home by the cardiologist. The results were excellent to date.

Pediatric infectious disease hospital D. Zimerov has been at the hospital for 16 years and its chief physician for 8 years. The hospital was very old dating to 1886 except for a new wing built in 1962. The hospital has downsized from 200 to 130 beds and the usual census is now 92-93 patients. This decreased census is a least in part due to the decline in birth rate. There are 23 physicians. This hospital is primarily for infections and receives patients from the other hospitals as well as the oblast. Diseases treated included enterobacteria, salmonella some rotovirus and some staph septicemia. The water supply has been suspect but no bacterial contamination has been detected. He indicated that the rural areas are much worse. Tb is treated at a special tb clinic and tb sanitorium for children.

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Physician pay was 76,000 to 104,000R. No incentive program was in place and variations in pay included experience and extra shifts worked. There were fewer home visits than in some other environments because some or most of the patients were returned to a pediatric polyclinic. Hospital financing was based on number of treated cases. 15million R came from the local insurance fund and this was supplemented by another 43 million R/mo because the fund did not initially provide enough to run the hospital.

The role of the various federal agencies was reviewed. The chief physician indicated that the sanitary and environmental department was supportive but local. The chief physician at the pediatric polyclinic indicated that this was in fact an arm of the federal sanitary and environment group. The federal MOH was not seen as currently playing a role though Dr. Zimerov and others have stated that the work should be "coordinated " by the Fed MOH. There was an adequate supply of medicines. (It may be easier to get medicines for sick hospitalized children than for polyclinic patients).

Medical student The medical school has approx 600 students/yr (region served unknown). This would include 400 regular students, 100 pediatricians, and 100 stomatologists(dentists). Medical studies begin after high school at age 17 and last for 6 years with gradually increasing clinical time though during the 6th year there is still a significant amount of classroom time. There is minimal general education beyond History of the Communist Party now modified to history of Russia from 1920 on. All other courses are science oriented. He indicates that the test of pathophysiology, written by a dermatologist was published in 1975. The microbiology text (he plans to specialize in

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infectious disease and tropical medicine) is obsolete. The pediatricians education is oriented to childrens anatomy, physiology etc from the first day and they have only a few days of adult medicine. The converse is true with the (adult oriented) therapists and as a result a therapist may not see children and a pediatrician may not see adults.

Specialization To a limited degree in the 6th year but primarily in the 7th the physician specializes. 1 year is all that is required for all of the specialists we mentioned including surgery, cardiology ,endocrinology. We did not ask about the surgery subspecialists. One specializes by soliciting the attention of the professor of choice. The professor is allowed to take 6 students with out charge for speciality training and make take more if the student pays him.

Private practice. There is one private polyclinic composed of the best physicians from the university called medincom but private care is otherwise not widespread. He spoke very disparagingly of the polyclinic physicians stating that 70% are bad doctors.

4/12/94 **Oleg Schepin of the institute for social hygiene, public health economic and management** stated his own views, that of the institute, and gave some slight insight into the Russian academy of medical sciences. He was the 1st deputy minister of health of the USSR until 1988 or 1990 and now is director of the institute. The following represents a collection of somewhat disconnected thoughts: physicians salaries not connected with quality but with position.

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There is too much equipment in the polyclinics. There is too much specialization. The generalist is under utilized and there is too much referral. There may be too much decentralization. Each territory is its own ruler. Medicine for charge is the worst option. 85% can't afford service. Obligatory health insurance is part of the system. There is a low professional background in the MOW but some central coordination is useful and standards should be the same everywhere in spite of great regional disparities. The MHO should offer methods and not directives. Government should have prohibited commercial activity for the insurance funds. 90% of the money was put in the banks for investment and not for health care. An advantage is that there is a large group of young managers in the health care system.

We discussed payment by diagnosis and also use of physicians at the polyclinics as budget holders. One of Mr. Schepin's colleagues indicated that the doctors keep patients out of the hospital improperly but there might be some advantages. (one should get in detail the St. Petersburg experience). They state that they are advocates for increased efficiency in the system and wish to use their influence with the ministry and the parliament as well as with professional meetings and publications to influence the system. Nicety indicates they are also working on treatment protocols.

State Committee of Sanitary and Epidemiological Surveillance of the Russian Federation

Alexei Savinykh Chief International Liaison Department

Mr. Savinykh provided a fairly detailed description of the SCSES since its split off from the MHO by presidential decree 11/12/92. The MHO runs curative services, the AIDS program and sexually

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transmitted diseases, healthier lifestyle, cancer, pharmaceuticals except biologicals and also part of the immunization program. The SCSES has more to do with disease prevention to include:

1)disease prevention

2)environmental health

3)work safety

4)food and water safety

5)biologicals such as vaccines and interferon

All disease reporting and death statistics go to this agency

All funding is from the federal government though there is very significant help from AID, UNICEF, and WHO.. There is federal staffing at every level of government down to the rayon level and there is a staff of 240,000 to cover the various functions. A monthly publication goes to all of the physicians and is also distributed to the kiosks. There are some 60 "sentinel" sites including Ekaterinburg to provide direct support to the area involved. We were specifically aware of computer support for the vaccination program in Ekaterinburg.

Immunizations-- SCSES a year ago was responsible for planning and evaluation and the MOW was responsible for implementation. Now the MOW is also responsible for planning. The MOW has achieved about 25% of the planned immunization targets. Specific immunization targets include DPT , 3 doses the first year, 1 dose the 2nd year , and 1 dose the third year. Beginning at age 14 one would give diphtheria every 5 years indefinitely. Of the eligible adult population one would do 40% the first year (1994) and 40% the second.

Diphtheria--There were 15,000 cases in 1993 with a few hundred deaths. The first quarter of 1994 there were 3,000 cases but the major immunization program is just now starting. The people

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have a negative attitude about immunization but think the doctor will take care of everything. He speaks of pleas to Alaska from eastern Siberia and to China in the south for assistance in immunization.

Hepatitis B--there is selectively a very high incidence but no good information as to how much is due to medically transmitted or to sexually transmitted disease.

With respect to MHO he would prefer that authority was more clearly defined so that these separate organizations would not interfere with each other. He mentions the ministry of Ecology which also has overlap with this agency and also notes that the ministry of ecology has a higher rank in the system(a ministry instead of an agency).

MHO Maternity and Child Protection Board Diana Zelinsky

indicates that the primary role of her department is to define and improve regulations. The insurance system has had negative effects because it is oriented toward sick people and not on the needs of healthy people. After she mentioned neonatal intensive care she was asked to expand on this. The MHO has the main specialists in the area and they develop standards for neonatology including care ,facility and equipment. They then work with the territories by means of seminars, meetings, and training courses. She indicates there are Maternal and Child welfare offices in the oblasts and cities. The staffing is by the local governments however. The chief states that though there are no MHO people in the regions she has been to almost all of them and knows their problems. There are national meetings which discuss the problems. MHO is working with WHO on breast feeding. Family planning is in the early stages of implementation but then later states work has been going on in this area since1985.

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Head Department of preventive medicine MHO Reshat Khalitov, M.D. indicated that a law passed a year ago had a major clause on preventive medicine. They have created centers for preventive medicine at the federal, republic, oblast level and plan to expand them into each polyclinic in the form of special rooms with prevention specialists but on detailed questioning it is clear that this is left up to the local government in so far as staffing and funding is concerned.. Diabetic programs are done jointly with maternal and child welfare when appropriate. A 5 year program on smoking control will be presented to the ministry council in May. They have prepared teaching films via media professionals on smoking but not yet on alcohol. There have been TV spots on alcohol.

The funding of the MHO is no worse than any other department.

4/13/94 **Balashikha Central District Hospital** The chief physician of the entire district, **Anatolyi Vaygant** described his system which included 7 polyclinics in town, 3 rural polyclinics, 2 ambulatoria, 7 feldsher posts, 1 maternity house, a neurologic and a tb dispensary, and a psychiatric and tb sanitorium. His overall needs are 50Billion R but he will receive from his only source of funding only 10Billion R but on another occasion states that he receives 30% of requirements. At the same time he indicates that he has just received a lithotripter (but doesn't have the funds to build a building to put it in) and they have just installed a 4 bed unit for hyper and hypobaric therapy. The unit is so large that surgery can be performed in it at 9ATM of pressure. Oxygenization is so efficient that a patient needs no blood. There is no similar unit in the world. The industries did help on the financing of this. He also indicates that he spends at least some time soliciting businesses. "We look for sponsors".

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He is concerned about privatization. He has one polyclinic which is well equipped and very modern. Another is just the opposite and he is afraid that under privatization no one will go to the poor clinic. He also states that his general hospital is a monopoly and of course could not be privatized. His particular suburban region is very depressed because of failing military enterprises. About 1/2 of the population are pensioners. The birth rate is as expected very low at 6.6/1000 and the population is decreasing at 6.0/1000/yr. About 30% of the hospital beds are "social patients" who don't need hospital treatment. They really are nursing home type patients. They are planning a gerontology hospice.

The hospital reimbursement is based on number of beds, occupied or not, but they are always occupied. The physicians are paid a standard wage but the director has wide latitude with respect to giving bonuses of "10-100%'. The usual bonus is 30% for department chiefs. One interesting innovation with respect to quality of care was the requirement that the polyclinic doctors were required to spend three months of each year in the hospital and the hospital doctors spent three months in the polyclinic. The chief physician reaffirmed that the polyclinic doctors were generally looked down on.

The poly clinic- an average one - not the best or the worst has 158 employees and 42 physicians. There is a laboratory for basic chemistries and 4 X-ray units including one standard flouro, one image intensifier and 2 regular units. They were of Russian manufacture. A couple of old Russian EKGs were noted along with one fairly new siemens unit. As usual there was a large department devoted to physical medicine with laser, ultrasound, magnetic therapy, polarized electricity, and

the usual galvanic stimulators.

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DRAFT

MEDICAL CARE ASPECTS OF HEALTH CARE REFORM -- RUSSIA 1994
CONTRIBUTIONS TO THE DESIGN OF A POLICY PAPER

Consultants: Robert Hay, M.D. and Robert LeBow, M.D., M.P.H.

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A. Executive Summary

[not done yet, but see findings & recommendations]

B. Background

[not done yet]

C. Methodology of Study

Accompanied by a IBTCI consultant (Mr. Brandon Bennett) and interpreter (Oksana Chekhov), the two authors, Dr. Robert Hay and Dr. Robert LeBow, visited health care facilities in four oblasts (Tver, Tula, Ekaterinburg, and Moscow). They visited and conversed with health care personnel at two rural ambulatory care centers, seven polyclinics, five hospitals, and two maternity units in the four oblasts. They observed the operation of all these facilities. They also met with officials in health administration at the local level in the four oblasts. In addition, they conversed with high level officials from the Russian Academy of Medical Sciences, the Ministry of Health, and the State Committee for Sanitary and Epidemiological Surveillance. They also met with a group from a Russian NGO, the International Institute for Mother and Child. And they interviewed people working with USAID and GKI, the Russian agency responsible for privatization. Five days were spent outside of Moscow on field trips.

By conversing with a variety of people involved with the Russian health care system, as well as through hearing many anecdotal reports from a consumer's point of view, the authors were able to form some ideas of what the key issues are in medical care in Russia today. A consistent set of data was collected at each health establishment visited.

D. Findings

1) The Polyclinics/Primary Care

Outpatient care in Russia is provided through a country-wide system of polyclinics, where doctors are grouped together much as a "group practice" would be in the U.S. These polyclinics vary in size, may include even hundreds of doctors of every specialty. In more rural areas, there are small ambulatory care clinics, which may have from two to five doctors. And in even more remote areas, there are feldscher posts (like a physician assistant), sometimes accompanied by a midwife. All the clinics are staffed well because Russia has a full supply of doctors, about one for every 200 population.

The polyclinics we visited appeared to be busy, although they did not really seem to be as busy as their official utilization figures would imply. The pediatric polyclinics seemed better equipped, better organized, and busier than the adult clinics, but our observations may be a result of the small number (7) of polyclinics visited. There was a sense that no one was rushed, that there was a great number of staff. Sometimes it appeared there was more staff than clients. The polyclinics we observed seemed very basic, generally (with the exception of a pediatric polyclinic we visited in Tula) slightly worn but clean, and supplied with very basic equipment. The fancy new pediatric polyclinic in Tula had wonderful new high-tech machines, like an EEG and a phonocardiogram, but no running water in a bathroom.

All the polyclinic doctors do home visits as part of their

work; the general doctors (or therapists) do these visits every day; the specialists, less often. Polyclinic doctors have much less status than the hospital doctors. An informant described the doctor's view of working in a polyclinic as being in "exile." The polyclinics all seemed to have heavy emphasis on electrical gadgetry for physiotherapy, and we observed many patients getting this kind of treatment for a variety of ailments. From both the physicians' and the consumers' point of view, there seems to be some question on the quality of care at the polyclinics, but we felt that the quality of care probably varied considerably. We observed inconsistencies which could indicate unevenness in the quality of care. For example, it was easier to find an EKG machine or a laser therapy device than an otoscope. Laboratory services were usually minimal in the polyclinics.

There was also some inconsistency in how the polyclinics relate to the hospitals; sometimes they were coordinated well, even shared resources; other times, they appeared to be totally separate. Usually polyclinic doctors in one area didn't work in the hospital and vice versa, but we did find a few exceptions.

Staffing of the polyclinics with physicians has traditionally been done by a strict formula: one therapist (G.P.) for every 1700 registered adult patients, one pediatrician for every 700 children, etc., but just recently, there has been more flexibility allowed in staffing, so that the chief doctor can recruit staff more in line with real needs.

2) The Hospitals

The hospitals were remarkable because of their sheer size. Russia has over three times (14 beds per 1000 population) the number of beds per capita as does the U.S. And their average length of stay (24 days) is over three times that of the U.S. Health care providers are only beginning to question these lengths of stay. A person with an ordinary heart attack is staying in the hospital for 24 to 28 days, compared to about 7 days in the U.S. But we found that the cardiology service in a Ekaterinburg hospital was experimenting with letting M.I. patients go home after 10 days. They had a cardiologist and nurse follow them at home. And they had found that the patients did as well as those they had kept in the hospital. Up to now, the financial incentives have been to keep people in the hospital as long as possible, since reimbursement has been usually based on patient-days in the hospital. This situation will likely change with the new compulsory health insurance funds.

Change comes slowly to the hospitals in terms of administration and established "standards." The maternity units especially seemed frozen in time, maybe even 40 years behind practices in the West. Overall, the hospitals were fragmented, duplicative, inefficient, and antiquated (most notably in their plants). Hospitals take 65 percent of the health budget, compared to 20 percent that goes to primary care, and 3 percent that goes to public health. The hospitals were not at all consumer oriented (for example, brief visiting hours, no amenities for patients unless they had a private room -- and we did see a few with TV

sets).

There was a lot of construction going on at most of the hospitals we visited, so there are efforts being made to upgrade the facilities. Meanwhile, there is often an atmosphere of impermanence.

3) Health Care Administration

There is a dearth of administrators, let alone trained administrators. Nearly all administration has in effect been decentralized to the local level, with no consistency from one region to another. Administration is variably done at the oblast, rayon, municipal, community, and/or hospital/polyclinic level. In some districts (rayons), such as in parts of the Moscow and Ekaterinburg oblasts, the chief doctor of the hospital is also the health care administrator for the district. There just isn't anyone else. There does appear to be a good cadre of eager young de facto health administrators, but there is no depth of personnel to even start meeting the administrative needs -- especially in light of the imminent health care financing changes. Given the long ingrained inefficiencies and the current financial crisis facing the hospitals and polyclinics, good and adequate administration will be crucial if the system is to survive.

The key people in the administration of the hospitals and the polyclinics are the chief doctors, who occupy a unique position of autocratic power in the institutions. They used to be appointed, but are now apparently elected by their medical staffs.

4) The Providers

There is no lack of health care providers. Russia has about one physician for every 200 people, and three times as many nurses. By the statistics and the number of patient visits (for polyclinics about 9 visits per person per year) as well as high hospitalization rates, they are busy enough. Besides, doctors do home visits. Half the generalists' and pediatricians' time is spent on home visits.

The compensation of the polyclinic doctors, as well as of the hospital doctors, varies across the board. The complaints that the system requires rigid compensation rules for physicians are just not the case in practice. There are undoubtedly some polyclinics who reimburse their physicians on the basis of "grade" and longevity alone, but the polyclinics we visited had developed many more incentives. These included extra pay for extra shifts, extra pay for administrative work or being chief of a department, and extra pay (or penalties) based on quality and quantity of work. In the case of the hospital doctors, hospitals were paying extra for call. One hospital in Ekaterinburg was even devising schemes for dividing a percentage of insurance receipts among the doctors in each specialty group. We saw a great deal of improvisation in physician compensation, with a range of salary from 50,000 to 500,000 rubles a month.

5) The Consumers

The Russian health care is oriented towards consumers only in theory. The promise of universal access to free health care is a political statement which has great political importance. We found that many people felt it was of paramount importance to retain this fundamental right to health care.

Yet in fact, the consumer counts for almost nothing in terms of respect in the health care system. A 1988 survey found that over half the people questioned (sample size 54,000) were dissatisfied with the system. Their most frequent complaint was the long waiting times.

Consumers have no input into the system. There are no consumer boards. There are no official consumer complaints. "Not a one," said the administrator at an Ekaterinburg hospital. Consumers are usually treated as if they are invisible. Anecdotal stories relate how extra payments ("tips") must be made to providers or nurses if special comforts or treatments are desired.

And consumers have learned to play the role. They are entirely passive. It is expected that they are unable to take responsible care of themselves. Parents expect the doctors to take care of their children. Or so we were told by a pediatrician who also said that they didn't give childrens' immunization cards to the mothers because "the mothers would lose them." The system has created dependent consumers. It will be difficult to effect the lifestyle changes so important to improve health status in Russia (smoking, drinking) unless consumers learn to take more responsibility for their own health care. And that's not where the Russian health care consumer is now. He's coddled in the hospital, kept there extra long, undoubtedly because he can't be trusted to take care of himself at home. Of course, as mentioned above, there has also been financial incentives to keep patients in the hospitals.

6) The Special Place for Children

"Our children are our future." So reads a home-made poster with a picture of local triplets. It's hanging in the pediatrics department of a small ambulatory clinic in rural Tver. Children get super-special care. Expensive equipment for testing. Swimming pools at a clinic for hydrotherapy. Examinations by a battery of specialists at age one month. Home visits when they're sick. Free medications up to age three (other people must pay for pharmaceuticals). So many doctors take care of children, especially newborns, that we were told that there were many sick children. There's probably a direct relationship. Perhaps children get too much medical care. I suspect the reason that children get too much medical care (maybe too many diagnoses, too much dependence on the medical system) because there are the same number of pediatricians but many fewer children.

Russia's birth rate is very low: about 8 per thousand, even less in the oblasts we visited. In fact, the birth rate is about

half the death rate. So, obviously, children are important. There aren't many of them.

7) Health Care Financing

Health care financing is in a state of flux and change at present. With the introduction of the health insurance funds -- and we observed that they had been instituted to a variable degree in the establishments we visited, there is much uncertainty in the health care system.

Actually, there was a wide variety of sources for health care funding (see Table 1) in the health care establishments we visited. These included municipal, rayon, community, and oblast budgets; insurance funds; direct gifts from enterprises, and an assortment of other sources, such as the Chernobyl fund. In addition, there were direct patient receipts from a range of services.

The economic situation is the greatest threat to stabile funding. If enterprises fail, there will be no taxes for the budgets of cities or districts. And there will be insufficient funds to put into a 3.6% obligatory insurance fund.

Free health care for poor people remains a strong conviction for most people we talked with, so it will be hard to increase the patients' share if other funds are short. Co-payments would not be popular, although there were a few providers who thought they might be appropriate. For some government offocials, the "worst possible" solution would be fee-for-service.

There have been very mixed reviews on the compulsory insurance fund. There were complaints that the reimbursement rate was too low, didn't come near covering costs, didn't account for inflation.

We found the administrators and chief physicians to be extremely innovative and energetic in securing funding for their operations. Their tasks may become even more difficult in the months ahead unless their local economies improve. There has been no central level budget support that we were aware of at the sites we visited.

An important source of funding for some establishments has been local enterprises. In Tula, the enterprises gave large sums to health care establishments; this funding allowed the purchase of expensive equipment.

8) Provider Attitudes towards Privatization

Generally, providers did not seem friendly towards the term "privatization," but we felt they really didn't understand what it meant. We were told that some physicians were afraid that privatization might be associated with the loss of their jobs. The overwhelming sentiment we heard expressed was: "You can go ahead and create a parallel private system if you want, but don't privatize the current system." They feared that the system might collapse, that poor people (95 percent of Russians) wouldn't be able to afford health care, or worse. Their advice was also to go slowly. It was clear that they were equating privatization in

Table # 1

Organization	Munin cipal	Rayon	Oblast	Insurance	Enterprise	Private
Foundation for Child & Mat Welfare						+++
Radichenko ambulatoria		+++				+
Tver Muni #6	+++				++	+
Torzhok District	+++					
Torzhok Ambulatoria		+++			+	
Tula Muni #1	++			+++	++	+
Tula Ped Polyclinic	+++				++	?
Ekaterinburg Ped Polyclinic		25%		75%	0	0
Ekaterinburg Muni #1		++		+++	0	1-5%
Ekaterinburg Ped Inf Dis				+++	0	0
Balashikla		++		+++	+	?

Crude estimates as to sources of funds for Hospitals or Clinics

health care with privatization of businesses. It was also very clear that they didn't understand what was being proposed or the possible options. Of course, these haven't really been worked out yet.

9) Providers and Private Practice

We found a wide variety of private practice being done at all the sites we visited. Moscow has had private practice clinics for 30 years. The practice of charging for special services, even beyond the unofficial "tipping" is well established almost everywhere and accepted, if somewhat frowned upon.

In Tver, there are private clinics, and we were told that "very many" physicians were doing private practice as a means of generating extra income. There are also private sanatoria near Tver. Certain kinds of "alternative" and specialist care has always been accepted as "private practice" as well.

In Tula, the hospitals were renting out space and equipment to doctors doing privatepractice on their own. Apparently this practice was curtailed when someone from the Ministry of Health came out and complained, but there are still many doctors doing private practice in Tula. Charging for expensive diagnostic services is routine, and apparently the diagnostic services at Tula's diagnostic center became so lucrative that the city and the oblast government have been arguing over who should have control of the center's operations.

There are private clinics as well in both Moscow oblast and Ekaterinburg. Consumer-wise, people who can afford private clinics much prefer to go to them (anecdotal evidence). Private practice is well established in Russia, a fact of life. It probably does affect only a small part of the population, more so in the major urban areas. On the other hand, fee-for-service for pharmaceutical products has long been the norm.

10) Public Health Activities

Since the SCSES was broken off from the Ministry of Health two years ago, it has been responsible for public health programs. We found evidence in the sites we visited of cooperation between the SCSES and the polyclinics. Immunization services seemed well integrated, and we noted that the SCSES computers were being used in Ekaterinburg for keeping track of childrens' immunizations, both in the schools and in the clinic. Infectious disease reporting was also being done.

11) Prevention/ Health Promotion

There was very little evidence of any programs for prevention and health promotion at the sites we visited. We found very few posters on the walls. We saw no booklets for prevention. We were told by the director of preventive programs at the Ministry of

Health that a new comprehensive program for prevention was approved on 2/28/94. We're not sure how this will be implemented.

There seems to be much theoretical support for prevention, especially among pediatricians, but in practice there seem to be only very conservative individual efforts, such as regular physical exams and screening for childrens' deficits. Community efforts and school programs seem almost non-existent. The MOH's chief of prevention confirmed that almost nothing was being done in schools. There have been a few anti-smoking ads on television, but the effort has minimal compared to the avalanche of cigarette advertising.

12) Pharmaceuticals

Though not the focus of our study, we did confirm that certain pharmaceuticals were in short supply at the establishments we visited. The most frequently named drugs were cardiac drigs, oral hypoglycemics, and certain antibiotics. Hospitals were acting independently, doing their own procurement, to assure an adequate supply of medications. We were told that the situation wasn't as bad now as it had been.

13) Information Systems

It was apparent from what we saw that meticulous data was being collected and laboriously inscribed by hand. Medical records, at least for inpatients in the hospital, appeared well documented. We saw very few computers, in fact none outside of the immunization program. We did obtain or see information compendia, so we know information is being collected. The information center at the pediatric polyclinic in Ekaterinburg was staffed by a physician and two other people.

The financial data we saw was all hand written. With the increasing complexity of the financiug systems for health care, more efficient means for financial information will become essential.

14) Equipment

Incredible paradoxes. While lacking very simple equipment, a hospital or polyclinic (more often the hospital) may have very sophisticated tertiary care type equipment. No otoscope but a lithotriptor. Everyone seemed to want equipment, better equipment. We found a good variety of certain kinds of equipment: EKG machines, X-ray machines. But in other spheres, there wasn't much: in the labs or in the doctors' exam rooms. Equipment seems to be a status symbol, both for providers and patients. Maybe that is part of the reason physiotherapy, with all its unusual equipment, seems so popular in the Russian system. The physiotherapists seemed very determined to demonstrate their wares to us. "They don't even have this radio wave machine in Moscow," said one

doctor.

15) Training/ Retraining

Russian physicians receive training in quite a different way than their U.S. counterparts. They basically have a six-year course of study after high school. During this time, they follow some degree of specialization and graduate as a general doctor (therapist) or pediatrician. Most graduates will then do one year of internship at a hospital to become a specialist. Seven years after high school, a doctor could be considered a cardiologist or a surgeon. Doctors then can progress by examinations through a series of steps to become "top" doctors. A shorter course of study produces a type of provider, the equivalent of a physician assistant, for which Russia used to be famous: the feldscher, who still serves communities in the most remote areas throughout Russia.

Paradoxically, the system produces a large number of specialists who are not really specialists in the Western sense -- at least in terms of formal education. The system worked well to supply manpower for a far-flung comprehensive system of health care coverage based on polyclinics and feldscher posts. But times have changed and the system has not. Many Russians realize that their system has become inefficient and antiquated -- frozen in time. We found much interest in the concept of Family Practice -- an advanced concept of their therapist/pediatrician combined with general hospital doctor. Currently, the limited training of Russian doctors perpetuates fragmentation of health care, multiple visits, separation of outpatient and inpatient care -- inefficiency. For example, a pediatrician doesn't use an otoscope to look in a child's ear. The ear, nose, and throat specialist does.

In terms of continuing education and post-graduate courses, thr Russian medical system seems well organized. There seem to be adequate conferences for doctors as well as some requirements for substantial re-training. There is a requirement that all physicians do a substantial re-training (one or two months) every five years. The Russian Academy of Medical Sciences plays a key role and seems to still be active in providing leadership in designing standards and educational opportunities for medical personnel.

16) The Ministry of Health

We asked at nearly every opportunity about what people thought the role of the Ministry of Health should be. With decentralization of the health system and budgetary decentralization to the oblast (or lower) level, which occurred in the late '80s, the Ministry of Health lost most of its power. Although most people interviewed thought the role of the MOH should be to provide leadership, set guidelines, and provide information, there was unanimous consent (in our small but wide sample) that the

MOH was performing poorly and had in fact not provided leadership or coordination.

Major public health functions were taken away from the federal MOH two years ago when the SCSES was separated from the Ministry and made independent. This separation organizationally made no sense but undoubtedly reflected political reality. The federal MOH had almost no presence that we could detect in the oblasts we visited -- with the exception of a few unwanted regulatory intrusions. Practically speaking, providers in the oblast wanted nothing to do with the MOH. Unfortunately, the result of this bad feeling is that public health is lacking leadership in Russia.

17} Integration of Health Systems

Whereas there is a well established system of regionalization in Russia, the lack of leadership at the national level has led to a fragmented system where each local provider institution fends for itself. It seemed that there was often no leadership at the oblast level, and we found that even local levels of government (municipalities, rayons, e.g.) have little or no health administration capability.

Hospitals are improvising and scrambling to find whatever resources they can on a very individual basis. They often order many of their own drugs, sometimes purchasing directly internationally. And, whereas we did find some examples of coordination of services between the polyclinics and hospitals, more often than not the coordination of services was minimal and the duplication of services great. Delegation of power and responsibility to the local level is good to some degree, but in the current Russian system, the extreme decentralization is also promoting insecurity, inefficiency, and fragmentation of services,

18) Standards of Care

There are probably standards for everything in Russia. But the standards in medicine, especially for hospital practice (notably length of stay) are outdated. We got the impression that outdated standards were stifling flexibility, but we did see some evidence of efforts to question standards and improve the quality of care and efficiency. The Russian Academy of Medical Sciences has been involved in updating standards. Updated standards will be important to improve the efficiency of the system.

There are quite elaborate standards for the payment of inpatient hospital services. These are now being used -- and we observed the process -- to calculate reimbursement for hospital services under the new compulsory health insurance law. There were complaints that these standards were based on care from 1984, and that the standards needed updating.

E. Conclusions

1) The Russian system of health care, while extensive and comprehensive, has been inefficient, fragmented, and unresponsive to consumer wants and needs.

2) There is overutilization of hospital beds and probably also outpatient services, mostly due to duplication of services, fragmentation of services, and financial incentives that promote the overutilization.

3) As a result, medical facilities are much larger than necessary, use more staff than is necessary, and waste resources. These authors feel, for example, that hospital beds could be reduced by up to two-thirds if the system were run efficiently. We realize, however, that the functions of the hospitals are not entirely medical, that they serve social and custodial needs as well.

4) Legal changes are necessary to allow the health care system to become more efficient and consumer responsive.

5) The quality of care is often questionable, often inadequate, for a variety of reasons, many of which are related to inefficiencies in the system.

6) There is no federal level leadership in health care. Health care entities are fending for themselves even at the local level. The result: inefficiency and maybe (soon) instability.

7) The economic crisis in Russia may be about to create a crisis in the health care system as adequate funding becomes a more immediate and crucial problem.

8) There is a great deal of enterpreneurship already out there in the health care system. Although still small scale, the principles of private practice and fee-for-service for certain services are well established -- and de facto accepted. There is also a great deal more variety than had been expected. The Russian health system varies considerably from one establishment to another, both in clinical arrangements as well as approaches to financing. Local initiative is alive and well.

9) Although managerial expertise in health care is sorely lacking and is now even more crucial because of the changes already happening in health insurance, there are resilient young leaders out there at the local level who are amazingly resourceful.

10) The system is still very authoritarian in nature, with the chief doctors having considerable power.

11) The system is mostly, with a few exceptions such as home visits, consumer unfriendly. The consumer has no input, takes no responsibility, and assumes a larger passive role, which is in fact encouraged by the providers.

12) The infrastructure is woefully outdated and aging, although there are a few exceptions, notably in the area of modern, sometimes state-of-the-art equipment.

13) There needs to be consideration in changing how Russian doctors are trained if the system is to be more efficient.

14) Standards are outdated, need change.

15) Demographic changes are changing the face of health, and the system has been largely unresponsive. E.g., low birth rates, a growing population of elderly poor, especially in rural areas.

16) The system is ina state of intense and rapid change in health care financing and is not adequately prepared to respond to the challenge.

17) There is great reluctance to surrender the Russian ideal of health care for all, and great distrust of the concept of privatization, although providers do not know what privatization means for them.

18) What privatization really means for the health sector has not yet been defined yet.

19) The system is oriented towards curative -- and hospital-based -- medicine, and prevention has largely been forgotten, with the possible exception of pediatrics.

20) Information systems are antiquated, cumbersome, tedious, and outdated.

21) There is a growing gap in the health care system in care for the rich and the poor. And there is a good possibility that this gap will widen in the future.

F. Recommendations

1) Studies/ Background Papers/ Surveys related to Medical Care

a) Studies/ Background Papers

i) Paper on the various spontaneous initiatives in creative financing that have sprung up around Russia. Would be useful information to share to show what is feasible. Two weeks of consultant time. Consultant in health care financing.

ii) More in-depth study on overutilization of hospitals. Take 3 representative hospitals and actually analyze the patients there, their diagnosis and length of stay. Estimate what degree of care is not medically necessary and analyze reasons for same. Goal: to show how efficiency can be improved, and understand better factors creating need for so many hospital beds. Two weeks of 2 consultants' time: medical care specialist (MD) and social scientist.

iii) More in-depth study to really understand utilization patterns in the polyclinics. Again: to see where efficiency is possible. 2-3 weeks of 2 consultants: medical care specialist (MD,PA, or NP) and health care clinic management specialist.

iv) Follow-up on HMO-type experiences in St. Petersburg, Kemerovskaya Oblast, and Samarskaya Oblast, if not already done. Want to examine positive and negative outcomes.

b) Surveys

a) Consumer survey to understand better what real consumer needs and wants are.
Suggest survey of 100-200 consumers in 6-8 different oblasts.

b) Provider survey to understand better their concerns, attitudes, and ideas on how they think the system should be changed.
Suggest survey of 75-100 physicians/feldshers/nurses in 6-8 different oblasts.

c) Survey of chief doctors in polyclinics/hospitals to find what they would think would most improve efficiency/ motivation.

2) Options for Pilot Projects

Apparently at least two types of pilot projects are being considered, one in medical care and one in pharmacy. As regards the medical care pilot, we would make the following suggestions:

a) Use rayon size or smaller, not oblast size (too many variables)

b) Pick pilot with relatively assured funding -- from any of the usual sources: budget, insurance fund, enterprise support.

c) Requires motivated leadership at local level and some degree of managerial capacity (additional training would be funded under the pilot anyway for management skills)

d) Requires support (and participation) of oblast health officials and the local or municipal officials who are the usual funding source for the establishment/ unit.

e) Could be polyclinic alone or polyclinic/hospital combination, or all the health establishments in area up to size of a rayon.

f) Would provide T.A. for management, organizational work, MIS, supply (including pharmaceuticals). Pilot would have grant moneys to pay for this, plus moneys to provide training for key pilot personnel, equipment needed for administrative functions, office materials, other costs for setting up the pilot.

g) Require "privatized" not-for-profit status of group. Fit suggested criteria for privatization law as listed below.

h) Comparable pilots done elsewhere: could be private-sector model similar to "Pro-Salud" in Bolivia, with limited scope and potentially easy replication.

3) Considerations for Law on Privatization in the Health Sector:

State reasons for law first, then the objective: to improve the health status of the Russian people while assuring access to health care for all Russians.

1) Remove barriers to privatization
2) Remove overbearing tax disincentives, especially for "non-profits"
3) Create some tax incentives to form at least "non-profits"
4) Consider extending same or similar tax changes to for-profits
5) Assure geographic "portability" of benefits as a cornerstone to patient "choice"

6) Need broad definition of a guaranteed "basic benefits" package. Actually could be not difficult.
7) Allow for alternative modes of privatization: cooperatives, or other means already provided in other industries.
8) As noted above, require that privatized entities accept any patients choosing to use their services for the "basic benefits" package without co-payment if they are unable to pay (criterion of certain family income).
9) Make provision for extra funding for necessary services outside the "basic benefits," for example, through a sub-fund of the municipal/etc. budget or the insurance fund.
10) Permit co-payments or fee-for-service for patients who can afford to pay (above certain family income), as determined by the entity's board of directors.
11) The entity must have a board of directors (or the equivalent) drawn from the groups mentioned above; at least one third (e.g.) of these directors should be "consumer" groups.
12) If the entity is the only entity in its geographic area (perhaps rayon, perhaps community -- needs refinement in definition), or [maybe] if there is no state-run polyclinic in the geographic area, then co-payments can be no more than 20% of the standard insurance fee for the service. Fees for non-covered services also must not be more than 50% of the fees negotiated with the yet-to-be developed "voluntary" insurance funds. An assumption: the "voluntary" insurance will cover benefits not in the "basic package."
13) Capitated payments should be allowed with the model of primary care case management (as already has been the practice during the period of budget support), as negotiated with the insurance fund, the state financing entity, or an enterprise. Fully capitated care, in which the entity assumes full risk for hospital-based care as well (HMO model) woukld also be permitted under more stringent rules and regulations (to be developed). These would include having a contingency fund.
14) Preventive services must be included in the "basic benefit" package. These must include health education, nutrition. and substance abuse elements. These must be at least 5% of the budget. Above 5%, they would be eligible for tax credits.
15) Quality assurance must be included, basic criteria to be developed in rules and regulations.
16) Licensure requirements, to be developed in rules and regulations, and to be administered by (?) the oblast level health authority.
17) Criteria developed, in connection with licensure, to assure the enterprise has some basic managerial expertise, a business plan, approval at oblast level.
18) Enterprise must cooperate with all public health equirements for disease reporting, participate in public health activities as appropriate and as required by oblast level public health authorities.
19) Leasing/ possible ownership of state property (clinics/hospital) should be made legal. Perhaps transfer of

property to a private not-for-profit group at a nominal fee after 3 years of successful operations. First 3 years under leasing at nominal fees.
20) Formally legalize incentives for physicians and other types of providers.

[to be modified to check-list form as well]

4) Comments on Constituencies to involve in health care aspects pf policy paper:

We did not identify specifically people/groups to be included in the development of a policy paper, but, in talking with various groups/individuals, we have some suggestions for the type of people that should/could be involved. These would include representatives from:

a) Abt Associates/ USAID health project
b) NGOs : International and Russian
c) Childrens' advocacy group
d) Women's health advocacy group
e) Trade unions
f) Chief Doctors' Association
g) RAMS/ SCSES/ MOH
h) GKI
i) Medecins sans Frontieres (if they're active in Russia)
j) WHO/ UNICEF/ World Bank
k) Dov Ch.

5) Draft Table of Contents for Health Care ASpects of policy paper

[not done yet]

6) Suggested inputs for studuies/surveys/pilot projects

Included above.