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REGIONAL PUBLIC FINANCE AND INVESTMENT PROJECT
FINAL REPORT

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REGIONAL PUBLIC FINANCE AND INVESTMENT PROJECT

FINAL REPORT

Executive Summary

Booz•Allen & Hamilton (Booz Allen) is pleased to submit this final report for the USAID program on Regional Public Finance and Investment in Russia. We were tasked by the United States Agency for International Development (USAID) to address the critical need for improving public finance in three of the Regional Investment Initiative (RII) sites in Russia. This effort was a result of a USAID assessment, which revealed a large number of deficiencies in the public finance areas. The study also noted the existence of non-transparent intergovernmental fiscal relations impairing trust in the government, a necessary condition for democracy and improved foreign investment.

While USAID wished to provide assistance in public finance, the Agency understood that given the many needs, it would be difficult to target resources effectively. Moreover, there is a widespread lack of understanding about the type and amount of technical assistance that USAID can provide. USAID awarded this delivery order to Booz Allen as a first step toward providing long-term technical assistance.

The purpose of the delivery order was to educate officials on principles and practices of public finance and on the range of options for technical assistance, as well as to implement limited short-term technical assistance. Booz Allen met the requirements of this task through a two-pronged approach: training and technical assistance. Initially, a series of three-day conferences were held in Samara and Khabarovsk for regional officials, Duma members and city officials working in the areas of budgeting and finance. The attending officials were familiarized with new concepts in public finance, participated in identifying the needs of their jurisdictions and prioritized them. We also implemented limited "pilot" technical assistance programs that demonstrated the value of such assistance, before larger resources are to be committed.

The Booz Allen Team was successful in fully achieving the objectives of the delivery order. The conferences and technical assistance were very well received and the goodwill that emerged as a result of USAID's contribution will pave the way for further projects planned in these regions. The interest that public finance officials displayed in the identification and prioritization of the future technical assistance needs also resulted in a very creditable list of topics, being submitted in this report. We have found that much of the insight gained via this task can be applied to other regions of Russia and present our findings herewith.

I Introduction

Booz Allen was tasked by the USAID to address the critical need for improving the public finance skills and expertise of regional and municipal officials in three regions of Russia. The objective of the task order was to help increase the capacity of local government officials to plan and manage public finances and to increase transparency in order to improve public trust in government, thereby strengthening democratic reforms.

This task order was conducted under the auspices of the RII, a collaborative effort between the United States and Russian governments to attract investment and generate growth in three Russian regions. Two RIIs were selected to participate in this program: the Samara Region, the Russian Far East (RFE) Regions of Khabarovsk Krai and Sakhalin Island. This task order is part of a larger RII effort which brings together numerous projects designed to support the economic growth of these regions.

In May 1998, USAID undertook an assessment of the public finance situation in Khabarovsk Krai and Sakhalin Island, in order to identify key obstacles to investments. The assessment revealed numerous deficiencies in the public finance areas, including a lack of an analytical basis for making public investment decisions, and a dearth of skills in revenue and expenditure analysis, planning and management. In managing public finances, the motivation was primarily to meet short term needs, which could lead to mounting public debt. Finally, the existence of non-transparent intergovernmental fiscal relations was impeding trust in government, one of the necessary conditions for democracy and increased foreign investment.

USAID was aware that given the many needs in the public finance sector, it would be difficult to target resources effectively. Moreover, there exists a widespread lack of understanding about the type and extent of technical assistance USAID can provide, and its potential benefits. Therefore, the Regional Public Finance working group within USAID/Moscow utilized a phased approach in which the first step would be to educate officials on best practices, followed by longer-term assistance aimed at improving the framework. This delivery order to Booz Allen addresses the first phase, which consisted of two tasks:

- Task A
To educate officials on principles and practices of public finance in the Russian context and on the range of options for technical assistance
- Task B
To implement limited short-term technical assistance

Utilizing the guidance provided under the terms of reference for this delivery order, the Booz Allen Team set out to meet the demands of these two tasks in a creative manner. Two three-day conferences were held in February for regional officials, Duma members and city

officials working in the areas of budgeting and finance. The first conference was held in Samara, for officials of the Oblast and select cities within the Oblast. The second conference was held in Khabarovsk for the regions and select cities of Khabarovsk Krai and Sakhalin Island, together. Through these conferences, the attending officials were familiarized with new concepts in public finance and participated in identifying the needs of their jurisdictions. We targeted our efforts toward creating an awareness, motivation and "buy-in," and to prioritizing the public officials' needs for technical assistance. We also implemented limited "pilot" technical assistance programs that demonstrated the value of such assistance, and gauged the regions' commitment to work with the USAID advisors. Appendix A of this final report provides the Work Plan for the project.

In compliance with the terms of reference, the Booz Allen project team consistently coordinated its efforts with the RII offices, attended coordination meetings, provided briefings and submitted updates electronically. We also kept abreast of other RII activities. Similarly, we coordinated our efforts with local and regional administration, as appropriate.

This document reports the results of our work. For the ease of the readers, we provide a brief description of how the project tasks were implemented in sections III and IV of the main report. Sections V through VII comply with Article VIII (c) of the terms of reference, which requires the Final Report to highlight 1) our success in achieving objectives of the activity, 11) to make recommendations for follow-on activities and 111) to make any recommendations for similar work in other regions. Appendices A through H contain important details about the activities and results of the project. Appendices F through H contain the future technical assistance project schedules from Samara, Khabarovsk, and Sakhalin, respectively. They outline the details of opportunities for future USAID programs in those regions.

The Booz Allen Team thanks our USAID/Moscow partners Stephen Giddings, Hugh Winn and Angelina Gurkina for their invaluable guidance and support throughout. We also appreciated the advice, interest and facilitation by Elaine Grigsby-Arnade, William Hammick, Anne Simmons-Benton, Tracy Thoman, Rafail Narinsky, Cecilia Ciepiela, Julie Brooks and the Public Finance Working Group. In the regions, we greatly appreciated the assistance of Joan Agerholm, Andrew Wilson, Michael Allen, Irina Isaeva, Igor Malinov, Olga Choy, and Katya Lushpina. We are also grateful to the government officials from the Russian Federation, Samara, Sakhalin, and Khabarovsk for their valuable support, and to the Union of Russian Cities, Association of Siberian and Far East Cities, as well as the American Business Centers for their cooperation.

II Task A - Conduct Conferences on Principles and Practices of Public Finance in Russia

The Project Team began its research and planning by attending the USAID sponsored *Symposium on Mobilizing Community Resources for Economic Development* in Moscow on October 20 and 21. The Booz Allen team also met with USAID project management officials and the others in the Public Finance working group to benefit from their insight. We made site visits to Samara, Khabarovsk and Yuzhno-Sakhalinsk to meet with Vice Governors, Duma members, and Heads of Economics and Finance Departments to

- Gauge and generate interest in the conferences among relevant officials
- Identify key participant categories
- Gain commitment from the leadership to release the potential participants for the three conference days
- Encourage cost-sharing, thereby enhancing the potential success of the conferences
- Refine the proposed subject matter to be covered at the conferences
- Review other public finance related information and activities in the regions, consult the existing reports and information, and to avoid duplication with other implementers in our activities

Based on our research and the terms of reference, we designed a comprehensive three-day curriculum to provide regional officials with an overview of key public finance issues. The project carefully selected a combination of American and Russian specialists to provide practical examples of modern public finance principles and practices. The conference presenters were comprised of

- American specialists with extensive public finance experience in Russia, the NIS and Eastern Europe
- Russian public finance experts who were familiar with current best practices in Russia
- Public Finance officials from Russian regions and cities who had experienced successes in the public finance arena

A senior official from the Office of the President, a Deputy Minister of the Russian Federation, private sector representatives, USAID officials, RII, and a Vice Governor/Duma officials also spoke at the conferences. The participants of the conference were a combination of regional administration and Duma officials and city officials from a number of important cities of each region.

Two conferences were held in February, 1999. The first conference, held in Samara on February 17 - 19, was attended by 46 officials from the region, Duma and a number of cities. The second conference, held in Khabarovsk February 25-27, was attended by 22 regional and city public finance officials from Khabarovsk Krai and 12 from the Sakhalin Island. The officials from Sakhalin Island traveled to the conference at the regional government's expense.

The conferences were designed to meet the objectives of the terms of reference. Our approach involved the following steps:

- Highlighting the key current issues and problems in public finance and budgeting in Russia
- Presentations on the various key aspects of public finance and budgeting, covering modern tools, techniques, best practices and experiences from within Russia and other transition economies, grouped into four distinct subject matter modules

- Identification and prioritization of the areas in which regional officials could benefit from technical assistance in the future
- Selection of short-term technical assistance topics to implement during the course of the project

Resource books and diskettes with articles pertaining to the subject matter presented were provided to each participant

To encourage discussion of the issues presented and to help the participants best prioritize their technical assistance needs, the Booz Allen arranged breakout discussion groups after the presentation of each module. Each group made a presentation based on the discussions, listing the topics that were the most relevant to their work. At the conclusion of each conference, the participants created a list of future technical assistance topics. These lists became the basis of the future technical assistance recommendations which Booz Allen teams further refined in each region during the short-term technical assistance portion of the project.

The conferences were deemed to be highly successful, as noted enthusiastically by the participants, and subsequently by the Vice Governors and as reported to the media. Appendix B provides full details of the conferences.

III Task B - Implementation of Short Term Technical Assistance

Three teams of Russian and expatriate consultants worked in each of the three regions whose public finance officials had participated in the February conferences: Samara, Khabarovsk and Sakhalin. The technical assistance teams were on the ground for approximately three weeks during the month of April, 1999, and worked with regional officials, as well as one or more cities in each region. The team leaders were provided detailed pre-departure orientation and coaching to prepare them for the assignment. Since the time span was extremely short, very intense effort was pursued by each team to fulfill its responsibilities.

The assistance was provided through a combination of approaches including one-on-one coaching, workshops, round tables, lectures, case studies, a slide-show presentation, independent gathering and analysis of data, and analysis of draft laws. The teams provided significant amendments to draft laws, reviews of the budget processes, verbal and written recommendations, and numerous technical assistance documents developed by the teams or adapted from other situations and sources. The recipients of the technical assistance were primarily representatives of the Finance and Economics departments of regional administrations, Duma members and officials and city administrations.

Each region had a distinct area of technical assistance as illustrated below:

Samara In Samara, technical assistance was provided on techniques for improving the Oblast's procedures for making investments in long term capital projects. The objective of the project was

to provide methods for evaluation of criteria to improve the selection process, and priority setting methodology for public projects

Utilizing relevant experiences from other Russian regions, Eastern and Western Europe and the U S , the team offered modern methods for evaluating and prioritizing capital investments, discussed funding options, identified other factors that promote or inhibit potential investments, and made recommendations for changes in policies and legislation. The team also highlighted transparency in the decision making process to improve the Samara region's attractiveness for external investments through development. Please see Appendix C for full details on the technical assistance provided in Samara.

Khabarovsk Technical Assistance in Khabarovsk focused on streamlining the methods to improve regional minimal social norms. This short-term technical assistance was targeted toward more efficient revenue planning for the regional budget of the Khabarovsk Krai. It was accomplished through the development of improved methodology for calculation of regional social standards for the municipal budget of the City of Khabarovsk and advising on potential changes in the relevant regional legislation.

The team also addressed issues relating to budgetary expenditure reductions and using anti-crises techniques. The team completed an in-depth analysis of budget and financial status indices, made a substantive examination of draft laws on minimum social standards and made significant input to the draft laws. The team also presented a system of standard spending assessments, used in British local government, for the allocation of grants and national control of local government expenditures. Please see Appendix D for full details on the technical assistance provided in Khabarovsk.

Sakhalin The purpose of the technical assistance project was to analyze selected municipal budgets in the Sakhalin Oblast to provide a basis for establishing the economic viability of various cities. The team used analytical models to demonstrate the use of economic projections and budgetary trend analysis to determine the need for continuing financial subsidies from the budget. Additional components of the technical assistance were to introduce a more rational and constructive budget process to the Sakhalin Oblast and cities, to strengthen understanding on how the budget and finance functions could contribute to the future of Sakhalin, and to prepare the region for the receipt of additional revenues from its offshore developments.

Technical assistance was also requested in the analysis of the current draft of the 1999 Oblast budget, introduced in March, 1999. The team was invited to provide input on the budget process and the uses of the budgetary and extra-budgetary funds. They worked with the Oblast administration and Duma budget committee simultaneously, highlighting concepts of efficiency, effectiveness and transparency. Please see Appendix E for full details on the technical assistance provided in Sakhalin.

IV. Success in Achieving Objectives

Overall, the objectives of the delivery order were more than fully achieved. The conferences and technical assistance were very well received and created goodwill for future USAID projects. The interest that officials in each region displayed in the identification and prioritization of future technical assistance needs also resulted in a very creditable list of topics provided in the next section.

In terms of the process of managing the project, Booz Allen has been mindful of the USAID requirements in the following areas: work planning, scope of work, funding, and scheduling, providing qualified personnel, responding to technical directions, adhering to work schedules, submitting reports and other deliverables, cost effectiveness, and timeliness and completeness of communications with USAID.

In terms of the subject matter, a full breadth of relevant areas was covered with participants at the conferences quite intensively. Similarly, substantive training and consultations in the areas selected by the regions were offered during the short-term technical assistance. A large number of documents were also made available, which are expected to become available to a wider audience. Both the conferences and the technical assistance were very highly rated by the participants and Vice Governors from each region. A high level of motivation and "buy in" were also achieved, which resulted in an enthusiastic participation in the identification of future technical assistance opportunities.

We have also successfully completed the required tangible activities, as delineated in our work plan (Appendix A). In the work plan, we outlined a number of results and indicators, consistent with USAID's strategic objectives for projects in Russia. The Booz•Allen Team focused on the first two levels of the results chain, *Program Management Results* and *Trainee Learning Results* in developing indicators to measure the effectiveness and success of the seminars and technical assistance. The actual performance with respect to each of the indicators is presented below in summary form.

Level 1 Program Management Results

► Development and delivery of seminar design and materials

PLANNED OBJECTIVE	ACTUAL RESULTS
A draft of the seminar design will be submitted to USAID at the end of November 1998.	The seminar design draft, consistent with TOR requirements, was submitted in late November 1998.
Final seminar design will be submitted to USAID along with the work plan on January 8, 1999.	Final seminar design, incorporating USAID comments, was submitted with work plan on January 8, 1999.

Final training materials will be prepared and a dry run (test) will be completed in Moscow by February 15, 1999	Final training materials and a dry run successfully completed by February 15, 1999 Training materials included presentations on all topics enumerated in the TOR Surpassing USAID requirements, a two volume Resource Book and diskette of public finance information were developed
Targeted sixty participants will attend the seminars	Eighty participants attended seminars according to the following breakdown Samara - 46, Khabarovsk - 22, Sakhalin - 12 The project met the planned objective by 150%

▶ Technical assistance work plan developed following the seminars

PLANNED OBJECTIVE	ACTUAL RESULTS
Draft technical assistance recommendations will be delivered to USAID by March 5, 1999	Draft technical assistance recommendation were submitted to USAID before March 5, 1999 Due to later reconsideration of short-term TA topics by regional governments in Samara and Khabarovsk, TA topics were subsequently modified

▶ Short-term technical assistance and training delivered as planned

PLANNED OBJECTIVE	ACTUAL RESULTS
At least three jurisdictions will be provided short term TA as determined, and training, as approved, will be completed by April 30	Approximately three weeks of short-term technical assistance and training were successfully completed in Samara region, Khabarovsk Krai and Sakhalin Island by April 30 All training included at least one city in addition to Oblasts

Level 2 Trainee Learning Results

▶ **Awareness, motivation, and buy-in for technical assistance and training created**

During the conferences

PLANNED OBJECTIVE	ACTUAL RESULTS
For Awareness, targeted sixty participants will complete Modules I through VI of the seminar	Eighty participants completed Modules I through VI of the seminar, participated in break-out group discussions, and became familiar with Russian and international public finance best practices techniques and methodologies. The project met the planned objective by 150%
For Motivation, all participants will help identify need for action from their jurisdictions	All seminar participants successfully participated in conference breakout discussions to identify TA needs in their regions. Many of these participants later worked with the project team to implement and further define the future TA needs
For Buy-In, priorities for 20 TA opportunities customized and 6 work action plans will be developed	Thirty-one TA opportunities were identified, broken down by region as follows: Samara - 18, Khabarovsk - 7, Sakhalin - 7. Work action plans were developed for all 31 opportunities. The project met the planned objective for buy-in of priorities by 150%, and for work actions plans by 516%

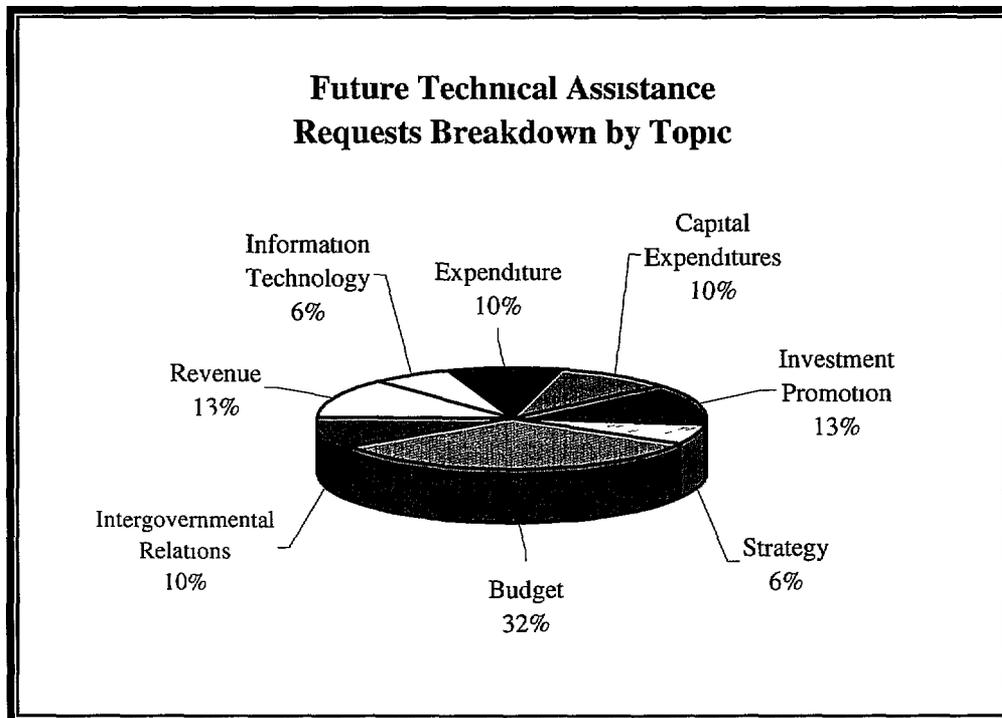
- ▶ **City and regional officials will improve public finance and budget skills from short-term technical assistance and training in at least the areas of technical assistance**

PLANNED OBJECTIVE	ACTUAL RESULTS
<p>At least 3 jurisdictions and 40 regional officials will participate in short-term TA and training activities focused on new financial management and budgeting skills</p>	<p>Samara, Khabarovsk Krai and Sakhalin Island participated in the short-term TA and training activities, during which 60 regional officials were trained. These officials participated in seminars, round tables or expert consultations. In each region, the participation by officials can be broken down as follows:</p> <p>Samara Economics Dept - 13 Finance Dept - 3 Capital Construction Dept - 1</p> <p>Khabarovsk City Administration - 9 Oblast Administration - 7</p> <p>Sakhalin Oblast Duma Leaders - 1 Oblast Duma Staff - 9 Oblast Finance Dept - 5 Oblast Administration - 4 City Officials - 4 NGO Staff - 4</p> <p>The project met the planned objective for training of officials during TA by 150%</p>

IV Recommendations for Follow-on Technical Assistance Activities

At the conferences each regional group developed a prioritized list of areas in which they could benefit from technical assistance. During the short-term technical assistance phase of the project, the project team in each region further refined these topics through discussions with the departments of economy and finance and others, and finalized the list with the Vice Governors. The recommendations for future technical assistance projects for each of the three regions are provided below. Prioritized summary listings of the future technical assistance requests for the three regions are provided below with more details in appendices F through H.

While there were significant differences in the emphasis between the three regions, some areas were strikingly common. For instance, the topic of budget strengthening was of interest to all three regions and elicited the greatest number of project requests. The chart below breaks down in percentages all the requests broadly categorized by topic.



SAMARA The departments of economy and finance held diverging opinions regarding the priority of the projects, which were developed during the course of the conference. In order to present each department's priority list, as well as the Booz Allen team's overall recommendations, we have provided three prioritization columns for Samara. The last column presents the recommendations of the Samara technical assistance team, based on their work in the region and with local officials.

PROJECTS	Economy Dept Priority	Finance Dept Priority	Samara Team Recommended Priority
Local Economic Development and Employment Initiative	3	14	1
Capital Budget and Investment Specialist Training	2	3	2
Develop Economic and Financial Strategic Plan	4	11	3
Develop Information and Analysis System	1	2	4
Establish a Treasury System	17	1	5
Develop Program for Private Investment in Communal Service Delivery	5	15	6
Improve Asset Property Management	13	8	7
Develop Property Tax Base Data System	12	9	8
Develop Budget Indicators and Budget Monitoring Techniques	9	7	9
Assist in Multi-year Financial Planning	15	17	10
Formalize Intra-regional Budgetary Relations	6	5	11
Revenue Analysis to Improve Collections, Fairness	8	6	12
Improve Efficiency Through Better Expenditure Analysis	7	4	13
Increase Accountability, Control, Transparency in the Budget Process	10	13	14
Develop the Budget as a Policy Instrument	11	12	15
Encourage Investment in Residential Construction	14	16	16
Evaluate the Present and Potential Impact of the Public Sector in Samara	16	10	17

More detailed information on the above projects is presented in Appendix F

KHABAROVSK The following seven topics were deemed to be of priority in Khabarovsk

PROJECTS	Priority
Improve Legal and Administrative Framework for Inter-governmental Financial Relations	1
Develop Budget as Instrument of Policy	2
Revenue Analysis and Enhancement	3
Assist in Management of Expenditures	4
Assist in Development, Management and Operation of Modern Information Technology	5
Adoption of a comprehensive Accounting Systems and of Accepted Accounting Standards and Practices	6
Financial Reporting and Auditing	7

More detailed information on the above projects is presented in Appendix G

SAKHALIN A total of seven areas were identified for future technical assistance in Sakhalin, as follows

PROJECT	Priority
Assist in Budget Analysis and Transparency	1
Assist in Intergovernmental Budgetary Relations	2
Establish Regional Strategic Priorities	3
Assist in Capital Budget and Investment Planning	4
Assist in Municipal Budget Analysis and Planning	5
Develop Regional Incentives to Economic Investment	6
Assist in Financial Planning	7

More detailed information on the above projects is presented in Appendix H

VII Recommendations For Similar Work In Other Regions

As interpreted by USAID's project management officials at our meeting on April 26, Booz Allen was not expected to make specific recommendations for other regions since we have not studied them. However, we can offer some generalized observations and lessons learned applicable to other regions of Russia, based on our extensive knowledge of Russia and the experience gained in the three regions under this delivery order.

The phased approach involving conferences and a pilot technical assistance effort works. We suggest this be done in other regions where there is relative uncertainty about the needs and acceptability of the proposed assistance. Done meticulously and effectively, such an approach can not only remove uncertainties, it can help to establish rapport that can go a long way toward a successful rollout. Similarly, we suggest prior consultation with the key officials, which in our case, helped create receptivity for the conferences, and helped fine-tune the agenda. Conferences designed with interactive agendas provide opportunities for members of various departments in cities, region and branches of government to exchange information, share perspectives and develop more effective working relationships. Interactive break-out groups during the conference should be used to encourage attendees to participate fully in discussions of information presented during the sessions and increase understanding of the subject matter. Russian experts as trainers, strengthen both the process and the content of presentations and technical assistance efforts. Government officials from other regions and cities that have successfully implemented new methodologies/techniques provided some of the most useful and easily digestible information at the conferences in Samara and Khabarovsk. They were seen as colleagues and their recommendations were highly regarded by the conference participants.

We also have a few observations regarding the contents of technical assistance, as follows. We found that US/international perspectives, in addition to Russian best practices, are of interest to training participants. They expect it and will accept this information that will help them benchmark for the future, if properly selected for applicability and properly presented. We should be prepared for a great lack of historical and reliable data. USAID should plan for, and consultants should be prepared to roll up their sleeves to dig deep and put together data for any meaningful analysis. There is a need for implementation of accounting standards for uniform reporting and interpretation of data. The level of automation varies greatly but the use of automated systems leaves a lot to be desired as data collection and analysis tools. Many of the modern approaches cannot be utilized without some essential computerization. There is a great need and a great deal of interest in modern revenue enhancement and expense management approaches. The area of capital expenditure by public entities needs much work both in terms of what should be public domain and how to go about prioritizing and financing such appropriate expenditures. There is great need and desire to improve the budget process and its use as a policy tool. There is also sufficient openness to improving reporting methods, therefore, we recommend that USAID continue its pursuit of enhanced transparency.

Here, we would like to say a word about the all-important issue of transparency. We had sufficient opportunity both at the conferences and during the technical assistance to establish the value of transparency to the municipalities and the regions. We believe the officials did understand the merit of it objectively, however, we realize that not all departments or officials would find it in their own best short term interest to pursue it vigorously. On the other hand, we believe that while the speed will vary from jurisdiction to jurisdiction, the direction is unmistakable. Some officials have asked for technical assistance in this area directly. Additionally, there are many indirect influences that will chip away at the lack of transparency. For example, as modern approaches and analytical techniques are applied, more and more information will have to become open. Increasing automation will have a similar effect since more data will be captured at the sources and will have to become a part of the reports.

Some organizational issues that should be considered include the understanding that the Economics Department, Finance Department, Administration and Duma each have an important role but often have different priorities that should be understood before implementing a long-term technical assistance program. The Duma is generally more supportive of transparency than the administration. The role of the finance department is generally greater in the area of budgeting, but their participation has been less. Involving Vice Governors responsible for Finance, in addition, or as opposed to Vice Governors responsible for the Department of Economics, from the beginning may be one strategy. The Booz Allen Team found that properly approached, most middle/ upper-middle level public officials were quite enthusiastic about new ideas and methods.

We have two specific recommendations in connection with the region of Novgorod, which is the third RII site. These recommendations are based on the input received from Mr. Victor Antufeev, First Deputy Head of City of Novgorod Administration for Economics and Finance, and Ms. Irina Kibina, Deputy Chairman of the Duma. First, there is an opportunity to help Novgorod establish an information network between the City, Tax Inspectorate and other agencies that are handling financial benefits and privileges such as pensions, social support, various subsidies and stipends. This would allow transparency and accessibility to data allowing improved tax collection. It will also help achieve a more rational allocation of subsidies emanating from the federal, oblast and city resources. We believe technical assistance and possible support with software may be needed.

We also understand that Novgorod would be willing to share their successes in creating a favorable business climate in the form of a formally structured document that can be disseminated for the benefit of other cities/regions of Russia. USAID may be able to encourage and support such an effort.

USAID Regional Public Finance and Investment Project Work Plan

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Work Plan

1 Introduction

Booz•Allen & Hamilton (BA&H) is pleased to submit this workplan for the project on Regional Public Finance and Investment in the Russian Federation

For readers' convenience, the work plan is presented in a compact manner. Details of specific items are attached as appendices, as shown in the table of contents

We are grateful to the officials at the Moscow Mission of United States Agency for International Development (USAID) for their kind guidance and support toward progress made to date. We also thank the Representatives for the Regional Investment Initiative (RII) and government officials from Samara, Sakhalin and Khabarovsk for their valuable support. We also appreciate the cooperation of the Union of Russian Cities (URC), the Association of Siberian and Far East Cities (ASFEC), as well as several other USAID contractors

2 Background

In support of Russia's need to mobilize domestic and foreign investments as it transitions to a market economy, US Vice President Gore and Russian Prime Minister Chernomyrdin announced a Regional Investment Initiative (RII) in February 1997. Khabarovsk Krai, Sakhalin Island and Samara Oblast were selected among the RII sites

In order to identify key obstacles to investments, USAID undertook an assessment of the public finance situation in Khabarovsk Krai and Sakhalin Island in May 1998. The assessment revealed a large number of deficiencies in public finance requiring assistance. There was lack of analytical basis for making public investment decisions and inadequacy of skills in revenue and expenditure analysis, planning and management. Existence of non-transparent intergovernmental fiscal relation was another issue. Improving trust in the government remains one of the necessary conditions for democracy and improved foreign investment. In managing public finances, the motivation was found to be primarily to meet short term needs which could lead to mounting public debt

While USAID wishes to provide assistance in the above areas, the Agency knew from experience that given many needs and current priorities it is difficult to target resources effectively. Moreover, there is a widespread lack of understanding about what technical assistance USAID can provide and its potential benefits

Thus, there is a need to create awareness about, and benefits of, assistance and to also create a desire for it. Then, it is necessary to prioritize the needs based on the officials' perceived value on an informed basis. It appeared that a conference type approach can create an awareness, motivation and "buy-in" and limited "pilot" type technical assistance can demonstrate the value of such assistance to the officials, before larger resources are committed

This delivery order to BA&H is meant to meet the demands of this is special situation in a creative manner. The next section describes how this effort addresses USAID Strategic Objectives before we discuss the two principal components of this project and how BA&H plans to carry them out.

3 Addressing USAID Strategic Objectives

The specific intent of this project is to initiate a "results chain" that will lead to the fulfillment of key USAID RII Strategic Objectives 1.2 "Tax system reformed to correspond to decentralized market economy" 1.3, "Accelerated growth and development of Private Enterprises", and Intermediate Result 1.2.1, "Policies, legislation, and regulation conducive to broad-based competition and private sector growth adapted." This document will demonstrate the linkages between the various levels of the "Training Results Chain", that is presented graphically in Figure 1 on page 4, and that is explained below.

At Level 1, results include a well-conceived workplan, conferences, and short-term technical assistance and training as planned. These are measured by the quality and effectiveness of the conferences and the short-term technical assistance in propelling the participants to the next level of results. These results are a product of background research, conference planning, and effectively delivered conferences using the most appropriate Russian and international best practices. The conferences in this program differ from typical training conferences in that their *primary* aim is not "learning of knowledge and skills." Rather, the conferences aim to create awareness among attendees, create motivation, and achieve buy-in for further targeted technical assistance and training.

At Level 2, there are two time-sequenced objectives. First, the conferences will create awareness, motivation and buy-in for technical assistance and training. Second, as a result of the short-term technical assistance and training, city and regional officials will have improved public finance and budgeting skills.

At Level 3, Learning Application Results, the results include the officials applying the new knowledge and skills they have acquired to their own jobs and tasks. This is measured by how well they improve the way they do their jobs through the application of new skills.

Level 4, Work Group Results, include developing the capacity of city and regional officials to plan and manage public finances to increase the transparency of public policy and budget planning processes at the Oblast and Municipal levels. This will be measured through productivity improvements in city and regional officials in addition to their improved planning and use of public finances. The participants will also contribute to making the finance process more transparent. This level is a result of the applied learning that took place at Level 3, at which time the officials were able to use what they learned and apply it effectively to their immediate work environments.

Level 5, Partner Organization Results, include improving trust in the Government by taxpayers, which is a necessary condition among others for democracy and improved investment. This will be measured successfully by increased and improved trust in the government by taxpayers.

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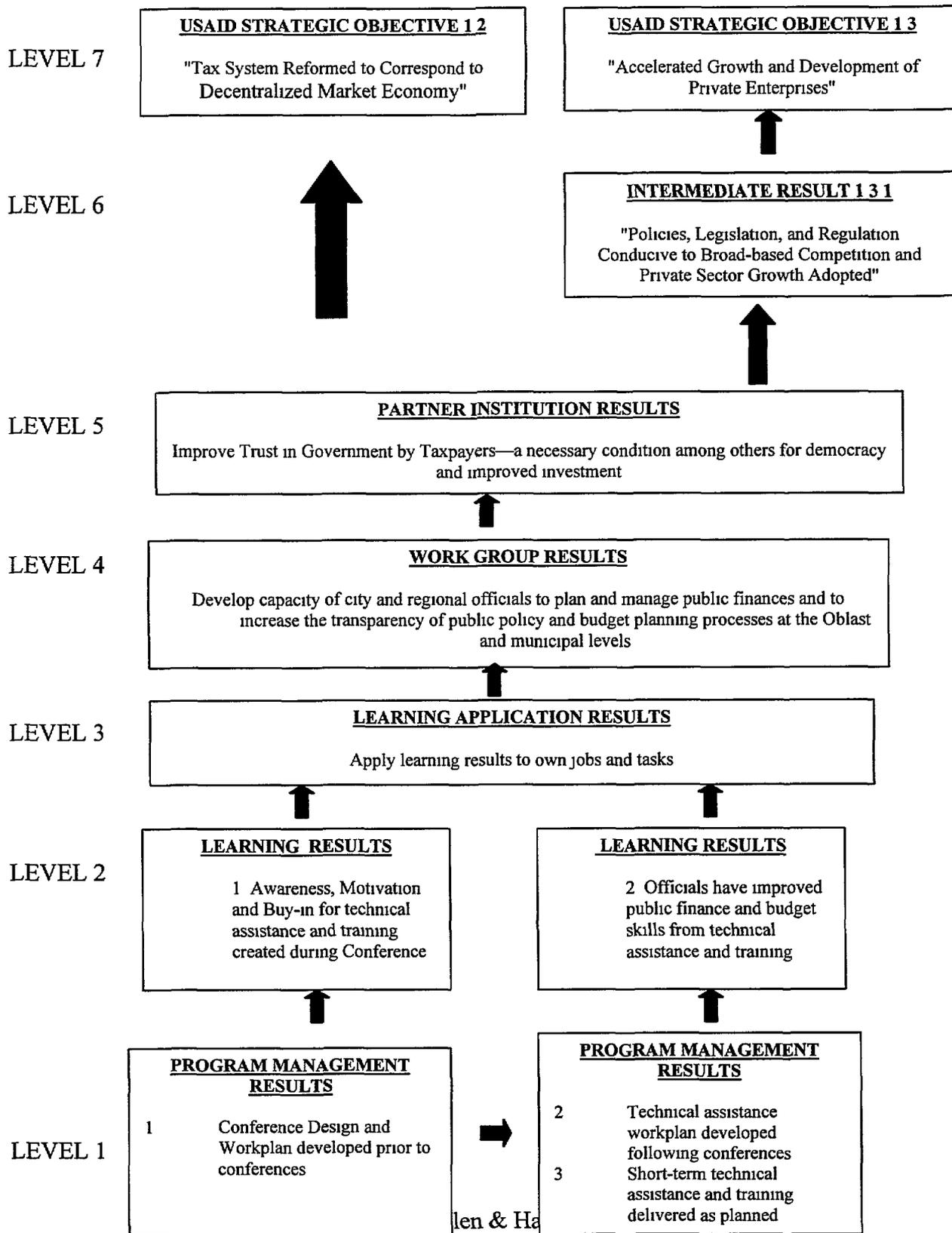
Having accomplished the above results chain, Level 6, the Intermediate Result 1.3.1, will be accomplished "Policies, legislation, and regulation conducive to broad-based competition and private sector growth adopted" This will be measured by how quickly and effectively new legislation is adopted, and how quickly the private sector grows This is the result of increased partner organization learning from Level 5

Having accomplished this learning at a higher partner organization level will lead to Level 7, resulting in the fulfillment of USAID Strategic Objective 1.2 "Tax systems reformed to decentralized market economy" This will be measured by how quickly and effectively the tax system has been reformed, and how it links back to improving trust in the government by taxpayers

Through this, the organizations will then contribute to Level 7, USAID Strategic Objective 1.3 "Accelerated growth and development of private enterprises" This will be measured through the growth of private enterprises and is a result of the creation of private sector growth legislation at Level 6

FIGURE 1

Results Chain for the Regional Public Finance and Investment Program



len & Ha
 Work Plan
 4

4 Plans for Program Components

As indicated above and directed by the TOR, these are two principal components of this program

- 1 Conferences on principles and practices of public finance in the Russian context, to educate officials on the range of options for technical assistance, resulting in the development of work plans for each region identifying and defining priorities for short and long term assistance and/or partnership, and
- 2 Implementation of limited short-term technical assistance based on approved work plans

These components are expected to be designed and implemented between October 1998 and May 1999 Attachment A provides the schedule for this workplan in Gantt Chart form (Due to the factors known to USAID, this time frame is slightly beyond that originally stipulated)

4.1 Conferences

The conferences are being designed to meet USAID's objectives as stated above And given below are certain specifics of the conferences Attached as Attachment B are the details on the design and contents of the proposed conferences

- The primary participants in the conferences will be public officials who have responsibility in the areas of budgeting, finance and economic affairs They will represent Krai/Oblast administrations, Duma and municipalities
- Two conferences are expected to be held under this program, one in Samara and one in the Russian Far East
- The RFE conference will be held in the City of Khabarovsk and it will also be attended by the representatives from Sakhalin
- The conferences will be held for three days each
- For cost effectiveness, we propose to hold the two conferences during two consecutive weeks
- The proposed contents of the conferences represent our packaging of the relevant subject matters into short discrete technical assistance areas
- Presenters will include US specialists with experience in Russia as well as in other emerging economies, Russian specialists in the field, government officials who are successful practitioners in the field, and potentially private sector representatives

- The output of the conferences will be sets of recommendations on customized short term and long term technical assistance plans for the three regions

4.2 Technical Assistance

As the outcome of the conferences, short term technical assistance needs of the jurisdictions will be prioritized and reviewed with senior counterpart officials

We expect to make the necessary preparation on the technical assistance approach prior to the conferences in order that concrete progress can be made immediately past the conferences while our team is still in the field

Availability of resources will be applied to make recommendations to USAID regarding the most appropriate TA to be provided under this task order

Once approved, appropriate US and expatriate advisors will be identified to match the TA areas selected

Attachment C contains our approach to the design and implementation of technical assistance

5 Resources Applied

A variety of financial, manpower/intellectual and collaborative resources/inputs are being applied to this project for achieving the desired objectives. Given below is a brief statement about these resources

5.1 Financial

Attachment D contains an estimated breakdown of the budget by the principal components of the program for Samara and RFE

In addition to the funds available under this task order, the following resources are expected to contribute to the overall success of this project

- 1 Limited transportation, facilities and staff support to be potentially provided as "in kind" contribution by the Khabarovsk Krai administration and Samara Oblast administration
- 2 Cost of transportation of the officials from Sakhalin Island to Khabarovsk, to be paid by their respective jurisdictions
- 3 The cost of transportation of the officials from outside the City of Khabarovsk to be borne by their municipalities

5.2 Project Personnel

BA&H offers a well-rounded team of personnel offering strong managerial and professional capabilities. Attachment E describes the role of the project personnel and Attachment F summarizes their level of effort.

5.3 Publications and Material

In order to make full use of the substantial body of information previously developed for Russia and the ENI in the area of public finance, we have reviewed materials from previous USAID projects, as well as other donor and scholarly sources toward the design of the conferences. The list of publications and materials currently under review is listed in Attachment F. Additional Russian language material is currently under review for conference use to ensure that use of previously translated material is maximized.

5.4 Collaborative Efforts

This project has been planned to be an integral part of the overall RII efforts toward growth and investment in the regions. In view of that, the project has worked closely with the RII initiatives in Samara and the RFE in gaining support for the conferences by regional and city officials. BA&H is most appreciative of the cooperation and support by Joan Agerholm, Irina Isaeva and Olga Choy of RII and by Mike Allen and other members of Sakhalin and Khabarovsk ABC offices. We are, of course, grateful to USAID officials for their ongoing advice and participation. We have also had the benefit of guidance and advice from the Union of Russian Cities and the Association of Siberian and Far Eastern Cities.

6 Outcome and Measurable Indicators

As we know, the goal of the RII is to create trade linkages with the Russian Far East and the West Coast of the United States. In addition, the RII aims to

- Work with authorities to develop a set of priorities to attract investment and generate growth,
- Develop an overall framework to put these mutually decided upon priorities in place, and
- Contribute to the central goal of improving the prospects of investment and economic growth in the given regions.

Based on USAID's assessment it was found that public finance related problems are a hindrance in reaching the objectives put forth in the RII. Problems include

- Officials are short-term goal-oriented,

- Government officers are not motivated to change and adapt financial management and budgetary processes, and
- There are regional differences in priorities and levels of commitment

Given the current situation in the Regions, Booz•Allen & Hamilton will focus on the first two levels of the results chain, Program Management Results and Trainee Learning Results (in Figure 1 of the Strategic Objectives document), in developing indicators to measure the effectiveness and success of the conferences in Khabarovsk, Samara, and Sakhalin Island

In Level 1, Program Management Results, three outcomes are scheduled with different indicators

1 Development and delivery of Conference Design and materials

INDICATORS

- A draft of the conference design was submitted to USAID at the end of November, 1998
- The final design is being submitted along with the workplan on January 8, 1999 to USAID
- Final training materials prepared with dry run (test) in Moscow on February 15, 1999
- Materials presented in Conference format in Samara Region for city and regional officials on February 17, 18, & 19, 1999
- Materials presented in Conference format in RFE Region for city and regional officials on February 25, 26, & 27, 1999
- Targeted sixty participants will attend the conferences

2 Technical Assistance workplan developed following the conferences

INDICATORS

- Draft Technical Assistance recommendations will be delivered to USAID in by March 5, 1999

3 Short-term technical assistance and training delivered as planned starting March 15 (contingent upon rapid approval)

INDICATORS

- At least three jurisdictions will be provided short term TA as determined and training, as approved, will be completed by April 30

In Level 2 of the results chain, Trainee Learning Results, there are two major outcomes with separate indicators of their success

- 1 Awareness, Motivation, and Buy-In for technical assistance and training created during the conference

INDICATORS

- For Awareness, targeted sixty participants will complete Modules I through VI of the conference
 - For Motivation, all participants will help identify need for action from their jurisdictions
 - For Buy-In, priorities for 20 TA opportunities customized and 6 work action plans will be developed
- 2 City and Regional Officials would have improved public finance and budget skills from short and long-term technical assistance and training in at least the areas of TA

INDICATORS

- At least 3 jurisdictions and 40 regional officials will participate in short-term TA and training activities focused on new financial management and budgeting skills for 1999

All participants will benefit from the short-term TA and the 100% of the TA will fall under the priorities determined by the participants in the conference 106 days of expat and 315 days of local national LOE will be expanded toward such technical assistance and training

7 Written Deliverables

- Project work plan
- Conference design and outline
- TA design
- Short and Long Term Technical Assistance Plan for Samara Region, Khabarovsk Krai, and Sakhalin Island

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- Final Report (including updated Technical Assistance Plan)
- Monthly Status Reports

**USAID Conferences on Public Finance and Budgeting
Design**

OBJECTIVES

Not Primarily Training

We recognize that these conferences are not purely training vehicles. Normally, the stand-alone training programs involve intensive treatment of a limited number of topics in order that the participants can apply the knowledge gained at their workplace. Since training is not the primary focus of these conferences, we are proposing to cover a wider waterfront of public finance/budgeting.

Creating Awareness

The first objective of these conferences is to create awareness among attendees about

- A wide range of issues/problems related to public finance
- The fact that most problems are systemic, affecting sub-national governments in all transition economies as well as much of the rest of the world
- The fact that a variety of practices/solutions are being successfully utilized by others in Russia and elsewhere

Creating Motivation

Since USAID technical assistance resources remain limited, even in the long run, the conferences are expected to prompt officials to recognize their needs and opportunities and motivate them to utilize new practices regardless of the timing or availability of TA. (Resource material in Russian will be given to the participants for their future reference.)

Creating Buy-In for Assistance

The conferences will be like an "interactive menu" introducing training/technical assistance opportunities. Once the officials recognize their needs and the opportunities for receiving technical assistance, their commitment and capacity will be assessed and priorities established, both for "pilot" short term technical assistance and for the long term needs.

CONFERENCE OUTLINE

Day 1	Morning	Welcome by Senior Regional Official/USAID
		Introduction
		Module I <i>Critical Issues Session</i>
	Afternoon	Module II <i>Sources of Funds</i>
Day 2	Morning	Module III <i>Uses of Funds</i>
	Afternoon	Module IV <i>Overall Budgetary Process</i>
Day 3	Morning	Module V <i>Capital Improvements/Infrastructure Development</i>
	Afternoon	Module VI <i>Strategy Roundtable</i>
Day 4		Meetings with selected officials

DAY ONE SCHEDULE

<u>From</u>	<u>To</u>	<u>Event</u>
8 30	9 30	Registration
9 30	10 15	Welcome and Introduction
10 15	11 00	Module I
11 00	11 15	Coffee Break
11 15	12 30	Module I (cont)
12 30	1 00	Guest Speaker
1 00	2 00	Lunch
2 00	3 30	Module II
3 30	3 45	Coffee Break
3 45	4 45	Module II (cont)
4 45	5 30	Break Out Sessions and Reporting
5 30	6 30	Optional Session
6 30		Reception followed by dinner

DAY TWO SCHEDULE

<u>From</u>	<u>To</u>	<u>Event</u>
9 00	10 30	Module III
10 30	10 45	Coffee Break
10 45	11 45	Module III
11 45	12 30	Breakout and Reporting
12 30	1 00	Guest Speaker
1 00	2 00	Lunch
2 00	3 30	Module IV
3 30	3 45	Coffee Break
3 45	4 45	Module IV (cont)
4 45	5 30	Break out sessions and reporting
5 30	6 30	Optional Session

DAY THREE SCHEDULE

<u>From</u>	<u>To</u>	<u>Event</u>
9 00	10 30	Module V
10 30	10 45	Coffee Break
10 45	11 45	Module V (cont)
11 45	12 30	Breakout and Reporting
12 30	1 30	Lunch
1 30	2 45	Module VI
2 45	3 00	Coffee Break
3 00	4 00	Module VI (cont) and Conclusion

APPROACH

Introduction

The introductory remarks will cover the following

- Objectives of the conference
- Agenda of the conference
- Approach/Methodology Described
- Recommendations/guidance on maximizing the value of the conference to the attendees

This presentation will utilize flip charts containing the outlines shown in pages B-19 and B-20. As the conferences progress, the flip charts will record and track the progress being made.

Module I

The first module is intended as a "situation analysis" to bring out critical issues/problems in order to establish the need for action/capacity building/modernization in the area of budget/public finance.

Modules II through V

These modules will consist of the following

- 1 Lectures that incorporate illustrations of current applications, experiences, best practices and demonstrations on the module topics (see pages B-9 through B-13 for details) presented by expatriate and Russian specialists and public officials (see pages B-15 through B-18 for proposed presenters). Follow-up will include a question and answer module.
- 2 Breakout sessions for discussion by the participants, followed by two minute reports by each group, on the following
 - Their present situation in the topics covered
 - Potential for utilization of the concepts presented
 - Desirable training/technical assistance (TA)

Module VI

While technical assistance and training opportunities will be identified throughout the modules, this last module and Day 4 are specifically intended to recap action opportunities and to identify TA needs/interest.

CONTENTS

Basis

Contents for the conferences have been selected based on the following

- Guidance provided under Delivery Order #801
- The two studies conducted by USAID representatives in Khabarovsk Krai and Sakhalin Oblast in May 1998, which, along with the TOR, were the main contributors
- Issues identified via observations and discussions at the Economic Development Conference in Galitsino in October 1998
- Elements gleaned from the relevant literature
- Feedback from the government officials in the three oblasts and cities when discussing the proposed conferences during our visits

TA Clusters

Tools, techniques, practices and procedures to be covered under these conferences have been clustered into 20 free standing areas of technical assistance for ease of prioritization (as seen in bold on pages B-9 through B-13) Once selected these clusters will be customized to the needs of the recipients

MODULE I

CRITICAL ISSUES SESSION

Panel remarks

Selected panelists will make brief remarks on the following

- Fiscal decentralization
- Regional Perspective
- The growing role of local self government
- Economic Restructuring
- "The Crisis" and its fallout
- Point of view of the private sector investors (tentative)
- Point of view of the federal government (tentative)

Discussion

This is the most important part of Module I. With assistance, the attendees will be encouraged to express themselves on issues and problems they are facing. This discussion will cover, *inter alia*, essential services, traditional subsidies, inadequacy of revenues, relevance of SOEs during the transition, social assets, political relationships, and the state of the current budgetary process in the oblasts/cities.

Intended outcome

- Consensus on the need for budgetary reform
- Identification of critical issues/problems, significant developments impacting public finance, obstacles to be overcome, opportunities, and capacity building needs

MODULE II

SOURCES OF FUNDS

1 Extrabudgetary Funds

- Transparency
- Economic Management

2 In-Transfers Grants

- Issues
- Transparency
- Designing Intergovernmental Transfer Systems
- Global Practices
- Current Russian Situation

3 Taxes

- Role of Central Government/Local Governments
- Types of Tax/Revenues
- Characteristics of Tax System
- Designing Local Government Tax Systems
- Global Practices
- Current Russian Situation

4 User Charges/Fees

- Application of User Charges/Fees
- Developing Charging System
- Global Practices
- Current Russian Situation

5 Debt/Borrowing

- Cash Flow Issues
- Use of Short Term Debt

6 Forecasting/Estimation

- Time Frame of Forecast

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- Short Term (0-1 Year)
- Medium Term (1-5 Years)
- Long Term (10+ Years)
- Methods
- Expert or Best Judgment
- Trend Forecasting
- Deterministic Forecasting
- Econometric or Statistical Forecasting
- Revenue Forecasting

MODULE III

USES OF FUNDS

This module will cover the following areas

1 Why government finances certain services

- Intergovernmental transfers
- Expense assignments

2 Classification of expenditures

3 Multiyear planning and budgeting

- Analyzing line items
- Projection/estimation of expenditures

4 Managing financial resources

- Setting service priorities
- Increasing efficiency vs effectiveness
- Competitive purchasing

MODULE IV

BUDGETARY PROCESS

This module pulls together sources and uses of funds and treats the budgetary process as a whole. It will cover, *inter alia*

1 The Budget

- Role of the budget as a policy, planning and control tool
- Planning process/cycle/management

2 Budget restructuring

- Program budgeting/performance budgets
- Balancing the budget/mutual settlement
- Impact of unemployment, economic development and inflation

3 Citizen participation/disclosure/transparency/accountability (harnessing the power of public opinion and building trust)

4 Reporting and variance analysis

5 Treasury function

6 Demonstration

Use of computers, covering databases, spread analysis and simulation

MODULE V

CAPITAL IMPROVEMENT/INFRASTRUCTURE DEVELOPMENT

1 Needs/Importance

- Identifying Capital Improvements Projects
- Economic Development

2 Selection of Criteria/Process

- Inventory of Capital Improvements
- Development of Prioritization Criteria
- Methods of Project Evaluation
- Cost-Benefit
- Net Present Value

3 Financing

- Strategies
- Financing Alternatives
- Pay-As-You-Go versus Debt Financing
- Sources of Financing
- Debt Issuance
- Creditworthiness/Ratings/Debt Capacity

4 Alternative Service Delivery

- Comparing Public, Private and NGO Sectors
- Strategies
- Concession
- Franchises
- Build, Operate, Transfer (BOT)
- Intermunicipal Cooperation

MODULE VI

STRATEGY ROUND TABLE

- Recapping the relevant/important issues/concepts identified under Modules I-V
- Recapping of the present inadequacies
- Identification/sequencing of needs and action opportunities/planning
- Identification of TA/training needs
- Prioritization of needs
- Assessment of absorption capacity/state of readiness to utilize TA/training

PROPOSED CONFERENCE PRESENTERS

Stated below are our objectives in proposing six categories of presenters at the conferences and the approach for their selection and participation. Some of it has been already discussed with, or required by, USAID. However, it is summarized here for completeness.

EXPATRIATE ADVISORS

Objective

The objective in proposing the number and type of expat advisors is as follows:

- To provide expertise in the best practices covering all the desired subject matters
- To present experience from Russia as well as other transition economies
- To maximize the quality and effectiveness of the conferences

Approach

BA&H is proposing the chief of party and two other specialists to be presenters at the conferences in both Samara and the RFE as follows:

Bharat Bhargava Has thirty years of experience in conferences/training organization, speaking, moderation and facilitation. He also has extensive experience as a public official in finance and economic development and in municipal financing and has built private/public partnerships. He has successfully managed USAID training and technical assistance projects in a large number of transition/emerging economies, and has led technical assistance work in Russia since 1993 covering banking, foreign investment promotion and public finance. Mr. Bhargava has done much research in connection with this project and has developed the proposed design of the conferences. He will have the overall programmatic responsibility and will lead Modules I and VI.

Albert Sharp Has more than 20 years of public management experience strengthening the performance of local governments, implementing enhanced inter-governmental relations, improving public finance practices and increasing the level and effectiveness of citizen participation that also includes a number of transition economies. Specifically, during 1993-96 he headed the USAID funded Municipal Finance and Management Project in Russia. He developed and executed a work plan, which included management information systems and automation of the analytical functions of the Finance Department, City of Moscow. His key strength is in the areas of expense analysis and in budget development/modeling. He will be the lead expat presenter of Module II and Module IV.

Glen Wright Has over 26 years experience in the field of public finance including six years in Central/Eastern Europe and the NIS. Besides having been a practitioner and provider of technical assistance, Mr. Wright has distinguished himself in developing and conducting

training conferences and workshops in the areas covered by our current project. He has written extensively in this field for the benefit of local governments in transition economies and his work is being utilized by thousands of municipalities. His recent book which has text and cases studies from transition economies on revenue systems, taxation, expenditure analysis and alternative service has also been translated in Russian. Capital improvements planning, financing bond issuance and related legal reform are among his major strengths. He will be the lead expat presenter under Module III and Module V.

RUSSIAN SPECIALISTS

Objective

We expect to maximize the involvement of--and contribution by--Russian specialists with the following objectives in mind:

- To offer more intimate knowledge of the best practices in Russia
- To offer greater credibility
- To establish and showcase the Russian specialists as long term resources

Approach

The BA&H approach, already in progress, is as follows:

- To pick the highest quality specialists with experience in related projects
- To involve them in individual modules and the panel discussion according to their specialty
- To dovetail their contribution with that of the expat specialists
- To offer some different and some of the same specialists for between the RFE and Samara

A number of names have been short-listed but work in this area is still in progress.

GOVERNMENT OFFICIALS AS PRESENTERS

Objective

The objective of featuring government officials from other jurisdictions as presenters is as follows:

- To showcase examples of modern practices at oblast and city levels
- To gain credibility by offering the point of view of peers (as opposed to consultants - expat or Russian)
- To establish that better practices are possible in Russia and even under the present difficult circumstance

- To allow an opportunity for informal interaction between the participants and other practitioners
- For networking among officials for mutual consultations in the future

Approach

For optimally meeting the above objectives, we propose

- To invite two such officials (not more because of the paucity of time)
- To have one official from an oblast and the other one from a city
- To have one of the officials speak on Day 1 and the other on Day 2 and have each be present for as long as possible for informal discussions

PRIVATE DIRECT INVESTOR(S)

Objective

The objective in featuring a significant private sector investor at each conference would be

- To present their view point and assessment of the present investment climate
- To draw out their suggestions pertaining to public finance actions that would make a jurisdiction more attractive to investors

Approach

Our proposed approach would be

- To invite the head or a senior official of Pepsi or Nestle in Samara
- Identify and invite a similar individual in the RFE

USAID OFFICERS

Objective

We are hopeful USAID program officials will be at the conferences for the following purposes

- To represent the host entity
- To be able to introduce USAID and its role to officials from more remote municipalities
- To establish ongoing relationship (as opposed to our project oriented role)
- To be able to get new decisions, where appropriate, on issues brought up during the conferences

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- To ensure USAID's first hand knowledge of the events and of the views of the participants regarding the TA needs

Approach

Our recommendations to USAID include

- To welcome the participants
- To be represented throughout the event both in Samara and RFE
- To join the BA&H team in meeting the selected officials on Day 4 and possibly the day after when the BA&H team proposes to regroup for organizing the findings and recommendations

CHIEF GUEST

Objective

We are proposing to invite a distinguished senior figure to open the conference in order

- To enhance attendance
- To lend importance to the event
- To add color to the event

Approach

Our approach is to pursue the following avenues/options

- To take up officials of the Samara oblast on their offer to facilitate opening remarks by the governor
- To explore the possibility of the Governor of Khabarovsk appearing in the RFE
- To ask USAID if they have any suggestions/contacts suitable for this purpose
- To ask ASFEC and URC for their suggestions/contacts

The conference modules II through V show 20 discrete TA areas. We expect the prioritization to be based on these clusters of practices. Six TA recommendations will be made to USAID, two per region for covering short term and long term needs, utilizing the attached table of contents.

Once approved by USAID and agreed upon by the receiving jurisdictions, the following approach will be taken toward providing short term TA

- 1 Selection of the right mix of expat and Russian specialists for each oblast/krai. Russian specialists will be more dominant in each team.

2 Agreement will be reached with the jurisdictions receiving TA on the following

- Early Timing
- Assured identification and availability of the most appropriate staff
- Availability of the relevant information and data
- Preparation to be done by the recipients prior to the arrival of the advisors
- Existence of a very high level "Champion for the Change"
- Needed attention and decision making during the TA timeframe
- Logistical matters

3 The actual implementation of the short term TA will entail the following, as applicable

- Attaining a clear understanding with the counterpart of the specific scope of the TA
- Participation by operating personnel in the introduction, design, and implementation of tools, practices and procedures, to build their "equity" in the outcome and, indeed, to benefit from their knowledge
- Continuous consensus building in all subjective areas with all affected departments/personnel
- Consultations with "top management" for review and validation of intermediate outcomes and resolution of potential obstacles in advance as much as possible
- Training of personnel on the job as well as in classroom type settings
- Development of written documents on the reformed practices, collaboratively
- Introduction to available resources for ongoing enhancement of reformed approaches, directly accessible by the client after TA is concluded

TECHNICAL ASSISTANCE WORK PLAN OUTLINE

I INTRODUCTION

(Background, Strategic Objectives, Purpose of Plan)

II TECHNICAL ASSISTANCE & TRAINING NEEDS ASSESSMENT

(Identification and Prioritization of Needs by Region and Short/Long Term Time Perspective)

III TECHNICAL ASSISTANCE & TRAINING PLAN

(Plan Objectives, Short/Long Term Assignments by Region and Start/End Dates and Level of Effort)

IV RESOURCE REQUIREMENTS FOR PLAN

(Short/Long Term Technical Assistance & Training Resource Requirements and Delivery Mechanisms both by Contractor and other Programs)

V CONCLUSION AND NEXT STEPS

(Decisions and Specific Action Plans by Region)

APPENDICES

Role of Personnel

Bharat Bhargava

Bharat Bhargava has the overall responsibility on behalf of Booz•Allen for programmatic design and delivery. He (along with Orysia Pylyshenko as well as USAID/RII representatives) has the responsibility for senior regional and municipal officials about the project and eliciting support and participation. He will direct the conferences and TA, and handle Modules I and VI of the conference along with Russian specialists.

Orysia Pylyshenko

Orysia Pylyshenko, in her role as Booz•Allen project manager, is responsible for project planning and coordination. In addition, she is working as Training Coordinator for the task. In this capacity, her responsibilities include training material research and collection, conference organization and oversight, identification of Russian specialists, field personnel administration and field financial management.

Dr. Marcus Ingle

Dr. Ingle will design conference and TA templates and will advise on linking the program with USAID strategic objectives and measurable indicators. Given his vast experience and familiarity with the project, he is also available for short term technical assistance following the conferences, as appropriate to client needs and his professional skills.

Al Sharp

Al Sharp will help refine and prepare presentation material for Modules III and IV of the conference. He will utilize his vast experience in Russia to exemplify the use of techniques under these modules in Russia. Al Sharp will participate in the design and is also available for short term technical assistance as the need is determined.

Glen Wright

Glen Wright will help refine and prepare presentation material for Modules II and V of the conference. He will utilize his vast experience in transition economies to exemplify the use of techniques under these modules in various emerging economies. Glen Wright will participate in the design and is also available for short term technical assistance as the need is determined.

Irina Abankina

Irina Abankina will assist the project in gathering of Russian material and toward certification of Russian specialists. She is also short-listed to speak at the conferences and to provide technical assistance.

Other Russian Specialists

Russian specialists are being short-listed, to be finalized this month. They will have significant roles in making presentations at the conferences, determination of priorities, and design of TA. They will also play a major role in providing TA.

Tanya Sukharukova

Tanya Sukharukova is providing a full range of administrative and logistical support toward the preparation and delivery of conferences. She is responsible to BA&H in Moscow for gathering of Russian material, obtaining CVs of potential Russian specialists, and liaison with Russian entities as needed. She will be the chief support to Orysia Pylyshenko in her role as the Training Coordinator at the conference sites.

PROJECT PERSONNEL
LEVEL OF EFFORT MATRIX

DELIVERABLE I Work Plan (Conference Planning Trips, Conference Preparation, Delivery and Technical Assistance Work Plan Development)

NAME	LOE
Albert Sharp	25
Glen Wright	25
Bharat Bhargava	54
Orysia Pylyshenko	40
Marcus Ingle	6
Total	150

DELIVERABLE II Short Term Technical Assistance

NAME	LOE
Albert Sharp	20
Glen Wright	40
TBD	30
Bharat Bhargava	11
Orysia Pylyshenko	5
Marcus Ingle	1
Total	107

MATERIALS CURRENTLY UNDER REVIEW FOR CONFERENCE USE

Research Triangle Institute

Materials developed under USAID funding for the Russian Federation

- 1 The Model of the City Financial Position Municipal Budget Analysis and Planning
- 2 Analysis of the Municipal Budget (Russian language)
- 3 Municipal Taxes and Investment into Municipal Infrastructure (Russian language)
- 4 Citizen Participation in Self-Government (Russian Language)
- 5 Municipal Budget Analysis, Vladimir, Russia
- 6 Capital Finance Workshop
- 7 Municipal Finance and Management Project Final Report

Materials Developed for the Kyrgyz Republic

Financial Planning Framework Course (USAID Municipal Finance and Management Project, Karakol, Kyrgyzstan)

Carana

Diagnostic Report of the Investment Environment and Investment Promotion Program of Khabarovsk Krai, September 1988

International City/County Management Association (ICMA)

- 1 1998 Local Government Innovative Practices Guide for Central and Eastern Europe and the New Independent States, 1988 Addendum
- 2 Local Government Innovative Practices Guide for Central and Eastern Europe and the New Independent States (Russian Language)

Materials Received from the Institute of Urban Economics (IUE)

- 1 Default Risk and the Effective duration of bonds, Babbel David, Merrit Craig, Panning William (General Finance)

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- 2 East European Municipal Credit Conference, June 7-10,1994 in Budapest Conference, Proceedings and Analysis, Peterson Gerge, Pigeey Juliana
- 3 Municipal Infrastructure Finance in Russia Issues and Prospects, Robert D Firestine, Alexey Novikov, Ilona Dmitrieva, Alexander Kopeikin
- 4 Financial Analysis of multi-year Municipal Infrastructure Finance a Hypothetical Example (no author is mentioned)
- 5 Capital Projects New Strategies for Planning, Management and Finance Matzer John, editor

In addition to the materials above, IUE is in the process of collecting Russian language materials related to public finance

CEEPAA

These materials were prepared under the CEEPAA/Romania USAID funded project

- 1 Establishing Financial Management Policies in Local Governments
- 2 Strategic Planning in Local Governments

Northern Economics, Inc

Sakhalin Island Infrastructure Development Plan

Georgia State University

The Russian Federation Fiscal Reform Project has provided the following in draft form

- 1 Intergovernmental Fiscal Relations in Leningrad Region, Georgia State University and Barents Group, LLC
- 2 A Conceptual Framework for Intergovernmental Relationships Within the Oblast
- 3 The Distribution of Natural Resource Taxes in the Russian Federation

Other Reference Materials

Wallick, Christine, ed Russia and the Challenge of Fiscal Federalism, The World Bank

Wright, Glen 1996 The Division of Central-Local Government Functions, in Public Administration in Transition, Jab Jakes and Mirko Vintar, editors, Bratislava NISPACEE

GH

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Horvath T M Case Study The Grant System in Hungary in Public Finance Theory and Practice in Central European Transition, Juraj Nemeč and Glen Wright, ed Bratislava NISPAcee

Bahl and Linn Urban Public Finance in Developing Countries, Oxford

Dillinger Decentralization and Its Implications for Urban Service Delivery, The World Bank

Bird, R M, Ebel, R D and Wallich, C 1995, eds Decentralization of the Socialist State Intergovernmental Finance in Transition Economies, Washington, D C The World Bank

Brada, Joseph C 1996 Privatization Is Transition--Or Is It? Journal of Economic Perspectives, Vol 10, Number 2, Spring 1996, pp 67-86

Dillinger, William, 1994 Decentralization and Its Implications for Service Delivery, Washington, D C The World Bank

Murrell, Peter, 1996 "How Far Has the Transition Progressed?" Journal of Economic Perspectives, Vol 10, Number 2, Spring 1996, pp 25-44

Nordhaus, William, 1992 "Soviet Economic Reforms The Longest Road," Washington, D C , The Brookings Institution

Bird, R M, Christine Wallich 1993 Fiscal Decentralization and Intergovernmental Relations in Transition Economies Toward A Systematic Framework for Analysis, Washington, D C The World Bank, Working Paper 1122

Bird, R M, Christine Wallich and Gabor Peteri, 1995 "Financing Local Government in Hungary" in Decentralization of the Socialist State Intergovernmental Finance in Transitions Economies, Washington, The World Bank

Horvath, M T 1996 Decentralization in Public Administration and Provision of Services An East-Central European Approach in Environment and Planning Government and Policy Vol 14

Kingsley, Thomas 1996 "Fiscal Decentralization and Revenue Generation," Paper prepared for USAID Consultative Meeting on Local Government in Transition Countries A Perspective for the Year 2000 Washington, DC International City Management Association

Gordon, Michael 1997 "Yeltsin's Political Gamble Ending Housing Subsidies" Frankfurt International Herald Tribune July 14, 1997

Tait, Alan (1991) "VAT Policy Issues Structure, Regressivity, Inflation and Exports" in Value Added Tax Administrative and Policy Issues, Alan Tait, ed Washington, D C International Monetary Fund

Booz Allen & Hamilton

Work Plan

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The World Bank World Development Report 1996 From Plan to Market, New York Oxford
University Press

The World Bank World Development Report 1997 The State in a Changing World, The World
Bank

Mihaly Hogue Case Study The Hungarian Tax Administration in Public Finance Theory and
Practice in Central European Transition, Juraj Nemec and Glen Wright, eds, Bratislava
NISPACEE 1998

Kveta Kubatova Forms of Taxation in Public Finance Theory and Practice in the Central
European Transition, Juraj Nemec and Glen Wright, eds Bratislava NISPACEE, 1998
Bird, R M 1976 Charging for Public Services A New Look at an Old Idea, Canadian Tax
Foundation, Toronto

Brownlee, O H 1991 User Prices vs Taxes, in Public Finances Needs, Sources and
Utilization, A Conference of the Universities-National Bureau Committee for Economic
Research, Princeton University Press, Princeton, pp 421-437

Davey, K 1983 Financing Regional Government International Practices and their Relevance to
the Third World, John Wiley & Sons, Chichester

USAID Materials

Report on Russian Far East Khabarovsk Krai Region

Report on Russian Far East Sakhalin Island Region

USAID Regional Public Finance and Budgeting Conferences
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USAID Regional Public Finance and Budgeting Conferences

As required under the Terms of Reference Booz•Allen & Hamilton organized two Public Finance and Budgeting Conferences in Russia in support of the Regional Investment Initiative. These conferences were held in Samara and Khabarovsk during the month of February 1999. Given here is summary report on the actual conduct of the conferences. Attachments 1 through 17 contain specific, relevant details.

The conferences were designed to meet the objectives of the terms of reference, details of which are given as Attachment B of the Work Plan attached. Overall, our methodology involved the following steps:

- Highlighting participation, key issues and problems in public finance and budgeting in Russia
- Presentations on the various key aspects of public finance and budgeting, covering modern tools, techniques, best practices and experiences from within Russia and other transition economies, compartmentalized into four distinct subject matter modules (Attachment 1 gives illustrative schedule used at the conferences and Attachment 2 is an illustration of the Russian transparencies used for the presentations, in English. Attachment 3 speaks about the Resource Books and Diskettes provided.)
- Discussion among the participants, as small breakout groups, on the importance they attached to the topics covered under each module
- Identification of the areas of possible technical assistance by USAID for the individual jurisdictions

Speakers included US and Russian specialists, Russian practicing officials from other territories, a senior official from the Office of the President, a Deputy Minister of the Russian Federation, private sector representatives, USAID officials, RII, and a Vice Governor/Duma officials (Attachment 4 is the list of speakers at the conferences.)

From all indications, the conferences were deemed to be highly successful. Based on the feedback received from the participants, the conference was an excellent opportunity for officials to learn about new public finance methodologies that have been used successfully in Russia and internationally (Attachment 5 contains written comments and suggestions made at the conferences.)

Samara Conference

The Samara conference was held at the Vesta Hotel from February 17th to February 19th. It was attended by over 46 officials from Samara's Oblast administration, Duma, cities and municipalities (Attachment 6 is the list of participants from Samara.)

During the conference the participating officials enthusiastically discussed future technical assistance needs and priorities (Attachments 7 and 8 are the long term and short term technical assistance requests from Samara.) A core team from Booz Allen met with Vice Governor Khasaev after the conference to help narrow down the topics for immediate short-term technical assistance. Subsequent to the meeting, an issue arose regarding possible funding of computer purchase by the Oblast (Attachment 9 and 10 are letters from the Vice Governor on this subject.)

While in Samara, we had the opportunity of reporting on the project at a contractors' meeting held by the Mission Chief, Ms Janet Ballantyne. Also, we had a chance to tell the US Ambassador Mr James Collins and the Samara Oblast Governor Mr Constantine Titov about the project. The Governor commented, "Keep going ahead. This is a very important area for us."

Khabarovsk Conference

A three-day conference in the Russian Far East (RFE), covering the same topics as the Samara conference, was held in Khabarovsk from February 25th to 27th. The Khabarovsk conference was attended by representatives from Khabarovsk Krai and Sakhalin Oblast administrations, Dumas and city administrations (Attachments 11 and 12 provide the list of participants from Khabarovsk and Sakhalin.) While the same format was followed as in Samara, certain specialists, officials, the private sector representative and, RII representatives, were different.

Knowing about the potential reluctance of Khabarovsk and Sakhalin officials toward technical assistance, our objective was to communicate the message in such a way as to foster interest on their part. The enthusiasm on the part of both regions and cities was very high, and as an added benefit the officials from two regions were able to compare their experiences (Attachments 13 through 16 provide the list of technical assistance requests from Khabarovsk and Sakhalin.)

At our meeting with Khabarovsk Vice Governor Levintal, he noted the high enthusiasm of the participants and expressed his own appreciation. Senior officials from Sakhalin also reported on television and radio the day following their return to describe the conference in glowing terms. We also received a letter from the chairman of the Duma and the Governor of Sakhalin Oblast commending the conference and adding their own ideas on possible technical assistance (Please see Attachments 17 and 18.)

Booz Allen is grateful for the support provided by the USAID officials, RII representatives and the senior officials of the three regions. We highly appreciate the time, lively participation and generous evaluation of the conference attendees. We are also appreciative of the Russian guest speakers who made an invaluable contribution to the quality of the conference.

USAID Regional Public Finance and Budget Conference
KHABAROVSK
FEBRUARY 25-27, 1999

TOPIC/TIME ALLOCATION

Day 1

Module I Introduction

Leader – Bharat Bhargava

Module II Sources of Funds

Co-Leaders – Glenn Wright and Irina Abankina

Module overview – Glenn Wright – 10 min

1 Extra-budgetary Funds – L Tokun – 10 min

2 Public Financing – Oleg Grigoriev – 15 min

Guest Speaker Valentina Smirnova, Novgorod Oblast – 20 min

Discussion – 10 min

3 Taxes

4 Non-tax Revenues (charges and fees)

O Grigoriev – 10 min – sales tax and up-front tax

A Vysokovsky – 20 min – property taxation

5 Debt/Borrowings

L Tokun – 15 min

6 Estimation and Forecasting

G Wright – 20 min

L Tokun – 25 min

Day 2

Module 3 Expenditures

Co-Leaders – Al Sharp and Ludmila Tokun

1 Reasons for Government Funding of Specific Industries

2 Expenditure Classification

Panelist Al Sharp – 60 min

3 Multi-year Budget Planning

Panelist Oleg Grigoriev – 30 min

Guest Speaker Olga Molchanova, Novosibirsk – 40 min

4 Management of Financial Resources

Panelist Ludmila Tokun – 20 min

Module 4 Capital Budget/Infrastructure Development

Co-Leaders – Glenn Wright and Irina Abankina

1 What is needed

2 Criteria Selection, Selection Process

Panelist Glenn Wright – 30 min

2 Financing

Panelists Pavel Svistunov – 40 min

Alexander Vysokovsky – 20 min

3 Alternatives

Panelists

Glenn Wright – 15 min

Irina Abankina – 15 min

Pavel Svistunov – 15 min

Municipal Budget Computer Model Demonstration

Vladimir Pushkarev, Novosibirsk – 60 min

Day 3

Module 5 Budgeting

1 Budget

2 Budget Restructuring

Panelist Al Sharp – 45 min

3 Financial reporting and discrepancy analysis

4 Treasury Function

Panelists

Oleg Grigoriev – 30 min

Pavel Svistunov – 10 min

5 Transparency, Accountability

Panelists

Ludmila Tokun – 20 min

Irma Abankina – 10 min

Module 5 wrap-up Al Sharp – 20 min

Video – Public discussion of the budget

Module 6 Round Table Discussion

Leader – Bharat Bhargava

Illustrative Transparency
(English Translation)

USAID Regional Public Finance and Budget Conference

Designing the Budget Process

- **Budget Preparation**
- **Citizen Participation**
- **Budget Adoption**
- **Budget Implementation**
- **Budget Control**
- **Budget Reporting**
- **Budget Analysis**

Two volumes of resource books and two diskettes on relevant literature were provided to each participant They will be submitted separately

SPEAKERS

USAID

Stephen Giddings
Angelina Gurkina

RII

Yekaterina Lushpina
Irina Isaeva
Igor Malinov

Expats

Bharat Bhargava
Glen Wright
Albert Sharp
Orysiya Pylyshenko

Russian Specialists

- 1 Irina V Abankina Doctor of Economics, Specialist in local and regional policy, budget relations and management
- 2 Lyudmila V Tokun Doctor of Economics, Assistant Professor, Department of Finance Management, State Management University
- 3 Oleg V Grigoriev Economist 1993-1999 Head of the Budget Sector of the Department on Economics of the President's Administration
- 4 Pavel V Svistunov Specialist on Funding of local infrastructure and on analysis of debt policy of the Russian Federation (RF) subjects, municipal institutions, banks, corporations and municipal services
- 5 Vladimir M Pushkarev Doctor of Economics, Head of the Department of the Institute of Economics and Industry Organization, Novosibirsk
- 6 Alexander A Vysokovsky Doctor of Architecture, Specialist city development, land laws, real estate management, investment in construction
- 7 Boris L Rudnik Doctor of Economics Head of the Budget Sector of the Department on Economics of the RF President's Administration

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8 Lev I Yakobson Professor of Economics, Moscow State University Pro-rector of the Highest School of Economics (Moscow)

9 Dmitry Shishkin Specialist in modeling of inter-governmental relations

Invited Speakers

1 Gabibula Khasaev Deputy Governor, Director of the Department of Economics of the Samara region

2 Alexander G Voronin 1st Deputy Minister of the Ministry on the RF Regional Policy

3 Tatiana V Ivanova Head of the Department of Planning and revenue analysis of the Administration of Novgorod the Great

4 Pavel A Minaker Member of the Russian Academy of Science Director, Economic Research Institute

5 Valentina N Smirnova Deputy Chairman of the Finance Committee of Novgorod Oblast

6 Olga V Molchanova Head of the Department on Economics, Novosibirsk

7 Alexey M Lavrov Advisor to the Minister of Finance, Russian Federation

Private Investors

1 Jim Boyette Director General, Samara Optical Cable Company, a Joint Venture with Corning Glass Corporation

2 Sergey K Matveev Director General, Dalkos, a Russian-Italian Joint Venture

Written Comments and Suggestions from Participants

"The organization was absolutely tops "

"We highly value being able to get acquainted with others' experience in bringing investors to the region "

"Requests workshops on each module"

"Organization was Grade A "

"Materials and Equipment A"

"We would like to have more data on US experience for us to compare "

"Seminars and meetings would be more efficient if you could hold them in localities where interregional associations for economic cooperation are already functioning "

"It's better to invite 4 types of specialists to such seminars experts from big cities, experts from city municipalities, experts from rural municipalities and specialists representing subjects of the Russian Federation"

"Can you share with us a computer model of a city budget from any of the US states?"

"I liked small group discussions on different modules "

"The seminar was up to the mark "

"You gave in-depth answers "

"We liked the modules scheme discussions during breakout sessions that allowed to understand the possibilities and solutions for many problems "

"Many thanks for organization of the conference I would like to thank the presenters, simultaneous interpreters, and all the supporting staff for their high professionalism "

"I would only suggest to give more time to questions and discussions on each module "

"Need more time during the break-out sessions "

SAMARA PARTICIPANTS

Regional Administration

- 1 Gabibula Khasaev Vice Governor, Director of the Department of Economics of the Samara Region
- 2 Lyubov Ivanova First Deputy Director of the Department of Economics of the Samara Region
- 3 Andrei Pryamılov Deputy Director of the Finance Department of the Samara Region

Department of Economics

- 4 Helen Timofeyeva Head of the Investment Sources Division, Department of Economics of the Samara Region
- 5 Victor Kudryashov Head of the Investment Policy and Investment Projects Division, Department of Economics of the Samara Region
- 6 Oleg Mayorov Head of the Forecasting, Capital Investment and Infrastructure Development Division, Dept of Economics of the Samara Region
- 8 Olga Samoilova Head of the Financial Resources and Tax Policy Division, Dept of Economics of the Samara Region
- 9 Tamara Abakumova Team Leader of the Investment Policy and Investment Projects, Dept of Economics of the Samara Region
- 10 Inna Davletshina Group Head of the Investment Resources Division, Dept of Economics of the Samara Region
- 11 Alexander Lyukjanov Group head of the Financial Resources and

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- | | |
|------------------------|--|
| | Tax Policy Division, Dept of Economics of the Samara Region |
| 12 Elena Morozova | Group Head of the Investment Resources Division, Dept of Economics of the Samara Region |
| 13 Elena Barvinok | Chief Specialist of the Investment Resources Division, Dept of Economics of the Samara Region |
| 14 Alexander Zuyev | Chief Specialist of the Investment Policy and Investment Projects Division, Dept of Economics of the Samara Region |
| 15 Lyudmila Pankratova | Chief Specialist of the Investment Policy and Investment Projects Division, Dept of Economics of the Samara Region |
| 16 Elena Udalova | Chief Specialist of Investment Resources Division, Dept of Economics of the Samara Region |
| 17 Svetlana Fyodorova | Chief Specialist of the Investment Policy and Investment Projects Division, Dept of Economics of the Samara Region |
| 18 Valentina Fedyakina | Head of the Revenues Forecasting and Tax Policy Division, Dept of Finance of the Samara Region |
| 19 Alexi Aleksandrov | Deputy Head of the Consolidated Budget Division, Dept of Finance of the Samara Region |
| 20 Elena Danilova | Deputy Head of the Consolidated Budget Division, Dept of Finance of the Samara Region |
| 21 Sergei Mackarenkov | Deputy Head of the Financial and the Securities Market Division, Dept of Finance of the Samara Region |
| 22 Elena Shigayeva | Deputy Head of the Revenues Forecasting and Tax Policy Division, Dept of Finance of the Samara Region |

23 Tatyana Stepkina Chief Economist of the Consolidated
Budget Division, Dept of Finance of the
Samara Region

24 Dmitry Yakovenko Consultant

Representatives from Cities and Municipalities

25 Yuri Prisekin First Deputy Mayor of Samara on
Economic and Financial Issues

26 Oleg Sisoyev Head of the City Economic and Financial
Department

27 Alena Garshina Head of the Municipal, Tax and Financial
Policy of the City Economic and Financial
Department

28 Vera Sherbakova Deputy Head of the Financial Division of
the City Economic and Financial
Department

29 Valentina Sagalayeva Head of the Budget Division of the City
Economic and Financial Department

30 Irina Kovalenko Head of the Industrial Financial Division of
the City Economic and Financial
Department

31 Vladimir Yagutyan Deputy Mayor of Tolglati, Director of
the Economic and Financial Department

32 Valentina Prokofieva Head of the Togliatti Financial Department

33 Sergei Miroshnikov Head of the Togliatti Planning and
Economic Department

34 Lydia Kolokoltseva Deputy Head of the Economic Department
of Sizran

35 Olga Sizova Head of the Financial Department of Sizran

36 Svetlana Zemlyanskaya Deputy Chairman of the Committee on

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- Economy and Finances, Head of the
Economic Division of the Committee in
Novokubishevsk
- 37 Elena Popova Head of the Novokubishevsk Financial
Department
- 38 Irina Dithe First Deputy Mayor of Pokhvistnevo
- 39 Sakhia Valiakhmetova Head of the Pokhvistnevo Financial
Department
- 40 Lyudmila Popova Deputy Mayor of Otradnoye on Economic
and Financial Issues
- 41 Tatyana Rogachova Head of the Financial Department of
Zhigulevsk
- 42 Tatyana Avdeeva Deputy Head of the Financial Department
of Zhigulevsk
- 43 Natalia Tenayeva Head of the Subdepartment of Planning
and Revenues Analysis of Zhigulevsk

Regional Duma

- 44 Nikolai Utkin Deputy Chairman of the Regional Duma,
Head of the Committee on Budget,
Finances and Taxes
- 45 Evgeni Krishtal Head of the Regional Duma Committee on
Industry, Construction, Fuel,
Transportation and Communication
- 46 Mr Matveev Head of the Control Board

LONG-TERM TECHNICAL ASSISTANCE OPPORTUNITIES

SAMARA

- 1 Intra-regional Budgetary Relations
- 2 Budget as an Instrument of Policy
- 3 Setting Strategic Priorities
- 4 Expenditure Analysis
 - Development of regional standards and norms
 - Forecasting (training)
 - Assessment of housing expenditures
- 5 Revenue Analysis
 - Forecasting revenues
 - Potential sources of non-tax income
 - New taxes– SME up-front tax, regional & local sales taxes
- 6 Capital Budgeting and Investment Specialist Training
 - Methods of evaluating capital projects
 - Social impact, economic impact, selection methodologies and financing
 - Methods of attracting private investment
 - Concessions, franchises, etc
 - Investigation of potential investors
 - Due diligence, credit worthiness, responsiveness, etc
- 7 Fiscal Planning
 - Overall, including multi-year budget process
- 8 Budget Indicators and Budget Monitoring
 - Performance indicators
 - Service performance results
- 9 Accountability, Control and Transparency
 - Public discussion of draft budget
 - Communication to other governments, media and citizens

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10 Management Information System Development

- Computerization/LANs
- Databases
- Data exchange

11 Property Tax Base

- Assessment
- Property records
- Revenue generation

12 Asset Property Management

- Property inventory
- Effective use
- Revenue generation
- Use as collateral

13 Local Economic Development & Re-employment Initiative

14 Evaluation of the Present and Potential Impact of the Public Sector in Samara

SHORT-TERM TECHNICAL ASSISTANCE OPPORTUNITIES

SAMARA

- 1 Analyze the breakdown of the Oblast budget into operating and capital expenditures consistent with applicable Russian laws and with international accounting standards for improved management
- 2 Develop a Capital Investment Program (CIP) policy which proposes evaluation criteria, selection processes and priority setting methodology for potential public projects, and create transparency in decision making process
- 3 Conduct analysis of the new small and medium enterprises' "Up Front" tax as a source of revenue and evaluate its impact on the budget
- 4 Conduct analysis of the new sales tax as a reliable revenue source, and evaluate its impact on local budgets
- 5 Demonstrate the usefulness of budget performance indicators and measurement in managing public finance
- 6 Introduce the use of financial policies by analyzing the adopted budget as a decision-making tool, and create a framework for such executive budget messages in future budget years
- 7 Define the management information system needs of the budget development unit in facilitating planning, analysis and reporting
- 8 Design a communication process to engage other local governments and citizens in the consideration of the Oblast draft budget

ADMINISTRATION OF SAMARA OBLAST

February 26, 1999

As a pilot project we have selected the following direction

Define the management information system needs of the budget development unit in facilitating planning, analysis and reporting

In addition, I would like to note that to accomplish current analytical tasks, and to conduct forecasting and analytical research, the Department of Economics has developed software for shared use within LAN

The application of the model of social and economic activities in the region requires access to common initial data on the economic development of the region. The application of the model requires maintaining databases on the economic and financial indicators of the Oblast's economic development

To set up the network as the most critical issue for the Samara Administration in the short-term perspective, about US \$200 thousand is required

With respect and pleasant memories of our meeting,

G. Khasaev

ADMINISTRATION OF SAMARA OBLAST

To Mr Bharat Bhargava
Booz Allen & Hamilton
Moscow office

Dear Mr Bhargava,

Having discussed once again the draft program of technical assistance for the short-term period on Regional Public Finance and Budget the Administration of Samara Oblast selected the following topics

2 Develop a capital Investment Program (CIP) policy which proposes evaluation criteria, selection process, priority setting methodology, and for potential public projects captures transparency in decision making process (We are mostly interested in mechanism of capital budget formation, not only evaluation of project efficiency, but preferably tools and techniques for protection of capital budget within Oblast budget)

5 Demonstrate the usefulness of budget performance indicators and measurements (Within this topic we are mostly interested in determining tax potential of territories and region and in determining minimum standards for effective funding of expenditures for social needs) GSU project "Tax Reform in the Russian Federation" presented by Dmitry Shishkin

7 Define management information system needs of the budget development unit to facilitate planning, analysis and reporting (taking into consideration the possibility of financial support mentioned in our previous letter)

Best regards,
Hope for fruitful cooperation

G R Khasaev
Vice Governor of Samara Oblast,
Director of the Department of Economics

KHABAROVSK KRAI PARTICIPANTS

Legislative Duma of Khabarovsk Krai

- 1 Zoya F Sofrina – Deputy Chairman of the Legislative Duma of Khabarovsk Krai
- 2 Larisa V Kolesnikova - Deputy Chairman of the Control-Budgeting Palace of the Legislative Duma of Khabarovsk Krai
- 3 Olga V Ermol'chenko – Consultant of the State legal Department of the Legislative Duma of Khabarovsk Krai
- 4 Ivan M Fedorov - Deputy Chairman of the Committee on Budget

Finance Department of the Khabarovsk Krai Administration

- 5 Anna N Medvedeva – Head of the Department of Tax Reform and Out-Budgetary Fund of the Financial Board of the Khabarovsk Krai Administration
- 6 Elena A Fokina – Head of the Securities Department of the Financial Board of the Khabarovsk Krai Administration

Committee on Economics of the Khabarovsk Krai Administration

- 7 Galina I Lysenko – Deputy Chairman of the Committee on Economics of the Khabarovsk Krai Administration
- 8 Mikhail N Streltsov - Deputy Chairman of the Committee on Economics of the Khabarovsk Krai Administration
- 9 Lyubov V Zaslavskaya – Head of the Department of Investment-Financial Policy of the Khabarovsk Krai Administration
- 10 Irina B Matveeva – Deputy Head of the Department of Investment-Financial Policy of the Khabarovsk Krai Administration
- 11 Andrey N An – Leading Expert of the Department of Investment-Financial Policy of the Khabarovsk Krai Administration
- 12 Natalia V Rudenko – Chief Expert of the Department of Investment-Financial Policy of the Khabarovsk Krai Administration
- 13 Olga I Negovskaya - Chief Expert of the Department of Investment-Financial Policy of the Khabarovsk Krai Administration
- 14 Mikhail B Shevtsov - Assistant of the Deputy Head of Administration on Foreign Economic Relations

Administrations of Cities and Districts of Khabarovsk Krai

- 15 Aleksey I Menyailov – Head of the Board on Economics, Investments and Industrial policy of the Khabarovsk Krai Administration

- 16 Larisa V Tretiakova – Head of the Finance Department of the Administration in Sovetskaya Gavan and Sovetskaya Gavan District
- 17 Nikolay N Dolgikh - Head of the Finance Department of the Administration in Nikolaevsk-on-Amur and Nikolaevsky District
- 18 Stepanida M Chernaya – Deputy Head of the Board of the Finance Department of the Khabarovsk Krai Administration
- 19 Lyudmila D Guseva – Head of the Dept on Economics of the Komsomolsk-on-Amur Administration
- 20 Anna A Min'ko – Head of the Financial Board of the Vanino Administration

Association of the Far East and Zabaikale

- 21 Nikolay P Rubtsov - Advisor on Economics of the Board
- 22 Aleksey V Butukhanov - Coordinator of Russian Secretariat "Far East Russia - Western Coast USA"

SAKHALIN PARTICIPANTS

Sakhalin Oblast Duma

- 1 Sergey A Ponomarev, Deputy Chairman (Finance, Economy, Legislation Matters)
- 2 Svetlana V Ivanova, Head of Commission on Budget, Finance and Banks
- 3 Lyudmila A Nazarova, Consultant of Commission on Budget, Finance and Banks
- 4 Gennady E Finkelman, Consultant of the Deputy Chairman

Yuzhno-Sakhalinsk Administration

- 5 Tatiana A Umnova, Head of City Financial Dept
- 6 Natalia A Medzinovskaya, Chief Economist, Economic Analysis and **Prognoses** Dept ,
Economic Committee

Sakhalin Oblast Administration

- 7 Galina N Moiseenko, Deputy Head of Financial Markets' Dept , Sakhalin Oblast
Administration
- 8 Oleg P Konjukh, Deputy Chairman of Economic Committee, Sakhalin Oblast
Administration
- 9 Vladimir N Denisenko, Head of Investments Dept , Economic Committee, Sakhalin Oblast
Administration
- 10 Sergey S Antipin, Leading Expert with Economic Committee, Kholmsk City Administration
- 11 Rostislav G Skovorodko, Leading Economist of Profit Dept , Kholmsk City Administration
- 12 Tatiana P Zhurbei, Deputy Head of Financial Dept , Korsakov City Administration

LONG-TERM TECHNICAL ASSISTANCE OPPORTUNITIES

KHABAROVSK

- 1 Inter-budgetary Relations
 - Solutions to the problems in this domain on an equity basis (social justice) for the successful economic development of the region
 - Examples of inter-budgetary relations from other subjects of the Russian Federation
 - Positive experiences in inter-budgetary relations from international examples
- 2 Business Investment Climate
 - Experiences in forming favorable investment climates
 - Creation of a favorable investment climate in the Krai
 - Methods for attracting private funds under the current situation
 - Optimum ways of investment with the account of social and economic development of the region (leasing, concession)
- 3 Budget Cost Effectiveness
 - Experiences in reducing budget expenditures
 - Regional and national experiences in curtailing expenditures
- 4 Social Standards
 - Development of minimal social standards for the region
 - Methods of calculation and procedures for approval
 - Methods of budget formation, accounting for social standards
- 5 Capital Budgeting
 - Well-protected capital budget
 - Other regions' experiences, including the legal basis for capital budget development and additional sources of funding

Requests from cities within the Krai

Sovietskaya Gavan

- 1 Arrangements to increase revenue
- 2 Reduction of non-production expenditures
- 3 Experience in attracting foreign and domestic investments
- 4 Optimization of the tax system
- 5 Inter-budgetary relations covered in more detail with emphases on methods of inter-budgetary standards

Komsomolsk-on-Amur

- 1 Interbudgetary relations as a tool of regional development
Different regions including specialists from the Khabarovsk Krai, cities, municipalities and rural areas
- 2 Management of financial resources for potential development of the territory
The mechanism of cash flow control, the use of extrabudgetary funds in other regions, sharing the experience in seminar
- 3 Increase budget revenues
Use of new technologies (securities market, leasing and others)
- 4 Optional analysis of transfer in municipalities to treasury systems
- 5 Setting up a database for budget forecasting

Vanino Raion

- 1 Creation of a positive climate for foreign investment
- 2 Expenditure optimization
- 3 Methods of improvement of inter-budgetary relations between Khabarovsk Krai and Vanino Rayon (which is a donor area)
- 4 Transparency and budget disclosure for citizens
- 5 Building up civic responsibility
- 6 Capital budget development (resources, planning)
- 7 Methods of switching over the treasury system
- 8 Municipal bonds, procedures

Nikolayevsk-on-Amur

- 1 Development of minimum norms for budgets of all levels
- 2 Enforcement and introduction of control over federal benefits as a part of reducing expenditures
- 3 Analysis of inter-budgetary relations between municipalities and subjects of federation

SHORT-TERM TECHNICAL ASSISTANCE OPPORTUNITIES

KHABAROVSK

- 1 Introduce methods and techniques of cost-cutting and expenditure saving in the municipal budget of the city of Khabarovsk
- 2 Assist the Krai Administration and its Committees of Finance and Economics with their on-going efforts to establish regional minimum social standards in at least one of the four inter-budgetary areas 1) education, 2) housing, 3) communal services, or 4) culture The proposed standards and techniques would draw on the successes in other regions in Russia and abroad

LONG-TERM TECHNICAL ASSISTANCE OPPORTUNITIES

SAKHALIN

- 1 Analysis of the municipal budgets of the Sakhalin Oblast Taking into consideration the fact that the future the number of municipalities might decrease (e.g. Tomari and Makarov) The analysis would be aided by use of a budget analysis model
- 2 Development of the regional social norms and standards (both payments in-kind and monetary) for paying those people who are entitled to prescribed social benefits
- 3 Development of criteria for determining regional priorities for the capital budget The analysis of the extra-budgetary funds of the Oblast and the types of investment programs that could be supported by the government through the extra-budgetary funds
- 4 Long-term forecasting of the budget revenues for the Sakhalin Oblast Strategic plans of the major enterprises that contribute to the budget should be taken into consideration
- 5 Analysis of the budget execution of the Sakhalin Oblast and its control over extra-budgetary funds of the Oblast for the years 1997 and 1998
- 6 Analysis of the current draft of the 1999 Oblast budget Provide recommendations for the extra-budgetary funds for the year 2000 on the based on the analysis of 1997-99 budget data
- 7 Responsibility for the violations of the Budget Laws in Russia and in foreign countries Comparative analysis and recommendations on how to enhance the responsibility of appropriate officials

Yuzhno-Sakhalinsk and Korsakov Cities

- 1 Evaluate sales and up-front (inferred) taxes as sources of additional revenue Prospects and results of their implementation
- 2 Assessment of expenditures on housing and communal services Positive and negative experience of other cities
- 3 Development budget as a tool for increasing social prosperity and urban improvement

SHORT-TERM TECHNICAL ASSISTANCE OPPORTUNITIES

SAKHALIN

- 1 Analyze selected municipal budgets in the Sakhalin Oblast to provide a basis of establishing which cities have sustainable economic viability Use an analytical model to demonstrate the use of economic projections and budgetary trend analysis to determine the need for continuing financial subsidies from the Oblast budget
- 2 Analyze the current draft of the 1999 Oblast budget, being introduced in early March 1999, and provide input on the budget process and the uses of the budgetary and extra-budgetary funds, working with the Oblast administration and дума budget committee at the same time The concepts of efficiency, effectiveness and transparency would be reviewed
- 3 Develop a process and criteria for determining regional priorities for the capital budget Analyze the use of the extra-budgetary funds for the years 1997-99 as a potential source of contributions to the Oblast capital investment program

SAKHALIN OBLAST DUMA
1996-2000

N 481 as of 03 09 99

Mr Bharat Bhargava
Booz Allen & Hamilton
Project Director of the Program
in support of Regional Investment Initiative

Dear Mr Bhargava,

Sakhalin Oblast Duma highly appreciates your cooperation, organization of the Regional Public Finance and Budget Conference and training you provided for our deputies and staff members of Oblast Duma

We agree completely with all the proposed topics for short- and long-term technical assistance you have already received from Sakhalin Oblast Administration. In addition to already mentioned topics we would suggest several more

- 1 Development of regional social norms and standards for natural and monetary equivalents
- 2 Analysis of performance of Sakhalin Oblast budget and of budget (estimation) of Oblast non-budgetary funds for 1998-1999
- 3 Analysis of draft budget of Sakhalin Oblast and of budget (estimation) of non-budgetary fund for 2000 with the account of recommendations developed during short-term Technical Assistance
- 4 Responsibility for violation of budget legislation in the Russian Federation and abroad (Comparison analysis and recommendations on measures on enforcement)

Sincerely yours,

Boris Tretiak
Chairman of the Oblast Duma

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ADMINISTRATION OF SAKHALIN OBLAST

Dear Mr Bhargava,

Thank you very much for excellent organization of the Regional Public Finance and Budget Conference and for the opportunity to participate

We kindly ask you to review the possibility of our further cooperation within the program of long term technical assistance on the following topics

- 1 Development of recommendations for the Federal Government and for the State Duma of RF on tax and financial experiment in Sakhalin Oblast on optimization of cash flow on interbudgetary levels
- 2 Development of systems and tools of efficient use of local resources and of structures that implement such systems and tools for the purpose of budgetary and financial self-sufficiency of the region
- 3 Settlement map for human resources, and consequently, the map of employment options, the program of re-settlement, optimization of settlements, long term budget planning for such kind of programs
- 4 Development of structural economic policy, development of sectors of Oblast economy, their mutual influence and integration, for the purpose of long-term social and economic growth
- 5 Development of recommendations on legislation (based on analysis of existing legislation), on infrastructure and organizational measures for investment attraction to the region, secure real guarantees for investors, mobilization of material and non-material assets on the territory of Oblast
- 6 Sufficient power supply program development
- 7 Long term forecast for Sakhalin Oblast budget based on strategic plans of budget-forming (donor) enterprises of Oblast
- 8 Comparative analysis of budget planning and economic policy of Sakhalin Oblast of State of Alaska
- 9 Method development for municipal budget planning and analysis with the account of economic efficiency or non-efficiency of existence of certain municipal formations
- 10 Priority criteria development for investment and social projects in the structure of capital budget, as well as for implementation of different programs with state support

Dear Mr Bhargava, I understand that this list is rather big, however, it is just the list of topics for discussion of possibilities for cooperation within the framework of the long term technical assistance program

Best regards,

I P Farkhutdinov
Governor of Sakhalin Oblast

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Conferences

SUMMARIZED RESULTS OF QUESTIONNAIRE FILLED IN BY THE PARTICIPANTS OF THE
CONFERENCE
“Regional Public Finance and Budget”

SAMARA

1 The most important topics for TA on improvement of budget process in Samara region

Three columns distribute respondents in accordance with the priority level they selected for this topic
The last column shows the average point Maximum of average point is 2, minimum is 0

	Not of great significance	Important	Very important	Average point
Module II - Sources of Funds				
Interbudgetary relation	10 5%	5 3%	84 2%	1 74
Forecasting of revenues	10 5%	21 1%	68 4%	1 58
Borrowed funds	21	31 6	47 4	1 26
Taxes	31 6%	21%	47 4%	1 16
User Charges/Fees, other non-tax revenues	42 1%	42 1%	1 ,8%	0 74
Other	89 5%	0%	10 5%	0 21
Module III - Uses of Funds				
Managing resources, priorities, efficiency, competitive selection for municipal contracts	5 3%	10 5%	84 2%	1 78
Forecast, revenues evaluation and analysis	10 5%	21 1%	68 4%	1 58
Classification of revenues	36 8%	47 4%	15 8%	0 79
Other	84 2%	0%	15 8%	0 32
Module IV - Capital Budget and Infrastructure Finance				
Criteria and decision making on project funding	15 8%	26,3%	57,9%	1 42
Alternative sources of funds	10 5%	36 8%	52 7%	1 42
Financial strategies	21 1%	21 1%	57 8%	1 37
Other	63 1%	5 3%	31 6%	0 68
Module V - Strategies of Balancing Revenues and Expenditures				
Budget Policy and Budget Management	10 5%	10 5%	79%	1 68
Balancing revenues and Expenditures	10 5%	21 1%	68 4%	1 58
Reporting and analysis of deviations from planned figures	15 8%	52 6%	31 6%	1 16
Citizen participation disclosure, transparency	31 5%	63 2%	5 3%	0 74
Other	94 7%	0%	5 3%	0 11

The Most Important Topics are

Module II interbudgetary relations

Module III Managing resources, priorities, efficiency, competitive selection for municipal contracts

Module IV Criteria and decision making on project funding

Module V Budget Policy and Budget Management

Booz Allen & Hamilton

Conferences

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The participants suggested several other topics for technical assistance

Module II Formation of Revenues

- determining and evaluation of tax potential of the territory
- optimization of tax law
- minimization of expenditures

Module III Operation of Expenditures

- creation of system of standards and norms for funding the expenditures of all levels of the budget

Module IV Capital budget and Infrastructure Finance

- technics for formation and use of capital budget
- principles for protection of capital budget lines
- additional criteria for evaluation of investment projects
- optimization of sources of funds for investment projects
- extra-budgetary sources of funds for capital budget
- appraisal of regional assets that could be used as a collateral for loans

Module V Strategies of Balancing Revenues and Expenditures

- control over bodies of executive power on effective tax collection

2 The most adequate form of TA on each topic for Samara region

Each column contains the number of times the topic was mentioned in questionnaire

Topics for Technical Assistance	Training and seminars for specialists	Workshops for high level officials	Consulting	Average number of times mentioned
Module II				
Interbudgetary relation	8	7	8	7.7
Borrowed funds	6	5	10	7
Forecasting of revenues	9	5	7	7
Taxes	6	3	8	5.7
User Charges/Fees, other non-tax revenues	3	4	7	4.7
Other	0	1	0	0.3
Module III				
Forecast, revenues evaluation and analysis	11	7	5	7.7
Managing resources, priorities, efficiency, competitive selection for municipal contracts	12	8	3	7.7
Classification of revenues	3	4	8	5
Other	2	0	1	1
Module IV				
Criteria and decision making on project funding	8	9	5	7.3
Alternative sources of funds	8	4	9	7
Financial strategies	5	9	6	6.7
Other	5	1	2	2.7

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Module V				
Budget Policy	6	8	8	73
Reporting and analysis of deviations from planned figures	11	3	5	63
Balancing revenues and Expenditures	10	5	3	6
Citizen participation disclosure, transparency	0	2	12	47
Other	1	1	1	1
Average	6	4.5	5.7	

The table shows rating for different forms of Technical Assistance. The first three columns show rating of TA forms for every topic.

In general, the most preferable form is training for specialists at training sessions and seminars.

The highest rate was given to professional training on the following topics: "Financial Management", "Evaluation and Analysis of Expenditures", "Reporting on Budget Performance", "Balancing Revenues and Expenditures", "Borrowings/Loans".

SUMMARIZED RESULTS OF QUESTIONNAIRE FILLED IN BY THE PARTICIPANTS OF THE
CONFERENCE
"Regional Public Finance and Budget"

KHABAROVSK

1 The most important topics for TA on improvement of budget process in the Far East region

Three columns distribute respondents in accordance with the priority level they selected for this topic
The last column shows the average point Maximum of average point is 2, minimum is 0

	Not of great significance	Important	Very important	Average point
Module II - Sources of Funds				
Interbudgetary relation	0%	0%	100%	2 0
Taxes	9 1%	18 2%	72 7%	1 64
Forecasting of revenues	9 1%	27 3%	63 6%	1 55
Borrowed Funds	18 2%	36 4%	45 4%	1 27
User Charges/Fees, other non-tax revenues	18 2%	36 4%	45 4%	1 27
Other	45 4%	18 2%	36 4%	0 91
Module III - Uses of Funds				
Forecast, revenues evaluation and analysis	18 2%	9 1%	72 7%	1 55
Managing resources, priorities, efficiency, competitive selection for municipal contracts	9 1%	27 3%	63 6%	1 55
Other	36 4%	18 2%	45 48%	1 09
Classification of revenues	27 3%	54 5%	18 2%	0 91
Module IV - Capital Budget and Infrastructure Finance				
Alternative sources of funds	18 2%	0%	81 8%	1 64
Criteria and decision making on project funding	27 3%	18 2%	54 5%	1 27
Financial strategies	18 2%	54 5%	27 3%	1 09
Other	72 7%	9 1%	18 2%	0 46
Module V - Strategies of Balancing Revenues and Expenditures				
Budget Policy and Budget Management	18 2%	0%	81 8%	1 64
Balancing revenues and Expenditures	18 2%	18 2%	63 6%	1 46
Reporting and analysis of deviations from planned figures	18 2%	18 2%	63 6%	1 46
Citizen participation disclosure, transparency	54 5%	36 4%	9 1%	0 55
Other	81 8%	9 1%	9 1%	0 27

The most important topics were

- Module II** Interbudgetary Relations
- Module III** Forecast, Revenues Evaluation and Analysis
- Module IV** Alternative Sources of Funds
- Module V** Budget Policy and Budget Management

The participants suggested several other topics for technical assistance

Module II Formation of Revenues

- Financial Support from federal Budget
- Forms of Payment of Taxes, Fees and Charges
- Possible Ways of Performance of Revenues
- Minimization of Expenditures
- Control Over Revenues

Module III Operation of Expenditures

- Control over Expenditures
- Financial Support at the expense of the Financial Support Fund of Municipal Subjects of the Russian Federation

Module IV Capital budget and Infrastructure Finance

- Formation and Use of Investment Funds in the Subjects of the Russian Federation
- Estimation of ROI (Return of Investment) Ratio

Module V Strategies of Balancing Revenues and Expenditures

- Responsibility of Budget Recipients and Bodies of State Power for Budget Violation

2 The most adequate form of TA on each topic for the Far East Region

Each column contains the number of times the topic was mentioned in questionnaire

Topics for Technical Assistance	Training and seminars for specialists	Workshops for high level officials	Consulting	Average number of times mentioned
Module II				
Interbudgetary relation	5	5	2	4
User Charges/Fees, other non-tax revenues	7	4	1	4
Taxes	6	3	2	3.7
Forecasting of revenues	8	2	0	3.3
Borrowed funds	5	3	1	3
Other	4	0	0	1.3
Module III				
Managing resources, priorities, efficiency, competitive selection for municipal contracts	6	5	0	3.7
Forecast, revenues evaluation and analysis	8	2	1	3.7
Classification of revenues	4	2	3	3
Other	4	0	1	1.7
Module IV				
Criteria and decision making on project funding	7	2	2	3.7
Alternative sources of funds	5	4	1	3.3
Financial strategies	6	2	1	3

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Other	1	0	0	0 3
Module V				
Reporting on budget performance	5	6	1	4
Citizen participation disclosure, transparency	5	2	4	3 7
Balancing revenues and Expenditures	5	5	0	3 3
Budget Policy	5	3	1	3
Other	0	0	0	0
Average	5 1	2 6	1 1	

The table shows rating for different forms of Technical Assistance. The first three columns show rating of TA forms for every topic.

In general, the most preferable form is training for specialists at training sessions and seminars.

The highest rate was given to professional training on the following topics:

“Revenues Forecasting”, “Financial Management”, “Fees and Non-Tax Revenues”, “Decision Making on Project Funding”

**Technical Assistance in
Samara**

Sections

- I Overview
- II Technical Assistance Project Objectives
- III Team Members and Their Roles
- IV Technical Assistance Project Components
 - A Current and Recent Budgets Were Analyzed and Discussed
 - B Legislation Was Analyzed and Discussed
 - C The Budget Process Was Analyzed and Discussed
 - D Commercial Investment Projects Were Analyzed and Discussed
 - E Analysis of Development of Socially Important Projects Funded From the Budget Was Analyzed and Discussed
 - F Methods of Attracting Foreign Investments Into Samara Region Were Analyzed and Discussed
- V Issues and Obstacles
- VI Success in Achieving Overall Objectives of Technical Assistance
- VII Key Contacts

Attachments

- 1 Administration of Samara Oblast Recommendations
- 2 Participants of Workshops
- 3 Agenda for Workshops for Employees of Samara Oblast Administration
- 4 Analysis of the Budget Status, Dynamics and Trends
- 5 Recommendations on Assessing Projects of Social Significance
- 6 Requirements to the Results of Efficiency Analysis of IPs Presented for Bids for Financing from Oblast Budget and Similar Sources
- 7 General Scheme of Investment Projects Development and Funding from the State Budget and Similar Sources
- 8 Questions on Budget Funding
- 9 Application for Credit Resources
- 10 Passport of Investment Project
- 11 EA-Ratings, Director, Project Credit Organizations and Municipal Infrastructure Fund
- 12 Procedure of Arranging Investment Project Tenders
- 13 Analysis of the New Federal and Regional Laws, Controlling the Status of Capital Funding Projects Partially Supported by Public Finance
- 14 Recommendations on Work with Projects of Social Significance

Technical Assistance in Samara

I Overview

A team of four consultants worked during a three week period, April 12 - 30, 1999, in Samara to provide training in techniques for improving the oblast's procedures for making investments in long term capital projects. The objective of the project was to provide methods of evaluation criteria for investments, improving the selection process, and priority setting methodology for potential and existing public projects and creation of transparency in the decision making process, to also increasing the Samara region's attractiveness for external investments through development by utilizing relevant experiences from other Russian regions, Eastern and Western Europe and the United States. The team

- Offered modern financial planning methods for evaluating and prioritizing capital investments
- Discussed funding options
- Identified other factors that promote or inhibit potential investments
- Made recommendations for changes in policies and legislation
- Suggested criteria for evaluating commercial and social projects

The team provided this expertise through a series of seminars and one-on-one interactions based on analysis of work currently underway in Samara. By using work of current significance as the basis for discussing principles and making concrete suggestions for changes, the team was successful in stimulating discussions and maintaining the interest of the participants.

II Technical Assistance Project Objectives

This short-term technical assistance was targeted to increasing the Samara region's attractiveness for external investments through development of evaluation criteria for investments, improving the selection process, and priority setting methodology for potential and existing public projects and creation of transparency in the decision making process. Our intended outcomes were as follows:

- 1 Development of criteria for selection/prioritization of public projects in accordance with the existing concept of social and economic development of the Samara Region
- 2 Demonstration of application of the above selection/prioritization criteria to selected existing public projects
- 3 Training in Capital Improvements Financial Planning and in Investment Management
- 4 Training on strategies and methods for improving the attractiveness of the region to investors, both Russian and foreign

III Team Members and Their Roles

William Krause – Ph D in Economics, who has extensive experience as a senior manager in the public sector and as an international consultant in Russia over the past six years was the team leader and brought his international experience to bear in the training and technical assistance

Ludmila Tokun – Doctor of Economics, Assistant Professor, Department of Finance Management, State Management University, concentrated on the analysis of the budgets and proposals. In addition to being co-leader of the team, she led several of the training sessions

Pavel Svistunov – Expert in finance and budget, and in capital budget, led several of the sessions, analyzed the documents prepared by the oblast, and was particularly valuable in describing alternate finance methods and the experience of their use in Russia

Vyacheslav Mikhailov – Marketing Director and Management Consultant with Booz Allen & Hamilton, designed and delivered training programs in marketing approaches and management techniques for both state enterprises and private corporations. He utilized his more than six years experience in working with foreign investors in Russia by providing valuable insight on dealing with investors, particularly foreign investors

IV Technical Assistance Project Components

A team of four consultants worked during a three week period in Samara to provide training in techniques for improving the oblast's procedures for making investments in long term capital projects

The types of oblast investment covered included

- Social project construction
- Infrastructure construction
- Loans to businesses
- Loan guarantees
- Direct investments
- Tax incentives

The oblast officials were interested in receiving practical training in improving their current procedures as they were already aware of most of the common techniques for project analysis. Before beginning the training sessions, the consultants reviewed the analyses that the oblast carried out for five projects for which budget funds are being used or are planned to be used. Three of these were commercial type projects and two were social projects. The consultants also analyzed recent and proposed legislation of

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the oblast and the Russian Federation related to capital investments and the budgeted and actual expenditures of the oblast for the past two years

Based on these analyses and meetings with oblast officials, the consultants developed recommendations for improving methods of evaluating projects, creating opportunities for attracting investments and preparing budgets. The consultants' conclusion was that the analysis of commercial type projects was quite advanced, especially when compared to other Russian regions. On the other hand, the procedures for analyzing and preparing budgets for social projects were found to be much less advanced. The legislation addressed a number of issues for providing support to investors, but the consultants concluded that specific recommendations would improve the legislation and that the objectives of the legislation should be reviewed.

The results were discussed with all interested officials in individual meetings and in a series of workshops. In analyzing these projects and legislation, the team made specific suggestions as well as addressing the principles underlying these suggestions. After discussing the legislation and commercial type projects, the team showed how these principles can be applied to social projects and discussed the other factors that must be considered in evaluating social projects. Best practices from the U.S. were discussed to illustrate the ways that choices can be made among competing projects.

The tasks also included development of proposals for future technical assistance related to capital investments. These were discussed in detail with oblast administration officials and a separate report was prepared. Seventeen potential projects were identified. The oblast emphasized that it is important to produce practical, usable results from any technical assistance. They earnestly requested assistance with urgent computer purchases on a limited scale to support any future technical assistance projects.

The Booz Allen team provided the following assistance:

- Offered modern financial planning methodologies for evaluating and prioritizing capital investments, discussed funding options, and demonstrated the application of suitable methodologies to projects currently under consideration for attracting foreign and domestic investors.
- Identified other factors that promote or inhibit potential investments, helped assess such factors in Samara's context, and made recommendations for changes in policies and legislation, utilizing relevant experiences from other Russian regions, Eastern and Western Europe and the United States.
- Delivered training, with certification, over five half-day sessions to Samara Regional officials in areas of capital investment financial planning and investment management directed to enhancing the investment potential and economic return on these investments.

Recipients Representatives of two departments of Samara Region Administration were involved in the work – the Finance Department and the Department on Economics. Participation by the Department on Economics was much more intensive as they have the primary responsibility for making decisions on

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investments The coordinators of the oblast activities were on behalf of Department on Economics – Elena Timofeyeva, Investment Resources Office Head, on behalf of Department for Finance – Alexei Alexandrov, Deputy Head of Budget Office The Deputy Governor, Director of the Department on Economics of the Samara Oblast took an active interest in the project, met with the team of consultants and wrote to USAID concerning his view of the project (Attachment 1)

The following units in the Department on Economics were the most involved in the project

- Investment Policy and Investment Projects Office
- Capital Investments and Infrastructure of the Region Forecasting Office
- Aggregate Forecasting Office

A full list of participants is attached as Attachment 2

Delivery The assistance was provided through a series of personal meetings and exchanges of opinion as well as through a series of five half day workshops The training sessions were held in a seminar format with considerable discussion by the participants The consultants shared the results of their analysis and demonstrated the application of modern methods in formulating capital budgets through the analysis of materials familiar to the participants

Workshop topics included

- Improvements in project analysis practices
- Criteria for selection of social projects
- New ways of financing investments
- Description of alternative ways to encourage investment
- Explanation of new laws
- U S best practices

(A full agenda is given in Attachment 3)

The following data was analyzed on the basis of which knowledge was provided

A Current and Recent Budgets Were Analyzed and Discussed The budgets of the Samara Region for the last three years were summarized and analyzed to determine the amount and types of capital investment in the region (See Attachment 4) The following documents were analyzed *Main Directions of Budget and Taxation Policy of Samara Region for 1999, Performance of the Regional Budgets in 1997-1998, Regional budget for 1999* Revenues in adjusted figures fell There was also a decrease in capital construction expenditures in absolute The share of capital expenditures during the period analyzed fluctuated In 1997 it was equal to 11.7 % of all expenditures In 1998 this figure was planned at the level of 8 %, and in fact it totaled 9.1% In the plan for 1999 the share of capital investment in the expenditures is set at the level of 11% This figure is high for the Russian Federation as even industrially advanced regions do not usually exceed the 5-7 % capital expenditure level Thus, despite the crisis, Samara oblast maintained a stable capital part of expenditures in the budget This is a

part of the regional budget policy, and the governor's message maintains that the region will be actively engaged in supporting investment projects and attracting new projects to be accomplished in the oblast

B *Legislation Was Analyzed and Discussed* New federal and regional laws, controlling the status of capital funding projects partially supported from public finance were explained to the participants. These revisions alter the conditions for carrying out investment programs. The analysis included

- An analysis of *Requirements to Investment Projects Analysis Results* was made. A number of modifications were proposed.
- After analyzing *Methods of Evaluating Investment Projects*, proposals were made as to specific weight of some parameters and alignment of priorities.
- The current and the new (under consideration) *Law on Investments in Samara Region* were analyzed. Proposals on modifying the Law were made, discussed at the training session. Changes in the draft law were suggested together with the Administration working group in charge of development of this law. Reasons making these changes necessary were explained, and recommendations as to its further improvement were given. The draft was also submitted to Moscow specialists for legal expertise.
- Analysis of the draft *Budget Guarantees Regulation* was made. Methods of determining the amounts of possible guarantees and procedures for giving them were presented.

The consultants analyzed and discussed the provisions of those articles of the budget code that contained details of capital expenditures in budgets, forms of expenditures, budget credits, tax benefits, funding budget investments, and granting state guarantees to constituting entities of the Russian Federation.

Recently, a package of the legislative, normative and legal acts for stimulating and regulating investment activity on the regional level was developed in Samara oblast. The consultants analyzed the part of the legislative documents that dealt directly with the budgeting process, including the development budget. On the whole, the analysis of the documents confirms that the region keeps the development of a favorable investment climate and attraction of investors, especially large ones, as a priority. The draft law "On Development of the Budget" in many respects repeats the appropriate federal law having the same narrow range of applicability to large investors.

The Booz Allen team pointed out that tax incentives have the same budgetary impact as spending and that the oblast should be sure that it is receiving value commensurate with the cost. We suggested that rather than basing the incentives on the size of the investment, they might be related to factors such as employment or wages paid in the region. The team also suggested that costs other than just the direct cost of taxes should be considered. Finally, the consultants suggested that businesses with less than the

\$10 million cut-off in the current legislation might provide substantial benefits to the region, especially in the long run

C *The Budget Process Was Analyzed and Discussed* The following process for determining the capital investments amount and selecting projects currently exists in Samara oblast

The amount of annual capital construction costs are determined by the Finance Department. In the fall, the Department for Finance makes up the budget of the following year on the basis of the economic forecast prepared by the Department on Economics. Capital construction expenses are allowed for in the budget. Municipal entities and districts of the Region submit their own projects. Projects are also submitted by the branch Departments of the Administration (those of Agriculture, Construction and Architecture, and Power Production)

The next step is the selection of the projects. Traditionally branch departments have a definite quota for financing, e.g., the Department for Agriculture – about 1% of capital investment amount. After that, projects are to be selected on the basis of the following considerations: brought forward projects (subway, Oncological Center, apartments for privileged groups of population) are financed in the first place, next in turn are projects linked to certain programs (gasification, Chapayevsk, etc.), then vitally important projects and projects already implemented, but not paid for are funded. There is also a global directive – not to start new construction, to try to complete the unfinished projects. For the most part only project design estimates undergo analysis. The final selection takes place in the Administration at the meeting of the Investment Commission where political influences are strong. The final list is ratified by the Regional Duma where new projects are introduced often for political reasons.

The training session included an explanation of best practices as included in recent Office of Management and Budget (OMB) and General Accounting Office (GAO) reports. The GAO report¹ was left with the participants with key portions translated. It is based on a study of successful state and local governments and private industries in the U.S. The principle points emphasized are shown in Figure 1. During the training sessions, their relevance to current practices in Samara and other Russian regions was discussed.

D *Commercial Investment Projects Were Analyzed and Discussed* Three commercial projects already being winners in the investment tender (which will receive partial budget funding) were considered: *Launching Production of Packaging Film, Capacity Expansion of the Milling Plant, Establishing a Clinic*. Conclusions on the development level of the projects and their efficiency was given. Assistance was rendered in improving evaluation of foreign currency risks impact and in analysis of the parent enterprise budget. Examples of incorrect evaluation of risks analysis were given.

Analysis of information received showed that there is an imbalance in the preparation of commercial investment projects to be implemented under assigning budget funds or supported by budget.

¹ EXECUTIVE GUIDE: Leading Practices in Capital Decision-Making. Exposure Draft. GAO/AIMD-98-110. United States General Accounting Office. Washington, D.C.

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guarantees, on the one hand, and capital investment projects financed completely via budget funds. The level of work with the so-called "commercial projects" is much higher than the average in Russia. The projects are selected through tender. Business plans made in accordance with international practices are submitted to the Administration. They are analyzed not only by the Administration specialists (Investment Policy and Investment Projects Office), but also by independent experts (at the expense of applicants for receiving budget funds or guarantees). Decisions on selecting the projects are taken by the Investment Commission of Samara Region Administration. Formats for analyzing and prioritizing projects are available. Procedures for submitting documents to different units of the Administration are also available. Information on the region and investment projects is on a compact disk.

Currently there are 134 investment projects in process featuring different development stages. Most of these projects deal with the base industries: automobile, space, mechanical engineering, metal processing, and defense. All in all, there are 41 such projects. A substantial number of projects - 24 - are being implemented in the agriculture, food, and processing industries. The rest of the industries involved in these projects are: energy - 3 projects, fuel industry, chemistry, petrochemistry, oil and gas production - 9 projects, medical and pharmaceutical industry - 8 projects, construction and construction development industry - 12 projects, transport and telecommunications - 5 projects, service - 10 projects, and the balance of other 9 projects being attributed to other branches of industry.

The consultants analyzed three investment projects, on which the basic decision to go ahead with public financing (granting budget support) was taken. The first of these projects deals with manufacturing a polymer film for packing milk, second - overhauling a bakery, and third - development of medical services to conduct surgical operations without large incisions.

Figure 1
Principles and Practices for Capital Budgeting

Principle 1

Integrate organizational goals into the capital decision- making process

Practices

- ◆ Assess resources needed to achieve results
- ◆ Identify gap between current and needed capabilities
- ◆ Evaluate alternatives - including noncapital options

Principle II

Evaluate and select capital assets using an investment approach

Practices

- ◆ Establish review and approval framework
- ◆ Use established criteria to rank and select projects
- ◆ Prepare long- term capital plan

Principle III

Balance budgetary control and managerial flexibility when funding capital projects

Practices

- ◆ Budget in useful segments
- ◆ Consider innovative funding approaches

Principle IV

Use project management techniques to optimize project success

Practices

- ◆ Monitor performance and establish incentives for accountability
- ◆ Use cross functional teams

Principle V

Evaluate results and incorporate lessons learned into the decision- making process

Practices

- ◆ Evaluate and compare results to goals
- ◆ Evaluate the decision- making process

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All projects had been carefully examined at the initial study phase, business - plans were developed, cash flow and rate of return were calculated, and the analysis of sensitivity of the projects to certain changes (for example, to fluctuations in price of final products, delayed delivery of raw material, change in payment terms for equipment supplied) was conducted. Of course, the project studies also had some drawbacks. Most often there was no accounting for escalation. In one of the projects cash flow was expressed in U S dollars. The consultants raised the issue that distribution of final production under the project was meant to be for rubles, and in view of probable delays with accounts receivable, payment arrears and conversion lag, the approach chosen might substantially deviate from the plan.

In our opinion, the most interesting project from the point of view of the budget should be the project for expanding the scope of medical services, because it had the most detailed studies of marketing, did not involve heavy cost intensive mechanisms, and had an indisputable social impact upon realization, since the authors of the project assumed increase in the birth rate in the area by 1 % to be caused by surgeries to cure infertility and introduction of a In Vitro fertilization procedure. The consultants underscored the importance of evaluation of the social effect from implementing the project to be funded from the budget.

E Analysis of Development of Socially Important Projects Funded From the Budget Was Analyzed and Discussed The situation as to preparing budget projects is typical for Russian practice. Construction projects proposed for budget financing are not analyzed for attracting off-budget resource opportunities. Financial estimates are made in prices of 1991 and 1984. Scaling ratios are used to convert them into contemporary prices (9.8 ratio is used to convert 1991 prices into 1999 prices). Formalized methods of analysis and selecting projects are not available.

Two social projects receiving full regional budget funding were analyzed (construction of a school building and a crematorium). The fiscal and economic development level of both projects was considered unsatisfactory. Examples of analyzing similar projects and doing the preliminary work were given. Proposals were made in terms of completing these projects with the aim of attracting private investors.

Criteria for selecting projects were suggested and discussed. These are shown in Attachment 5 and summarized in Figure 2.

Figure 2
Summary of Recommendations On Assessing Projects Of Social Significance

Information Needed Prior to Assessing Individual Projects

In order to develop a program for assessing the capacity and desirability of additional projects, a full list of everything that should be funded by the government should be provided. In addition, an inventory of all objects in state ownership should be made both on oblast and municipal levels. All incomplete construction should be identified.

Mandatory Criteria

- 1 The project is one that government should be doing
- 2 No alternate means of financing are available
- 3 An accurate cost estimate, including an estimate of operations and maintenance costs or savings, has been prepared
- 4 An accurate estimate of completion time is available
- 5 Lower cost alternatives are not available
- 6 Adequate organizational capabilities are in place to implement the project
- 7 Adequate financial resources are in place to maintain the project
- 8 Measurable output and outcome measures have been identified
- 9 There is likely to be money available to complete the project once started
- 10 There has been an adequate assessment of risk

Criteria for Comparing Projects

Each criterion should be given points and a weighting to take into account its relative importance.

Budget impact – these impacts should be estimated as accurately as possible with supporting data

- ◆ Direct revenue possibilities
- ◆ Indirect revenues
- ◆ Cost savings
- ◆ Indirect costs
- ◆ Benefits
- ◆ Legislative mandate
- ◆ Safety benefits
- ◆ Health benefits
- ◆ Environment benefits
- ◆ Impacts on other projects
- ◆ Relation to long range plans
- ◆ Risks
- ◆ Indirect revenues

In the course of the short-term assistance program the consultants analyzed two socially important capital projects crematorium at the Rubezhnoye cemetery in Samara and school in Avtozavodskoj region of Tolyatti Both projects had construction cost estimates Both referred to old prices The crematorium has been under construction for a number of years, there are no plans as to when the construction phase will be finished The school has walls ready to be roofed The mayor of Tolyatti sent a request to finish construction of school by beginning of autumn semester but the request was very brief with little justification provided

F Methods of Attracting Foreign Investments Into Samara Region Were Analyzed and Discussed.

The topics discussed included

- Strategic marketing of Samara region investment opportunities
- Investor relationship management
- First lessons learned

Currently, the share of direct foreign investments in the Samara region is as low as 3% However, the inflow of foreign investment may have a significant impact on social and economic situation in the region Some efforts are taken by the administration to enhance regional legislation on investments to create a more favorable regime for investors Additionally, marketing principles and approaches need to be implemented in support of the administration activities to attract more foreign investments in the region

Currently, there is a need for the administration to give a more strategic focus to their efforts to increase the level of foreign investments in the region The key immediate questions the administration needs to answer are as follows

- How can the investment climate change in the short-, medium- and long-term future?
- What is the current situation with foreign investments in the region? What are positive and negative factors?
- What are the Samara administration goals towards foreign investments?
- What strategies need to be implemented to achieve those goals and objectives?
- What resources are needed?
- What economic results can be expected?

Specific steps to be undertaken in order to answer the above questions are the following

- Conduct diagnostic analysis that includes the analysis of capabilities and constraints of the regional administration in creating investor-friendly tax environment in the region, in streamlining administrative procedures, etc
- Set strategic objectives for the regional administration with respect to the level of potential foreign investment in the region

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- Define strategies that will help to achieve the administration's strategic objectives
- Develop a program of actions, including promotion of investment opportunities in the region and provision of incentives to the foreign investors
- Assess the level of required resources and develop a budget

Although the creation of an investor oriented system in the Samara region cannot be achieved overnight, there are also certain issues that could be resolved without lengthy legislative procedures, resulting in an immediate positive effect on the region's attractiveness to investors (e.g., speedy introduction of internationally accepted accounting and auditing standards would be an important step toward making Russia more attractive to foreign investors) Such standards would also allow regional enterprises to participate more actively in international capital markets

Another important issue is the experience acquired by the current investors in the region Dissemination of positive experience will help the administration attract new investments in the region The administration needs to give more attention to the quality of experience that is acquired by the current investors through working with the local authorities on a whole range of administrative issues

An effective promotion program needs to be developed and implemented It needs to be targeted at potential investors in the specific industry areas An external marketing communications program may also help to keep potential and existing investors informed on the situation and opportunities in region and get their feedback to identify further areas for improvement

Results/Value to the Region

As a result of implementing the new practices, it will be possible to substantially improve the efficiency of the use of budget funds and accomplish some of capital projects on a fast track basis through involvement of investors Eventually, this will improve the social economic situation in the region

Key results included

- The Draft *Law on Investments in Samara Region and Budget Guarantees Regulation* (now under consideration) was modified based on the discussions at the workshop
- Specialists of the Administration received information on new methods of analyzing investment projects and practical peculiarities of their preparation
- Recommendations were made as to starting to analyze socially significant projects with the aim of attracting private investors Alternative methods now being used in Russia were presented The oblast officials and one of Samara Region towns expressed a strong interest in receiving help to implement a program of private management in the *Vodocanal*

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Samara Technical Assistance Report

- The officials agreed to begin to think of ways to finance projects using private funds

Feedback from participants

Attachment 1 is a letter from the vice-governor of the oblast that reflects the opinion of the participants in the program. Among other things, he says

"Materials produced by the team of experts allow our specialists to use new approaches for analysis and evaluation of projects of social significance "

He goes on to say

"The Administration of the Samara Oblast would like to emphasize that cooperation with the U S Agency for International Development is very useful and reveals its gratitude to Mr W Krause, Mrs L Tokun, Mr P Svistunov and Mr V Mikhailov "

The participants of the seminar and other persons to whom the technical assistance was provided had a high opinion of its practical potential. The Deputy Governor described the approach in this way

"They did not use a traditional method of teaching (trainer-trainee), but implemented a real "brain storm", where the participants, who know the problems and abilities of their sectors and departments, could discuss new ideas, prioritize them and develop new approaches allowing to make optimum decisions in future. Training was based on results of analysis of real materials of Samara Oblast "

The participants were very pleased with this approach

V Issues and Obstacles

Initially there was not a strong interest on the part of the participants in this project as they felt that there was not much useful that could be learned in a short time. They were also skeptical that Russian consultants could offer anything new. The problem was exacerbated because during the first week as a number of key specialists of the Administration were on business trips, which created difficulties in collecting and evaluating information and planning the training

However, the lack of available staff in the first week allowed for time to be spent on analyzing actual legislation and other materials available in the oblast. This analysis, presented in the first training session, together with the workshop type approach quickly resulted in stimulating the interest of the participants

The Department of Finance did not participate as actively as it was hoped in the project. They explained the reason as being that they were not responsible for the types of decisions that were being

discussed in the training sessions. Their role is more to ensure the proper use of funds and determine the amount of funding available than to make decisions on the use of funds. They did cooperate in providing data, spending time to discuss the topics of the training and, most important, to discuss the possible contents for future technical assistance.

VI Success in Achieving Overall Objectives of Technical Assistance

The objectives of the technical assistance were achieved. However, it is clear that the participants would benefit from additional assistance, which they are very interested in receiving.

VII Key Contacts

Elena Mikhajlovna Timofeeva – Head of department of investment resources, economy department

Oleg Vladimirovich Majorov – Head of department of capital investment forecasting and infrastructure, economy department

Aleksej Viktorovich Aleksandrov – Deputy head of budget department, finance department

Lyudmila Lvovna Pankratova – Lead expert of investment policy and investment resources department

Maria Iosifovna Lyubarskaya – Official from finance department

ADMINISTRATION OF SAMARA OBLAST

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443006 Samara
04 28 1999 N 7-56/915

US Agency for International Development

**Attn Ms Angelina Gurkina
Project Manager
CC Mr Bharat Bhargava,
Regional Public Finance and
Investment Project,
Project Director**

Dear Ms Gurkina,

Within the framework of short term technical assistance under Regional Public Finance and Investment Projects a team of experts of Booz Allen & Hamilton has performed the work directed to improvement of efficient use of budget funds for capital projects

The group of experts included

- William Krause, team leader
- Liudmila Tokun
- Pavel Svistunov
- Viacheslav Mikhailov
-

As a part of their work they organized and carried out a seminar-training on Investment Policy and New Sources for Capital Budget for officials of Samara Oblast Administration They did not use a traditional method of teaching (trainer-trainee), but implemented a real "brain storm", where the participants, who know the problems and abilities of their sectors and departments, could discuss new ideas, prioritize them and develop new approaches allowing to make optimum decisions in future Training was based on results of analysis of real materials of Samara Oblast

Contemporary techniques for housing finance, recommendations on development and selection of new projects funded at the expense of budget, current US experience on development and performance of capital budget were demonstrated to the participants At the end a lively discussion took place

Materials produced by the team of experts allow our specialists to use new approaches for analysis and evaluation of projects of social significance

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Taking into consideration practical results of technical assistance provided by the team of experts further cooperation on Regional Public Finance and Investment is highly required. In our view the most important issues for future cooperation will be the following:

- 1 Creation of management information systems
- 2 Professional training in the sphere of capital improvement
- 3 Local economic development and creation of new jobs
- 4 Establishing of strategic priorities
- 5 Experience in delegated management

The Administration of the Samara Oblast would like to emphasize that cooperation with the US Agency for International Development is very useful and reveals its gratitude to Mr W Krause, Mrs L Tokun, Mr P Svistunov and Mr V Mikhailov.

Sincerely yours,

G R Khasaev,
Deputy Governor,
Director of the Department on Economics of
the Samara Oblast

Participants in the Workshops

- 1 Helen Timofeyeva
Head of the Investment Sources Division,
Department of Economics of the Samara
Region
- 2 Oleg Mayorov
Head of the Forecasting, Capital Investment
and Infrastructure Development Division,
Dept of Economics of the Samara Region
- 3 Olga SamoiloVA
Head of the Financial Resources and Tax
Policy Division, Dept of Economics of the
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- 4 Tamara Abakumova
Team Leader of the Investment Policy and
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- 5 Inna Davletshina
Group Head of the Investment Resources
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- 6 Elena Morozova
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- 8 Alexander Zuyev
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- 9 Lyudmila Pankratova
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- 10 Elena Udalova
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- | | |
|------------------------|--|
| 12 Lyubov Ivanova | First Deputy Director of the Finance
Department of Economics of samara Region |
| 13 Alexei Abramov | Chief Specialist of the Investment Policy and
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The project "Regional Public Finance and Investment"

Short-term technical assistance program to Samara oblast

Topic "Investment policy and formation of additional sources to finance development budget"

Agenda for Workshops for Employees of Samara Oblast Administration

Date	Time	Topic of presentation
April 21	16 00	Introduction, representation of the participants, and the task of the seminar Results of the conference of February 17-19 Contents of the seminar, topic review, work schedule
	16 20	Review of legislative environment, investment climate, budget trends
	17 00	Break
	17 10	Problems of quality of initial development of investment projects Working out criteria to evaluate socially important projects
	18 00	Concluding remarks of the first day
April 22	16 00	Long-term loan funding of residential - municipal services, etc
	16 55	Break
	17 05	Socially important projects Increasing efficiency to use budget means
	18 00	Concluding remarks of the second day
April 23	16 00	Investment budget credits Problems of return Tax benefits
	16 55	Break
	17 05	Using concessions Issuing budget guarantees
	18 00	Concluding remarks of the third day
April 27	16 00	Work with investors Strategic marketing of investment opportunities in the region
	16 55	Break
	17 05	Control of mutual relation with investors Analysis of experience of initial lessons of working with investors
	18 00	Concluding remarks of the fourth day
April 28	16 00	US best practices for capital budgeting
	16 55	Break
	17 05	Review of future technical assistance proposals
	17 30	Seminar wrap up

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Analysis of the budget status, dynamics and trends

The group of experts has analysed the results of planning and enforcement of the budget in oblast over 1997 - 1998, as well as the draft budget for 1999. Also, we examined the budget message of the governor of oblast «Basic directions of budget and tax policy of Samara oblast in 1999 »

Major lines of the 1997 budget (in denominated roubles) have made by the plan 3,850 mln RR, actual figure being 4100 mln RR, resulting in 106.5% enforcement. The expenditures of the budget per the plan were 4516 mln Rub, actuals (accounting for transfers from the federal budget) 4,082 mln RR, which was equivalent to enforcement of 90.4%. Because of exceeding the plan of revenues and reduction of actually funded expenditures the deficiency of the budget was lower than planned. Out of budget expenditures the capital investment made 536 mln Rub by the plan, actual figure being 481 mln RR, enforcement - 89.8%. For Russian regions it is an acceptable level of enforcement. The year of 1997 was the last calm year preceding the crisis.

Major guidelines for 1998. The budget of this year was essentially corrected because of crisis. For analysis purpose rectified data were used. According to them revenues by the plan should have made 3,864 mln RR, actually they were on the level of 4,757 mln RR, enforcement - 123.1%. The expenditures by the initial plan should have made 5,684 mln RR, after rectification this figure dropped to 3,864 mln RR, and in fact the expenditures were financed in amount of 4,779 mln RR, yielding a 123% enforcement. From all funded expenditures only 2,753 mln RR were provided in «cash», others being settled as off-sets or other accounting procedures. The share of cash enforcement of the budget in the year under study was 57%, although the budget message of the governor indicated on escalation of the share of revenue and expenditures in the budget expressing the hope, that non-cash enforcement of the budget would not exceed 35%. This target was not reached. Capital investment in 1999 (per the plan) should have been 327.8 mln RR, actually this figure was larger by almost one third totalling 436.8 mln RR, which was equivalent to 133% enforcement. However, the share of cash in capital investment was very small, it was close to 25% (116.0 mln RR).

The plan of the budget of 1999 expects a deficit - free budget, where revenues and expenditures are equal amounting to 5,817 mln RR. It is meant that capital investment will be in the ballpark of 637 mln RR.

More detail discussion on capital investment. The share of capital expenditures during period analyzed slightly fluctuated. In 1997 it was equal (per plan) 11.8% of all expenditures, in fact it was 11.7%. In 1998 this figure was planned at the level of 8% (rectified plan), and in fact it totalled 9.1%. A certain decrease in expenditure level was observed. In the plan of 1999 the share of capital investment in the expenditures is set on the level of 11%. For the Russian Federation this figure is rather overrated, as even industrially advanced regions most often do not exceed the 5-7% capital expenditure level. Thus, despite the crisis, Samara oblast maintained a stable capital part of expenditures in the budget, which undoubtedly should be perceived as a positive trend. This is a part of the regional budget policy, and the governor's message maintains, that the region will be actively engaged in supporting investment projects attracting new projects to be accomplished in the oblast.

Recommendations On Assessing Projects Of Social Significance

Information Needed Prior to Assessing Individual Projects

In order to develop a program for assessing the capacity and desirability of additional projects, a full list of everything that should be funded by the government should be provided. Functional budget classification should be used for creation of this list. For instance,

- Health (non- commercial)
- Education (schools, kindergartens, orphanages, etc)
- Roads
- Prevention of extraordinary situations, etc

In addition, an inventory of all objects in state ownership should be made both on oblast and municipal levels

All incomplete construction should be identified. Their budget significance should be identified, and those that not appropriate for government support should be identified (for example, an incomplete hotel, which has become private sector). A procedure for transfer to private investors should be developed: terms, time period. A permanent process of private investor attraction should be developed: advertising, publicly open information. Evaluation of incomplete projects should be made discounting all previous investments (money inputs)

Projects that should receive government support should first meet the following mandatory criteria in order to be considered for funding. The projects meeting the mandatory criteria can then be compared to determine projects that will be funded

Mandatory Criteria

1 The project is one that government should be doing. Any project that can be done by the private sector without the use of government funds should be left to the private sector to do. If it is an activity now being done by the government, appropriate documentation might be developed to demonstrate why it will be profitable for the private sector to undertake the activity and to determine if the government might receive some revenue by selling assets

2 No alternate means of financing are available. Even if the activity cannot be undertaken by the private sector, it may be possible to establish a self financing project where the revenue received from the project repays loans taken out to construct it

3 An accurate cost estimate, including an estimate of operations and maintenance costs or savings, has been prepared. Accurate cost estimates are needed to a) determine the amount of resources that will be required to undertake the project, b) manage the construction of the project, c)

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compare competing projects Using outdated norms and prices will inevitably lead to poor decisions Failure to consider operating costs may result in the selection of a higher cost alternative Cost estimates should take into account estimates of inflation and currency rate exchange

4 An accurate estimate of completion time is available Completion time, assuming funding availability, should be accurately estimated to accurately estimate costs and because a project that can be completed quickly may be more desirable than one that will take longer

5 Lower cost alternatives are not available It should be demonstrated that lower cost technology, processes and materials are not available Also, that it is not possible to achieve the same result through another process or improved maintenance

6 Adequate organizational capabilities are in place to implement the project The number and skill levels in the organization must be adequate to take advantage of the project

7 Adequate financial resources are in place to maintain the project If the project is not adequately maintained, the money spent on construction will soon be wasted and there will be a new capital request

8 Measurable output and outcome measures have been identified It should be possible to specifically describe what the impact of the project will be

9 There is likely to be money available to complete the project once started Rather than having twenty unfinished projects, everyone would be better off to have three that are completed

10 There has been an adequate assessment of risk A sensitivity analysis has been done that examines the effects of changes in conditions such as foreign exchange, market conditions, new laws, taxes and delays

Criteria for Comparing Projects

Each criterion should be given points and a weighting to take into account its relative importance

Budget impact – these impacts should be estimated as accurately as possible with supporting data

- ◆ Direct revenue possibilities – will some or all of the costs be off-set by revenue?
- ◆ Indirect revenues – will the project stimulate revenue? For instance by encouraging private investment
- ◆ Cost savings - will the project lead to cost savings? These should be realistically estimated For instance, if the project could lead to reduced personnel requirements but the possibilities for actual reductions do not exist, the potential saving should not be considered Cost savings should take into account the possibility of saving social costs

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- ◆ Indirect costs – will this project increase costs in other areas or require additional capital investments if it is to be successful

Benefits -

- ◆ Legislative mandate – required by law to be done This may automatically result in the project receiving the maximum score
- ◆ Safety benefits - correcting life threatening situations may also result in a project receiving a maximum score
- ◆ Health benefits – to the extent possible, these should be quantified
- ◆ Environment benefits – similarly these should be quantified as much as possible
- ◆ Impacts on other projects – this project may be important to the success of other projects
- ◆ Relation to long range plans – this project may be included in one or more long range plans that have been developed

Risks

- ◆ The degree of certainty in estimating project costs and benefits taking into account the factors in the sensitivity analysis as well as institutional and other risks

For example, a set of criteria could be

$$K=A K_1+B K_2+C K_3+$$

Where K_1, K_2 are

- 1 Reducing of operational expenditures
- 2 Increase on budget revenues
- 3 The project is within the branch that is admitted to be strategically important
- 4 The project solves safety problem
- 5 The project solves environmental problem
- 6 Health protection is improved
- 7 Encourages life time period or increases birth rate
- 8 Employment factor

$K_1 K_2 K_n$ should be calculated for each criteria based on corresponding study

The obtained indicator in score will allow to make the selection procedure absolutely transparent and well proved

A, B, C are the relative weights

Requirements to the Results of Efficiency Analysis of IPs Presented for Bids for Financing from Oblast Budget and Similar Sources

These requirements were developed on the basis of Guidelines for IP efficiency evaluation and their selection for financing adopted by the GOSSTROY of the RF and "Guidelines for Elaboration of Investment Policy" adopted by the RF Ministry of Economy

The responsibility for timely reimbursement of borrowed capital obtained from selling Eurobonds, urges to improve the quality of IPs documents submitted to bid for financing from the Oblast budget or similar sources

Evaluation and comparative analysis of IPs efficiency makes it necessary to apply a single set of criteria thus, the basic evaluation of IPs efficiency should be performed in compliance with the following requirements

Basic requirements

- 1) Joint financing of an IP the owners assets (including borrowed capital) should not make less than 20% from the project cost
- 2) Payback and loan return period should not exceed 5 years
- 3) Adjournment of interest payments for using borrowed capital should not exceed 6 months
- 4) Calculation of a basic version should include
 - 1 hard currency discount rate 15% (taking into account risks and inflation)
 - 2 ruble discount rate is determined as the refunding rate of the RF Central Bank on the date of expert evaluation
 - 3 interest rate for ruble loans - 21%
 - 4 interest rate for US dollar loans - 14%
- 5) Calculation base period - 3 months
- 6) Positive value of cash flow for each calculation base period/
- 7) An IP is evaluated in two currencies (rubles, US dollars) If the project includes foreign currency expenditures (purchase of foreign equipment, spare parts, raw material, export-import transactions), the ruble version of calculations should contain separate ruble and hard currency each flows (USD), i.e. two cash flows should be analyzed separately

Results of IPs cost efficiency analysis

Results should include estimated of integral efficiency and financial sustainability of the project with corresponding expert conclusions

1 Analysis of the financial situation of the enterprise (project initiator) and evaluation of its balance sheet for the previous year and for 3 previous periods/

1 1 Analysis of financial stability of the enterprise's accounts, guarantee of its paying capacity

1 1 1 Calculation of the function of 3 component index for the last 2 years (calculation of this index is shown on p 5)

1 1 2 Standard calculation of independence ratio, (ration of the owner's money in the capital structure) should be no less than 0 5

$R = S^o/B$, S^o being sources of owner's assets (total from section IV), B being balance total

1 1 3 Calculation of ratio of loan (borrowed assets, standard value - 1 2
- long term loans and loan assets (section V of spread sheet)
- short term loans and loan assets, without overdue loans (section VI of the balance)

- calculations and other equity

1 2 Analysis of the enterprise liquidity at the moment of commencement and for a previous year

Standard value of the ratio of the current liquidity should be no more than 2

1 3 Analysis of the structure of debts and credit

2 Marketing research

- analysis of customer's payment demand]
- analysis of the basic competitors on the market
- competitive price characteristics
- quality level
- characteristics of raw material market
- marketing organization

This section is to be supported by agreements (or minutes of intentions) for goods delivery, raw material and other official documentation

3 Analysis of IPs efficiency on the following ratios in accordance with the definite criteria

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- a table of cash flow, including credit sources, mentioning terms of return (separately state support and used commercial loans)
- calculation of the payback period of the project (PPP) The payback period is a period is a period of time from the moment of project realization due to this business plan till the moment when the difference between the sum of pure income, including depreciation and the volume of investment expenditures is above 0
- internal rate of return (IRR)
- net present value (NPV)
- profitability index (IP)
- break-even point which means the volume of sales since what the product since which the product starts being profitable The calculated volume of product sales is correlated with the design capacity of the enterprise, if the enterprise manufactures several products the break-even point is determined for each of them by a special method
- budget efficiency (total tax revenue + oblig payment) state investments volume (the budget efficiency is assessed including discounting)

4 In order to calculate IP sustainability depending on IP structure it is necessary to estimate integrated efficiency ratio (payable period), PI, NPV, according to the following scenario

Sensitivity analysis requires efficiency evaluation depending on behavior of the following factors

N	Scenario	Changes of basic indices
1	Physical volume of sales	1 1 Sales reduction by 10% 1 2 Sales reduction by 20%
2	Reduction of product price at permanent sales volume	2 1 Price reduction by 10% 2 2 Price reduction by 20%
3	Increase of direct (indirect) production costs	3 1 Cost increase by 10% 3 2 Cost increase by 20%
4	Increase of permanent (operating) production costs	4 1 Increase by 10% 4 2 Increase by 20%
5	Increase of investment period duration	5 1 Increase by 3 months 5 2 Increase by 6 months
6	Increase of investment costs (assets)	6 1 Increase by 10% 6 2 Increase by 20%
7	Increase of production cycle duration	7 1 Increase by 3 months 7 2 Increase by 6 months
8	Delayed payments for product	8 1 Delay 45 days 8 2 Delay 20 days
9	Changes of interest rates	9 1 Increase of ruble interest rate up to refunding rates - N3 9 2 Increase of hard currency rate up to 18%

10	Integrated scenario	10 1 Simultaneous changes of 2 or 3 factors within the specified ranges
11	Production of loan payback period	11 1 Reduction to 2 years 11 2 Reduction to 3 years 11 3 Reduction to 4 years

Some of scenarios and their variables could be changes by an expert basing on specificity of an IP

The sensitivity analysis results are presented in Table 2

Table 2

Scenario	Efficiency factors			Cash flow (positive\ negative)
	NPV	IRR	payback period	
1 1				
1 1				
2 1				
2 2				

Obligatory condition which determines correctness of obtained sensitivity analysis results in the positive cash flow throughout the entire project (at each calculation point) In case the cash flow acquires negative value or any of efficiency factors, value turns to be below the norm, a detailed scheme of cash vlow should be developed and suggestions should be made to correct these cash flows, recommendations should be provided on how to increase economic factors

5 Evaluation of IP financial risk

IP financial risk evaluation includes the following factors

Value of 3 component factor of financial situation at an enterprises at various phases of project impenentation

The goal of financial risk determination is to specify 3 factors of financial stability, such factors are

- a) excess (+) or deficit (-) of owner's assets $\pm E^c$
 $+ - E^c - \text{owner's cash flow} - \text{stocks and expenditures where in owner's operating assets} = \text{sources of owner's assets} - \text{basic assets and investments}$
- b) excess (+) or absence (-) owner's assets middle term and long term loans sources of stocks and expenditures formation $(+/- E^b)$
 $+/- E^b (\text{owner's operating funds} + \text{medium term and long term loans and borrowed assets}) - \text{stocks and expenditures}$

c) excess (+) or deficit (-) of total volume of major sources for formation of stocks and expenditures ($\pm E^n$)

($\pm E^n$ = (owner's operating assets + medium term and long term loans and borrowed assets + short term loans (up to 1 year), loans not paid in time) — stocks and expenditures

3 component ratio acquires the form of

$$S = \{S(\pm E^c), S(\pm E^l), S(\pm E^h)\}$$

The function is determined as

$$S(x) = 1, \text{ if } x \geq 0$$

$$S(x) = 1, \text{ if } x < 0$$

Liquidity factor (current and constant) at various phases of IP implementation (investment and production) are calculated based on planned balances at implementation stage

6 Loan guarantees

Mechanism of loan payback is to be presented in the form of liquid security, including the list of property as security with its mandatory insurance for the entire loan term Under these terms it is obligatory to include notary authorization of security - and time payment, insurance premium - annual payments

- bank guarantee
- agreement on the right of security

Notes evaluation of projects for reconstruction and technical refurbishment of the existing facility with the purpose to reduce operating costs increase the production of volumes or simultaneous solution of these or other issues, you should take into account the peculiarities of real cash flow formation, arising in the process of refreshment It means that efficiency is formed under the influence of not absolute ratios of result and expenditures but under the influence of their changes as a result of the specific project realization, i.e., changes of production volume, current production costs etc In terms of efficiency net income of the enterprise as a result of current production modernization, it is a difference of net income after project realisation and net income before realization, i.e., net income expresses increment of its size

$NPV^t = NPV^t - NPV^0$, NPV^t being increment of NPV in the t-year of IP implementation

$NPV^t = NPV^t - NPV^0$, NPV^t being NPV in the t-year after production modernization
 NPV^0 being NPV prior to modernization (startup year)

Methods of comparative evaluation of IPs to be financed from the Oblast budget

N	Criteria and indices	Score
	General review of activities	
1	Aspect of enterprise	8
	Professional level of administration	
	1 High level of management	5
	2 Lower level of management	0
	Availability of skillful human resources	
	1 High-skilled personnel	3
	2 Low-skilled personnel	0
II	Industry characteristics	3
	1 Developing industry, supported by the state (federal, regional) program, growing demand	3
	2 State industry, permanent demand	2
	3 Industry with unstable demand	1
	4 Industry in the state of decline, falling demand	0
III	Area of IP implementation	4
	1 Region (city donor), highly attractive for investment activity, free economic zone	4
		3
	2 Region supported by a federal or regional program	0
	3 Region (city) recipient without developed infrastructure, not attractive for investment activity	
IV	Preparation of IP	5
	1 Available project draft, cost estimate documentation, business plan of feasibility study, reviewed, by independent environmental and other experts	5
		2
	2 Available business plan corresponding to the bid requirements with the necessary economic (cost) estimates	0
	3 MOB and feasibility study, no cost analysis	
V	Availability of raw materials, components and other resources	6
	1 Access to raw material sources	
	• monopolist supplier	0
	• developed raw material market	3
	2 Sources of raw materials	
	• necessary resources are fully produced in the region	3
	• necessary resources are mainly produced in the region	1
	• necessary resources are mainly imported from abroad	1

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VI	Competitiveness of the product	5
	1 Absence of foreign and domestic analogies, patent, certificate and license available	5
		4
	2 Absence of domestic analogies, prices below those on foreign analogies, patent, certificate, license available	3
		2
	3 Product is competitive due to the price	1
	4 The price and the quality are the same as competitor's	0
	5 The product is not competitive	
VII	Analysis of demand for the product	6
	1 Well-developed marketing plan supported by agreements and contracts, high and sustainable demand	6
	2 Well-developed marketing plan supported by agreements, narrow market segment	5
		2
	3 Insufficient marketing plan not supported by agreements and contracts, sustainable demand, availability of the single consumer	0
	4 Unrealistic marketing plan, absence of agreements and contracts, the delivery of project, unstable demand	
VIII	Environmental safety	5
	1 Environmental impact assessment, environmental expert conclusion, proving the positive impact of the project, emissions reduction, environmental pollution reduction	5
	2 Projects do not produce negative impact on the environment	4
	3 Projects resulting in environmental damage	0
IX	Demographic factor	5
	1 Creating and preserving jobs, relieving social tension in the region	5
	2 Creation of new jobs	4
	3 Preservation of jobs	3
	4 Reduction of jobs	0
X	Application of advanced technologies	3
	1 Use of domestic developments (RND)	3
	2 Use of foreign technologies (RNÂ)	2
	3 Absence of new technologies	0
	Total for general aspects of activities	50
	Economic parameters of the project	
XI	Payback period	5
	1 Less than 3 years	5
	2 Less than 5 years	4
	3 More than 5 years	1
XII	Oblast budget loan payback	7
	1 Less than 3 years	7
	2 Less than 5 years	5
	3 More than 5 years	0

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XIII	Cost efficiency (USD)	13
1	Cash flow	1
2	Negative at least for one calculation period	0
3	Positive for the whole calculated period	5
	Budget efficiency	3
a)	not exceeding 1.5	1
b)	not exceeding 10	2
c)	over 10	3
	Internal rate of return	4
a)	from 15 to 25%	1
b)	from 25 to 100%	3
c)	over 100%	4
	Profitability index	2
a)	not exceeding 1.05	0
b)	from 1.05 to 1.2	1
c)	over 1.2	2
XIV	Sources of funding	4
1	more than 20% of owner's funds	4
2	less than 20% of owner's funds	2
3	lack of owner's funds	0
XV	Guarantees of investment return	9
1	Bank warrantee or contract of guarantee	9
2	Assets as security with obligatory insurance	5
3	Absence of guarantees	0
XVI	Financial situation as of the date of project commencement	11
	Financial stability of the enterprise (three component index)	
1	Absolute financial stability	5
2	Normal financial stability	4
3	Unstable financial stability	1
4	Financial crisis	0
	Liquidity of balance	
1	Correspondent with the standard value ($K < 0.5$)	3
2	Below the standard value	0
	Borrowed/owner's assets ratio	
1	Standard	2
2	Below standard	0

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XVII	Financial stability of the project	7
	Financial stability of the enterprise (three component index)	
1	Absolute	4
2	Normal	3
3	Unstable	1
4	Crisis	0
	Liquidity of balance	
1	Correspondent with the standard value (K no less than 2)	2
2	Below the standard value	0
	TOTAL FOR ECONOMIC INDEX	50
	GRAND TOTAL	100

If the IPs scores

- under 50 - the IP belongs to the higher risk category (3rd category)
- from 50 to 70 - average risk category (2nd category)
- from 70 to 100 - lowest risk category (1st category)

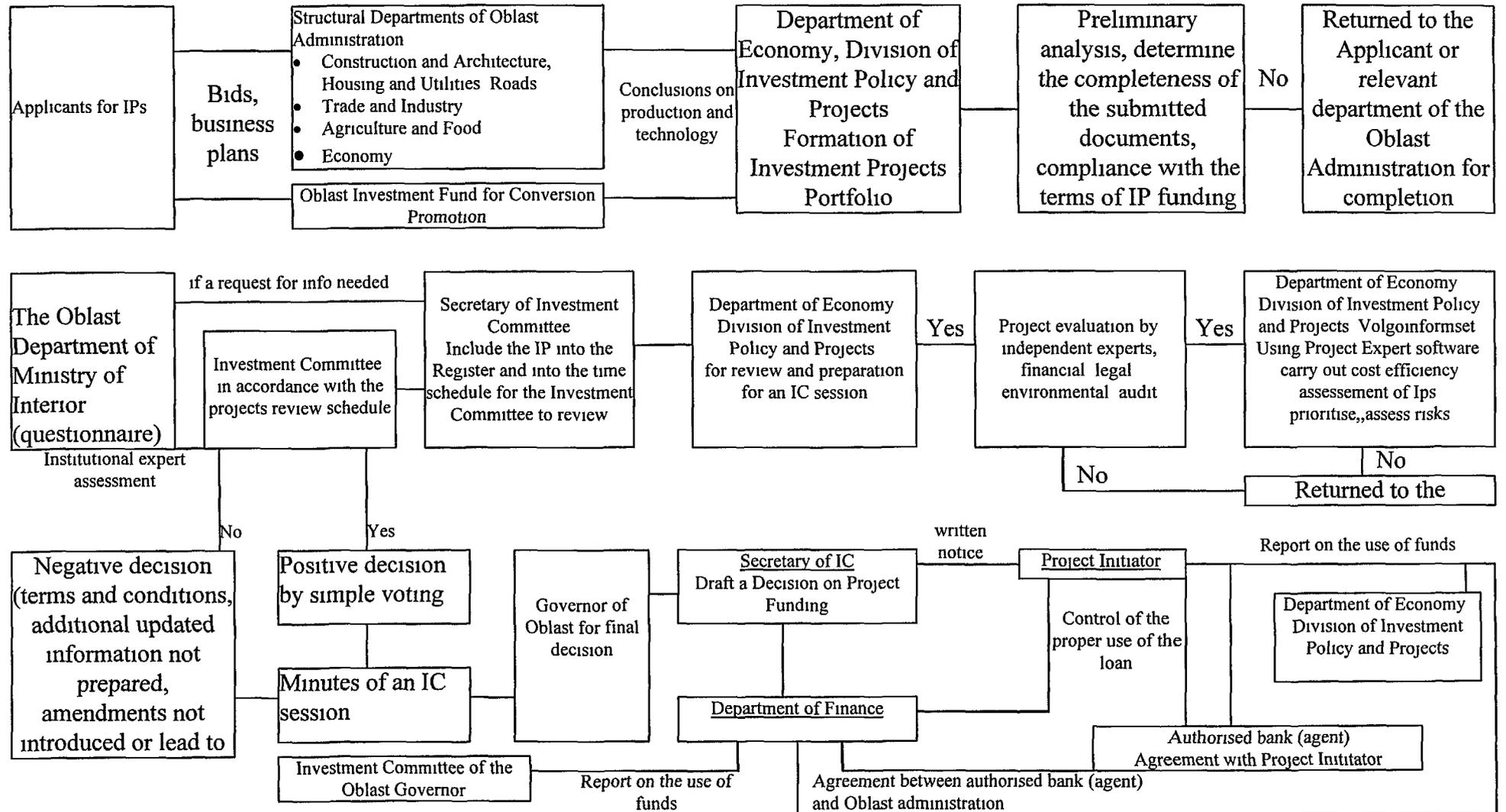
The proposed method of IPs helps evaluation and analysis to prepare proposals for IÑ and to develop the financing schedule

The above forms must be filled during the preparation for the IC session by

- independent experts doing expert assessment of the project
- appropriate departments and institutions while preparing their conclusions (decisions) on general aspects of the enterprise activity
- Department of Economy of the Oblast Administration while preparing their general conclusions on each IP

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Questions on Budget Funding

- 1 How are possible projects identified?
- 2 How are costs estimated? Revised?
- 3 What methods of discount are used?
- 4 What interest rates are applied?
- 5 What non-financial benefits are taken into consideration?
- 6 What indirect financial benefits are taken into account?
- 7 How is risk evaluated?
- 8 How are organizational goals addressed the process of decision making?
- 9 How is the previous experience used?
- 10 Are there any strategic planning activities?
- 11 Are there any long-term planning activities?
- 12 Is there any long-term financial planning activity?
- 13 How are "old" uncompleted projects analyzed?
- 14 How are the cheapest alternatives reviewed?
- 15 How are operating and maintenance costs taken into account?
- 16 What methods of financial analysis are used?
- 17 Is the institution's ability to use production capacity estimated?
- 18 Are loans considered in the context of the institution's ability to pay them back?
- 19 Are grants analyzed from the point of view of the institution's ability to survive?
- 20 Does cross-functional cooperation take place at the planning stage and during implementation?
- 21 Is the institution's ability to implement the project considered?
- 22 Is the impact of internal barriers for successful project implementation and management taken into account?
- 23 Are resources necessary to manage and to complete the project defined prior to first expenditures?

APPLICATION
for credit resources of the Oblast budget for investment projects

- 1 Applicant (name)
- 2 Legal address
- 3 Authorized person (job title, name, phone)
- 4 Legal status
- 5 Registered capital
- 6 Share of state and municipal capital in the registered capital (5%)
- 7 Major shareholders (participants)
- 8 Name of investment project
- 9 Total cost of the project
- 10 Funds required
- 11 Recoupment period
- 12 Payback of loan
- 13 NPV of income
- 14 Budget efficiency
- 15 Warranties (when using property, shares, property rights, indicate the value of collateral, legal basis, insurance, in case of bank guarantees or third party warranty, indicate the name, address, details, scope of guarantees)

Signature and stamp
Date of application

PASSPORT OF INVESTMENT PROJECT

This passport contains preliminary information for express-evaluation of the IP

FOR OFFICIAL USE

IP code
Date of Registration
Updated
Industry code
Level of IP
Code of region of implementation

1 INFORMATION ABOUT THE IP

1 1 Full name (6 lines maximum)

1 2 Kind of project (tick)

- new production facility
- equipment modernization
- expand the existing facility
- other

1 3 Investments to be used for

- R&D
- license and know-how purchase
- purchase of equipment
- current assets replenishment
- construction
- preparation for production
- purchase of real estate
- other

1 4 Place of IP implementation (oblast, city, town)

1 5 Approximate commencement date

1 6 Additional information

2 PRODUCT (SERVICES)

2 1 Name of product (service)

2 2 Purpose and technical specification

2 3 Innovation character

- totally new item
- new in design

- updating of existing product
- analogous to best foreign brands
- analogous to existing product
- assembled from imported components
- own know-how available

2 4 Patent protection required for key technical and technological aspects

- n/a
- needed
- not needed
- covered by patent

2 5 License

product	—	n/a	needed	not needed	covered by license
activity	—	n/a	needed	not needed	covered by license
purchase of raw material, equipment	—	n/a	needed	not needed	not needed
covered by license					

2 6 Certification

product	—	n/a	needed	not needed	certified
technology	—	n/a	needed	not needed	certified

2 7 Volumes and fields of application

—	city, district	region	Russia	CIS and Baltics
	export	import replacement		

2 8 Consumer specification

- general application in industry
- special industrial application
- mass consumption
- applied both in industry and household

2 9 Production according to the Program

- federal
- president's
- conversion
- regional

2 10 Additional information for this section

3 MARKETING RESEARCH

3 1 Market description for product/services

- offer and demand known
- major consumers known
- statistics of export/import available
- wholesale buyers known
- current prices on similar products /services known
- prospective price analysis for product/services available

3 2 Prospects for sale

- previous contracts of POI in place
- purchasing of products/services for ___ months of operation
- channels of product sales and services determined
- measures for growth of demand for the product taken

3 3 Production program and operational costs

- annual production volume for implementation period determined
- item-by-item calculation of production costs made

3 4 Competition

- major competitors known
- competitiveness analysis carried out

4 Current status of IP

4 1 Implemented stages of IP

- idea only
- prototype, pilot production
- design documentation
- production prepared
- R&D documentation
- design and cost-estimate documents
- readiness for production
- mass-production under way

4 2 Resources available

- HR
- land
- production facilities
- equipment

- materials
- spare parts and components
- water supply
- power supply
- heat supply
- transport
- communications
- waste treatment facilities

4 3 Availability of schedule and technological flow charts (yes, no)

4 5 Imported equipment required

- equipment
- spare parts
- raw materials
- other (in the additional information on the section)

4 6 Availability Feasibility Study (yes, now)
Business Plan (yes, now)

Business plan (if available) developed _____ 199__ using the method of

4 7 Developer of the IP (business plan)_____

4 8 Additional information on the section _____

5 FINANCIAL-ECONOMICAL INDICATORS OF THE IP

5 1 General overview of the estimates

Calculations made for the period of _____ years on a monthly, quarterly, annual basis,

Based on the exchange rate of 1 USD — _____ rubles

Estimates made

- income & losses
- cash flows

Balance calculation made by the method of _____ (or using software of _____)

5 2 IP specification

Total cost of the IP (thousand rubles)
and (thousand USD)

Project Payback Period (PBP) _____ years

NVP determined at _____ thousand rubles

IRR determined at _____ %

Profitability Index (PI) determined at _____

Positive balance is ensured at all the estimated periods (yes, now)

5 3 Sensitivity analysis in case of changes in

- **production volume (sales)**
- prices for products (services)
- production costs
- debt receivables
- terms and conditions of investment
- investment volume
- investment and production cycles duration
- integrated scenario

5 4 Financial resources of the project

own assets _____ thousand rbl and _____ thousand USD

state of financing _____ thousand rbl and _____ thousand USD

attracted assets _____ thousand rbl and _____ thousand USD

assets required _____ thousand rbl and _____ thousand USD

5 5 Additional information

6 PROPOSALS FOR INVESTORS

6 1 Required volume of investments

contribution of enterprises of the oblast in the IP implementation

planning and design _____ thousand rbl _____ thousand USD

construction _____ thousand rbl _____ thousand USD

purchasing equipment & spares _____ thousand rbl _____ thousand USD

social issues _____

road construction, heat supply systems, other utilities _____

creation of new jobs _____

other _____

6 3 Loan payback period _____ years

6 4 Additional information

7 GUARANTEES OF INVESTMENT RETURN AND RISKS

7 1 Insurance of loan return

- federal warranty

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- regional warranty
- insurance
- right transfer
- assets of security
- assets security
- bank guarantees
- other (in additional information)

7 2 Permission for support from authorities

- federal
- regional
- local
- other states
- other (in additional information)

7 3 Probable risks in the project (specify) _____

7 4 Additional information

8 INFORMATION ABOUT THE ENTERPRISE-PROJECT INITIATOR

8 1 Legal form _____

8 2 Full and short name _____

8 3 Form of property _____ including the state share _____%

8 4 Date of establishment ____ _____ 19 ____

8 5 Average number of employees _____
full time _____

8 6 Area and duration of activity _____

8 7 Registered capital (in balance) _____

8 8 Fixed and operating assets _____

8 9 Debts
long term debts (for more than 1 year) _____

8 10 Date of the latest audit inspection ____ _____ 199

8 11 Bank requisites _____

9 ENTERPRISE ADDRESS

Post code _____ region (republic, oblast, krai) _____

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Phone _____ Fax _____
Manager of the enterprise _____
Contact person _____

The person responsible for compilation of the present passport certifies that the information herein is true as of the date of compilation

Signature and stamp

Date

EA-Ratings, Director, Projects Credit organizations and Municipal Infrastructure Fund

Written by Pavel Svistunov

One of possible ways to potentially reduce budget spending might deal with reduction of budget costs associated with providing communal-municipal services. Mechanisms of cost reduction imply a transfer of municipal enterprises in communal sphere to delegated management (concession, long-term rent, management contract). Due to their advantages contracts of long-term rent and concessions are getting more and more popular in infrastructure domain. Such contractual practice is fully operational or is at the implementation stage in some 37 countries, including 18 countries having low budget revenues. International meaning of term "concession" implies all characteristics of the contract to rent an enterprise as a property complex, but imposes additional obligations on concessionaire. The latter deal with capital investments required to arrange for agreed on expansion of operations or increasing production capacities or replacement of fixed assets. The Civil Code of Russia introduced the concept of "concession" (Chapter 54, Articles 1027-1040 Commercial concessions). However, the idea of "concession" is examined in above chapter in restricted context of granting a power to use a package of exclusive rights, i.e. franchising. Therefore, the provisions of above chapter of the Civil Code are inapplicable to transfer rights on use and operation of property complexes of both enterprises and objects of municipal engineering infrastructure. Therefore, in Russian practice transferring a municipal enterprise for concession has a meaning of concluding a contract to rent an enterprise as a property complex with additional terms and conditions binding renter to make investments to reconstruct and upgrade the enterprise in question.

Principal advantages to implement the mechanism of transferring enterprises for delegated management (concession) are as follows:

1. Restriction of financial participation of municipal institutions in project development,
2. Setting up a competitive environment in domain of communal-municipal services¹,

¹ In spite of the fact that at each specific moment of time there is only one supplier of the given kind of services (renter), competition occurs prior to signing the contract as a result of examining the list of applicants, as well as after expiry of contract term (competition to renew the contract). As a result, there is a competition for the market, despite the fact that there is no competitor in the market during the contract term.

- 3 Arranging for inflow of financial resources into the region,
- 4 Renter should spend more than half of funds invested into the project into acquiring necessary materials, hiring labour force, etc , at the territory of its implementation,
- 5 Capital development or overhauling municipal objects creates additional amount of jobs in the city,
- 6 Both enterprise as a whole, or specific municipal and infrastructure objects can be offered for delegated management That allows to expand the number of potential investors,
- 7 After an expiry of contract term the property of municipal institutions gets returned featuring the newest equipment

During negotiations to transfer a municipal enterprise for concession it is advisable to pay a particular attention to the following issues

- 1 The price that renter is ready to pay for the right to operate an enterprise, or the volume of state capital investments or subsidies
- 2 Renter's charges to be associated with the services rendered
- 3 Term of concession

The terms of concession contracts accepted in international practice are listed below

Tall roads -	30 years
Electric power industry -	15 years
Hydro-electric power generation -	30 years
Water supply and water delivery -	5 - 30 years
Processing and dumping solid wastes -	4 years

- 4 Arrangements to transfer the municipal enterprise for concession

Accounting for analysis of current situation in Nizhni Novgorod the concession of municipal enterprise as a property complex is the optimal one

- 5 Composition and periodicity of reports to be submitted by renter

Possible forms of reporting comprise annual reports, technical reports, financial statements, profit and loss spreadsheets, and terms and condition of control on the part of local authorities

6 Criteria to be used to evaluate renter's activity

7 Rights and obligations of the parties upon expiry of contract term

Attraction of investments into infrastructure

Russian municipal enterprises have an acute demand for financial resources to implement reconstruction and upgrading programs. Scant local municipal budget funds are not capable of providing adequate financing. The volume of obsolete fixed assets deployed in enterprises of communal-municipal sector is growing, engineering networks become unsuitable for use, the quality and rhythm of providing municipal services deteriorate together with increasing operational costs, the costs to be absorbed in the future keep on rising.

A realistic way to resolve current situation is provided by attracting loans to fund reconstruction of urban infrastructure introducing energy efficient technologies.

This approach is quite timely since the situation is favorable nowadays. One of the consequences of financial crisis in Russia deals with a certain surplus of available financial means in small and average size banks that before crisis were rated as belonging to the second league. After a substantial growth in number of clients, the banks are faced now with fund allocation problem. Security market has collapsed, currency operations have become less profitable due to rigorous restrictions introduced by Central Bank of the Russian Federation, the number of borrowers of choice has reduced by a large measure. Default on bonds issued by the government of the Russian Federation undermined trust to state securities for a long time. As was indicated by "Economic analysis" polling bureau that ranged credit status in a number of cities and territories of the Russian Federation, in majority of regions and municipal entities the debt load has already exceeded reasonable limits.

In this situation it is enterprises of communal-municipal sphere that can move to a center-stage of banks' interests. Beside above listed there are some other reasons for that, namely

- 1 Predominantly the municipal enterprises operating in the area of communal-municipal services are natural monopolies having guaranteed consumer market
- 2 Owing to the fact that these enterprises provide services to citizens they have a continuous cash supply

And the main thing is that the enterprises in this branch have a potential to reduce costs to provide services, first of all because of introducing effective technologies and decreasing losses

The essence of the economic mechanism underlying economy on resources in communal services (CS) enterprises deals with introduction of effective (resource-saving) reconstruction of CS enterprises using loans to be repaid from means that will become available due to upgrading. This approach enables one to make most effective investments into the companies providing communal-municipal services

Experts agree that having the same rates of repair in the XXI century the utility CS networks will be worn out up to 70% and higher, the loss of water will increase up to 60%, and cost of communal-municipal services rendered to residents will grow by a factor of 2-2.5 only because of growing loss of potable water

For example, only the cost of annual loss of potable cold water in Russian pipelines is estimated in the ballpark of 13,559 mln USD plus per year. If one accounts for additional 23,729 mln USD of costs on electric power to deliver this water, the total losses will become commensurable with the federal budget figure

The means to repay the debt come from reduction of production costs to be brought about by introduction of effective technologies

The economy stems from the following factors

- installations of modern efficient equipment,
- reductions of losses, because of upgrading,
- reduction of costs to maintain CS facilities owing to accomplished upgrading programmes,
- optimizing operations of equipment installed,

Financing projects through bank credit mechanism implies that a special attention should be paid to forms of guarantee to return the credit. These guarantees can have several forms

- guarantees of the regional budget,
- bills of the regional budget issued as collaterals²,

² The federal law "On translation and promissory notes" dated March 11, 1997 permits Administrations of municipal entities and subjects of the Russian Federation to undertake obligations per draft and promissory notes only in cases specifically stipulated by the federal law. Now there is no such law effective but in the long term this opportunity might become feasible

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- maintenance of fixed balance at the repayment account,
- opening repayment banking account with financing bank,
- providing rights to collect payments for municipal services (a municipal enterprise can use the right to collect payment for the services rendered (under pledge contract) as a surety against credits issued by commercial banks)
- insuring risks of the enterprise with insurance company

PROCEDURE

of Arranging Investment Project Tenders Financed from Loan Resources of the Regional Budget (hereinafter referred to as Procedure)

I. General Provisions

1 1 This Procedure has been **developed in accordance with** the *Civil Code of Russian Federation, Enactment of the President of Russian Federation (# 773 as of July 23, 1997) on Giving Guarantees or Vouchers on Loans and Borrowings, Enactment of RF Government (# 1470 as of November 22, 1997) on Approving the Procedure of Giving State Guarantees on a Tender Basis from RF Development Budget Funds and Regulation on Evaluating Efficiency of Investment Projects while Assigning on a Tender Basis Centralized Investment Resources of RF Development Budget*

1 2 This Procedure determines **conditions of arranging and holding tenders** of Investment Projects financed per loan resources of the Regional Budget (hereinafter referred to as the Tenders), rights and obligations of the organizers and participants of the Tenders

1 3 Investment Projects Tenders shall be of **public type** They are aimed at selecting the most efficient, having the shortest pay-off periods and socially significant

investment projects for financing them with the aid of the Regional Budget loan resources on a fixed-time, payback and chargeable basis as well as promoting investment activity and attracting resources of native and foreign private investors to contribute them into development of the Regional economy

1 4 Tenders are held by the **Investment Commission** attached to Samara Region Administration (hereinafter referred to as the Investment Commission) The personal composition of the Investment Commission is ratified by the Governor of the Region

1 5 Please find below explanation of a number of **terms hereinafter used in this Procedure**

INVESTMENT PROJECT – Project of realistic investment scheduled for implementation in the form of new construction, technical re-equipment, rehabilitation or expansion of facilities

INVESTMENT TENDER – Selection of promising Investment Projects or investors carried out by the Regional Administration with the aim of rendering state support to them

BIDDER – Legal entity having submitted an application (Bid) for getting a loan from the Regional Budget funds

BORROWER – Legal entity having received a loan from Regional Budget funds

LOAN MANAGER – Governor of Samara Region or Deputy Governor

II. Conditions and Criteria of Tender Type Selection of Investment Projects

2 1 Loan resources from the Regional Budget assigned for contributing to Investment Projects shall be made available on a fixed time, payback and chargeable basis

2.2 The general prerequisite of granting access to the Regional Budget loan resources shall be interest of the Region in the proposed Investment Project determined on the basis of conclusions of relevant branch departments of the Regional Authorities. Priority in making the loan resources available from the Regional Budget shall be attached to Investment Projects directed at solving important issues of social-and-economic development of the Region providing for use of comprehensive technologies, ensuring production of export oriented import-substituting goods or goods having a high demand in the internal market as well as Bidders' projects completely meeting current obligations as to budgets of all levels and state and off-budget funds

2.3 The **main criteria of evaluating Investment Projects** within the Tender procedure are as follows

- ? Economic efficiency and financial stability of the Project
- ? Social significance
- ? Budget efficiency
- ? Pay-off period of the invested resources
- ? Opportunity of well-timed return on the Regional Budget loans and the interest
- ? Availability of loan payback security

2.4 Resources of the Regional Budget shall be assigned for implementation of Investment Projects the pay-off period of which as a rule does not exceed five years

2.5 The following Investment Projects **shall not be entitled to participate in the Tender**

- ? Project Bidders are at the stage of reorganization or liquidation
- ? Project Bidder's property is seized or imposed penalty on in accordance with established legal procedure

- ? Project Bidders have communicated false information or have failed to submit a complete block of documents
- ? Project Bidders have backlog indebtedness as to loans previously given to them per Regional Budget on a payback basis

2.6 Investment Projects shall be accepted for revision by the Investment Commission under consideration of preliminary evaluation of liquidity rate of the deposit asset submitted as security by the Bidder carried out by insurance companies authorized by the Regional Administration

III. Determining the Amount of State Support

3.1 The process of assigning resources for financing Investment Projects of the Bidders is of share character except for the cases specified in Paragraph 3.2 of this Procedure

3.2 **The amount of state support** in the form of a loan from the Regional Budget funds associated with the objective of implementing Investment Projects shall be **determined depending on the category of the Project**

- ? *As to Projects of Category A* – having top significance for Samara Region development and forming part of Regional investment programs as well as those which are implemented on the territory of Special Economic Zones – up to **90%**, and on resolution of the Loan Manager – up to **100%**
- ? *As to Projects of Category B* – providing for production of competitive import-substituting or export goods with application of progressive innovative technologies – up to **80%**
- ? *As to Projects of Category C* – having social orientation (creating new jobs, tackling social-and-economic and ecological problems of the territories (districts) of the Region, improving the quality of life and population health standards) – up to **70%**

- ? *As to Projects of Category D* – providing for production of goods having high demand in the internal market – up to 60%
- 3 3 **The amount of state support** from the Regional Budget funds for implementation of Investment Projects **shall be established as follows**
- ? *For newly started construction (investment project)* – percentage wise of the estimated cost of the project determined on the basis of design estimates or construction cost calculated while giving prove to the investment
- ? *For continued construction (investment project)* – percentage wise of the balance estimated cost of the investment project Amount of the continued construction shall be determined on the basis of estimated cost of the project and works carried out by the time of Business Plan development and submitting the bid application for consideration proved by statistic data reports (Form 2-KS, 8-KS annual and 2-KS “construction” monthly)
- 3 4 Amount of the **Bidder’s equity** assigned for financing the relevant Project by the start of its implementation shall be proved by the form of annual accounting reports for the previous year, and for the period of the current year – by reference notes of the bidder on non-distributed profit, unused depreciation, cash assets generated from selling fixed assets, shares, on loans received and other sources to the amount of their incoming to the Bidder’s account

IV. Procedure of Arranging and Holding the Tenders

4 1 Information on holding Tenders of Investment Projects proposed to be financed out of loan resources of the Regional Budget shall be **made public** by Department for Economy of the Regional Administration via mass media *indicating the*

following procedure of submitting applications for participating in the Tender, terms and conditions of participating in it, places and deadlines of submitting applications, telephone and address available for receiving additional clarifications

4.2 The Bidders shall submit applications for participation in the Tender to the Regional Administration addressing the Governor (Enclosure # 1 to this Procedure) enclosing *2 copies of documents set enlisted in Enclosure # 2 to this Procedure*. The Governor of the Region shall refer the documents presented by the Bidder for preliminary analysis to the Department for Economy of the Regional Administration.

4.3 *Department for Economy of the Regional Administration* shall register the Bidders' applications, determine completeness of the documents submitted, carry out initial analysis of the Investment Projects and refer them for preparation of conclusion to relevant departments of the Regional Administration as well as to specialized expert institutions for carrying out independent expertise.

4.4 *Branch departments of the Regional Administration* on the basis of the documents received shall prepare in 10-days period their conclusions and send them to the Department for Economy of the Regional Administration, these **conclusions shall include the following**

- Evaluation of the *organizational-and-institutional status of the Bidder* (reliability and business reputation of the Bidder, experience of working in the market of the goods produced, correctness of formalizing the legal status, availability of a complete block of absolving documents and necessary coordinations)
- Evaluation of the *technical and technological level of the Project* (technological and design consistency and novelty of the Project, quality of the relevant goods or services, compliance with Russian and international standards, optimality of technical solutions), evaluation of the market and marketing strategy

- Estimation of *social aspects of the Project* (adequacy of the Project as for branch objectives and Regional programs, feasibility of data as to creating new and preserving existing jobs, estimation of the influence of the Project onto improving the living conditions and services quality, on the environmental situation and architectural pattern of the city (district))
- Recommendations on *expediency or inexpediency* of considering an Investment Project at Investment Commission session

4.5 Expertise of Investment Project shall be carried out on chargeable *basis at the expense of the Bidder* and can be made by *specialized expert institutions* (by the Bidder's choice), the list of which shall be ratified by the Investment Commission

4.6 In case of need the Department for Economy of the Regional Administration shall render *methodological and organizational help* to the Bidders as to revision of the Investment Project and bringing it in accord with requirements stipulated for by this Procedure

4.7 The Department for Economy of the Regional Administration shall prepare *comprehensive conclusions on the Investment Projects* meeting the requirements of the Tender and submit them to the Investment Commission for consideration

4.8 The Investment Commission shall make *competitive selection of Investment Projects and adopt recommendations on expediency of rendering state support to the Project* specifying its amount, terms and conditions of such support or conclusion on its inexpediency

4.9 If there are some remarks or proposals of material significance on behalf of the Investment Commission the Investment Project shall be handed over to the Bidder for *modification*. After corresponding modification the Project can be considered *for the second time* at the Investment Commission session

4 10 Meetings of the Investment Commission shall be held as required, but at least once a quarter of the year

4 11 *Secretary of the Investment Commission* shall notify the Investment Commission members and persons invited of the time of the meeting and the venue on agreement with the Chair of the Investment Commission 5 days before the meeting

4 12 The Investment Commission shall be entitled to reach a decision, if *over half of its members are present at the meeting* Resolutions shall be taken by *open vote* and is regarded as adopted, if over half of the Commission members participating in the meeting voted for it

4 13 The following **persons can be invited** to the Investment Commission meeting while considering Investment Projects

- ? Representatives of the Bidder
- ? Specialists of the Regional Administration
- ? Independent experts
- ? Mass media people

4 14 ***Presentation and protection of the Investment Project at the Investment Commission meeting*** shall be carried out by the Bidder's managers with the Bidder's top manager at the head

4 15 Record of Investment Projects considered at the Investment Commission meeting shall be kept by the Secretary of the Investment Commission

4 16 While holding the Tender the Investment Commission shall make evaluation of Investment Projects based on principles of equality and objectiveness, making equal demands of the Bidders

4 17 **The Investment Commission shall be entitled** to do the following

- ? Request from the branch departments of the Regional Administration and from the Bidders *additional documents and materials* which are necessary for complete and objective evaluation of the Investment Project
- ? *Ratify requirements* to the structure of the documents and contents of the Investment Projects expertise
- ? *Determine the list of specialized expert institutions* developing and carrying our expertise of bidding enterprises' (companies') Investment Projects
- ? *Refer to the Loan Manager proposals* on the amount of loan resources assigned from the Regional Budget based on evaluation criteria and category of Investment Project, deadlines and terms and conditions of their arrangements

V. Formalizing Results of the Investment Tender

5 1 *The Investment Commission Protocol* shall be finalized on the results of Investment Tender, this Protocol shall contain recommendations on expediency or in expediency of making loan resources from the Regional Budget available for implementation of the proposed Investment Project or on the necessity of modifying the Project by the Bidder *The Protocol shall be signed by the Chair and the Secretary of the Investment Commission and shall be referred to the Loan Manager in three days period*

5 2 Decision on giving or refusal to make the loan resources of the Regional Budget funds available shall be made by the *Loan Manager under consideration of Investment Commission recommendations and shall be formalized by the Enactment of the Governor of the Region*, this Enactment shall be submitted to the Department for Finances of the Regional Administration with one set of documents (enlisted in Enclosure

2 to this Procedure) attached to it thus enabling the availability of loan resources from the Regional Budget funds to the Bidder

5 3 The Secretary of the Investment Commission *shall inform the Bidder of the decision taken in five days period* from appearance of the Governor of the Region
Enactment

5 4 After signing the Enactment by the Governor of the Region Department for Finances of the Regional Administration shall *draw up all necessary documents on assigning resources from the Regional Budget funds for financing the considered Investment Project* in accordance with the laws in force of Samara Region

Analysis of the New Federal and Regional Laws, Controlling the Status of Capital Funding Projects Partially Supported by Public Finance

The participants of the seminar were given basic results of new changes in the federal and regional legislation. These revisions alter conditions of accomplishing investments programs. In this respect a major stress was put on most important provisions of the Budget code of the Russian Federation and Federal law on development budget. We analyzed and discussed the provisions of those articles of the Budget code that contained details of capital expenditures in budgets, forms of expenditures, budget credits to juristic persons, tax benefits, funding budget investments, granting state guarantees to constituting entities of the Russian Federation. The special attention was paid to provisions of the federal law on budget development.

It was pointed out, that according to the regional program of capital investment in 1999 the means of the regional budget will be allocated in the following major areas: strengthening the material base of the oblast education and public health system, continuing work on developing regional gas supply network, completion of construction of oncological center in Samara, refurbishing the building of academic opera and ballet theatre, development of apartment complex for specific categories of citizens having a special status of support on the part of the state, updating public transportation bus pool, development of underground public transportation.

Recently, a package of the legislative, normative and legal acts stimulating and regulating investment activity on the regional level was developed and accepted in Samara oblast. Within the framework of the project to be accomplished we analyzed the part of the legislative documents that dealt directly with the budgeting process, development budget inclusive. From this point of view the draft law «On development budget», some provisions of law «On investments in Samara oblast» and draft amendment to it, Provisions on property mortgage in Samara oblast are quite interesting.

On the whole, the analysis of the documents confirms, that the region keeps the development of a favorable investment climate, attraction of investors, especially large ones in focus, the legislation of the region is improving, however, there still a lot of potential in these areas. For example, the draft law «On development budget» in many respects repeats the appropriate federal law having the same narrow range of applicability. Most substantial drawback of this law deals with unavailability of real sources to form means of the development budget. In our mind the law should have clearly define specific tax sources to shape the development budget as quotas from revenues provided by specific kind of taxes and deductions, and the pattern of protecting the development budget. As to the law «On investments», in our opinion, it is required to

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make changes in the section addressing the issue of tax benefits and terms of their granting. The privileges should be more weighty, and term of investment return during which the tax benefit would persist should be calculated in a more precise manner.

**RECOMMENDATIONS ON WORK WITH THE PROJECTS OF SOCIAL
SIGNIFICANCE**

(Ludmila Tokun, comments on Criteria for Social Projects)

The full list of everything that should be funded by the government shall be provided

Health (non commercial)

Education (schools, kindergartens, orphanages, etc)

Roads

Prevention of extraordinary situations, etc

Functional budget classification should be used for creation of this list

Inventory of all objects in state ownership shall be made both on oblast and municipal levels

All incomplete constructions should be identified. Their budget significance should be identified, and those that do not worth dealing with shall be selected (for example, an incomplete hotel, which has become private sector). A procedure for transfer to private investor has to be developed: terms, time period.

Permanent process of private investor attraction: advertising, publicly open information.

Evaluation of incomplete projects should be made with the account of discounting all previous investments (money inputs).

Those projects shall be selected where discounted cost for completion will be minimum. It provides the possibility to take into consideration both invested amount factor and time factor.

For comparison criteria the following formula is suggested

$$K = A K_1 + B K_2 + C K_3 +$$

The list of criteria should be provided

- 1 reducing of operational expenditures
- 2 Increase on budget revenues
- 3 The project is within the branch that is admitted to be strategically important
- 4 The project solves safety problem
- 5 The project solves environmental problem
- 6 Health protection is improved
- 7 Encourages life time period or increases birth rate
- 8 Employment factor

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K_1 K_2 K_n should be calculated for each criteria based on corresponding study
The obtained indicator in score will allow to make the selection procedure absolutely transparent and well proved

In addition to item 8
While calculating the results of the project reducing of operational budget expenditures should be taken into account For example, new boiler and heating supply net will allow to save on maintenance cost, including emergency repair

In addition to item 4
Discount cost for project completion should be calculated

In addition to item 3
Construction cost currently used (1984, school in Togliatti, 1991 on crematorium) lead to wrong results

In addition to item 10
Calculation of budget and public funds losses at the expense of a certain problem and correlation of these losses with project implementation cost
Example calculation of losses on sickness "sick lists" payments, not produced public product, as people were sick and did not work
Example New school construction
Calculation of additional cost for electricity supply, wages, water utilized by currently operated in three shifts school, including more intensive building and equipment depreciation

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- III Team Members and Their Roles
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Attachments

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- 4 Analysis of Dynamics of Budget Provisions
- 5 Economic Evaluation of Draft Laws of Khabarovsk Kraj
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TECHNICAL ASSISTANCE IN

KHABAROVSK

I Overview

Booz Allen & Hamilton's technical assistance team of Russian specialists and an expatriate adviser provided short-term technical assistance in Khabarovsk from April 4 - 30, to introduce the Khabarovsk Regional and City Administrations to best practices in Russia and internationally

The team conducted a "round table," attended by numerous regional and local officials at which several public finance officials from other regions made presentations. Thereafter, either in groups or individually, the team worked with officials of the Krai and Municipal governments, culminating in formal presentations to the Vice-Governor and to the Deputy Mayor of Khabarovsk City

II Technical Assistance Project Objective

Within the given topic "Streamlining the Methods to Develop and Improve Regional Minimal Social Norms," the short term technical assistance was targeted toward more efficient revenue planning for the regional budget of the Khabarovsk Krai. This was accomplished through the development of improved methodology for calculation of regional social standards for the municipal budget of the City of Khabarovsk and advising on potential changes in the relevant regional legislation

III Team Members and Their Roles

David Jones, Chartered Public Finance Accountant, outlined the approach similar to the minimal social standard model, which was widely used in American and English practice to manage municipal finance. He formulated the basic principles to set forth the budget process required to be implemented in the area of public finances in any country, expecting to be integrated into international economy. Information and analytical materials generated in the course of his studies and provided to Krai administration were highly valuable.

Irina V Abankina, Ph D, developed an effective short-term assistance schedule and worked out methods to resolve outstanding issues. She managed the teamwork to achieve results desired to ensure the overall success of the project. Her perseverance was instrumental in reporting results obtained by the short-term technical assistance team to the vice-governor of Khabarovsk Krai.

E V Kushtanina ran an in-depth analysis of budget and financial status indices of Khabarovsk Krai and the City of Khabarovsk. Her attending the session of the Legislative Duma of Khabarovsk Krai at which above administration bills had been approved in the first reading provided the source of valuable information on deputies'

attitude towards this issue. In addition, she generalized the materials and documents on social standards and minimal budget funding norms. This enabled her to proceed with substantial economic examination of the Kraj administration bills in this area.

N I Sudakova conducted the activity to arrange and proceed with the round table conference, gathering and analyzing normative and judicial documents from various regions of Russia which were relevant to the conference agenda and interesting from a practical standpoint to representatives of Khabarovsk Kraj. Being a staff member of the Association of Siberian and Far East cities, she successfully made use of the above institution's potential ensuring selection of qualified and experienced lecturers to make round table presentations.

D L Gudkov undertook interaction with property management committees and Kraj bankruptcy committee. In the course of his activity he analyzed the options to reduce budget expenditures through application of new anti-crisis control methods.

Oleg Zadorov carried out the analysis of draft laws Khabarovsk Kraj on minimal social provisions and minimum budget guarantees as well as their conformity with the effective Russian legislation. He provided legal evaluation of the administration draft bills making a number of recommendations on development of a legislative base in Khabarovsk Kraj from the project standpoint.

III Technical Assistance Project Components

The team developed an effective short-term technical assistance work schedule to improve the methodology of social norms. These activities included ferreting out the needed data, analysis, documentation and reporting. The following items were accomplished by the end of the task:

- The team completed an in-depth analysis of budget and financial status indices, and made a substantive examination of draft laws on minimum social standards.
- The team conducted a round table session, at which presentations on minimum social standards and other issues were made by public finance officials from other regions of Russia and the project team. This was followed by a series of discussions with officials of regional and local governance units.
- The team addressed the issues relating to budgetary expenditure reductions, using anti-crises techniques.
- The team prepared made significant input to the draft new laws on minimum social standards.
- The team presented a system of standard spending assessments, used in British local government, for the allocation of grants and national control of local government expenditures.

- Numerous technical assistance documents were prepared or adapted from other situations and sources. These were presented to the officials of the Krai and the Khabarovsk Municipal Government for general dissemination to interested parties.
- Lectures were given to faculty and students and two Khabarovsk University institutions.
- A slide-show presentation was made to the Department of Regional Policy for the Khabarovsk Krai, showing how the State of Virginia, U S A used economic information to make long-term budgetary revenue forecasts. The presentation also demonstrated how the governor made his presentations to the assembly, to amend the two-year budget.

A Impact on Relevant Legislation

The team's lawyer worked in Moscow, translating proposed amendments to the draft laws prepared by other specialists of the team in Khabarovsk. He also provided input and guidance as to how these draft laws were affected by the law and constitution of the Russian Federation. With this in mind, he advised how the draft laws might most easily and expeditiously be introduced and implemented, within the legal and political framework of Khabarovsk.

During this evaluation, with particular reference to the Legislative Duma of Khabarovsk Krai, the following issues were addressed:

- Scope of authority of representative bodies of constituting federal entities that stem from provisions of the Russian legislation in the area of regulating the above legal relations.
- The conformity of the provisions of proposed Draft Laws with norms of effective Russian federal legislation.

The team ran an in-depth analysis of budget and financial status indices of Khabarovsk Krai and the City of Khabarovsk. One of its members had attended the session of the Legislative Duma of Khabarovsk Krai at which the administration bills were approved on the first reading. This provided a source of valuable information on deputies' attitudes towards the issue. In addition, the team generalized the materials and documents on social standards and minimal budget funding norms. This enabled it to proceed with substantial economic examination of the Krai administration draft laws on this issue.

Based on this examination, the team provided the economic and legal expertise of administration bills of Khabarovsk Krai in the area of minimal social standards and norms of the minimal budget funding. On the basis of processing the information obtained, the essential improvements and additions to administration bills were proposed. A number of suggestions to streamline the technique to calculate and minimize above norms was made. These proposals are important to bring down budget costs which today pose one of the most important issues in achieving a financially balanced municipal budget.

A new edition of texts of the administration bills was provided with several new basic concepts added. Procedures to apply the norms and to order their revision was described. Also, the section on responsibility for default to provide for guaranteed norms was introduced.

Ways of real minimization of costs of the budget were proposed. This was at the expense of excluding some lines of budget costs that go outside social guarantees of the state. A requirement to review the set of social norms, accounting for the notion of their being minimal was put forward.

An inconsistency in approach to calculate the norms was revealed. Therefore, the recommendations for using methods to calculate these norms on a uniform basis were made. The approach to improve the technique to calculate the norms of the minimal budget provisions was outlined, based on the availability of welfare to the population and the development of a commercial approach to provide a number of services.

B Analysis of Revenues/Expenditure Trends

After much laborious search for data, calculation of dynamics of per capita revenues and expenditures of consolidated, regional and city budgets over 1994 -- 1999 was made. The estimation of actual decrease in the revenues and expenditures of the budgets of all levels was demonstrated when adjusted for inflation. Dr. Levintal particularly appreciated this analysis.

Dynamics of Budget Revenue and Expenditures Per Capita¹
(accounting for inflation and reduced to 1994 price levels)

Revenues				
	1994	1997	1998	1999
Revenues of consolidated budget per capita in Kraj	100%	45%	43%	31%
Revenues of the regional budget per capita in Kraj	100%	40%	74%	50%
Revenues of the Khabarovsk budget per city dweller	100%	76%	49%	57%
Expenditures				
	1994	1997	1998	1999
Expenditures of the consolidated budget per	100%	51%	43%	40%

¹ The initial financial parameters on enforcement of the budget were obtained from Administration of Khabarovsk Kraj and Administration Khabarovsk city. The data on population was obtained from "Migration Program of Khabarovsk Kraj for 1999-2000," enacted by resolution No 80 of Head of Administration of Khabarovsk Kraj dated February 22, 1999. To account for inflation the annual deflation indices established by the Statistical Committee of the Russian Federation were used.

capita in Kraj				
Expenditures of the regional budget per capita in Kraj	100%	78%	81%	48%
Expenditures of the budget Khabarovsk per city dweller	100%	76%	53%	59%

C Round Tables

The principal forum for the transmission of best practices was by a series of round table discussions. Round Table conferences were arranged to exchange experience between representative of Russian regions in the area of establishment of regional minimal social standards and specifications on the minimal budget provisions. Among the materials handed out to experts from the regional and city management bodies were the shorthand minutes of Round Table sessions which provided an extra opportunity to analyze and study the experience on the minimal social standards. The detailed outline of the roundtable and list of participants can be found in Attachments 1 through 3.

D Spending Reduction and Anti-crisis Techniques

The team, in search of budgetary reductions of expenditures, underscored interaction with property management committees and the Kraj bankruptcy committee. In the course of this activity the committee analyzed the options to reduce budget spending. One of the staff's specialists also explained various new anti-crisis control methods.

The review of possible ways to reduce budget costs, through applying modern anti-crisis techniques, included consideration of the following:

- An analysis of the social-economic status of municipal institutions acting in the area of culture and education
- Estimation of the efficiency of application of the law of the Russian Federation on insolvency (bankruptcy) in Khabarovsk Kraj
- A technique and demonstration to choose the bankruptcy procedure, using an example of the Municipal Institution "Central Recreation Park"
- A plan to introduce a procedure of outside management, in relation to the Municipal Entity "Central Recreation Park"

E Sharing of International Experience

The team outlined an approach somewhat similar to the "minimal social standard" model, which was used in United Kingdom practice to manage municipal finance. This is the system of

“standard spending assessments,” used as a basis to distribute the General Revenue Grant. It is also used to set limits on total expenditure for each local government unit. The team also explained the basic principles to set forth the budget process required for regional and local finances in any country expecting to be integrated into the international economy.

Not all countries, however, use a system of “minimum social standards” as practiced in Russia. In particular, the United States, although developing and using performance measures, applied these to the tracking of budgeted activity, rather than for establishing minimum standards of service delivery. Information and analytical materials generated in the course of his experience and studies were provided to the Krai administration, for general distribution among local government units. Examples were also provided of programming and budgeting information relating the U.K. and the U.S.A.

Although time and opportunity were limited, the team was able to hold discussions with a representative of the Khabarovsk Municipality Finance Department and with the Acting Director of the City Housing Trust. At these meetings ideas were exchanged and advice given about the manner in which municipally-owned and other public (subsidized – low-cost) housing was financed in the U.K. and the U.S.A.

At the invitation of Prof. Sergey V. Lyubimov, Head, Economics and Management of Construction Department, the team visited a group of faculty and students at the Khabarovsk State University of Technology to discuss issues of economic efficiency, pricing and other aspects of financial management of public utilities. The team provided Prof. Lyubimov with copies of several papers written on the financial analysis of various public utility services covering water supply, district heating systems and urban transport.

Through the good offices of Ms. Galina I. Lysenko, of the Krai Administration, the team was also able to hold discussions with Mrs. L.A. Lakhina, Dean of the Faculty of Accounting and Auditing at the Khabarovsk State Academy of Economics and Law. The issues of accounting and auditing for government entities were discussed and Mrs. Lakhina expressed a wish to have the faculty participate in any work on these matters conducted under a future project. A copy of a document of the Virginia State Government, U.S.A., on “Specifications For Audits Of Industrial Development Authorities” was provided to her.

The team also held a meeting with Ms. Elizaveta N. Telushkina, Head of the Department of Regional Policy for the Khabarovsk Krai. We discussed the process whereby regional economic policy could be transformed into revenue forecasts for a state. Ms. Telushkina was provided with a slide show, explaining how the Virginia State Government used a computer program² to

² The program is very complex. It contains no less than 255 simultaneous equations! However, not all economists share the confidence of others, in relying upon flawed statistics, however well manipulated. For example, in a review of “The Death of Economics” by Paul Ormerod, the reviewer states:

“ Vast tracts of the former Soviet empire are on the brink of economic collapse. In this grim context, the opinions of economic gurus increasingly dominate actions in business, politics, and international affairs. Yet orthodox economics seems powerless to help. Notoriously, economic forecasters failed to predict the Japanese recession, the depth of the collapse in the German economy, and the turmoil caused by the Exchange Rate Mechanism. In this insightful and sweeping critique, Paul Ormerod demonstrates how schools of economic thought, despite their many

prepare 6-year revenue forecasts for its public budget. She was also shown, (and provided with a copy of) a set of slides used by the Governor of Virginia, in making proposals to the state legislature for amendment of the 1999-2000 two-year state budget. Also made available was a document describing the British system of "Standard Spending Assessments" as it relates to the allocation of the General Revenue Grant. This is the principal non-categorical transfer of funds from the U.K. central government to local government units. Standard Spending Assessments are also used as part of the calculation to enable the central government to "cap" the expenditure of every local government unit to a predetermined maximum.

Finally, the team provided (as a Russian translation) a copy of a budget paper and a set of Annual Financial Statements for an English municipal government – the City of Stoke-on-Trent. The budget document describes and demonstrates how Standard Spending Assessments are applied to the city. The Annual Financial Statements show how much care is needed, and how complex is the presentation, to properly account for the activities of a municipal government with multiple services and other activities.

V Issues and Obstacles

While the round tables had a commendable attendance of interested officials and were very well received, other duties seemingly prevented the attendance of some officials who might well have been useful contributors, as well as others who might have benefited. Notably absent from the meetings were senior financial officials of the Krai administration, whereas Krai economic officials were present. By contrast, both economic and financial officials of the Municipal Government were well represented.

Any deficiency in participation by some officials was largely overcome by targeting the Deputy Chairman of the Krai Economic Committee, together with the Heads of Economics and Finance at the Municipality as principal conduits of information. Moreover, the verbal discussion has been backed up by making available a number of technical documents. When copied by principal recipients, they can be available to anyone wishing to avail themselves of them. This includes governance entities – other municipalities and rural entities – that the team did not have the time or opportunity to visit. Moreover, the Head of Finance of the Municipality, Mr. Chukulkın, promised to provide both verbal and written information to the financial officials of the Krai Administration.

The significant difficulties dealt with obtaining statistical information in Administration of Khabarovsk Krai, in particular, the data on consolidated budget. The comparative analysis of budget provisions was made only for the last 5 years due to absence of the data for previous years.

The work on the project in Khabarovsk Krai was complicated by the absence of interaction and reliable communication between the Committee on Economy and Financial Department of Administration in Khabarovsk Krai. The Committee on Economy in Khabarovsk Krai expressed

disagreements, share the same underlying defects - flaws that go far deeper than quibbles between theorists. Ormerod provides real answers and hard facts. What the world needs, he contends, is a radical new approach, drawing on ideas from other disciplines such as biology, physics, and the behavioral sciences.

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a keen interest in cooperation with expert team, at the same time it impeded establishing contacts between experts and the Financial Department of Kraj. There were no such problems during work with the Administration of Khabarovsk City. The work was conducted in close cooperation with the management and employees of both Financial Department, and Management of economy, investments and industrial policy of Administration of Khabarovsk City.

VI Success in Achieving Overall Objectives of Technical Assistance

The round table was very useful from the practical standpoint, providing an insight into the problems faced with development and application of social norms. Sessions of the round table brought about a wide exchange of ideas between the experts of Khabarovsk Kraj, the city of Khabarovsk and officials from other parts of Russia, including Ekaterinburg and Tomsk. The report on foreign practice in the application of social standards was attended by the audience with great interest.

It was important to study the experience gathered in other regions to develop and establish the minimal social standards and norms of the minimal budget funding, specifically in the cities of Ekaterinburg and Tomsk. The documents on judicial history, involving the Oblast and mayors' offices in the application of regional minimal social standards were especially informative. Discussion of experience in Ekaterinburg will serve to avoid mistakes and conflicts at the stage of completion of administration bills in Khabarovsk Kraj on this issue. It also revealed the likely priority direction of work aimed at completion of administration bills to be issued in Khabarovsk Kraj.

The access to foreign experience in the application of standard spending assessments, widened the view of social standards in budgeting practice. It also provoked thinking about ways which might be used to modify the current Russian approach to developing social standards and their manner of funding in Khabarovsk Kraj.

Overall, appraisals of the results of the short-term technical assistance program, accomplished within the scope of the "Regional Public Finance and Investment Project", were positive. Most of those involved consider it as only the first step towards long-term cooperation. Gratitude is expressed to the USA Agency for International Development for support rendered.

VII Key Contacts

Name	Position
Mr Levintal Aleksander Borisovich	Vice Governor, administration Khabarovsk Kraj, chairman of Economy Committee
Mrs Lysenko Galina Ivanovna	Deputy Chairwoman of Economy Committee
Mrs Zaslavskaya Lyubov Valentinovna	Head of finance – investment department
Mrs Telushkina Elizaveta Nikolayevna	Head of regional policy department
Mr Mindagulov Vladimir Valeevich	Head of social policy department
Mr Dunaev Vladimir Petrovich	Deputy Head of social policy department
Mr Shevtsov Mikhail Borisovich	Aid to deputy head of administration (foreign economic activity)
Mr Evseenko Nikolaj Ivanovich	Deputy chairman of culture and art committee, administration of Khabarovsk Kraj
Mrs Sofrina Zoya Fyodorovna	Deputy Chairwoman, Legislative Duma, Khabarovsk Kraj
Mr Filippov Pavel Dmitrievich	Khabarovsk Mayor
Mr Kazachenko Valerij Pavlovich	First deputy mayor (Economy)
Mr Chukalkin Andrej Yakovlevich	Head of finance department
Mr Menyajlov Aleksej Ivanovich	Head of economy, investment and industrial policy department
Mrs Panyushkina Tatiana Pavlovna	Head of economic analysis, forecasting and regional development department
Mr Lebeda Valerij Fyodorovich	Deputy Head of administration, director of municipal property department

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Round Table

Project «Regional Public Finance and Investment»

Exchange of experience on development and implementation of regional social standards

The conference was held in Methodology Office of Khabarovsk Administration

April 12, 1999 at 14 30

April 14 at 10 00

Issues for discussion

- Analysis of situation and accounting for positive experience in regions of Russia - Sverdlovsk Oblast, Ekaterinburg, Tomsk - gathered on development and practical implementation of the minimal social standards to determine budget expenditures
- Examination of effective regulatory acts and draft documents to authorize regional minimal social standards in Khabarovsk Kraj
- The use of technologies and standards applicable in international practice USA and England experience

Presenters

Mrs Lyudmila Ivanovna Polovnikova	Chairman of legal committee, Ekaterinburg mayor administration
Mr David Jones	Expert, Booz Allen & Hamilton
Mrs Marina Yurievna Senkovskaya	Deputy mayor (Economy), Tomsk

Round Table Facilitator

Mrs Irma Abankina - Ph D (Economics)

**List of participants of «Round table»
«Exchange of Experience to Develop and Implement Regional Minimal Social Standards»**

First name, middle initial, last name	Position
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Administration of Khabarovsk, City Duma
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1 Mr Valerij Pavlovich Kazachenko	First Deputy mayor (Economy)
2 Mr Aleksej Ivanovich Menyajlov	Head of department of economy, investments and industrial policy
3 Mrs Tatiana Anatolievna Bolonkina	Deputy head of department of economy, investments and industrial policy
4 Mrs Tarana Pavlovna Panyushkina	Head of department of economic analysis, forecasting and territorial development
5 Mr Andrej Yakovlevich Chukalın	Head of financial department
6 Mrs Galina Grigorievna Prokoptseva	Head of department of financing social sphere in financial department
7 Mrs Marina Viktorovna Eremtseva	Deputy head of department of local industry in financial department
8 Mr Sergej Nikolayevich Vetyshhev	Chairman of finance-budget and economic development in commission of Khabarovsk City Duma
9 Mr Ivan Nikolayevich Dekhtyar	Head of legal control department

Administration of Khabarovsk Kraj
--

10 Mrs Galina Ivanovna Lysenko	Deputy chairman of economy committee
11 Mrs Lyubov Valentinovna Zaslavskaya	Head of finance-investment department
12 Mrs Elizaveta Nikolaevna Telushkina	Head of department of regional policy
13 Mr Vladimir Valerievich Mindagulov	Head of social policy department
14 Mr Vladimir Petrovich Dunaev	Deputy head of social policy department

Representatives of administrations from Ekaterinburg, Krasnoyarsk, and Tomsk - presenters	
15 Mrs Lyudmila Ivanovna Polovnikova	Chairman of committee on legal issues in Ekaterinburg mayor office
16 Mrs Marina Yurievna Senkovskaya	Deputy mayor (Economy), Tomsk
United States Agency for International Development (USAID), program of the US State Department «Regional Public Finance and Investment»	
17 Mrs Angelina Gurkina	Project manager USAID/Russia (Moscow)
18 Mrs Irina Isaeva	Deputy Coordinator of the Program «Regional Public Finance and Investment» in Russian Far East
Booz Allen & Hamilton	
19 Mrs Irina Vsevolodovna Abankina	Head of group, expert (Moscow)
20 Mr David Johns	Expert, USA
21 Mrs Natalia Ivanovna Sudakova	Expert (Novosibirsk)
22 Mrs Elena Viktorovna Kushtanina	Expert (Moscow)
23 Mr Dmitriy Lvovich Gudkov	Expert (Moscow)
24 Mr Vladimir Mikhajlovich Ilyukhin	Interpreter (Engl/Rus) (Moscow)

**LIST OF MATERIALS PROVIDED
handed out to administrations
of Khabarovsk Kraj and Khabarovsk
in the course of providing short-term technical assistance
of the project «Regional Public Finance and Investment»**

- 1 Law of Perm Oblast dated September 24, 1998 «On Specifications of Minimal Budget Provisions for Perm Oblast»
- 2 Law of Irkutsk Oblast No 13/10-SZ dated September 21, 1995 «On Regional Adjustment Fund»
- 3 Law of Irkutsk Oblast No 41-OZ dated October 3, 1997 «On Temporary Minimal Social Norms and Financial Specifications»
- 4 Draft law of Omsk Oblast dated October 19, 1998 «On Specifications of Minimal Budget Provisions in Omsk Oblast»
- 5 Law of Sverdlovsk Oblast No 56-OZ dated January 18, 1996 «On Specifications of Minimal Budget Provisions in Sverdlovsk Oblast»
- 6 Draft law of Tomsk Oblast «On Procedures to Split Authority and Mechanism of Interaction Between State Authority Bodies and Local Self-Management Bodies»
- 7 Resolution of Tomsk city Duma No 140 dated February 12, 1999 «On Specifications on Operations in Housing Fund»
- 8 Decree of Tomsk mayor No 651 dated August 10, 1998 «On Procedures to Provide Benefits on Compensation for Residential-Municipal Services Provided to Specific Categories of Citizens and Reimbursement Associated with Their Provisions»
- 9 List of normative documents to structure performance by local self-management bodies in Tomsk addressing local and some federal functions
- 10 Draft Provisions on the order of refinancing debts of juristic persons due budget of city Tomsk
- 11 Conclusion on conformity of the law of Sverdlovsk Oblast «On Temporary State Minimal Social Standards of Sverdlovsk Oblast» dated December 18, 1996 No 56-OZ or the same law in edition of August 21, 1997 having title «On Specifications on Minimal Budget Provisions in Sverdlovsk Oblast» with effective legislation
- 12 Conclusion on conformity of the law of Sverdlovsk Oblast «On Regional Budget for 1997» No 57-OZ with the effective legislation
- 13 Addendum to the Conclusion on conformity of the law of Sverdlovsk Oblast «On Regional Budget for 1997» No 57-OZ with effective legislation
- 14 Award of Judicial Committee on civil hearing the Supreme Court of the Russian Federation on hearing No 45-G98-1
- 15 Award of Sverdlovsk regional court of the Russian Federation of January 13, 1998
- 16 Letter of the Vice-president of the Supreme Court of the Russian Federation Mrs N Yu Sergeeva to the chairmen of Sverdlovsk regional court and Regional Duma of Legislative Assembly of Sverdlovsk Oblast No 68pv-98 dated July 15, 1998
- 17 Award of Sverdlovsk regional court of the Russian Federation dated January 22, 1999

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- 18 Report of the vice-mayor on economy of Irkutsk city Mr D Zyubr «Impact of the Current Pattern of Interbudget Relations on Development and Enforcement of Local budgets»
- 19 Explanatory note on determining budget expenditure index Appendix budget expenditure index and relevant parameters
- 20 Calculation of Federal Industrial Development Fund (FIDF) for 1999 drafted for session examination by the Finance Ministry of the Russian Federation

Analysis of Dynamics of Budget Provisions

Mrs Abankina I V and Mrs Kushtanina E V

Calculations of dynamics of per capita revenues and expenditures of consolidated, regional and city budgets over 1994 -- 1999 accomplished. The estimation of actual decrease in the revenues and expenditures of the budgets of all levels was made corrected for inflation effects.

The level of revenue in consolidated budget of Khabarovsk Krai, regional budget and municipal budget of Khabarovsk City is declining in steady manner. Simultaneously, there is a reduction in expenditures in respective budgets expressed in per capita figures. The rate of reduction of revenue exceeds the rate of decrease in expenditures. In order to account for dynamics of inflation-corrected change in revenues and expenditures of the budgets per capita we used deflation indices published by Russian Federation Statistical Committee. Evaluation shows that per capita revenue planned in the 1999 consolidated Krai budget makes 31 % relative to the level of 1994, and per capita expenditures - 40 %. More steep decrease in per capita revenue in comparison with expenditures results in budget deficit preventing its equilibration.

Essential fluctuations from one year to another in parameters of performance of the regional budget and budget of Khabarovsk City (basic donor) demonstrate acute conflicting type of the interbudgetary relations.

The results of calculations made for 1994, 1996, 1997, and 1998 for parameters of performance of respective budgets and 1999 on planning parameters are given in Tables 1-4.

The initial financial parameters on budget performance were obtained from Administration of Khabarovsk Krai and Administration of Khabarovsk City. Population statistics was provided by «Migration Program of Khabarovsk Krai for years 1999 - 2000», enacted by resolution of Head of Administration of Khabarovsk Krai No 80 dated February 22, 1999. Accounting for inflation was provided by deflation indices provided by Russian Federation Statistical Committee.

Table 1

Parameters of Consolidated Budget of Khabarovsk Kraj

	1994 bln RR	1996 bln RR	1997 bln RR	1998 initial data mln RR	1999 draft mln RR
Revenues	2617 8	4220 7	4717 0	4975 8	4540 1
Expenditures	2588 2	4501 5	5312 3	4929 6	5842 7
Population, thousand people	1608 2	1571 2	1540 6	1529 7	1520 0
Revenues per capita, RR	1 63	2 69	3 06	3 25	2 99
- inflation-corrected dynamics relative to 1994	100%	46%	45%	43%	31%
Expenditure per capita, RR	1 61	2 87	3 45	3 22	3 84
- inflation-corrected dynamics relative to 1994	100%	50%	51%	43%	40%

Table 2

Parameters of Regional Budget of Khabarovsk Kraj

	1994 mln RR	1997 mln RR	1998 preliminary data thous RR	1999 draft thousand RR
Revenues	1367849	2087766	4224320	3669000
Expenditures	1343055	4222568	4761840	3669000
Population, thousand people	1608 2	1540 6	1529 7	1520 0*)
Revenues per capita, RR	805 5	1355 2	2761 5	2410 0
- inflation-corrected dynamics relative to 1994	100%	40%	74%	50%
Expenditure per capita, RR	835 1	2740 9	3112 9	2 41
- inflation-corrected dynamics relative to 1994	100%	78%	81%	48%

Table 3

Parameters of Budget of Khabarovsk City

	1994 mln RR	1997 mln RR	1998 preliminary data thous RR	1999 draft thousand RR
Revenues	395064 5	1275174	906516	1366814
Expenditures	385238 6	1235959	945336	1369583
Population, thousand people	606 2	611 3	612 5	612 0
Revenues per capita, RR	651 7	2086 0	1480 0	2233 4
- inflation-corrected dynamics relative to 1994	100%	76%	49%	57%
Expenditure per capita, RR	635 5	2021 9	1543 4	2237 9
- inflation-corrected dynamics relative to 1994	100%	76%	53%	59%

Table 4

Dynamics in Parameter of Budget Revenue and Cost Per Capita *
(accounting for inflation and reduced to 1994 level)

Revenues				
	1994	1997	1998	1999
Revenues of consolidated budget per capita in Kraj	100%	45%	43%	31%
Revenues of the regional budget per capita in Kraj	100%	40%	74%	50%
Revenues of the Khabarovsk budget per city dweller	100%	76%	49%	57%
Costs				
	1994	1997	1998	1999
Costs of the consolidated budget per capita in Kraj	100%	51%	43%	40%
Costs of the regional budget per capita in Kraj	100%	78%	81%	48%

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Costs of the budget Khabarovsk per city dweller	100%	76%	53%	59%
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**ECONOMIC EVALUATION
OF DRAFT LAWS OF Khabarovsk Krai
«On State Minimal Social Provisions in Khabarovsk Krai»
and
«On Temporary Specifications of Minimal Budget Provisions in Khabarovsk Krai»**

Abankina I V , Kushtanina E V and Mrs Sudakova N I

Legal basis to develop regional legislation on the minimal social standards

The minimal state social standards were introduced into practice by the Federal law «On General Principles of Setting Up Local Self-Management in Russian Federation» dated August 28, 1995 Item 4 of clause 37 stipulates that the bodies of local self-management provide for meeting basic communal requirements the population at the level no lower than established minimal state social standards whose performance is guaranteed by the state In fact it was the first legislative mentioning minimal state social standards which implied that first, these were the basic communal requirements of the population that were subject to standardization, second, the state social standards were established on the minimum level, third, their performance was guaranteed by the state It was established that the minimal state standards were used as a basis to specify the minimal budget provisions Item 2 clause 37 assumes the development of laws in constituting entities of the Russian Federation, which set forth the minimum required expenditures in the local budgets accounting for specifications given in the minimal budget provisions

Developing above legislation on social standards and specifications on the minimal budget provisions in Khabarovsk Krai began in 1997 according to decree of President of the Russian Federation dated May 23, 1996 «On Arranging for Initial Activity to Develop State Minimal Social Standards to Reflect Financial Specifications Underlying Budgets of Constituting Entities of the Russian Federation and Local Budgets»

At the same time, ratified (but not enacted yet) Budget code of the Russian Federation dated July 31, 1998, clause 7 stipulates that in the area of regulating budget relations «it is required to introduce in the Russian Federation the minimal state social standards, norms and specifications of financial expenditures per unit municipal services provided by the state» Also, clause 177, item 1 stipulates that it is the federal body of executive authority that develops and enacts specifications of financial expenditures on unit services to be provided by state or municipal budget

However, the federal law «On Minimal State Social Standards» is waiting to be enacted, it has not been even considered in the first reading by the State Duma of the Russian Federation

According to the basic provisions of the Budget code of the Russian Federation the Government of the Russian Federation issued the Ordinance No 862 dated July 30, 1998 «On the Concept of Reforming Interbudget Relations in the Russian Federation in 1999-2001» It is put forward in this Ordinance that up to now there is no normative base

developed to substantiate budget expenditure requirements. The Ordinance stipulates a stage by stage transition to normative evaluation of budget requirements of bodies of authority and management of different levels appropriate to their scope of power and responsibility over 1998-2001. It was supposed, that the first stage (1998) should entail developed and submission to enactment by the Government of the Russian Federation specifications to fund expenditures covering communal services, primary and high school education, public health services, state management, allowances to families having children. However, until now none of above specifications of expenditures has not been introduced into practice. At the second stage (1999) according the Ordinance envisaged developing and enacting specifications for expenditures on funding public transport, law-enforcement bodies, institutions of culture, physical culture and sport. At the third stage (starting with 2000) it was supposed to evaluate expenditures of consolidated budgets of the constituting entities of the Russian Federation completely on the normative basis. Also, the Ordinance underlined, that the differentiation of specifications from one region to another one would be made through unified approach. Such a technique has not been developed yet.

Thus, we can unambiguously draw a conclusion that at the federal level there is no legal basis to determine minimal public social standards or normative base to calculate the minimal budget provisions.

In view of missing the federal legislation and taking into account the experience gained in other already running the budgeting process on the basis of laws, enacted in the regional level and on the basis of temporary state minimal social standards and temporary specifications on the minimal budget provisions, in Khabarovsk Krai the draft laws «On the minimal public social provisions Khabarovsk Krai» and «On the temporary specifications on the minimal budget provisions in Khabarovsk Krai» have been developed. The administration bills were accepted in the first reading at session of Legislative Duma Khabarovsk Krai on April 8m 1999.

What is the purpose of introducing the minimal social provisions and specifications on the minimal budget provisions in Krai

The initiative to develop the laws in Khabarovsk Krai regarding the minimal social provisions and specifications on the minimal budget provisions was made by regional Duma deputies. Undoubtedly, the initial motive was driven by the idea of «fair» distribution of budget means among various budget-funded entities i.e., on the one hand, among specific municipal Krai entities, and on another – among the social branches (departments). In opinion of attendees of the Duma session such specifications were necessary, first of all, to the deputies themselves. The specifications on budget provisions expressed in per capita figures authorized by the law would easily allow them to estimate the fair budget allocation with electorate. The chairman of the Duma budget committee emphasized at the Duma session, that these specifications are required already now to draft the 2000 budget.

Such an approach was supported by Administration of Khabarovsk Krai. The committee on economy of Khabarovsk Krai Administration was active in developing the issue. Calculations of specific values of these specifications were carried out by Financial department of regional Administration. Administration of Khabarovsk also assumes

enactment of these laws as urgent, expecting that they will allow to harmonize interbudgetary relations between the City and Kraj. The similar position was expressed by officials of branch institutions: the committee on culture and art of Khabarovsk Kraj administration, the Education management and Department of cultural - educational institutions and popular are Khabarovsk City of administration. Heads of above departments expressed the standpoint that legislatively authorized social specifications will allow to ground the claims to provide due budget means. Therefore, practically everyone sees the specifications as a way to protect the interests of budget-funded entities.

The level of revenue of consolidated budget (i.e. the budget comprised of Khabarovsk Kraj budget, regional budgets and municipal budget of Khabarovsk City) gradually decreases. Simultaneously, but at lower rates per capita figures expenditures go down in respective budgets. These trends are reflected in section «Analysis of dynamics of budget provisions» below. Under these conditions protecting interests by each budget-funded entity results first, in conflicts between them contradicting the common interest of Kraj survival and, second, inflates budget expenditures widening the gap between revenues and expenditures in the budget. Therefore, introduction of the concept of minimal social public provisions in Khabarovsk Kraj deals not so much with protection of individual interests, but rather with the search of the compromise on the basis of real minimizing expenditures.

Economic evaluation of draft laws developed in Khabarovsk Kraj

Within the framework of providing short-term technical assistance we carried out economic evaluation of administration bills developed in Khabarovsk Kraj. Analysis of the administration bills with comments to each of them is given below for each draft law.

Draft law

«On Minimal Public Social Provisions in Khabarovsk Kraj»

A. According to paragraph 1 of this administration bill its purpose is «to provide for the mechanism of implementing constitutional rights of citizens». It is assumed that the minimal public social provisions set out in the Khabarovsk Kraj administration bill (hereinafter PMSP) as shown in the documents are rather benchmarks than guarantees as administration bill does not specify the mechanism of their implementation (who and in what manner ensures their fulfilling performance, what is the liability degree).

If PMSP should guarantee a minimum level of providing population of Khabarovsk Kraj with social benefits and services, then the PMSP system in clause 1 of administration bill is not described in complete manner, and the system-integrating notion of the minimal social specification is absent at all (which is also applicable to the mechanism of minimization of a social specification). Also, the text of the administration bill is lacking word «public» (or «state provided») concerning the minimal social standards which is available in the title of draft Law under examination. Therefore, we propose to edit, item 1 of clause 1 of clause 1 as follows:

«1 The minimal public social specification shall be the minimum level of provisions of social and communal-municipal services available to the population as established by the legislation of Khabarovsk Krai »

It is proposed to outline item 2 of clause 1 as follows

«2 The system of minimal public social provisions in Khabarovsk Krai shall include the minimal social provisions in domain of education, public health services, culture, social service, physical culture and sports, social-municipal services expressed in parameters established with breakdown into the categories of users or calculated on per capita, for one thousand or ten thousand residents in kind or for cash »
(Explanations to meaning terms «in kind and for cash» are given below in section "G")

Also throughout the text it is necessary to add "public" or «state provided» in reference to the minimal social provisions

Instead of words «accounting for the National standards and regional components» in item 3 of clause 1 we propose to put down **«according to the laws and normative acts of the Russian Federation and Khabarovsk Krai»**

B We consider it necessary to add into the administration bill provisions stipulating the order of changing PMSP

We propose the following edition

«Clause 2 Provisions of establishing, applying and changing PMSP at the territory of Khabarovsk Krai

1 PMSP shall be established by the Law of Khabarovsk Krai and shall be valid throughout the territory of Khabarovsk Krai according to Appendix 1, the minimal financial specifications shall be applicable according to Appendix 2

2 The bodies of local self-management shall have the right to establish the local social specifications at the territory of municipal entities in excess of PMSP set forth for Khabarovsk Krai provided they have their own financial, material, technical and human resources to support them.

3 In order to render the financial support to maintain Khabarovsk Krai PMSP the municipal entities shall make use of the regional budget of Khabarovsk Krai and regional fund of financial support to the budgets of municipal entities

4 PMSP of Khabarovsk Krai shall form the basis for budget control and shall apply
- At the stage of formation of specifications of the minimal budget provisions and required expenditures in the regional and local budgets of Khabarovsk Krai for respective years,

- Further per the text of this item.

5 PMSP of Khabarovsk Krai shall be revised at least once every 4 years, if the opposite is not stipulated in the legislation of the Russian Federation

6 Amending PMSP system of Khabarovsk Krai shall be carried out through modification and additions in this Law

C According to the administration bill's Appendix 1 «List of Minimal Social Provisions» is the list of specified guaranteed services provided to residents on the free-access and free-of-charge basis («budget-funded services») The normative parameters specified in the list and majority of quantitative are derived from the «Social Specifications and Norms», approved by the Russian Federation Governmental Ordinance dated June 3, 1996 recommended to lay the framework of draft budgets for the constituting entities of the Russian Federation or local budgets However, in spite of

the fact that this is one of few documents, accepted at the federal level addressing the issue of specifications in social sphere (we would like to underscore that «Social Specifications and Norms» have not been **authorized** yet, so far they are only **approved**), the option of their direct use to account for the minimal social guarantees and specifications on the minimal budget provisions is highly questionable. First, a number of sections in this document, as it follows from the text, account for provisions by establishments, institutions, etc. having any ownership form, i.e. account for the whole network of institutions rather than only for the «budget-funded» ones. Accounting only for the budget-funded network surfaces only in Appendix 1 to the Law of Khabarovsk Krai on the minimal social provisions on physical culture and sport, specifying the quantitative parameters and pinning them down to «specific departments». Second, the document «Social Specifications and Norms» was developed with the purpose to set up territorial availability and opportunity of using the social infrastructure, establishing the **optimum level of guarantees**, rather than the **minimum** ensured social level. Moreover, this document was endorsed in 1996, when expectations of speedy recovery of national economy were not disillusioned yet. The latter was reflected in the Decree of the President of the Russian Federation of 1996 «On Arranging for State Minimal Social Standards», containing recommendations to executive authorities of the entities constituting the Russian Federation and bodies of local self-management to develop draft budgets for 1997 and following years with increasing expenditures in social sphere.

Using extra-curriculum education of Appendix 1 to the draft law as an example we can show that it is not the minimal standard level that the law is referring to. Above specification establishes the 30 % scope of high school pupils to be given extra-curriculum education benefits. At the same time the federal level document that we have mentioned earlier specifies the number of extra-curriculum pupils at the level 12 % (for children attending art schools, schools of aesthetic education) and 20 % (attendees of sport schools). The specification set forth in Khabarovsk Krai at the level of 30 % as a budget-guaranteed definitely seems to be too high if we account for aggravated budget deficit and inadequate budget resources to maintain even of conventional educational establishments. Under these conditions it will be necessary to reconsider approach to extra-curriculum education, having transferred its financing to a greater degree on parents. It is the more reasonable since the Russian Federation law «On Education» the extra-curriculum education is not included into the types of education to be guaranteed by the state as available and free of charge. Therefore, it is obviously necessary to reconsider the quantitative parameters of social specifications on the basis of attaining the minimum guaranteed level.

D Appendix 2 «The List of the Minimal Financial Specifications» is actually «sagging» in the administration bill, as throughout the text there is neither reference on it nor its financial specifications.

Accounting for the fact that financial specifications should be referred to as a tool of transition from the minimal social specifications to specifications on the minimal budget provisions, we consider it purposeful to introduce the following changes into the administration bill.

1 To add, item 1 of clause 1 words «*in kind and for cash*» after words «ten thousand residents»

2, item 1 of clause 2 should be worded as follows

«Minimal social provisions shall be applied throughout the territory of Khabarovsk Krai according to Appendix 1, minimal financial specifications - according to Appendix 2»

E The minimal financial specifications given in Appendix 2 contradict the principle of uniform development of specifications and, item 1 of clause 1 of the administration bill. The minimal financial specifications on public health services, physical culture and sport, basic kinds of culture and art are expressed in per capita figures, i.e. as calculated for a single potential consumer of the service. At the same time the minimal financial specifications on common education and welfare are tailored to account for a real consumer of a service. For example, for preschools the specification of expenditures per child in is given. Such a specification does not set forth the parameter of budget expenditures on preschool institutions per resident or for all children of preschool age, i.e. it does not reflect availability of budget preschool institutions to population, it only indicates what average budget means can be spent per child, given the child is accepted into a «budget-funded» institution. Such an approach is counterproductive while addressing the task of defining the minimal budget provisions to be set forth by regional and local budgets. It also contradicts, item 1 of clause 1 of administration bill, where the social specification is determined as a specific parameter for **categories of users** or as a per capita figure. A category of users of preschool institutions should comprise all children of preschool age.

We feel it expedient to proceed with setting all financial parameters in the administration bill as expressed in per capita values in order to ensure transition to specifications on the minimal budget provisions, retaining uniform approach to calculation of all parameters

Draft law "On Temporary Specifications on Minimal Budget Provisions in Khabarovsk Krai"

A Clause 2 of the administration bill does not formulate the basic concepts used in the text in complete manner. The concept of the specification of the minimal budget provisions mentioned in title of the law is not introduced. We propose to add in clause 2 of the draft law the following phrase:

«- specification of the minimal budget provisions shall imply the financial parameter, established by the law reflecting the minimum budget provisions required per inhabitant expressed in current expenditures»

Also, no explanation is given why the specifications on the minimal budget provisions are accepted as temporary.

B We suggest add to the system of temporary specifications on the minimal budget provisions (hereinafter TSMBP) the specification of the minimal budget provisions for municipal education in Khabarovsk City on behalf of Krai (in clause 3). The appropriate specification should be calculated.

C We consider it necessary to expand and complement clause 4. The changes proposed will allow to give more accurate definition to specifications on the minimal budget provisions making their use in administrative practice more efficient.

The text of clause 4 proposed is given below

«1 TSMBP of Khabarovsk Krai shall be applied by Krai executive authorities during drafting the draft law on the regional budget and calculation of the minimal budgets of the entities to consolidated budget (municipal entities) for respective fiscal year TSMBP cannot be used set out the volumes of financing specific budget-funded institutions

2 TSMBP established by this law shall be used to schedule current expenditures of existing network of budget-funded institutions and its change (phasing out or opening new establishments) in respective year accounting for their profile,

3 Drawing up the drafts and enforcement of budgets of all levels shall be carried out with account for the principle of primary funding TSMBP in Khabarovsk Krai

If case funding TSMBP in Khabarovsk Krai is not provided in complete volume, draft budget cannot contain expenditures (budget enforcement cannot fund expenditures) dealing with achieving above specifications In this case accounting for security of expenditures in branches for which TSMBP are not established in Khabarovsk Krai, as well as funding regional and municipal programs) shall be carried out from the balance means left after deduction of scheduled expenditures, specified in TSMBP of Khabarovsk Krai

4 Depending on the revenue of consolidated budget in Khabarovsk Krai, scheduled for the next fiscal year, rectifying factors confirmed by the law on the budget of Khabarovsk Krai for appropriate year shall apply to TSMBP

5 To account for the minimum required expenditures of the consolidated budget of Khabarovsk Krai and budgets of municipal entities TSMBP shall be indexed applying forecasted inflation rate and normative and legal acts issued in the Russian Federation and Khabarovsk Krai»

D It is assumed to be expedient to introduce additional clause 5 on responsibility of authorities on observing TSMBP as follows

«Clause 5 The responsibility of state authorities and local self-management bodies for observing TSMBP Khabarovsk Krai

The state authorities in Khabarovsk Krai and local self-management bodies within the scope of their power, as well as administrations of organizations providing common free-of-charge services to community, within the limits of their authority shall bear responsibility for complying TSMBP of Khabarovsk Krai according to effective legislation »

Clause 5 of the drafted administration bill becomes thereby clause 6

E Comment on appendices No s 1 and 2 of examined administration bill

1 Titles of both appendices do not contain term «temporary" It is required to bring into consistency the title of the appendices and the text of the law (clause 2)

2 According to the text of the explanatory note, as well as on the basis of our analysis, the technique to calculate specifications is based on the data on enforcement of regional and consolidated budgets in Khabarovsk Krai in 1997 As a result the account for expenditures made for this year's budget contain as current expenditures to fund institutions of budget sphere and expenditures on

target programs, plus some expenditures on overhauling and purchase of equipment Thus, for example, to draft regional budget TSMBP of Khabarovsk Krai contain specification on funding the program «Development and preservation of culture and art

in Khabarovsk Kraj over 1998 - 2000» Expressed in per capita per year in Kraj and program «On Welfare Programs in Kraj» per beneficiary To draft the budgets of municipal entities Khabarovsk Kraj TSMBP also imply funding the Program welfare during one year per person

Such an approach is not correct since not all budget expenditures can be defined on normalized basis, different approach is used to evaluate expenditures on target programs Besides, not all above expenditures form the **minimal** budget provisions Thus, it is necessary to reconsider the parameters given in appendices both as a list and from the standpoint of numerical values under the angle of their being relevant to forming the minimal budget provisions

3 The constitution of the Russian Federation, Russian legislation, regional regulatory-legal acts guarantee the rights of the citizen to obtain services in social and social-municipal domains Within the framework of legislation developed the availability of these services to population is guaranteed, although only part of them appears to be provided free at expense of budget allocations Another part of services should be available but provided on the paid basis For example, clause 5 of the Law of the Russian Federation «On Education» guarantees rights of citizens in education area The extra-curriculum education is not included in this clause, i.e. the state does not guarantee its common availability for free At the same item 9 of clause 40 stipulates that «the state shall create required conditions to develop a network of establishments of extra-curriculum education for children providing material support to these given establishments, funding inclusive» This implies, that extra-curriculum education can be maintained, for example, through organizational measures, by means of indirect funding, direct financing can be arranged only under conditions of availability of additional means in appropriate budgets Therefore, including **minimal** budget provisions of expenditures to maintain extra-curriculum educational institutions into specifications, especially at such volume of funding under current circumstances, appears to be unreasonable The same conclusion can be made with regard to youth policy, support of farming, etc

Thus, all expenditure-intensive items should be analyzed once again from the standpoint of their obligatory budget funding and, consequently, from the standpoint of their inclusion into TSMBP

4 In TSMBP of Khabarovsk Kraj to be used to develop budgets of municipal entities the spread in expenditure specifications reflecting maintenance of current municipal mass media sources (expressed as per year per city (or Oblast) dweller) is highly inconsistent Thus, the specification of expenditures on mass media in Tugur-Chumikan region is 217 times as high as that of the City of Komsomolsk, the specification of expenditures for Ayan-Maj region is superior to that of Komsomolsk by a factor of 160 Even if such expenditures were incurred in 1997, it does not mean, that the same proportions should be incorporated in specifications of the minimal budget provisions to be enacted as law

The item under title «Extra-curriculum education institutions» is another source of concern, since institutions of this type are not broken down as advised by classification provided in the Law the Russian Federation «On Education» Most likely, they underlay establishments of extra-curriculum education In this case they it is expedient for merge them with musical schools The specifications of expenditures on the current

maintenance of extra-curriculum establishments is rather high, they are comparable with expenditures set forth for boarding schools and children's houses and notably exceed expenditure specifications on current maintenance of musical schools. At the final streamlining stage the law the text of item «Extra-curriculum education institutions» should be reworked.

5. Almost double difference between expenditure specifications to maintain a single accountant on a year in centralized book accounting department mentioned in, item 1.7 and item 2.5 looks unsubstantiated.

in TSMBP of Khabarovsk Krai used to develop regional budget. In, item 1.7 the expenditures are determined as 61,700 RR per employee per year, whereas item 2.5 stipulates the figure of 36,066 RR per person per year. Even if this corresponds actual funding in 1997, which had been taken as a basis to derive specifications, retaining such a proportion should be substantiated.

6. In TSMBP Khabarovsk Krai to develop regional budget for the branch of culture and art the specification of expenditures for libraries is determined per book-reader per year. Such an approach to account for this specification is unacceptable, as the number of readers is an ill-controlled parameter, and developing funding on the basis of such a stimulating parameter can result in unreasonable increase in expenditures to maintain libraries. On the other hand, the requirements to fund libraries are dictated not only by the number of readers, but by a necessity to preserve cultural heritage of Krai through funding it at the minimum provisions level even for low number of readers. Instead, to calculate the specification on library expenditures another parameter should be used – it is per capita expenditure. In the same manner the specification of expenditures to maintain show business institutions should be expressed in per spectator form. Referring to this parameter seems unreasonable, as the specification of budget funding such establishments should ensure their survival under crisis conditions, which is hardly a function of the audience number. Expenditure specifications to maintain museums should be also reconsidered.

7. In Khabarovsk Krai TSMBP used to develop regional budget the specification of expenditures on department «Culture» and methodical office are made accounting for per capita Krai figures. The population of Krai makes 1,523,3 thousand persons on January 1, 1999. Therefore, the total amount of annual funding amounts to $2.7 \text{ RR} \times 1523,3 \text{ thousand persons} = 4113 \text{ thousand RR}$ a year. Such expenditures look unreasonably overestimated. They exceed even funding provided by the regional budget to target program «Development and preservation of culture and art in Khabarovsk Krai over 1998-2000», or expenditures on maintenance of mass media. In spite of the fact that importance of these specifications was based on enforcement of 1997 budget, calculations should account for all normative and legal acts enacted in 1998 – early 1999. In appendix to the Decree Ordinance of the head of Krai administration No 346 dated September 2, 1998 «Program of Improvement of State Finance and Economy of State Expenditures» item 8 «culture institutions» stipulates reduction of budget subsidies to the State Company «Video Rental» by 50 % in 1998 with their complete phasing out in 1999. From the explanatory attached to the administration bill it does not follow that developed TSMBP account for decision taken. Therefore, inclusion of, item 1.4 (specification of expenditures on cinema – video services per spectator per year)

into the Khabarovsk Kraj TSMBP specifications to develop regional budget in the area of culture and art, looks doubtful

Therefore, at the stage of final editing the draft law «On Temporary Specifications on Minimal Budget Provisions in Khabarovsk Kraj» it is worth discussing the technique of calculation of TSMBP together with municipal entities, making relevant adjustment of parameters applying the coordinated approach, preparing a detailed explanatory note and only after that going ahead with submitting the law for the second reading in Legislative Duma of Khabarovsk Kraj

New edition of draft laws of Khabarovsk Kraj

Experts I Abankina and E Kushtanina analyzed draft laws of Khabarovsk Kraj «On Minimal Public Social Provisions in Khabarovsk Kraj» and «On Temporary Specifications on Minimal Budget Provisions in Khabarovsk Kraj» and proposed new edition of the texts of these administration bills. The changes and additions introduced are highlighted in draft laws below as bold italics

Draft law "On Minimal Public Social Provisions in Khabarovsk Kraj"

The present Law provides for legal basis to set out and apply the minimal public social provisions in Khabarovsk Kraj. The purpose of the present law is to arrange for the mechanism of implementation of constitutional rights of citizens in Khabarovsk Kraj to obtain common, including free-of-charge social services rendered by state and municipal organizations of social sphere as well as social-municipal services

Clause 1 System of the minimal *public* social provisions in Khabarovsk Kraj

1 *The minimal social public specification shall imply the minimum level of social and social-municipal services to be provided to community as established in legislation of Khabarovsk Kraj*

2 The system of minimal *public* social provisions in Khabarovsk Kraj shall include the minimal *public* social provisions in the area of education, public health services, culture, social service, physical culture and sport, social-municipal *services expressed in established parameters for categories of users or calculated per capita, for one thousand or ten thousand residents in kind or for cash*

3 The minimal *public* social provisions shall be determined based on the list, established in the Russian Federation, of free-of-charge and common services, specifications and norms of provisions to be offered to community of Kraj by social services *according to the laws and normative acts of the Russian Federation and Khabarovsk Kraj*

Clause 2 *The order of establishing, applying and changing minimal public social provisions in Khabarovsk Kraj*

1 *The minimal public social provisions shall be established by the Law of Khabarovsk Kraj and the minimal financial specifications - according to Appendix 2*

They shall be applied throughout the territory of Khabarovsk Krai according to Appendix 1

2 The bodies of local self-management shall have the right to establish at the territory of municipal entities the local social specifications exceeding the minimal public social provisions in Khabarovsk Krai if the local entities have their own financial, material, technical and human resources to support them.

3 Regional budget of Khabarovsk Krai and regional fund of financial support of budgets of municipal entities shall be used to render financial support in ensuring the minimal public social provisions in Khabarovsk Krai in municipal entities

4 The minimal public social provisions in Khabarovsk Krai shall provide a basis for budget regulation and shall apply

- to developing specifications on the minimal budget provisions and *necessary expenditures* in regional and local budgets of Khabarovsk Krai for a respective year,
- to interbudgetary relations during definition of the size of regional fund of financial supporting budgets of municipal entities,
- at definition of volumes of funding target social programs,
- for estimation of annual level of provisions to social institutions and social service providers interacting with Krai population

5 The minimal public social provisions in Khabarovsk Krai shall be reexamined at least once every 4 years, unless the opposite is stipulated in legislation of the Russian Federation

6 Changing the system of the minimal public social provisions in Khabarovsk Krai shall be carried out through modifying and amending this Law

Clause 3 Control of complying with the minimal *public* social provisions at the territory of Khabarovsk Krai

Control of complying and observing the minimal *public* social provisions shall be carried out in the form of the deputy, administrative and public control on the basis of openness principle

Clause 4 Coming into force of the law

The present law shall become valid on the date of its official publication

Draft law "On Temporary Specifications of Minimal Budget Provisions of Khabarovsk Krai"

Clause 1 General

The Law shall set out the temporary specifications of the minimal budget provisions in Khabarovsk Krai with the purpose of implementing constitutional rights of citizens to obtain a guaranteed set of common free-of-charge welfare, social-municipal and other types of services to be funded at expense of regional and local budgets

Maintaining specifications on the minimal budget provisions shall have priority during drafting and enforcement of regional and local budgets

Clause 2 The basic concepts

At present the following concepts are used in the Law

- System of specifications – it is a list of financial specifications established by the Law, ensuring minimum required expenditures in budgets to render common free-of-charge services in social sphere and minimum required level of social-municipal and other services provided to population of Kraj ,
- Financial specification – it is a parameter of the minimal expenditures to render common free-of-charge social-culture, municipal-communal and other types of services to be compensated for cash,
- *Specification of the minimal budget provisions – it is financial parameter, established by the law reflecting current minimum required budget expenditures per inhabitant*

Clause 3 System of temporary specifications of minimum budget provisions in Khabarovsk Kraj

To ratify the system of temporary specifications of minimum budget provisions to determine the minimum required expenditures of regional budget and budgets of municipal entities, involving

- temporary specifications of minimum budget provisions in Khabarovsk Kraj to draft regional budget (appendix No 1),
- temporary specifications of minimum budget provisions in Khabarovsk Kraj to draft the budgets of municipal entities (appendix No 2),
- *temporary specifications of minimum budget provisions in Khabarovsk Kraj for municipal education of City of Khabarovsk on behalf of functions of the regional center (appendix No 3)*

Clause 4 Application of temporary specifications of minimum budget provisions to draft the budgets in Khabarovsk Kraj

1 Temporary specifications of minimum budget provisions in Khabarovsk Kraj shall be applied by Kraj executive authorities to generate the draft law on the regional budget and account for the minimal budgets of the entities of consolidated budget (municipal entities) to be enforced in appropriate fiscal year Temporary specifications of minimum budget provisions cannot be used to evaluate volumes of funding specific budget-funded institutions

2 On the basis of temporary specifications on the minimal budget provisions, established by this law accounting for actually existing network of budget-funded institutions and its change (phasing out and opening new institutions) in relevant year, planning the current expenditures shall be carried out for specific domains

3 Drawing up projects and enforcing budgets of all levels shall be carried out based on the principle of priority funding temporary specifications of minimum budget provisions in Khabarovsk Kraj

If financing temporary specifications of the minimum budget provisions in Khabarovsk Kraj is not provided in complete volume, expenditures in draft budget

not dealing with achieving above specifications cannot be funded (there should be no expenditures under inadequate enforcement) In so doing the guaranteed expenditures for domains lacking established temporary specifications of minimum budget provisions in Khabarovsk Krai as well as funding regional and municipal programs shall be made accounting for the balance of funds left after deduction of current planned expenditures in compliance with temporary specifications of minimum budget provisions in Khabarovsk Krai

4 Depending on revenue of the consolidated budget of Khabarovsk Krai, planned for the next fiscal year, rectifying factors enacted by the law on the budget of Khabarovsk Krai for the appropriate year shall apply to temporary specifications of minimum budget provisions

5 To account for the minimum required expenditures of consolidated budget of Khabarovsk Krai and budgets of municipal entities the temporary specifications of the minimum budget provisions shall be escalated according to forecasted rates of inflation and normative and legal acts of the Russian Federation and Khabarovsk Krai

*Clause 5 Responsibility of state and local self-management authorities for observing temporary specifications of minimum budget provisions in Khabarovsk Krai
The state authorities of Khabarovsk Krai and local self-management authorities within the scope of their responsibilities, as well as administration of organizations giving common free-of-charge services to the population, within their competence level shall bear responsibility for observing the temporary specifications of the minimum budget provisions in Khabarovsk Krai according to effective legislation*

Clause 6 Coming into force of the Krai law

The Krai law shall come into force on the date of its official publication

LEGAL EVALUATION
of the Draft Law of Khabarovsk Kraj «On Minimal Public Social Provisions in Khabarovsk Kraj» and draft Law of Khabarovsk Kraj «On Temporary Specifications of Minimum Budget Provisions in Khabarovsk Kraj»

O A Zadorov

The purpose of this Evaluation is to examine the drafts of above Laws of Khabarovsk Kraj on their conformity with effective Russian legislation. During this studies, the following questions were investigated in particular:

1) what is the scope of authority of representative authority bodies of federation constituting entities (in particular, Legislative Duma of Khabarovsk Kraj), stemming from provisions of effective Russian legislation, in the area of regulation of above legal relations,

2) do provisions of draft Laws comply with norms of effective federal legislation, in particular, with Constitution of the Russian Federation dated December 12, 1993 (hereinafter «Constitution the Russian Federation»), to the law of the Russian Federation No 154-FZ dated August 28, 1995 «On general principles of local self-management in Russian Federation» (further «Law No 154-FZ»), to the law of the Russian Federation No 4807-FZ dated April 15, 1993 «On basic budget rights on forming and using extra-budget funds» (further «Law of the Russian Federation No 4807-FZ»), to the law of the Russian Federation No 126-FZ dated September 25, 1997 «On financial basis of local self-management in Russian Federation» (further «the Law No 126-FZ»), to the decree of the President of the Russian Federation No 769 dated May 23, 1996 «On arranging for state minimal social standards to determine financial specifications to form budgets of the entities constituting the Russian Federation and local budgets» (further «Decree of the President the Russian Federation No 769»), as well as Budget Code of the Russian Federation No 145-FZ dated July 31, 1998 (further «Budget Code the Russian Federation»), reference on which should be assumed to be arbitrary, as it comes into legal force only on enactment of appropriate Federal Law, other normative legal acts

In addition to that the text of the proposed administration bills was analyzed from the standpoint of legal accuracy of definitions used. Some recommendations have been made to account for experience of applying similar normative acts in other regions of the Russian Federation and materials of judicial practice relevant to above category of legal infringements.

Prior to beginning examination of informative part of draft laws of Khabarovsk Kraj «On Minimal Public Social Provisions in Khabarovsk Kraj» and «On Temporary Specifications of Minimum Budget Provisions in Khabarovsk Kraj», it is necessary to determine the volume and limits of power assigned with state authorities of federation constituting entities in the area of control of above kind of legal relations. Clarifying and rectifying position on this issue is most important, as, first of all, the feedback will determine the volume and contents of recommendations to be proposed and, second, it will allow to prevent negative consequences connected with development of this issue at the stage of enacting the appropriate normative acts.

Above idea can be illustrated with a lengthy and complicated judicial hearing in Sverdlovsk regional court on declaring Oblast laws No 56 dated December 18, 1996 «On Specifications of Minimum Budget Provisions of Sverdlovsk Oblast» in edition dated August 21, 1997 and No 57-OZ «On 1997 Regional Budget» null and void. The hearing was initiated by representatives of Ekaterinburg city. The dispute deals with application of reducing factor to expenditures of the budgets of municipal entities of Sverdlovsk Oblast on the basis of exceeding authority and competence by Regional Legislative Assembly (Duma) of Sverdlovsk Oblast in the area of control of above legal relations. After four judicial hearings within more than one year (including the high legal supervision committee), requirements of plaintiff were satisfied, and above normative acts were recognized null and void retroactively from the moment of their enactment.

In order to illustrate the analysis and for convenience of further use we quote excerpts from the basic federal normative legal acts (including those referring on the Supreme Court of the Russian Federation and Sverdlovsk regional court, substantiating the award made on above hearing). These referrals will allow us to determine the level of authority of state bodies of the Russian Federation and entities constituting the Russian Federation in what deals with control of analyzed administration bills, namely with issues of establishing the minimal public social provisions and specifying minimal budget provisions.

Clause 71 of the Constitution the Russian Federation is applicable to the following issues in the Russian Federation relevant to the subject of this research:

- *establishing the basis of federal policy and federal programs in the area of state, economic, ecological, social, cultural and national development the Russian Federation (item «f»),*
- *establishing legal basis of uniform market, financial, currency, credit, customs regulation, issuing money, providing the basis of price policy, federal economic services, including federal bank (item «g»),*
- *federal budget, federal taxes and duties, federal funds of regional development (item «h»)*

Clause 72 of the Constitution of the Russian Federation establishes that the following issues are being jointly supervised by the Russian Federation and the Russian Federation entities:

- *protection of human rights, protection of the rights of national minorities, law enforcement, observing the established border regime (item «b»),*
- *use of mineral resources, protection of environment and ecological safety, natural territories having special protection status, protection of historical and culture monuments (item «e»),*
- *general issues of education, training, science, culture, physical culture and sport (item «f»),*
- *coordination of issues of providing public health services, protection of family, parenthood and childhood, social protection, including welfare (item «g»),*
- *establishing general principles of taxation and collecting duties in the Russian Federation (item «j»)*

Above excerpts indicate that practically all aspects of this study are relevant either to jurisdiction of the Russian Federation, or are jointly supervised by the Russian Federation and Russian Federation entities. On the other hand, it is absolutely clear, that this conclusion does not provide an answer to the question initially put forward. Therefore, before we proceed with analysis of other federal normative acts, it is necessary to make the reference **on part 5 of Clause 76 of the Constitution of the Russian Federation**, namely «*Laws and other normative legal acts of the entities constituting the Russian Federation cannot contradict the federal constitutional laws and federal laws accepted on the issues under jurisdiction of the Russian Federation and issues jointly controlled by the Russian Federation and the entities constituting the Russian Federation*»

Law of the Russian Federation No 4807-FZ contains the following provisions

Clause 1, item 1 subitem 3 «*Minimal social and financial norms and specifications shall be specified accordingly in kind or for cash for uniform or cumulative specific parameters of minimum required provisions with breakdown into major social - communal, social- cultural and other types of services*»

Clause 7, item 1, «*The expenditure part of the minimal budget shall be estimated applying uniform or cumulative minimal social and financial norms and specifications established accordingly by the Supreme Body of the Russian Federation (presently, State Duma), other higher representative authority body on the basis of effective legislative acts within the limits of its financial potential. Development of the minimal social and financial norms and specifications to be enacted by the Supreme Body the Russian Federation, shall be made by Council of Ministers of the Russian Federation (presently, by the Government of the Russian Federation)*»

Clause 17, item 1, paragraph 5 «*Executive authoritative bodies during drawing draft budgets, specifying budgets during their enforcement, the representative authoritative bodies during consideration of the draft budgets, enactment of the budgets and their specification during enforcement within the limits of the competence shall have respective rights*

to increase within the limits of available means norms of expenditures to provide social-communal services, maintain educational establishments, establishments of public health services and welfare, science and culture, physical culture and sport, police precincts, public safety bodies, environmental protection committees and on other purposes»

Clause 19, item 1 «*Council of Ministers of the Russian Federation (the Government of the Russian Federation) shall arrange for activity on informing representative and executive bodies of authority of the entities constituting the Russian Federation of the instructive letter on features of drawing up evaluation of the draft budgets for the next fiscal year, including centrally - established social and financial norms and specifications (minimal ones) or their changes no later than seven months prior to the beginning fiscal year*»

Law of the Russian Federation No 154-FZ

Clause 4 establishes, that authority of state authorities of the Russian Federation in the area of local self-management involves

- establishing the state minimal social standards (item 6),
- control of relations between the federal budget and local budgets (item 7),

Clause 5 classifies the following issues in the area of local self-management as belonging to the scope of state authorities of the subjects of the Russian Federation

- providing balanced minimal local budgets on the basis of specifications of minimum budget provisions (item 5),

- providing the state minimal social standards (item 10),

Clause 37, part 2, defines that the «minimum required expenditures of the local budgets shall be set forth by the laws of the subjects of the Russian Federation on the basis of the specifications on the minimal budget provisions»

Law of the Russian Federation No 126-FZ

Part 4 of Clause 5 stipulates that «formation of the local budget shall be carried through applying uniform methodology, reference to the state minimal social standards, social norms set forth by bodies of state authority»

Part 5 of Clause 5 reads «state authorities of the entities constituting the Russian Federation in the course of enforcing budget regulation and the bodies of local self-management during drafting the local budgets shall be guided by the state minimal social standards, social norms, and specifications on the minimal budget provisions»

Decree of the President the Russian Federation No 769

Subitem 3 in item 1 stipulates «prior to enactment of the state minimal social standards to recommend bodies of the executive authority of the entities constituting the Russian Federation and the bodies of local self-management to apply the social specifications and norms specified by Government of the Russian Federation during development of the appropriate draft budgets»

Budget Code of the Russian Federation (details of coming into force are given above)

Clause 7, item 1 «in the area of control of budget legal relations the Russian Federation shall be authorized to

- establish the minimal state social standards, norms and specifications of financial expenditures per unit state or municipal services provided» (Paragraph 16)

Clause 132 contains the following provision with regard to the principle of equity of budgets for the entities constituting the Russian Federation in mutual relations with the federal budget

«Specifications of financial expenditures on granting state services and specifications of minimum budget provisions forming a basis to calculate financial assistance to the entities constituting the Russian Federation from the federal budget, shall be determined on the basis of uniform technique accounting for social - economic, geographical, climatic and other features of the entities constituting the Russian Federation They shall be coordinated with the entities constituting the Russian Federation during enactment of the law on budget for the next fiscal year »

Above material unambiguously indicates that **development, enacting and amending the state minimal social standards, social norms, financial specifications to form the budgets and specifications on the minimum budget provisions is carried out through applying a uniform methodology and is a prerogative of federal bodies of state authority**

The state authorities of entities constituting federation use the above-stated parameters during implementing budget regulation, bringing in due order for consideration to a higher-level state authority propositions on changing above parameters. Also, the lower level entities have the right, provided there financial opportunities available, to increase the specifications of financial expenditures to cover services provided by the state.

Based on these conclusions the examined draft Laws of Khabarovsk Kraj «On Minimal Public Social Provisions in Khabarovsk Kraj» and «On Temporary Specifications of Minimum Budget Provisions in Khabarovsk Kraj» formally do not meet provisions of effective federal legislation, as, first, enacting these Laws exceeds the authority level of Khabarovsk regional Duma, and, second, the list of the minimal social provisions and their quantitative parameters mentioned in the administration bill do not correspond to the federal social specifications and norms approved by the Ordinance of the Government of the Russian Federation No 1063-r dated July 3, 1996.

Accounting for above the following recommendations are made

1 To file a request with the Government of the Russian Federation on granting information necessary to develop the budget of Khabarovsk Kraj and calculate the minimal local budgets of municipal entities in Khabarovsk Kraj including rectified social specifications and norms, the minimal financial specifications of expenditures on rendering state services, the specifications on the minimal budget provisions, as well as methodical recommendations on their application.

2 In case there are objections concerning providing any of above parameters to file with the Government of the Russian Federation substantiated (proven) proposals on their rectification and coordination.

3 Instead of examined administration bills to develop the Law of Khabarovsk Kraj «On Minimal Expenditures in Local Budgets of Municipal Entities of Khabarovsk Kraj for Next Fiscal Year» directly referred to in part 2 of clause 37 of the Law of the Russian Federation No 154-FZ. It is possible to include into the text of this Law changed and edited provisions of administration bills considered.

4 To develop the minimal expenditures of the local budgets for each municipal entity of Khabarovsk Kraj as an appendix to the Khabarovsk Kraj Law, specified in item 3, using necessary parameters listed in item 1 of recommendations herein after specifying and coordinating them with the Government of the Russian Federation. Parameters themselves, namely specified social specifications and norms, the minimal financial specifications of expenditures to render state services, the specifications on the minimal budget provisions are recommended to be issued as Appendices to the above Law as a reference material.

Application of modern anti-crisis techniques For reduction of budget expenditures

D L Gudkov

Anti-Crisis Management

I Introduction

Anti-crisis management is becoming very important in connection with recently aggravated financial crisis on the regional scale. It includes

- Analysis of business environment and internal potential of competitive advantages of an enterprise to choose its development strategy on the basis of forecasting the development of financial status,
- Preliminary evaluation of causes leading to crisis situations in economy and finance of the enterprise,
- The complex analysis of financial and economic status of enterprise to set out methods of its financial improvement,
- Business - planning of improving financial status of the enterprises,
- Procedures of anti-crisis management and control of their realization

The problem of anti-crisis management to be introduced at the insolvent enterprise follows from the nature of economic reforms developing in Russia

Implementation to enterprises of the bankruptcy mechanism allows one to reconstruct not only the operations of the enterprise, but also to improve financial and economic climate of other economic subjects decreasing the volume of payment arrears. The bankruptcy of inefficiently working and financially weak enterprises provides a basis of structural reorganization of Russian economy

The mechanism of bankruptcy in the whole canvass of implementing economic reforms is ineffective so far. This is proven by results of 1998

Industrial structure is deteriorating against the background of deepening overall economic recession. Gross internal product dropped by 6 %. Industrial production reduced by 10 %. Turnover of transport enterprises, which is the main indicator of economy status decreased by 7 %, capital investments shrank by 20 %

These macroeconomic processes should have triggered a wave of bankruptcy of the Russian enterprises. However, it did not happen. Thus, one of the main reasons why bankruptcy mechanism does not operate at full swing deals with the absence of methodical provisions to apply bankruptcy procedures accounting for specificity of industrial economic processes and social situation in specific regions of the Russian Federation

International experience indicates that anti-crisis process under conditions of regional economy is a controlled process including two kinds of procedures: anti-crisis management and anti-crisis control. The optimum combination of these two procedures allows reaching the maximal effect from implementing the bankruptcy mechanism

II Analysis of social and economic situation in Khabarovsk

The problems of optimizing the expenditure part of the budget are urgent for both Khabarovsk Krai, and the City of Khabarovsk, the latter serves as an indicator of economic processes developing in Krai

In 1998 the social and economic situation in Khabarovsk was close to the crisis one. This was a consequence of the negative processes that began developing in early '90s, substantially influencing the overall economic situation in the country.

The all-Russian financial crisis of 1998 has seriously undermined the urban economic complex. Outflow of financial resources from real sector of economy, tax policy falling short of stimulating manufacturers and expensive credit resources did not stimulate industrial development.

Financial and economic status of practically all branches of industry, transport, capital construction, social-municipal services dropped by a good measure. The deepening financial crisis is characterized by availability of 50 % of unprofitable enterprises in the total number of businesses in real sector of economy. Their operational status is basically supported at the account of payment arrears and offsets, giving rise to financial tension.

In 1998 the volume of industrial production reduced in comparison with 1997 by 12.4 %. The rate of slow down of production volumes accelerated by a factor of 1.5. Out of 82 basic industrial enterprises of the city declined production was detected in 51 industrial entity (i.e. in 62 %). The degree of completion of capital construction programs for the whole city dropped by 16 %. Commissioning residential buildings was only at the level of 44.6 % if contrasted to that of 1997.

The social tension in the city continues aggravating. As a result of fall in ruble exchange and rise in prices for consumer goods and services, wage arrears the living standard of citizens sharply decreased. As a consequence, there was a decline in the total retail volume (by 11 %) and the volume of paid services rendered to population (by 5.5 %). Despite of the steps taken by the city administration the city budget for 1998 was not enforced in complete volume. The revenue part of the budget amounted to 96.5 % of the scheduled volume, expenditures were at the level of 61.1 %. The assignment on mobilizing cash revenue was accomplished by tax inspection by 51.7 %. The total revenue from tax-payers into the budgets of all levels in 1998 made it 2,417.8 mln RR. Of these monies as much as 778.4 mln RR (or 32.1 %) were accepted by the city budget. The total sum revenues into the city budget in 1998 decreased by 49.4 mln RR if compared to the figures of 1997. The number of accomplished offsets was 3,678 amounting to 330.3 mln RR.

In contrast with 1997 the volume of offsets reduced by 63.6 mln RR, and outstanding accounts payable in the city budget increased by a factor 1.5 yielding the total of 1,050.8 mln RR.

An indirect parameter reflecting attractiveness of Khabarovsk for investments is provided by migration balance parameters. In migration exchange with all regions to the east of Baikal lake the city maintains the positive balance. It increases its manpower potential by about 2 thousand persons each year. Another important factor to evaluate the potential of the city deals with assessment of business activity in the city.

Table 1

The ratio of the enterprises and firms of various ownership patterns in 1998

Parameters	Amount of enterprises	%
Enterprises of all patterns of ownership registered in city, total, including	14234	100
State	925	6.5
NGO	811	5.7
Municipal	399	2.8
Private companies (all patterns of ownership)	10007	70.4
Amount per thousand residents	16.3	
Joint ventures and foreign enterprises	569	3.9
Businessmen without forming juristic person	17679	
Amount per thousand residents	28.8	
Mixed Russian	1523	10.7

In the content of city business activity private enterprises have a smaller stake in comparison with other cities in Russia. On the average in Russian cities the amount of private enterprises of all patterns of ownership per thousand residents makes 16.7, whereas in Khabarovsk this figure is 16.3. The data for comparison for Russian cities is taken from article by A. A. Vysokovskij «Indicator-based planning» published in proceedings «Monitoring parameters of reform in the area of land and real estate of Russian cities», published in Moscow by the fund «Institute of city economy», 1998.

There is distinctly depressed (against the background of other cities with population less than 500 thousand) level of businessmen who did not incorporate company in a formal way. In Khabarovsk this parameter amounts today to 26.8% per thousand the residents, the same parameter for National cities equals to 38.5%, which is indicative of rather low business activity in the city.

The significance of separate factors for functioning and developing enterprises of various patterns of ownership in Khabarovsk Krai is ranked in Table 2. Each factor in Table 2 presented in rank form. The data were obtained from Far East Research Institute of Macroeconomic Market of the Russian Federation.

Table 2

Factors	State property	Corporate property	Private
Availability of cash resources	1	1	1
Competent director	3	2	3
Qualified personnel	2	3	2
Consistent managing team	4	4	6
Team spirit	5	6	4
Reliable legislative base	6	5	5
Availability of social guarantees	7	7	7

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Correct marketing and sales strategy	8	8	8
Conformity of production with international standards	9	9	9

Most important to all enterprises is the factor of availability of cash resources In joint-stock companies, in opinion of the experts, the problem of management is quite important The lack of competent directors and orchestrated work in the team were also put down The discrepancy between the legislative base was detected, its imperfection was commented on by representatives of private business
The state and private enterprises badly require to be stuffed with qualified personnel

**Measures on optimizing expenditures of budget means
in the area of culture and education**

Under conditions of extremely complicated situation in economy issues dealing with social protection of population become more important
In order to stabilize providing education services under conditions of underbudget funding the Management of education has developed the measures to economize budget means (see Table 3) The data have been taken from the Department of economy and industrial development of Khabarovsk City

Table 3

Measures on reduction of budget means in 1998

Program	Economy, thous RR
Updating lists of staff and control of compensation fund	5 409 6
Closing incomplete groups in preschool educational establishments and their reorientation	208 2
Ordering meal practice for respective school children	11 290 0
Closing within one year 8 preschool educational establishments	490 6
Ordering subsidies and benefit structure	609 6
Reorganization through merging, reducing amount of classes via increasing the number of pupils to optimize educational network	246 9
Transition of groups in preschool educational establishments to 10 5 hour stay	260 7
TOTAL economy	18 515 6

The final economy from implementing these measures was about 18,515 6 thousand RR
The plan of measures for 1999 is in place The expected economy will make 58,612 6 thousand RR

A network of 143 culture establishments having different departmental line of reporting was developed at the territory of Khabarovsk In 1998 the network provided services to 460 thousand citizens

The budget funding of the culture branch is maintained at the level of 0 8 % of the city budget within the last two years

In 1998 culture establishments were funded at the level of 78.5 %. The data was obtained from Department of economy and industrial policy of Khabarovsk City. It is shown in Table 4.

Table 4

Expenditures	Plan	Cash expenditures (actual)	% of plan enforced
Compensation	3609.6	2961.9	75.8
Compensation accruals	2134.5	1659.6	77.8
Office supplies, subscription, books	30.0 580.0	- 477.0	- 82.2
Communal services charges	4126.0	3129.4	75.8
City events	819.0	816.0	99.6
Child rooms	-	109.7	-
Purchase of equipment	80.0	45.0	56.2
Overhauling	491.0	356.0	72.7
Others	7.0	-	-
Total	12174.0	9554.6	78.5

The economy of expenditure items took place because of underfunding of the branch in 1998.

As of January 1, 1999, accounts payable amount to 2,549.0 thousand RR or 39.4 % more than for the same period of the last year.

Analysis of the social and economic situation in Khabarovsk shows that the social sphere in the city economy is underfunded. At the same time, the social sphere in budget structure makes 44 %, including education (26 %), public health services (11 %), culture and youth policy (1 %).

To optimize budget expenditures in the social sphere, it is required to develop a balanced program constituting the following elements:

1. Development and implementation of principles of self-financing
2. Realization of complex inventory and evaluation of the fixed assets
3. Development and introduction of modern technologies of anti-crisis management, including adaptation of bankruptcy to local situation
4. Development and use of modern models of work compensation
5. Development of system of fast account and control of spending

The evident example of inefficient use of the Law of the Russian Federation on bankruptcy can be provided by the municipal enterprise «Central recreation park».

In composition of the administration of Khabarovsk City, there is no insolvency (bankruptcy) service available, therefore the issues dealing with insolvency are addressed by the Department of municipal property of Khabarovsk administration. As a result of

missing exchange of information between the regional committee on insolvency and Department on municipal property the required measures to initiate hearing on bankruptcy were not carried out with respect to above enterprise This has resulted in increase in accounts payable from 190 thousand RR in 1996 to 875 thousand RR in 1998

Thus, the delayed replacement of inefficient management of the municipal enterprise «Central recreation park» (hereinafter – SE «CRP») has resulted in the losses in amount of 685 thousand RR

Only on November 4, 1998 by the order of the Khabarovsk mayor No 1059-r the municipal enterprise was liquidated and setting up a liquidating commission The commission worked for about two months before initiating the court hearings on bankruptcy

The award made by arbitration Court of Khabarovsk Kraj dated February 24, 1999 on hearings No And - 73-241/11-99 declared company SE «CRP» insolvent (bankrupt) and opened the bid for managing company This decision in turn has resulted in unplanned expenditure of the sum of 44,283 RR from the extra-budget fund of liquidation of the municipal enterprises on the basis of the order of the mayor No 141-r dated February 23, 1999

This situation could have been avoided, if the Regional committee on bankruptcy together with Department of municipal property control had initiated court hearings on bankruptcy correctly setting out the bankruptcy procedure, namely, introducing external management External management of enterprise property is the procedure aimed at retaining operations of the enterprise The external management is introduced at the enterprise by award of arbitration court on application of the debtor, proprietor of the enterprise or creditor, and is implemented through the transfer of management functions to arbitration-appointed manager The external management is introduced for the term of 12 months with potential extensions for extra 6 months

Advantages of introduction of external management at the enterprise consist in the following

- 1 From the moment of introduction of this procedure the moratorium is introduced on requirements of the creditors Thus, the moratorium is applicable to all debts of the enterprise, which became due before introducing the external management
- 2 There is an opportunity to reveal all reserves associated with business of the debtor, and to arrange for effective management process
- 3 This procedure deals with reorganization and does not result in liquidation of the enterprise, which is an important social - psychological factor

On the basis of above comments it is possible to propose the following plan of measures to resolve SE «CRP» crisis

- To change the bankruptcy procedure introducing external management
- To develop the business - plan of external management
- To examine variants of financing, including that of issuing municipal loan
- To apply the system of guarantees and privileges for potential investors
- To apply the lease approach to install new attractions
- To carry out marketing research and examine the experience of attraction business

Under conditions of crisis economy the exceptional importance is attributed to issues dealing with obtaining information on activity of enterprises and timely taking measures on

the basis of information submitted. Therefore, one of top priority tasks to be resolved in city, and in Kraj deals with development of uniform information base containing real time information on the status of the whole economic complex.

The data about accounts payable and receivable was provided by the Far East Research Institute of Macroeconomic Market of the Russian Federation.

Table 5

**Accounts Payable and Receivable in Branches of National Economy of Khabarovsk
on January 1, 1998
(bln RR)**

Industrial Branches	Accounts		
	Payable	Receivable	Excess of accounts payable over receivables
Industry	1204.8	596.5	608.3
Transport	880.3	464.8	385.5
Construction	661.3	560.0	101.0
Agriculture	91.0	3.6	87.4

Now in majority of enterprises of Khabarovsk accounts payable dominate receivables. Similar situation should result in a wave of bankruptcy, however it does not occur. In the whole of Khabarovsk Kraj during the term of validity of the law on bankruptcy 144 enterprises of various patterns of ownership were subject to this procedure. That number makes only 2 % of the overall number of enterprises exposed to bankruptcy hearing in the Russian Federation as of January 1, 1998. This deals with the fact that in Khabarovsk Kraj the offset practice is quite popular. However, this approach complemented with barter results in increasing production cost and decreasing competitiveness of products.

Law of the Russian Federation in insolvency is meant to improve the financial status of enterprises. However, the real benefit from bankruptcy measures is obtained now not by the budget, but rather by commercial creditors of enterprises - debtors. In many respects this is connected with absence of properly developed techniques accompanying bankruptcy procedures.

Within the framework of the long-term technical assistance the search of ways to reduce budget expenditures based on social validity and economic efficiency can be continued. Such an approach will ensure integrated approach to solving problems of management of public finances in Khabarovsk Kraj.

Letter from the Vice Governor of Khabarovsk Krai

USA Agency for International Development
Mrs Angelina Gurkina
Projects Manager

Copy Mr Bharat Bhargava
Head of project
«Regional Public Finance and Investment»

On coordination with administration of Khabarovsk Krai the work on project «Regional Public Finance and Investment» stayed focused on topic «Streamlining the Methods to Develop and Approve Regional Minimal Social Norms» It was in this Oblast that the short-term technical assistance on the part of experts from Booz • Allen and Hamilton was provided

Within the framework of above project the important positive results were achieved Among them it is necessary to particularly mention the following

1 Practical importance of the «Round table» conference that allowed To study the experience gathered in other regions to develop and establish the minimal social standards and norms of the minimal budget funding, specifically in the cities of Ekaterinburg and Tomsk The documents on judicial history involving federal entity and mayor's office in the Oblast of application of regional minimal social standards were especially informative Discussion of experience of Ekaterinburg will allow avoiding mistakes and conflicts at the stage of completion of administration bills in Khabarovsk Krai on this issue,

- To determine the priority direction of work aimed at completion of administration bills to be issued in Khabarovsk Krai ,
- To get access to foreign experience in the Oblast of application of social standards in budgeting practice and rely on it while choosing the approach to develop social standards and ways of their funding in Khabarovsk Krai

2 The expert committee involved in the project proposed new wording to laws «On State Minimal Social Norms in Khabarovsk Krai» and «On Temporary Norms of Minimal Budget Funding in Khabarovsk Krai» that calculations for essential changes and additions introduced into the text of laws accepted in the first reading by the Legislative Duma of Khabarovsk Krai

As a result of analyzing the data and generalizing the material gathered economic expertise and legal appraisal was conducted relative to above administration bills drafted by Khabarovsk Krai administration The proposals

were made to improve the technique to account for the minimal social norms and norms of the minimal budget funding

3 Undoubtedly, the informative materials and documents reflecting Russian and foreign experience in the Oblast of establishing and applying social standards (effective laws of Sverdlovsk, Irkutsk, Omsk, Perm and Tomsk oblasts, those enacted in the cities of Ekaterinburg, Tomsk and Novosibirsk addressing the minimal social standards and minimal budget funding issue, as well as similar practice used in a number of British and American cities to account for social standards at the budget drafting stage) are of ultimate importance. The documents and materials provided by the expert committee involved in the project will be used in activity aimed at drafting bills in Khabarovsk Krai rendering effective support to Krai administration and Legislative Duma.

Involving highly skilled experts familiar with different subjects made it possible to arrange for comprehensive evaluation and analysis of social standards and ways to develop social standards in Khabarovsk Krai.

Accounting for substantial practical assistance rendered by the expert committee, the Administration of Khabarovsk Krai was bound to proceed with work under the project «Regional Public Finance and Investment» on the basis of long-term cooperation.

The Administration of Khabarovsk Krai considers the assistance in resolving problems dealing with interbudget relations between Krai and city administrations as a major domain of the long-term cooperation. The administration of Khabarovsk Krai supports the idea to continue the current activity with the Administration of Khabarovsk City essentially expanding and deepening the scope of work. Simultaneously, Khabarovsk Krai Administration considers it expedient to go ahead with similar activity in the city of Komsomolsk-on-Amur - the second-largest and economically important city of Krai. Comparing the results to be obtained while applying above approach to the cities of Khabarovsk and Komsomolsk-on-Amur will be especially interesting.

The Administration of Khabarovsk Krai also proposed to investigate the budget process using the most typical Vanino region as an example. In opinion of Administration the process of streamlining budget relations should also involve heads of township and village administrations of the region. This work is second in rank according to the Khabarovsk Krai Administration. The experience compiled during the Vanino region studies can be highly important for the whole Krai, taking into account the opportunity of making its use throughout other oblasts. Dissemination of experience to be gathered can be made in the form of training seminars to be held for administrations of other oblasts, villages and townships.

The overall logic of the long-term technical assistance is based on developing activity starting with establishing procedures to coordinate interests of Krai with

those of municipal administrations accounting for transparency and openness of the budget process with subsequent transition to optimizing taxation retaining stimuli to develop further the municipal administrations providing budget revenue. Within the framework of the project one can explore the ways to reduce budget costs based on social parity and economic efficiency. Such an approach would ensure a comprehensive approach to resolving problems of managing public finances in Khabarovsk Krai.

The administration of Khabarovsk Krai considers it appropriate to continue working with the expert committee that had proved its class within the framework of the short-term program of technical assistance «Regional Public Finance and Investment», and emphasizes, that cooperation with the United States Agency for International Development is of ultimate practical value for Krai and city administrations.

Alexander Levintal
**Vice Governor and
Chairman of Economic Committee**

Letter from the Mayor and Head of Finance of the City of Khabarovsk

USA Agency for International Development
Mrs Angelina Gurkina
Projects Manager

Copy Mr Bharat Bhargava
Head of Project
Regional Public Finance and Investment

Within the framework of the short-term technical program to assist Khabarovsk Krai under the project «Regional Public Finance and Investment» Booz • Allen and Hamilton Inc expert committee was involved in streamlining methods to develop and enact regional minimal social standards

The expert group was composed of

- Mrs I V Abankina, head of group,
- Mr David Jones (USA),
- Mrs E V Kushtanina,
- Mrs N I Sudakova,
- Mr D L Gudkov

The work of the group entailed organizing and conducting the «Round table» conference addressing issues of sharing experience gathered in various regions of Russia on setting regional minimal social standards and norms of minimal budget funding

The «Round table» appeared to be very useful from the practical standpoint providing an insight into the problems faced with development and application of social norms. Sessions of the «Round table» brought about a wide exchange of ideas between the experts of Khabarovsk Krai, the City of Khabarovsk and those from other oblasts - Ekaterinburg and Tomsk. The report of Mr David Johns on foreign practice in application of social standards was attended by the audience with high interest. Materials and documents compiled in other oblasts (Sverdlovsk, Irkutsk, Omsk, Perm and Tomsk) with participation of the Association of Siberian and Far East cities were distributed among the conference attendees. The experience compiled in the regions chosen for the reference reasons is undoubtedly of high value for Khabarovsk due to similarity in basic characteristics of social, economic and territorial development.

Short hand minutes of the «Round table» sessions gave an additional opportunity to analyze and study the experience compiled in the Oblast of setting minimal social standards.

Expert group of Booz • Allen and Hamilton Inc has prepared the economic and legal expertise of administration bills of Khabarovsk Krai in the Oblast of minimal social standards and norms of the minimal budget funding. On the basis of processing the information obtained essential improvements and additions to administration bills were proposed. A number of suggestions to streamline the technique to calculate and minimize above norms was made. These proposals are important to bring down budget costs that today pose one of the most important issues in achieving a balanced financially meliorated municipal budget.

Particularly, it is necessary to emphasize the high professional level of committee experts involved in the project, as well as practical importance of results obtained. We are interested in further working along the guidelines of the cooperation program on the long-term basis.

From our standpoint the following oblasts of the long-term technical assistance within the «Regional Public Finance and Investment» project appear to be most important:

1 Streamlining budget process in Khabarovsk.

- Within the framework of this section the development of ways to achieve a balanced budget in Khabarovsk, improving budget relation between the city and constituting city regions, increasing economic responsibility of city regions, setting up conditions stimulating regional development on the self fund basis within the framework of coordinated unified city financial policy is of special importance.
- Streamlining model relations between the city and its constituting regions as a base model to resolve problems of interbudget relations in Khabarovsk Krai.
- Study the experience gained in American cities on finding solutions to the problem of managing municipal finance, attributing a special attention to relations between the city and its administrative regions in budgeting process.

2 Management of financial resources

Developing this topic the basic direction might deal with defining ways to reduce budget cost on the basis of planning, evaluating and analyzing specific cost-intensive items. Above direction can account for results obtained within the framework of the short-term technical assistance program aimed at streamlining methods to develop and enact the minimal social norms.

3 Increasing budget revenues

This domain is associated with the studies of modern methods to estimate city tax potential. These studies can be conducted in reference with available American and Russian experience. The special interest deals with modeling budget revenues using economic-mathematical methods.

From the long-term cooperation perspective it is obviously important to retain the practical side of future developments, which was present at the short-term technical assistance stage. An exchange of experience between regions of Russia could become one of forms of co-operation. In the wake of exchanging such an experience it would be useful to work closely with Association of Siberian and Far East cities. Relevant studies as well as projection of foreign experience to arrange for transparent and open budget process for Khabarovsk City are highly interesting.

In order to arrange for fruitful cooperation on the long-term basis the administration of the City of Khabarovsk is ready to set up a focus team composed of employees of Financial department to support the project.

Giving high appraisal to results of the short-term technical assistance program accomplished within the scope of the «Regional Public Finance and Investment» project and considering it as the first step towards long-term cooperation, we express gratitude to the USA Agency for International Development for support rendered.

Vice-mayor of Khabarovsk city

Valerie Kazachenko

Head of Finance Department

Andrew Chukalkin

PAGE 1 of the Material Provided on

FINANCIAL ACCOUNTABILITY FOR STEWARDSHIP

David C Jones

- 1 In principle, requirements for financial accountability in the public sector are, quite properly, very demanding. The law usually provides for national, state (or provincial), local and public utility authorities to provide many important services on a near-monopoly basis. These services are provided from funds which have been (or will be) exacted from the public, by taxes, fees and charges. Failure to pay such revenues often brings draconian penalties, such as loss of a vital service (e.g. water supply), seizure of property, fines and possible imprisonment.
- 2 In return, the public receives good, indifferent, bad or no services, about which, as individuals, they can do very little, except to complain.
- 3 To provide services, public sector institutions commit revenues to the acquisition of a variety of assets, including land, permanent works, buildings, equipment and materials. Many of these assets have very long working lives, some may be used up quickly. Whatever their nature, the public has a right to expect that they will be properly maintained, used, accounted for and renewed. Fixed assets will often be financed by the raising of long-term loans, thus committing the public to pay higher taxes and charges over many years, to service the debt.
- 4 For some governments, especially central governments, public indebtedness is exacerbated by deficit budgetary financing. This is increasingly being revealed in the local governments of newly-emerging independent states, such as those in Eastern Europe and the Russian Federation.
- 5 In addition, public sector institutions obtain short-term credit from banks and suppliers, pledging, in effect, future revenues towards repayments. They also grant credit to individual taxpayers, service users and staff, putting revenues obtained from the public at considerable risk. Sometimes, indeed, this credit is never recovered - or else its recovery is achieved only at significant public expense, for legal fees and loss of interest on the money committed.
- 6 Finally, funds which remain temporarily unused are at risk of being mismanaged, poorly invested, lost, stolen, or diverted to improper or illegal purposes, by corruption and abuse of power or authority.

TECHNICAL ASSISTANCE IN
SAKHALIN

Sections

- I Overview
- II Technical Assistance Project Objective
- III Team Members and their Roles
- IV Technical Assistance Project Components
 - A Municipal Budget Analysis to Help Balance the Budget
 - B Budget Restructuring and Conflict Resolution
- V Issues and Obstacles
- VI Success in Achieving Overall Objectives of Technical Assistance
- VII Key Contacts

Attachments

- 1 Seminar Outline
- 2 Seminar Attendees
- 3 Economic Decline in Makarov and Tomari
- 4 Recommendations on Transparency
- 5 Oblast Duma Recommendations
- 6 Oblast Duma Original Recommendations
- 7 Oblast Admin Recommendations
- 8 Oblast DOF Recommendations
- 9 Yuzhno Sakhalin Recommendations
- 10 Governor's Decree 382

TECHNICAL ASSISTANCE IN
SAKHALIN

I Overview

The team of four BAH consultants and a professional translator/interpreter worked for two and a half weeks in Sakhalin Oblast to provide additional and alternative insight in the budget process. Team members worked in three city locations: Yuzhno Sakhalin, Makarov and Tomari. The team also worked with three categories of officials: Oblast administration (including several departments), Oblast Duma and city administrations.

The objective of the projects was to provide technical assistance on the protracted budget process and assist the regional and local governments with methods, techniques and recommendations developed in other regions of Russia and from the international experiences of both transitional and western economies.

The team delivered this transference of knowledge through discussions, seminar, demonstrations and summary reports. The issues were particularly relevant because the 1999 budget was still being argued and debated everyday while the team was there. In addition, the team discussed and clarified the list of longer-range technical needs and assisted integrating these requests into a highly feasible and useful technical assistance program.

II Technical Assistance Project Objective

The purpose of the technical assistance project was to follow up on the introductory conference held in Khabarovsk and introduce elements of a more rational and constructive budget process (including public investment) to the Sakhalin Oblast and the Sakhalin cities. The team members understood that they were entering into a three way political, financial and administrative fray that has been argued from the Supreme Court to the daily media on Sakhalin. The desired outcome was to strengthen understanding on how the budget and finance functions could more positively contribute to the future of Sakhalin and to prepare the region for the receipt of additional revenues from its offshore development.

III Team Members and Their Roles

- Albert R. Sharp, Jr. who has extensive experience in local government management and public budget reform served as team leader and focused on policy decision making and transparency issues.
- Marina V. Maslova, an assistant professor in computer sciences, adapted and demonstrated the Municipal Budget Analysis and Transparency Model. She utilized her extensive experience in financial calculation and computer support, was

constructive in demystifying the process of automated budget and fiscal analysis and demonstrated how a model could be used as a tool

- Boris L Rudnik, who was on leave as head of the budget section of the Economic Department, Presidential Administration of the Russian Federation, and has broad experience on budget requirements of higher levels of government and fiscal decentralization, focused on the governmental mechanism for making the budget process more effective from a policy framework
- Vladimir Pusharev, head of the Siberian Academy of Science's laboratory for the Institute of Economics and Industrial Engineering (IEIE SB ASR), who has extensive experience in applied research, was responsible for the analysis of economic conditions of two distressed cities in the Oblast
- Galina V Zhdan, staff member of the Siberian Academy of Science's of the Institute of Economics and Industrial Engineering (IEIE SB ASR), with her broad experience as a regional economist worked actively with the Novosibirsk Oblast administration, contributed to the analysis of the two distressed cities, and shared budgetary techniques used in other regions of Siberia
- Irina V Moldavan, professional interpreter and translator, facilitated the flow of information and ideas between and among the team members and the Sakhalin officials

IV Technical Assistance Project Components

A Municipal Budget Analysis

Analyze selected municipal budgets in the Sakhalin Oblast to provide a basis for establishing which cities have sustainable economic viability Use an analytical model to demonstrate the use of economic projections and budgetary trend analysis to determine the need for continuing financial subsidies from the Oblast budget

Recipients There were two activities under this component

- 1) The Cities of Makarov and Tomari were selected by the Oblast officials as the two cities that were most distressed by the recent events and that would not receive any direct benefits from the forthcoming petroleum production The Administrations from both cities were supportive and cooperative with members of the team
- 2) The City of Yuzhno Sakhalin was also selected by the Oblast Duma representatives as the best site to demonstrate the capacity of the municipal Budget Analysis and Transparency Model The City was selected because of its willingness to cooperate and because the existing municipal model could not be demonstrated with oblast financial and budgetary data

Delivery The two activities were Conducted as follows,

- 1) The two team members who journeyed to the two northern cities engaged the local administration officials in the research that they were conducting. The primary recipients were the Oblast officials who received the information at the closing seminar and who received a copy of the written report and recommendations [See Attachment 3]
- 2) In Yuzhno Sakhalin any and all data needed was still in a paper format. Much time was used seeking out appropriate information and entering the data in preparation for the test demonstration. The model was demonstrated at the final seminar and engendered a great deal of interest and discussion.

The technical assistance offered insight into the distressed conditions of the cities of Makarov and Tomari and offer recommendations on courses of actions consistent with the traditional economic policies. Proposals had been floated that ranged from merging the cities with their neighbors, to abandoning the cities and relocating the population. None of these were founded on Russian law or in the practical economic conditions of the oblast. The report in translation is included in Attachment #3.

Value to the region/city The following value was offered by this component

- 1) The value of the two-city study to the Oblast officials was to reinforce the fact that there is objective information available even on the most distressed communities and it is in the best public good to use information before taking public action.
- 2) On the demonstration of the model everyone in the room perceived the value of the tool. Each administrative unit asked for further information and additional demonstrations to a larger audience in their circles.

Feedback from Recipients Analytical budget models for both the municipalities and for the Oblast were urgently requested as part of the follow-on technical assistance. [Note See attachments with requests from Yuzhno Sakhalin and Oblast Duma.]

B Budget Restructuring and Conflict Resolution

To a very limited degree, analyze the current draft of the 1999 Oblast budget, being introduced in early March 1999, and provide input on the budget process and the uses of the budgetary and extra-budgetary funds, working with the oblast administration and Duma budget committee at the same time. The concepts of efficiency, effectiveness and transparency would be reviewed.

Recipients The recipients in a very limited basis were many of the same players in the ongoing budget conflict: oblast administration, city administration and oblast Duma representatives. The fact was that they were still in contention about the law, its

interpretation, the facts, the budget figures and the cause and blame for the declining fiscal resources and relationships

Technical Assistance Delivery The limited technical assistance was shared through discussion and recommendations in the final seminar. Members of the team looked at budget compliance issues with both Russian Federation and regional legislation. Mr Rudnik's report found in Attachment #4 makes the case that while the oblast budget meets the letter of the law, it could be more informative and useful if commentary was included. It is symbolic that during this time the regional newspapers covered the budget arguments but no real substantive information about the proposed budget.

It was found that routine financial information is not readily available in any easy to use format. Information is not retained for future retrieval and analysis. There is limited analysis on the expenditure side of the budget and excessive attention is focused on allocation of revenues and transfers.

The team's presence in no way influenced the political controversy surrounding the passage of the budget. The budget still had not been adopted by April 24th when the team left Sakhalin. The team was able to maintain contact with all parties and continue a dialogue on needed changes for the future.

Value to the region/city The various public officials gained heightened awareness that there needed to be work on other levels rather than just on the political.

Feedback from Recipients Individual leaders were enthusiastic about trying to take steps to break the impasse.

V Issues and Obstacles

The timing of the technical assistance visit was somewhat unfortunate – being right in the middle of the final budget decisions. The team arrival followed a protracted struggle over the appropriate allocation of resources and the responsibility for additional revenue generation. During the first half of the visit, there were significant power and heat outages. In a series of newspaper articles the Governor blamed the City and the Mayor blamed the Oblast for failure to pay for the coal at the generating plant. Groups of citizens protested the lack of services.

There seemed to be two camps: the Oblast Governor, his administration, and a slim majority in the oblast Duma, vs. the City Mayor and the minority leadership of the oblast Duma. The issues centered around the competition for power, traditional vs. reformist governance and budget, and perhaps something of personality.

The team was able to function by remaining impartial and meeting with each of the parties separately. The result was that the recommendations for technical assistance were delayed and more proscribed. Other departments were not so deeply involved in the

budget or its passage through the regional Duma. The greatest potential impact will be sensitizing the administrations to the potential rewards from multi-jurisdictional cooperation and collaboration.

VI Achievement of the Overall Objectives of Technical Assistance

The overall project was a success in pointing out the need for greater budget normalization and rationalization of the process. The team was able to identify the policy implications through the studies conducted and attract the attention with the use of analytical tools.

The points that were emphasized included the following:

- The Quality of decision making would improve with the use of increased and better analytical information
- If it were possible to agree on a factual base, the political differences would be argued at a policy level
- There is a critical need for transparency – first, for the Duma members themselves, second for other levels of government and then for the public
- Public suspicion and apathy is fueled by not only the lack of understandable information about the budget, but also the complete lack of appropriation control, monitoring and accountability for major capital investment projects
- The foundation of local democracy is weakened when the Oblast administration ignored duly enacted budgetary legislation
- The era of allocation of scarce resources could be replaced by the era of opportunity, if the regional and local government could make structural changes in the budget and investment processes and practices
- These structural changes vary with each unit of government, but the common goal is to have each government operate more efficiently, effectively and transparently
- Such changes build public and investor confidence and are the keys to public service stability, governmental predictability and economic development
- While certain members of the government and administration understand the need for budgetary and fiscal reform, in-service training is needed to enable any policy level resolution
- Most specifically
 - 1 The Oblast Duma saw the need to train its own members and provide them with better and more timely budget information
 - 2 The Economics Committee recognized the need to build oblast –wide understanding and support for the investment and economic development programs
 - 3 The City administration saw the need to reform its own processes to better exercise local initiative

VII Key Contacts

- Vitaly N Elizariev – Director General, Department of Foreign Economic Relations, Administration of the Sakhalin Oblast
- Sergei A Ponomarev – Deputy Chairman, Sakhalin Oblast Duma
- Natalya M Novikova – Director, Finance Department, Sakhalin Oblast, Administration
- Fedor I Sidorenko – Mayor, the City of Yuzhno Sakhalinsk
- Gennady E Finkelman – Advisor to Deputy Chairman, Sakhalin Oblast Duma
- Oleg P Koniukh – Deputy Chairman, Economics Committee, Sakhalin Oblast Administration, Director of the Investment Department
- Irina Zin – Chair of the Council, Director of the Center for the Public Initiative Support, [Sakhalin oblast public organization for the support of public initiative], “Open World”
- Rodion Avtonomov – Director, PR department, [Sakhalin oblast public organization for the support of public initiative], “Open World”
- Anna Romanova – Deputy chair of the Council, chief accountant and consultant, [Sakhalin oblast public organization for the support of public initiative], “Open World”
- Michael Allen – General Director, American Business Center, Yuzhno Sakhalinsk
- Andrew Wilson – Coordinator, Regional Investment Initiative, Russian Far East

Final Seminar Outline

April 21, 1999

Regional Public Finance and Investment Project

USAID purpose

Commitment through Regional Investment Initiative (RII)

Booz Allen & Hamilton - contractor

Seminars in Samara and Khabarovsk

Short term assistance demonstration – Catalyst

Sakhalin – Regional and Municipal Budgeting

- 1 Economic Analysis of two cities - Makarov and Tomari
- 2 Partial demonstration of Budget Analysis and Transparency Model with Yuzhno Sakhalinsk data
- 3 Review of current state of the budget process
- 4 Recommendations for future cooperative initiatives

Tale of two cities - Makarov and Tomari

by Vladimir M Pushkarev and Galina V Zhdan, Institute of Economics and Industrial Engineering

- 1 Evaluation of the general economic situations – current status

2 Understanding the problems

3 Evaluation of development prospects including

- evaluation of the proposed projects
- recommendations to resolve problems
- evaluation of the budget opportunities, potential revenue sources
- tax policy in terms of own tax base creation potential

Budget Analysis and Transparency Model

Background – Al Sharp

Demonstration – Marina Maslova

Module “City”

Input data

Derivative documents

Extrapolations

Module “Plan” (budget projections)

Trend analysis of municipal budgets

Graphic display of data

Use as policy decision aid and for creating public transparency documents

Intergovernmental fiscal relations

Introduction of tools -Galina Zhdan

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Sakhalin oblast budget process in terms of transparency - Boris Rudnik

- 1 Analysis of the effective and drafted legislative and other budget regulating legal acts of the Sakhalin oblast
- 2 Identifying problems and developing recommendations

Policy Implications – Al Sharp

Quality of decision making

Public Suspicion and Apathy

Foundation of local democracy

Transience of politicians

Allocation of scarce resources

Control of bureaucracy

Key to stability, business investment and confidence

Recommendations for future cooperative initiatives

Governor and administration

Representatives of Oblast Duma

City Administration

Questions / Answers – Discussion

FINAL SEMINAR ATTENDEES

April 21, 1999

Oblast Duma Control and Auditing Chamber

Dutsenko, Alla Vyacheslavovna – Chair
Kiseleva, Ludmila Aleksandrovna – auditor
Reginskaya, Antonina Vassilievna – auditor

Duma Legal Department

Soskova, Ludmila Stepanovna – deputy director
Penyaz, Tatyana Yurievna – head of division
Maltseva, Galina Petrovna – consultant

Yuzhno Sakhalinsk Finance Department

Kaneva, Natalia Alexandrovna – senior economist, revenue planning division

Oblast Finance Department

Novikova, Natalya Mikhailovna – Director
Rudova, Elena Mikhailovna – deputy director

Oblast Duma

Ponomarev, Sergei – Deputy chairman, Oblast Duma
Finkelman, Gennady Emilievich – advisor to the deputy chairman of the Oblast Duma
Nazarova, Ludmila Arsenyevna – consultant of the Oblast Duma Committee for budget, finance, taxes and banks
Lee, Elena Valeryevna – consultant of the Oblast Duma Committee for budget, finances, taxes and banks

**Evaluation of Potential to Overcome Economic Decline
in Makarov and Tomari**

by V M Pushkarev and G V Zhdan

The regions under study belong to those having the lowest development status in Sakhalin oblast. It is evidenced by economic, demographic and social indices. For example, recession in industrial production in these regions during 1995-1997 amounts to 26.8% in Tomari and 73.8% in Makarov region whereas the overall reduction of production in the oblast totalled 11%. Unemployment level (expressed as a percentage to employable population) was 30.2% and 29.8% respectively compared with 8.3% for Sakhalin. The salary level was less than 75% of the Sakhalin average. Local budget provisions were also much lower for Makarov region - 54%, for Tomari region - 49% if contrasted to the average oblast budget. During the last two years the town-forming tax base in these regions was virtually dissolved - mines and cellulose-paper plants were shut down. (These enterprises used to give jobs to more than half of employable population supplying local budget with revenues.) This triggered migration processes, most educated and qualified people were the first to resettle. The problem of lack of specialists grew acute. According to the Head of Administration Makarov region, the deficit of qualified managers was one of the principal problems now. In its turn this becomes an obstacle for restructuring regional economy and development of new town-forming tax base.

It should be mentioned that the option to retain the town-forming tax potential, at least partially, was available in these regions. First of all, it was true for cellulose paper plants. Their production due to artificial maintaining rouble-dollar exchange rate became non-competitive at the international market. As it was evident that some day the rouble would "slide down" rebounding demand for production of these plants, the regional government bodies should have exempted these enterprises from paying all taxes 2-3 years ago. If it were accomplished about 3,000 jobs would have been saved, 2 electric power stations and other infrastructure facilities that were kept in books of the paper plant would have remained operational, and taxation base would have been restored in full after the last August's crisis. Unfortunately, this was not done and now regional as well as local authorities make a lot of efforts and spend funds to find ways to overcome economic depression in these and some other regions. In so doing, the new town-forming tax base of the regions has to be formed. However, it is extremely difficult to accomplish given high tariffs for electric power, railroad services and strong deficit of financial resources.

The reasons lying behind the low production efficiency in oblast and above regions can be divided into those typical for all distant northern territories and specific ones.

The following reasons can be considered as typical

- relatively high regional northern hardship coefficient applied to salaries,
- inflated system of benefits under pension legislation, leave package, etc ,
- monopoly-set prices for transportation and electricity

Specific cost-intensive elements are as follows

- monopolistic tariffs for regional railway services,
- transportation tariffs introduced at the Mainland - Sakhalin Island shoreline

The same reasons in our opinion bring about low production efficiency in the regions in question. However, business closing have eliminated problems of efficiency for certain companies but led to even more serious problems

- finding jobs for unemployed,
- migration of families to more developed areas and creation of jobs under conditions of economic recession and unemployment

Thus, *the problem to overcome economic depression in these regions gets reduced to the search, development and activation of the "nodes of growth", allowing to create a new town-forming tax basis*. Naturally, under current conditions only small companies can play the role of such "nodes", as small investment and little time is required to set them up. Moreover, they are more flexible in ever changing business environment, can be easily re-adjusted to another business. It is necessary to focus the economy on processing raw materials, manufacturing finished products intended to saturate the market in the central and northern parts of the oblast and goods to be exported.

Analysis of municipal budget tax base of Makarov and Tomari

In 1998 the narrow tax base in Makarov region was almost halved in comparison to the previous year because of shutting down the town-forming companies. Having only 2-year tax statistics we can assume that decline in Tomari region took place earlier. In 1998 in Makarov region the profit tax shrank almost by a factor of 3, implying that the company shut down were still profitable.

In Tomari region the drop in profit tax amounted to about 40%. In 1998 in Makarov region collection of excise tax sharply shrank which was indicative of decrease in production of excise-taxed goods, property tax was 5 times as low. Taking into account inflation such a decrease in taxable and non-taxable revenues can be viewed as a downside.

In 1998 the decrease of taxable and non-taxable revenue continued in Tomari region but at a much slower pace. In comparison to 1997 all taxable and non-taxable income in this region reduced by only 2%. Since 1998 budgets in these regions were more or less the same, one must suppose that the collapse happened earlier.

Against the background of these negative trends one can mark a certain growth in income tax 7% in Makarov and about 30% in Tomari region despite widening tax relief (2 fixed minimal salaries were deducted from the taxable base if income was under 5,000 roubles) with simultaneous increase in the minimal taxation level. During the first quarter of this year the income tax collection was up in both regions, confirming the growth in residents' income. In 1998 VAT receipt grew up in Makarov region and together with the growth in income tax it indicates that either not all profit tax was collected or tax benefits were expanded.

Development of brewing in Makarov region excise revenues appeared among tax receipts but for the time being its value is not high.

The analysis of tax collection allows one to judge of industrial orientation of Makarov region and its change. So, in 1998 the region industry was re-shaped: if in 1997 the main tax revenues were associated with fuel, timber and paper industry, in 1998 the taxes were basically collected from food (mainly fishery) and construction materials industries.

The basic increase in tax revenue in 1998 in Tomari region was provided by timber and woodwork industries as well as by the fuel-energy complex of the region. The share of fishery and transport is high as well. So timber, woodwork and fishing industries in this region can be regarded as the main branches of specialisation.

An abrupt loss in tax flows into Makarov budget in 1998 affected the profile of budget income. Despite the fact that almost all taxes collected in the region remain in Makarov budget (18 billion roubles from 20 billion in 1997 and 11.9 from 12.1 billion roubles in 1998), budget income per capita keep sliding down. Nominally, the budget was reduced by a third, and taking into account inflation - almost by half. Reduction of transfers to the regional budget by approximately 25% in the nominal value had contributed to the decrease of budget provisions per capita, and if one accounts for inflation - by 40% more.

Despite small reduction of taxable and non-taxable collection in Tomari region its own tax revenue base and total amount of budget funds grew up in 1998 providing a positive impact on budget per capita provisions.

In 1999 the growth in nominal tax revenues in both regions is evident. Mainly, it is caused by inflationary processes.

Possible directions to overcome economy depression in Makarov and Tomari regions

It should be mentioned that municipal bodies of the regions have worked out a number of promising projects whose implementation would potentially solve the problems of economy depression and relieve social tension. Let's briefly outline the most important ones.

Makarov region

1 Development of fishery industry JSC "Rybak" is planning to bring processing of fish in this year up to 400 ton (including 265 tons produced by the company itself) Processing crabs will amount to 30 tons As a result the total number of jobs will grow up to 60 in 2000 (now the figure is 40), and in the long-term perspective to 250 This project has already absorbed RR 5 mln and 4 mln more are needed The project is being financed mainly from the federal program to restructure coal industry, according to which a part of fund is being directed to create new jobs

2 Establishing production of fish flour by the company "Ecor- Sakhalin" The cost of equipment to be installed is RR 3 mln Production of fish flour will allow to expand feed base of stock raising not only in Makarov but also in other regions of Sakhalin oblast improving environment situation in the region

3 It is proposed to set up a caviar shop with 10 jobs in Gornı township at the expense of the coal industry-restructuring fund The project requires RR 1 7 mln, 0 44 mln of them is planned to be used this year

4 In 1998 the regional administration received a controlling stake (40%) in Pischekombinat (food production company) Alcohol production line was purchased on credit terms (RR 118 mln) It is intended to increase the output of beer, soft drinks and syrups made from the local feedstock There is an opportunity to get a USD 15-20 grant With development of this company the production of excisable goods will greatly increase, thereby increasing the local budget revenues

5 It is supposed to develop "Lesnaya Companya" (forest company) in 2 stages At the first stage (costing RR 4 6 mln) production of timber will be organised and extended up to 14 K m³, 10 5 K m³ will be exported to Korea and Japan At the second stage (USD 2 5K) sawing and production of wood products will be arranged for Now as many as 43 persons are involved into timber cutting, this figure including 16 miners who lost their jobs when the mine operations were shut down In the future it is planned to increase the manpower to 60 to cut timber and 65 plus being involved in sawing operations

6 The project to set up coopering supplying equipment and half-finished products from Khabarovsk is now under investigation stage However, this project should be well defined because there is already cooperage in Tomary region, moreover its capacity is big enough to meet demands of fishery companies all over Sakhalin

7 The existing crushing plant "Trud" produces about 14K m³ of crushed and quarry stone Its production is notable for good quality but sales are difficult due to high transportation costs This problem is proposed to be solved by constructing cargo terminal (RR 60 mln) to go ahead with maritime deliveries

8 On September 1998 the coal mine was put on stream (more than 5K tons of coal were produced during 3 months, it will increase up to 24 K ton in 1999, with plan in place to develop 2 more fields) This development reduced the problem of providing boiler plants with fuel

Tomari region

Information of promising projects in the region is of more general character lacking the degree of detail inherent to Makarov region

1 Fishery The main problem is shortage of fish to fill in existing processing capacities Now fish is being purchased on the eastern coast The institute "Sakhalinryba" (Sakhalin fish) is now estimating the potential of western coast, upon completion the quota for fish production will be granted

2 Food industry It is supposed to re-orient the brewery to produce spirit from potatoes (processing up to 30 tons of potatoes a day)

3 Woodworking industry The domestic sawing equipment is being installed in the furniture shop to replace imported equipment to produce furniture from elements to be exported Production of high quality timber will allow extending export base and increase local budget revenues

4 Power engineering Unlike Makarov region, Tomari has managed to save electric power station after suspension of the paper plant RR 16 mln are required to put back on stream and only RR 4 mln can be contributed from the local budget In 1999 2 km of hot water pipeline is proposed to lay down This will significantly solve the problem of heat supply At the beginning of 2000 it is planned to complete the start up operations and connect the city to the power system of the electric heat power station This will cover the regional demand for electric power by more than half

Ways to reinforce local tax base of municipal entities

From the stand point of forming the own budget tax base, to develop enterprises featuring high fraction of value added operations against the background of relatively low production costs is most effective It is necessary to mention that added value can be split into the following types of income salary, social insurance deductions, profit, depreciation deductions and product and operation taxes

According to investigations done in all regions, the development of the sphere of paid services, where value added portion amount to 62-65% is the most effective from the position of forming revenue

However, the immediate and preferential development of service sphere in these depressive regions will run into the low credible demand

The biggest net back in developing local tax base in both regions can be obtained from setting up such business as production of alcoholic beverage and beer where the portion of costs is relatively small. Technological process is simple and tax collections are secured. We are speaking of developing excisable products. The northern part of the island and northern part of the mainland can be used as consumption market. Additional marketing research is necessary to determine scale of production.

Investigations carried out by the author and based on materials provided by constituting entities in Siberian region allow to maintain that only those branches of industry and enterprises operate in the most stable manner (increasing not only the volume of gross output but net earnings as well irrespective of economic recession) that are oriented on satisfying credible day-to-day demand of the population or manufacturing goods to be exported. In Makarov and Tomari regions both woodworking and fishery businesses are available. Both kinds of enterprises have their own local source of raw material. Second, these enterprises are already involved in export operations. However, to improve the tax base at the expense of these businesses certain preconditions should be initially satisfied. First, the quotas to catch fish and seafood should be increased. Second, the companies require an assistance to open representative offices in big cities of Siberia to sell sea food and fish, in Pacific Asia to sell timber, because only the integral "procurement of raw material - processing - transportation - sales" chain can ensure the maximum revenue and hence tax collection.

It should be stressed that the biggest part of taxes is collected from revenue and VAT. Its share is higher not in the commodity producing industry (production of such crude oil and coal, timber cutting and production of agriculture products) but rather in processing industry. The higher level of processing, the higher level of value added, the higher amount of taxes collected from a unit output. That is why it is more important not only to increase the production of fish in these regions or timber cutting but to organise their processing gradually improving processing degree.

Demand of population is the most reliable and stable for essential consumer goods. Since closing the paper plant the oblast lost its own base to produce sanitary products demand for which in Sakhalin and Russia is being saturated from outside (only St. Petersburg plant produces high quality sanitary products from cellulose). Under current conditions of reduction of imported goods and cutting production costs in dollar denomination, in our opinion the following issue should be reviewed: whether it is practical to restart deep wood processing industry in these regions accounting for locally available raw material sources and human resources, since the major wealth of Sakhalin is not wood or oil but people who keep on migrating from Sakhalin. Evidently, the restart of cellulose production should be based on new technologies, on equipment leased implementing the Production Sharing Law and attracting capital from Pacific Asia.

Below we listed some suggestions on how to reduce production costs in Makarov and Tomari regions. The serious factor of increasing costs in these regions deal with transportation and electric power expenses. One of the options to reduce power expenses can deal with installing wind power generators close to Makarov as well as small-scale

power plants developed in Russia. Such projects and prototypes are available in Novosibirsk, in Siberian Branch of Russian Academy of Science.

The approach to the transportation problem may vary. In Makarov construction of pier has begun to eliminate this problem and oblast may provide assistance (financial, technical, organisational) to speed up its completion.

To solve the problem of transportation of goods from Tomari region to the city markets throughout the oblast a small piece of automobile road Chekhov - Tomari should be built.

In our opinion the major problem of these regions is that people do not believe in recovery of the region against the background of economic recession and closing business. Improvement of people confidence is the most important factor of economic revival. Investments into domestic production is greatly dependent on trust because individuals have significant savings in all these regions (according to research based on Omsk oblast and Altay Krai, less than 45% of the annual income is used by population to meet consumer needs and make obligatory payments. This figure exceeds the aggregate investments into the region), and in Sakhalin this resource is even bigger because the nominal and real income of population here is higher. But access to this resource will be available only when the people will start trusting Russian authorities as a whole and local ones in particular.

Findings of model calculations

Calculations were made according to 2 scenarios (some findings are attached as diagrams and charts). The first scenario is the "optimistic" one, and it is based on assumption that the major projects of the regional administration will be implemented through 2003. External conditions to develop the regions will be relatively favourable. General economic and social situation in the country and oblast over 1992 - 2000 will become stable, starting with 2001 the recovery of economy will become noticeable, the inflation will start to reduce, credits will become more available, situation at the internal and external markets for goods manufactured in above regions will improve and so on. This option differs from the "pessimistic" scenario by more dynamic characteristics. For example, the overall gross production in Makarov region will increase in 2003 by 45% compared to 1998, the amount of investments will grow by some 20%, real income of population will be higher by a factor of 1.5, the number of employable people and not employed in economy will decrease by 3 times (true, the latter is mainly conditional upon reduction in the number because of migration). It is notable that income of Makarov budget in 2003 at the expense of local sources according to the first scenario will be 17.3% higher than in the second, budget deficit will reduce by 18%, demand for transfers will also go down (by 22%). *The fact that the volume of savings of population is approaching the figure of budget deficit is quite interesting. This brings to the idea that this source should be involved in financing regional projects.* This can be done in different ways: by means of municipal loans, issuing securities, etc. However, as it was

mentioned before, it is possible to attract available funds only when people regain trust in municipal authorities and economic bodies

The results of calculations regarding Tomari region are approximately the same. The only difference is that this region falls behind Makarov region on majority of parameters. This is perhaps due to the fact that the project outline is of too general character that does not allow to assess them appropriately.

The preliminary conclusion drawn from analyses of options is as follows. First, projects worked out and being implemented in the region cannot sort out the problem of intensifying social and economic development and financial independence to the full extent. Second, according to pessimistic scenario the negative impact of external conditions and refusal to implement projects may lead to declining social and economic situation making it irreversible. As our research of municipal companies of different size shows the less municipality is, the more its economy is vulnerable to external impact, the less its development stability thereby requiring larger assistance from outside.

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SAKHALIN REGION BUDGET TRANSPARENCY

POSITION, PROBLEMS AND RECOMMENDATIONS

Boris Rudnik

1 Availability of the information about regional budget

Information about regional budget is provided by

- a) publications of laws about regional budget in mass media,
- b) hearing of a project of regional budget in Regional Duma with participation of public organizations before the first reading of this project

Besides, all the people who wish and have such an opportunity can study the texts of these laws in a computer information base of the law system "Consultant Plus" However, today we cannot make the conclusion that regional budget information is widely obtainable First of all it concerns the period of preparing a project of regional budget, when the determination of budget policy, particular decisions and indices take place

Recommendation – we deem it necessary to provide a budget project to the regional population every year via mass media and simultaneously to submit it to Regional Duma

2 Budget information clearness

The most important feature of budget Transparency is its clearness for people The budget -1999 materials submitted to Regional Duma include

- 1) budget data with a number of appendices,
- 2) explanatory note

Explanatory note is the most important thing to provide budget transparency As for the budget for 1999, the explanatory note includes general characteristics of its expenses and profitable parts

2.1 General Part

It includes fundamental principles of law acts, which are in the basis of budget project formation for 1999 This information is really important But it is more important to characterize supposed conditions, peculiarities of economic and social development of the region and main priorities and goals of budget policy for the following fiscal year There is no such a characteristic in general part of the explanatory note Without it the budget loses integrity, it is difficult to understand it as the whole document, the instrument of purposeful state policy At the same time it is necessary to note that on the

2nd of October, 1998 the Governor of Sakhalin region signed decree #382 "About confirmation of the conception of budget policy and the methods of formation regional budget for 1999" This document contains description of the most important purposes of the administrative work in the sphere of budget police in 1999 and the ways of their realization. But in this document there are rather long-term tasks of improving methods and forms of budget policy than basic directions for the particular fiscal year.

Recommendation – we deem it necessary to add, beginning from 2000, general part of the explanatory note to the project of regional budget (to rename this part properly) with the statutes giving concentrated expression of the main idea of budget policy together with the most important social economic factors of regional development during next year. It is important to stress that exactly such information is the most interesting for various sections of the population and it could be the main subject for public submitting budget project.

In connection with this proposal it is necessary to pay attention to the next point. On the 29th of December 1998 in Regional Duma was submitted the draft law "About budget structure and budget process in Sakhalin region". Article 19 of this draft law includes documents and materials that should be submitted to Regional Duma simultaneously with the draft law about regional budget for the following fiscal year. Besides, the article includes Prognosis of social economic development of the region for the next fiscal year, Main directions of budget and tax policy of the region for the next fiscal year. Those documents could be the basis for preparing proper section of the explanatory note.

2.2 Budget revenue

This part of the explanatory note contains descriptions of those data which were used when revenue volumes and resources were determined. There is no characteristic of regional policy in the field of budget revenue. In particular, problems of tax benefits are not mentioned, though they are extremely important both in social and economic life. At the same time tax benefits were rather actively provided and are provided in Sakhalin region now. They will take a considerable part in future too. So in the draft law of Sakhalin region "About regional state investment policy" (was adopted by Regional Duma in the first reading on the 3^d of January 1998) tax benefits are determined as one of the main instrument to stimulate investors. As for non-tax incomes, only the volumes of receipts are written in the explanatory note to the project of regional budget.

Recommendation - we deem it necessary to include the characteristic of regional policy in the field of budget revenue for the next fiscal year into the explanatory note and the materials enclosed to the project of regional budget. So, as for tax and non-tax benefits, we deem it necessary to enclose the materials containing principles and criteria of providing benefits, estimating budget loss and effectiveness of benefits, proposals on changing the way of providing, structure and volume of benefits. As for greater transparency of budget policy we consider the first mentioned point to be especially important. Its development can be difficult, that is why this problem needs long-term

technical assistance. The possible result of such assistance is recommendations with the block of project of necessary regional normative law acts

2.3 Budget expenditures

The formation of budget expense part is always followed by the longest arguments, it interests the public most of all. One of the most important problems in this field is distributing funds between budget of operating expenditures and budget of development. It becomes especially actual in the conditions of extreme scantiness of financial resources. Perspective is often made a sacrifice in favor of today's needs and not only during budget formation but also during its execution. The possible way out is separating funds of budget of development, first of all by determining self-revenue resources for it. This problem has already been solved in Sakhalin region. Out-of-budget fund was formed in accordance with regional law dated February 2, 1996 # 20 "About the procedure of forming and using out-of-budget fund of Sakhalin region". Its purpose is accumulating funds for financing of mainly investment programs of social, economic and cultural development of the region. The sources of forming funds are fixed

The most considerable of them is the receipts from foreign companies developing Sakhalin shelf. The fund has rather considerable receipts. So the volume of receipts in this Fund was about 600 million rubles in 1998 (we mean today's exchange rate). It is almost 50% from the size of revenue part (including transfers) of the project of regional budget for 1999. It is necessary to note that separation of the assignments of regional budget (financing of operating expenditures) and the Fund (investments) is not strict. Expenditures for development are also specified in the regional budget, but financing of operating expenditures are also specified in the Fund. Such separation of functions hardly can be considered as a shortcoming. On the contrary it rises the flexibility of system of regional state finance, creates conditions for manipulating funds

There is another rather serious problem. The division of regional finance into two relatively independent and equal parts and assumption of cross financing of investments and operating expenditures is a serious obstacle for the formation of integral budget policy, first of all in the fields of regional economic complex (education, medicine, etc.). The more important thing is realization of such policy not only by the people who are interested in it but also the deputies of Regional Duma

The law of Sakhalin region "About the procedure of forming and using out-of-budget fund of Sakhalin region" says that it is necessary simultaneously to submit projects of cost-benefit calculation of the Fund and the project of regional budget to Regional Duma because today there is no connection between these projects (explanatory notes and other substantial materials are not connected)

Recommendations

- 1 Some articles of expenditures, both capital and operating, must be only in regional budget (for example, expenditures of the section "State administration and local government"),

- 2 Preparation and submitting on "non-separated" sections substantial materials both for projects of regional budget and calculation of the Fund Example – "Budget policy in social cultural sphere"

Other ways of solving this problem are also possible. But their studying demands rather long time and could be the subject of long-term technical assistance. It is necessary to note that these problems are different from those ones which are solved conformably to the Budget of development of federal budget because of differences in the ways of using funds of the mentioned Budget and Fund, according to the law. Now about Transparency, clearness of expenses on different sections. Here there is a common problem typical for all the levels of budget system of the Russian Federation. In connection with that it is possible to limit ourselves with the words of the President of the Russian Federation from his message to the Russian Government "About budget policy for 2000"

"For the society it is important to know not only for what and in what amounts state money is spent, but why certain assignments have been chosen" The problem demanding special studying is regional budget policy. Now it is not in integral view in the budget project of Sakhalin region and its materials. The problems of determining revenue sources of local budgets and financial assistance to them from the budgets of other levels are considered separately without necessary connection.

Recommendation to add the section "Regional budget policy of Sakhalin region" to the explanatory note of the project of regional budget. At the same time the problems of estimating revenue and expenditures parts of local budgets, as well as determination of proper indices of regional budget and development of the projects of necessary normative law acts of Sakhalin region could be the subject of long-term technical assistance.

SAKHALIN OBLAST DUMA

No 850 of 23 04 99

Mr Bharat Bhargava
Project Director
Booz-Allen & Hamilton
(through Albert Sharp)

Dear Mr Bhargava!

The Sakhalin Oblast Duma is hereby expressing its deep gratitude for cooperation and organization for the visit of a group of experts to Sakhalin. The recommendations received in the course of our joint work during their stay in the Oblast Duma are of a great value to us.

We hereby propose the following items to be included in the long-term technical assistance program:

- 1 Introduction of the relevantly adjusted computer model "Municipal budget analysis and planning" to be used in the budget process in Yuzhno-Sakhalinsk with the further adjustment of this model for the use at the oblast level
- 2 Long-term Sakhalin oblast budget projections based on the donor enterprises strategic development plans as sources to increase the oblast budget revenue
- 3 Definition of the principles and criteria for the development of the regional social norms and standards in cash and in kind
- 4 Recommendations on the principles and the criteria for providing tax and non-tax relieves

Sincerely,

L F Shubina
Acting Chair of the Oblast Duma

SAKHALIN OBLAST DUMA

No 481 of 09 03 99

Mr Bharat Bhargava
Project Director
"Public Finance and Investment"
Regional Investment Initiative Program
Booz Allen & Hamilton

Dear Mr Bhargava!

The Sakhalin Oblast Duma is hereby extending their profound gratitude for assistance and organization of the regional conference "Public finance and budget" and training provided to the deputies and the staff of the Oblast Duma

We are fully supportive of the topics extended to you by the Sakhalin Oblast Administration to be included in the short-term and long-term technical assistance programs. In addition to the above topics we hereby propose the following

- 1 Development of the regional social norms and standards in cash and in kind indicators
- 2 Sakhalin Oblast budget and off-budget fund execution analysis for 1998-99
- 3 Analysis of the Sakhalin Oblast draft budget and an off-budget fund for the year 2000 with the account of recommendations made while the short-term technical assistance
- 4 Responsibility for the violations of the budget laws in the Russian Federation and abroad (Comparative analysis and recommendations on enforcement of responsibility)

Sincerely,

B N Tretyak
Chairman of the Oblast Duma

SAKHALIN OBLAST ADMINISTRATION

03 03 99 No 1-688

Mr Bharat Bhargava
Project Director
“Public Finance and Investment”
Regional Investment Initiative Program
Booz Allen & Hamilton

Dear Mr Bhargava!

The Administration of the Sakhalin oblast is hereby extending their profound gratitude for continuing assistance, organization of the regional conference “Public finance and budget” and training the staff of the Administration and the Sakhalin Oblast Duma

Please, review the following cooperation opportunities within the long-term technical assistance framework

- 1 Development of recommendations for the RF Government and the State Duma on arranging for the tax and finance experiment to optimize reciprocal cash-flow within the inter-government fiscal relations at the territory of Sakhalin oblast
- 2 Development of systems and mechanisms of the use of the region’s resources and entities to implement these systems and mechanisms for the purpose of providing budget and finance self-sufficiency for the region
- 3 Mapping of the Sakhalin oblast production forces, the relevant mapping of employment options and the program and optimization of re-settlement, long-term budget planning for the purpose of these programs implementation
- 4 Development of structural economic policy, stimulating the economic sectors of the oblast, their interaction and integration for the purposes of the long-term social and economic growth
- 5 Development of recommendations on the legislative basis (with the analysis of the already adopted laws), infrastructure and organizational measures for attracting investment to the region, creating real guarantees for investors, mobilization of the unused tangible and non-tangible assets available at the territory of the oblast
- 6 Development of the power-saving program for the Sakhalin oblast
- 7 Long-term budget projections of the Sakhalin oblast based on the donor enterprises strategic development planning
- 8 Comparative analysis of the budget system and economic policy of the Sakhalin oblast and the State of Alaska
- 9 Development of the methodology for the municipalities budget planning and analysis in the Sakhalin oblast with the account of specific municipalities perspective (lack of perspective)

USAID/Moscow Regional Public Finance Investment Project
Final Report

10 Development of criteria for the definition of investment and social priorities in the structure of capital budget and implementation of various state-supported programs

Dear Mr Bhargava! I am aware that the submitted list is extensive enough, yet it should be viewed as no more than a subject for discussion of possible cooperation opportunities within the long-term technical assistance framework

Sincerely,

I P Farkhutdinov,
Governor
Sakhalin Oblast

Sakhalin Oblast Administration

DEPARTMENT OF FINANCE

21 04 19, No 02-03

Mr Bharat Bhargava
Project Director
“Public Finance and Investment”
Regional Investment Initiative Program
Booz Allen & Hamilton

Dear Mr Bhargava!

We hereby request that you consider the perspective for cooperation within a long-term technical assistance program on the issue of validation, with regards to the perspective amending the federal legislation, in part of the inter-government relations with the aim of reducing the reciprocal cash-flow

N M Novikova
Director of the Department

“The City of Yuzhno-Sakhalinsk” Municipality

16 04 99No 283-367-012

Mr Bharat Bhargava
Project Director
Booz Allen & Hamilton

Dear Mr Bhargava!

The City Assembly and the Administration of the city of Yuzhno-Sakhalinsk is hereby extending their profound gratitude for assistance and organization of the regional conference “Public finance and budget” to facilitate our mutually beneficial cooperation

Training provided to the city administration officials allowed for a better understanding of certain aspects of the two levels of government, development of the criteria for identification of the regional priorities of the spending part of various budget levels, the need for a long-term city budget projections with the account of strategic perspective of major budget-forming enterprises

We are fully supportive of the topics extended to you by the Yuzhno-Sakhalinsk Administration to be included in the long term technical assistance program In addition to the above topics we hereby propose the following

- 1 Analysis of the “city of Yuzhno-Sakhalinsk” municipality budget execution and the off-budget fund for 1998-1999
- 2 Analysis of the draft municipal budget and the draft off-budget fund for the year 2000 with the account of recommendations made in the course of the short-term technical assistance
- 3 Inter-government relations of the federation, the federation subject and the municipality in the Russian Federation and abroad (Comparative analysis and recommendations to overcome the inter-government relations crisis)

Sincerely,

S N Belova
Chairman of the Yuzhno-Sakhalinsk City Assembly

F I Sidorenko
Mayor, Yuzhno-Sakhalinsk

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**DECREE
OF THE SAKHALIN OBLAST GOVERNOR**

*Approved by the decree of the oblast governor
02 10 98, No 382*

**CONCEPT
of budget policy and the oblast budget formation methodology for 1999**

1 The 1999 budget policy concept

1 The major objectives of the Sakhalin oblast administration in the budget policy sphere in 1999

- stabilization of economy and the finance and budget sphere, maintaining and development of the existing economic potential of the Sakhalin oblast,
- providing social protection to the citizens mostly in the need of such protection

2 Ways of implementation of the set up tasks

Implementation of the tax reform based on the adopted Tax Code providing for the simplification of the tax legislation, decrease of the tax burden on the producers, stimulating the production growth and the budget tax revenue

Increase of the budgets revenue base due to the increase of the tax collections, improvement of the oblast administration interaction with all fiscal bodies

Securing targeted social support

Improvement of the inter-government relations mechanism in the Sakhalin oblast on the basis of combining of the principles of centralization and de-centralization between the budget process participants

- a) a common approach to municipalities' budgets forecasting stimulating the local authorities to increase own revenue,
- b) fair distribution of federal funds between the municipalities in the need for financial support on the basis of unified for the oblast approved generalized indicators

Improvement of the budget spending structure with the account of the actual availability of the resources in the budget, decrease of the budget receivers number, restricting

subsidies to the housing and utilities sector based on the reform and revision of the existing benefits system

Implementation of measures for a more efficient utilization of the budget allocations for the social/cultural and science and research sector, and establishing tough control over the targeted use of the oblast budget funds directed to organizations and institutions

Stabilization of the tariff level in the power generation sector

Consolidation of funds allocated from the budget for capital investment for the completion of construction scheduled for the start-up in 1999, as well as the nearly finished facilities (above 70% readiness) and stable work rates

II The oblast budget formation methodology and procedure for the distribution of the municipalities financial support fund for 1999

The municipalities financial support fund shall be set up within the oblast budget

The source for the fund formation shall be the allocations from the transfer received from the federal fund for the financial support of the Russian Federation subjects (generated from allocations from the total amount of the tax revenue received in the federal budget with the exception of the revenue from the import customs duties) Specific portion of the expected transfer to be allocated shall be approved by the oblast Duma at the approval of the 1999 oblast budget

Revenue

Estimates of the municipalities budget revenue shall be made based on the 1997 budget revenue execution, adjusted for the accrual of the arrears by specific types of taxes at the average of 20% with the account of the actual revenue dynamics for the 8 months of 1998, the 1998-1999 inflation, as well as the amounts of tax exemptions granted to the local self-government bodies

The 1997 budget revenue execution shall be converted into the 1999 conditions based on the changes connected with the change of the tax laws

- 1 The budget revenue base shall be less the amounts of
 - transport tax,
 - charge for the needs of educational institutions,
 - a portion of local taxes and charges established by article 21 of the law "On the basics of the tax system in the Russian Federation", to be cancelled in connection with the introduction of the sales tax including tax on the construction of the production purpose facilities in the resort areas, the right of trade charge, tax on re-sale of motor vehicles, computer hardware and PCs,

charge on pet dog owners,
license fees for the right to trade liquors,
license fees for the right of arranging local auctions or lotteries,
charge for the issuance of the apartment certificate,
parking charge,
charge for the local heraldry use,
charge for participation in the horse races,
charge for para-mutual winnings,
charge on persons participating in horse-race betting,
charge on stock-exchange deals with the exception of transactions stipulated
by the legal acts on taxation of the transactions with securities,
charge for the right of cinema and video shooting,
charge for the cleaning of the populated areas,
charge for the opening of a gambling business

2 Revenue base of the budget shall increase by the amounts of

- retail sales tax,
- water use tax,
- entering into the oblast budget of license fees charged by the Sakhtransinspectorate and Gosseltexnadzor (Agricultural technical supervision authority)

The normatives for the federal taxes allocations into the oblast budget shall be estimated as follows

- of the value added tax – 25% of the tax amount to be entered into the budget system of the oblast,
- of the corporate profit tax at the rate of 22%,
- of the individual income tax – 100%,
- of excises on alcohol, vodka and liquors produced in the Russian Federation – 50%,
- of excises on other Russian manufactured goods subject to excise – 100%,
- of the tax on hard currency purchases – 40%,
- of the water use tax – 60%

Payments for the use of natural resources shall be included in the revenue estimates according to the normatives established by the laws of the Russian Federation. Also estimated as revenue shall be allocations for the replenishment of the mineral resources base with regards to the common minerals for financing the geological prospecting and exploration

Spending

The oblast budget spending amount shall be distributed between the major sections based on the proportion that has formed during the two previous years with the

account of the total revenue increase Within the section spending shall be divided between the municipalities based on the estimates made with the generalized indicators agreed with the cities and districts and the reporting data of the Sakhalin oblast state statistics committee

[TABLES – deleted in English version]

At the financial support fund allocations municipalities shall be grouped on the account of not only their geographical position but also the factors that impact the budget revenue and spending most

All municipalities shall be divided into 3 groups

The first two shall include municipalities located at the Kuril islands, the Okhinsky and the Nogliksky districts with the account of the following factors

the Far Northern status of the districts and this connection higher as compared to the other municipalities demand for the budget spending due to the legally established “northern” payroll benefits,
longer heating season due to the climatic conditions

The first group shall enclose municipalities located at the Kuril islands because of the total lack of own energy generation within this area, remoteness from the central areas of the oblast with non-existence of the railway or automobile connections and the lack of centralized power supplies

The second group shall include the municipalities, the Okhinsky and the Nogliksky districts with higher, as compared to other municipalities, budget revenue (mainly from natural resources) and higher budget spending demands due to the low population density

The third group shall include all the municipalities not included into the first two groups

On each spending sections the resources shall be distributed pro rata to the generalized indicators and coefficients for the first group of municipalities – 1,8, for the second group – 1,2 and for the third – 1

Included in the scope of estimates on municipalities the following spending shall be included

Those connected with the execution by the local self-government bodies of the government authority – for the implementation of Federal laws within the resources limits allocated for these purposes in the federal budget,

Allocations in compensation of spending effected under the laws of the Sakhalin oblast,

A portion of the delayed receivables as of 1 01 98 having occurred as the result of incomplete execution of the revenue part of the municipalities' budget adjusted for the amount of the arrears to the local budget

DECREE
OF THE SAKHALIN OBLAST GOVERNOR

29 01 99 No 33

On amending the decree of the oblast governor of 02 10 98, No 382

In connection with adjustment of the federal budget indicators and the change in specific normatives of the oblast budget revenue formation I DECREE

To amend the Budget policy concept and the Methodology for the 1999 oblast budget formation approved by the decree of the oblast governor of 02 10 98, No 382 "On approving the Budget policy concept and the Methodology for the 1999 oblast budget formation" by changing the language of the "Revenue" section as attached

I P Malakhov
First vice governor

Amendments

To the Budget policy concept and the Methodology of the 1999 oblast budget formation

Revenue

Estimates of the municipalities budget revenue shall be made based on the 1997 budget revenue execution with the account of revenue as of the last reporting date adjusted for the accrual of the arrears by specific types of taxes at the average of 20%, as well as the amounts of tax exemptions granted to the local self-government bodies

The 1997 budget revenue execution with the account of revenue as of the last reporting date shall be converted into the 1999 conditions based on the changes connected with the change of the tax laws

- 1 The budget revenue base shall be less the amounts of
 - transport tax,
 - charge for the needs of educational institutions, a portion of local taxes and charges established by article 21 of the law "On the basics of the tax system in the Russian Federation", to be cancelled in connection with the introduction of the sales tax

- 2 Revenue base of the budget shall increase by the amounts of
 - retail sales tax,
 - water use tax,
 - entering into the oblast budget of license fees charged by the Sakhtransinspectorate and Gosseltkhnadzor (Agricultural technical supervision authority)

The normatives for the federal taxes allocations into the oblast budget shall be estimated as follows

- of the value added tax – 25% of the tax amount to be entered into the budget system of the oblast in the first quarter of 1999 and 15% of the tax amount to be entered in the oblast budget system from April 1, 1999,
- of the corporate profit tax at the rate of 19%,
- of the individual income tax – in the amount determined by the federal legislation,

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- of excises on alcohol, vodka and liquors produced in the Russian Federation – 50%,
- of excises on other Russian manufactured goods subject to excise – 100%,
- of the tax on hard currency purchases – 40%,
- of the water use tax – 60%

Payments for the use of natural resources shall be included in the revenue estimates according to the normatives established by the laws of the Russian Federation. Also estimated as revenue shall be allocations for the replenishment of the mineral resources base with regards to the common minerals for financing the geological prospecting and exploration.

FUTURE TECHNICAL ASSISTANCE

RECOMMENDATIONS FOR SAMARA

The initial list of recommendations for future technical assistance was developed at the conference held in Samara in February, 1999. In April, 1999, three additional requests were added. The Department of Economy requested a project that would encourage investment in residential construction and a project that would lead to investment of private capital in the provision of communal services such as housing maintenance and utility operations. The Department of Finance requested a project to establish a treasury function in the Oblast.

The short term technical assistance team developed drafts of the project descriptions and other information included in the attached forms based on meetings with Oblast officials. These were then reviewed with officials and revised to reflect their intentions for potential aid. The officials who reviewed the documents included those in the Investment Resource, Capital Construction and Investment Projects units of the Department of Economics as well as the first deputy director of that department. The Vice Governor, who is head of the Department of Economics, Mr. Gabibula Khasaev, also reviewed the list, met with the team of BAH consultants and confirmed the priorities. The deputy head of the consolidated budget division was appointed by the vice governor responsible for finance to co-ordinate the Finance Department's review of the projects.

Mr. Khasaev aptly summed up their objective in seeking further technical assistance when he said that they wanted "to put their intellectual potential into practice." They would like technical assistance to focus on practical approaches to improving the socio-economic conditions in the Oblast. Samara is emerging as a leader in implementing innovative approaches to economic planning but is constrained by a lack of resources and a lack of exposure to approaches employed in other countries.

The first priority of the Department of Economy is to develop an information and analysis system that will provide access to the basic data needed for economic and financial planning, and include forecasting and analytical tools. The objective is to have this data shared between a number of departments within the Oblast, including local and regional administrations. In addition to providing basic data needed for planning, it will help ensure consistency in planning between departments within the Oblast administration as well as between the Oblast and other administrations. The analytical tools will build on the work that the department is doing now. The first stage of this project will be critical as the work must be focused if it is to produce results within a reasonable budget.

Development of the information and analysis system is the second priority of the Finance Department. Their first priority is the development of a treasury system that will enable them to exercise better control over the Oblast funds, increase investment income and reduce borrowing costs.

The following three projects were ranked second, third and fourth by the Department of Economy but they indicated a much stronger preference for them than the remaining projects. In

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other words, there is a gap between these and the projects ranked fifth and lower. There is a strong tie between these projects and they logically build on each other.

- Capital Budget and Investment Specialist Training
- Local Economic Development and Employment Initiative
- Develop Economic and Financial Strategic Plan

The concept of treating these projects as a group and giving them a high priority reflects the priority given to economic development by the Oblast and their recognition that they need some assistance in developing a program to attract investors and in improving their analytical skills in evaluating potential projects. It would be more effective to consider all of these tasks as one project rather than as four separate projects. If funding is not available to completely do all of them, it would be better to scale each one back as each would be more effective if at least some of the others were carried out. In particular, the Oblast's desire to put data collection and analysis ahead of other training could lead to considerable wasted effort as there must be a sharp focus to this effort. Because of their lack of exposure to economic development programs in other countries, the Oblast officials may not fully appreciate how much they can learn from the proposed programs. In addition, as with most programs, more benefit will come from the early stages than from the later stages so it would be better to do some of each of these four than to do one or two and ignore the others.

The differences in priorities between the Economics and Finance departments reflects the differences in their responsibilities. It is interesting, however, that both give a high priority to develop of the information and analysis system and to the training of specialists. The type of training that they are interested in is detailed, practical training. It would be best set up as a series of short training sessions as they will appeal to different groups of specialists. Even though the Department of Economy gives a low priority to the treasury system, it should receive serious consideration as a relatively small expenditure could produce substantial control and financial returns. The Department of Economy said that their rating of these finance specific projects did not reflect their opinion about the importance of the projects to the Oblast but, rather, their own perspective. However, it should not rank ahead of supporting efforts to stimulate economic development as these have the potential for a much higher return.

It is important to note that many of the projects depend on the purchase of computers and related hardware. The Oblast has earnestly requested that the technical assistance include relatively small amounts of money for the purchase of equipment urgently needed to implement the program. With the current tight budget situation, it is difficult to get money allocated for these purchases. This is in part due to the fact that many people are not aware of the full analytical benefits that computerization can provide. Once the initial systems are in place, however, it should be possible to demonstrate their value and secure support for additional necessary purchases.

The program for Private Investment in Communal Service Delivery is especially promising as the Oblast officials have already reached a tentative agreement with one of the local governments with a population of about 50,000 to try a concession management approach to running their water company.

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There is overlap between some projects to allow for selection of smaller key components of larger projects or because more than one project requires the same activities. In the latter case, selection of projects that contain the same elements will result in savings. For instance, the development of output and outcome measures is a part of several projects. Budget analysis is also included in several projects.

Given below is the priority ranking as agreed upon with the key officials for short term and long term future technical assistance and training in Samara Oblast. Please see attached schedules for specific descriptions of the projects.

Projects	Economy Dept Priority	Finance Dept Priority	Recommended Priority
Local Economic Development and Employment Initiative	3	14	1
Capital Budget and Investment Specialist Training	2	3	2
Develop Economic and Financial Strategic Plan	4	11	3
Develop Information and Analysis System	1	2	4
Establish a Treasury System	17	1	5
Develop Program for Private Investment in Communal Service Delivery	5	15	6
Improve Asset Property Management	13	8	7
Develop Property Tax Base Data System	12	9	8
Develop Budget Indicators and Budget Monitoring Techniques	9	7	9
Assist in Multi-year Financial Planning	15	17	10
Formalize Intra-regional Budgetary Relations	6	5	11
Revenue Analysis to Improve Collections, Fairness	8	6	12
Improve Efficiency Through Better Expenditure Analysis	7	4	13
Increase Accountability, Control, Transparency in the Budget Process	10	13	14
Develop the Budget as a Policy Instrument	11	12	15
Encourage Investment in Residential Construction	14	16	16
Evaluate the Present and Potential Impact of the Public Sector in Samara	16	10	17

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Attracting Private Investment to the Samara Oblast

Location Samara

Priority Ranking

Combination Project

Project Description/Scope

In his letter to USAID, Mr G R Khasaev, Deputy Governor, Director of the Department on Economics of Samara Oblast identified the following five projects as priorities

- 1 Creation of management information systems
- 2 Professional training in the sphere of capital improvement
- 3 Local economic development and creation of new jobs
- 4 Establishing strategic priorities
- 5 Experience in delegated management

The ultimate objective of these individual projects is to increase the amount of private investment in the Oblast. An efficient way to organize these projects would be to focus on the development of a strategic economic and financial plan as the final output. The other four components would contribute to this effort and produce benefits in themselves.

The project would develop recommendations for improving the socio-economic situation in the Oblast by improving regional financial policy to promote economic development. It would identify the most suitable types of economic development and strategies for attracting it. In addition, it would develop

- ◆ recommendations for changes in administrative practices to promote economic development
- ◆ measures of socio-economic costs and benefits of economic development
- ◆ ways of analyzing and estimating these costs and benefits
- ◆

It would also assess local population abilities and training needs and the existing local industries' capacity for development. It would provide training and recommendations based on these assessments.

Desired Result/Impact

- 1 A management information system containing key economic and financial data available to all governmental organizations working on the socio-economic development of the Oblast. Selected data would also be available to the public.
- 2 A set of computerized analytical tools that can be used to analyze the trends in the Oblast, plan economic development and analyze the costs and benefits of individual projects.
- 3 A staff trained in the use of these data and tools.
- 4 A staff knowledgeable in the techniques of attracting private investment.
- 5 Top level management, legislators and the public aware of the general principles of socio-economic planning and attracting investment.
- 6 New jobs in the Oblast at living wages created in industries where there is a net benefit to the Oblast taking into account all additional costs.
- 7 An investor friendly environment.
- 8 A realistic strategic plan for economic development, supported by key participants with a process for reporting on results and updating the plan.
- 9 A successful pilot project in privatizing the operations of a public utility to be used as an example for privatization of all, or part, of other public utilities or communal service management.
- 10 A successful pilot project in the privatization of a governmental operation, such as the crematorium, that is better handled by the private sector.

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Project Components	Duration	Prof LOE	
		Expat	Russian
<p>A <u>Project Co-ordination</u></p> <p>A full time team leader in Samara responsible for organizing the work of the short term consultants and ensuring that the output of this work is of high quality and usable by the Oblast. A local Russian counterpart would be trained to continue the effort after the project ends</p>	9 months	10 8	10 8
<p>B <u>Preparation</u></p> <p>i) Collect information on planning in the Oblast, including identification of key government and non-government groups</p> <p>ii) Identify current practices and policies for attracting investors</p> <p>iii) Identify sources of data and begin preliminary collection</p> <p>iv) Carry out a survey of existing systems and software being used for functions related to socio - economic development</p> <p>v) Identify the key participants. Assess their current level of knowledge</p>	2	7 8	23 4
<p>C <u>Organize Task Forces</u></p> <p>Organize task forces on key issues. Prepare introductory material explaining the basics of strategic planning and the strategic planning process. Provide training on strategic planning to people who make the strategic decisions, to those who prepare the staff work and to citizens who will participate in the process</p>	2	2 4	7 2
<p>D <u>Provide Training to all Participants in the Process</u></p> <p>i) Plan and organize a training program The training program should be organized in small, complete segments so that the courses can be targeted to the people most likely to benefit, including top management, legislators and the public. It is likely that some participants will be involved in several of the segments. It should range from the introduction of general principles to the provision of very specialized analytical techniques</p>	1	1 2	3 6
<p>ii) Carry out training Conduct training at several levels. Training should be very specialized. It should include study tours as well as visits by experts to Samara Oblast</p>	4	9 6	7 2

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Project Components	Duration	Prof LOE	
		Expat	Russian
E <u>Develop a Data Management and Analysis System</u>			
i) <u>Develop data management and analysis alternatives</u> Develop alternative strategies for development of data management and analysis systems including costs of computers and related hardware and identification of benefits from the alternatives Identify possible sources of donor contributions	2	7 2	10 8
ii) <u>Collect initial data and develop systems for keeping data current</u> Identify data requirements Develop forms and strategies for data collection and keeping data current Carry out data collection	2	7 2	19 8
iii) <u>Develop data management and analysis systems</u> Based on the alternative selected by the Oblast develop systems, including an in depth survey of user requirements , software, manuals and training	5	36 0	144 0
F <u>Prepare Strategic Plan for Attracting Investment</u>			
i) <u>Prepare a draft plan for attracting investment</u> Prepare a draft plan and draft planning process working with task forces comprising citizens and administration officials	3	7 2	14 4
ii) <u>Review plan</u> Review the plan with the community and with key decision makers	1 5	3 6	7 2
iii) <u>Modify Plan</u> Modify the plan and planning process based on reviews and submit the final plan for adoption	2	2 4	3 6
iv) <u>Draft legislation and procedures</u> Based on agreed recommendations, draft legislation and procedures to implement plan Train staff in use	2	2 4	7 2

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Project Components	Duration	Prof LOE	
		Expat	Russian
G Carry Out a Pilot Program for Privatizing Utilities			
i) Preparation Identify possible areas for pilot projects Obtain data on staffing, costs, services provided Identify areas of successful implementation	2	2 4	4 8
ii) Provide training, recommendations Provide training on concepts, general procedures for contracting for services and managing contracts, potential possibilities for administration staff Based on early rounds of training, narrow the possibilities and prepare in-depth recommendations, including cost estimates Finalize recommendations	4	9 6	14 4
iii) Provide training to potential contractors Provide training to potential contractors, including current staff, on business organization, work order management, staff management and general procedures applicable to a small business	1	1 2	1 2
iv) Provide training in managing contracts for service delivery Train administrative staff in managing contracts, setting priorities, quality assurance	1	1 2	1 2
v) Provide draft procurement documents, draft legislation and draft procedures Provide a package containing drafts of all documentation necessary to implement the program Train staff in its use	3	7 2	10 8
Recipients of TA/Training The recipients would primarily be in the Department of Economics of the Oblast administration but it would also include legislators, top management, people from other organizations in the Oblast administration and the general public			
Methods of Delivery Foreign and Russian study tours Classroom Individual and group meetings Reports			
Known Issues and Prerequisites		Resistance of current workers	

Local Economic Development and Employment Initiative				
Location Samara		Priority Ranking 1		
Project Description/Scope Develop recommendations for improving the socio-economic situation in the Oblast by improving regional financial policy to promote economic development. In addition, develop recommendations for changes in administrative practices to promote economic development. Develop measures of socio-economic costs and benefits of economic development and ways of analyzing and estimating these costs and benefits. Identify the most suitable types of economic development and strategies for attracting it. Assess local population abilities and training needs. Assess existing local industries' capacity for development.				
Desired Result/Impact Attracting investment, improving budgetary revenues, improving socio-economic conditions of the population.				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Preparation</u> Identify current practices, sources of data and potential for development		2 months	2 4	4 8
B <u>Make recommendations</u> Work with Oblast officials, citizens and potential investors to develop recommendations for action plan		4	4 8	9 6
C <u>Draft legislation and procedures</u> Based on agreed recommendations, draft legislation and procedures to implement plan. Train staff in use		2	2 4	7 2
Recipients of TA/Training Department of Economy, Oblast Administration, Local Duma				
Methods of Delivery Study visits in Russia and abroad Classroom Individual meetings				
Known Issues and Prerequisites		Willingness of Oblast to implement administrative changes		

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Capital Budget and Investment Specialist Training				
Location Samara		Priority Ranking 2		
Project Description/Scope This project will provide for in-depth training of selected officials in the Oblast administration in investment analysis as well as capital budget preparation. Training will include methods for evaluating investment and social projects emphasizing lessons from practical experience. It will include methods of attracting and working with potential investors as well as introduction of different methods of involving the investors and methods of evaluating their credit-worthiness.				
Desired Result/Impact Improvement in the use of budget funds through the development of higher levels of professional expertise and improved decision making. Set of criteria for project selection based on budget efficiency, social impact and financial return. Determination of growth indicators for the region to be used in prioritizing and identifying capital projects. Increased understanding of budgeting and analysis techniques.				
			Prof LOE	
Project Components		Duration	Expat	Russian
A Preparation Identify the key participants. Assess their current level of knowledge and current practices. Plan and organize training program.		1 months	1 2	3 6
B Carry out training Conduct training at several levels. Training should be very specialized. It should be organized in small, complete segments so that the courses can be targeted to the people most likely to benefit. It is likely that participants will be involved in several of the segments.		4	8	8
Recipients of TA/Training Department of Economy Capital Investment Unit Investment Resources Unit Investment Projects Unit Finance Department				
Methods of Delivery This will rely heavily on class room training but will include study trips abroad. Text books, other study materials and software should be distributed to participants. Emphasis will be on practical experience.				
Known Issues and Prerequisites Participants should be sufficiently released from current duties to allow time for preparation and attendance. Participants should demonstrate willingness to adopt new approaches. Participants should have access to computers.				

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Develop Economic and Financial Strategic Plan			
Location Samara		Priority Ranking 3	
Project Description/Scope This project would introduce the concepts of financial and economic strategic planning, develop a process for strategic planning and produce the first strategic plan for setting governmental priorities as they apply to fiscal issues and reform of procedures and legislation that affect the budget and socio- economic development of the Oblast			
Desired Result/Impact A process for preparing, revising and implementing financial and economic strategic planning that has the support of the key governmental officials and the public This would include criteria and procedures for carrying out long term planning taking into account changing socio-economic conditions Production of a strategic plan with wide distribution and a mechanism for reporting on results and systematically updating it This will contribute to the mechanism to provide for sustainable economic development			
			Prof LOE
Project Components	Duration	Expat	Russian
A Preparation Collect information on planning in the Oblast, including identification of key government and non-government groups	1 months	1 2	4 8
B Organize Organize task forces on key issues Prepare introductory material explaining the basics of strategic planning and the strategic planning process Provide training to people who make the strategic decisions, to those who prepare the staff work and to citizens who will participate in the process	1 5	3 6	7 2
C Prepare draft plan Prepare a draft plan and draft planning process working with task forces comprising citizens and administration officials	3	7 2	14 4
D Review plan Review the plan with the community and with key decision makers	1 5	3 6	7 2
E Modify Plan Modify the plan and planning process based on reviews and submit the final plan for adoption	2	2 4	3 6
Recipients of TA/Training Department of Economy Finance Department			
Methods of Delivery Study tour to St Petersburg and abroad Meetings Reports Mass media presentations Internet development			
Known Issues and Prerequisites		Commitment on part of government and administration to take an active part in the process	

Develop Information and Analysis System			
Location Samara		Priority Ranking 4	
Project Description/Scope This project would provide systems design, software, training and implementation assistance for the development of automated systems in the areas of economic development and financial management			
Desired Result/Impact Providing data for economic and social analysis Improved administration of all financial and economic planning functions Improved communication between departments This will enhance decision making and control, especially with respect to urgent management and financial decisions			
		Prof LOE	
Project Components		Duration	Expat
<p>A <u>Survey existing systems and hardware</u> Carry out a complete survey of existing systems and software being used for financial management functions</p> <p>B <u>Develop alternatives</u> Develop alternative levels of systems development and alternative strategies Particular attention should be paid to costs of computers and related hardware and identification of benefits from the alternatives</p> <p>C <u>Collect initial data and develop systems for keeping data current</u> Develop forms and strategies for data collection and keeping data current Carry out data collection</p> <p>C <u>Develop systems</u> Based on alternative selected by the Oblast develop systems, including in depth survey of user requirements , software, manuals and training</p>		UNDER REVIEW	UNDER REVIEW
Recipients of TA/Training Department of Economy Finance Department			
Methods of Delivery Classroom training On the job training Visits to Russian and foreign cities			
Known Issues and Prerequisites		Ability of Oblast to finance necessary hardware	

Establish a Treasury System			
Location Samara		Priority Ranking 5	
Project Description/Scope Provide information necessary to establish a treasury system in the Oblast Provide software, training and procedures manuals			
Desired Result/Impact Improved control over funds Increases in investment earnings Better management of accounts payable			
			Prof LOE
Project Components		Duration	Expat
A	Preparation Collect data on financial operations of Oblast Identify comparable experiences in Russia and abroad	2 months	2 4 4 8
B	Training Train administration officials in principles Agree on implementation plan	2	2 4 4 8
C	System development and implementation Develop software, manuals and provide training	4	4 8 14 4
D	Draft legislation and procedures Draft any legislation and procedures necessary to implement the program	2	2 4 7 2
Recipients of TA/Training Department of Finance			
Methods of Delivery Study trips in Russia and abroad Classroom Individual and group meetings			
Known Issues and Prerequisites Need for Oblast to procure necessary hardware			

Develop Program for Private Investment in Communal Service Delivery			
Location Samara		Priority Ranking 6	
Project Description/Scope Pilot project to test concepts of contracting for management services in the areas of housing and communal services and for testing concepts of attracting private investments or loans to communal services Review Russian and foreign experience Develop legislative basis, tender documents, procedures for contract award and administration			
Desired Result/Impact Reduction of expenditures Increase in local private businesses Experience to be used in improving public services			
		Prof LOE	
Project Components	Duration	Expat	Russian
A Preparation Identify possible areas for pilot projects Obtain data on staffing, costs, services provided Identify areas of successful implementation	2 months	2 4	4 8
B Provide training, recommendations Provide training on concepts, general procedures for contracting for services and managing contracts, potential possibilities for administration staff Based on early rounds of training, narrow the possibilities and prepare in-depth recommendations, including cost estimates Finalize recommendations	4	9 6	14 4
C Provide training to potential contractors Provide training to potential contractors, including current staff, on business organization, work order management, staff management and general procedures applicable to a small business	1	1 2	1 2
D Provide training in managing contracts for service delivery Train administrative staff in managing contracts, setting priorities, quality assurance	1	1 2	1 2
E Provide draft procurement documents, draft legislation and draft procedures Provide a package containing drafts of all documentation necessary to implement the program Train staff in its use	3	7 2	10 8
Recipients of TA/Training Department of Economy Capital Investment Unit Department of Construction and Architecture			
Methods of Delivery Foreign and Russian study tours Classroom Individual and group meetings Reports			
Known Issues and Prerequisites		Resistance of current workers	

Improve Asset Property Management			
Location Samara		Priority Ranking 7	
Project Description/Scope Develop inventory of Oblast assets and system for keeping the inventory current Develop recommendations on how to improve the efficiency of property management including security, leasing, maintenance and privatization Development of recommendations on maximizing profit while meeting social goals			
Desired Result/Impact Increased revenues and more effective expenditures Improvements in accounting for property owned by Oblast			
			Prof LOE
Project Components		Duration	Expat
A <u>Preparation</u> Develop format for data gathering and train Oblast officials in its use		1 months	1 2
B <u>Analysis of data and recommendations</u> Analyze the data gathered by the Oblast and recommend system,		2	2 4
C <u>Develop and implement system</u> Based on agreement with Oblast, develop and implement the system including software, procedures and training		3	3 6
Prof 1 2			
Russian 4 8			
Prof 10 8			
Recipients of TA/Training Department of Economy Capital Investment Unit Department of Construction and Architecture			
Methods of Delivery Classroom, individual meetings, reports			
Known Issues and Prerequisites This will require significant effort on the part of the Oblast to identify and provide base data on its property Oblast will need to procure computers and related hardware			

Develop Property Tax Base Data System				
Location Samara		Priority Ranking 8		
Project Description/Scope Develop data base for property tax administration for individuals and legal entities This will include design of data bases, software, training and initial data entry for taxpayers register and cadasters It will also include procedures for keeping registers current and sharing information with interested parties				
Desired Result/Impact Improvement of property tax collections and improvement of payment discipline The development of this system will also improve the operation of the private property market				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Preparation</u> Identify organizations involved Review current procedures Define desired output Identify sources and characteristics of data		2 months	2 4	48
B <u>Prepare systems design</u> Work with users to agree on systems design		3	7 2	14 4
C <u>Design and implement systems</u> Design and implement systems including software development, manuals and training		5	12 0	60 0
Recipients of TA/Training Finance Department Department of Economy Financial Resources Unit Investment Complex Property Management Department Land Committee				
Methods of Delivery Study tours in Russia and abroad Classroom training Individual and group meetings				
Known Issues and Prerequisites		Ability of Oblast to purchase hardware		

Develop Budget Indicators and Budget Monitoring Techniques			
Location Samara		Priority Ranking 9	
Project Description/Scope Develop and introduce budget performance indicators. Indicators will include efficiency, output and outcome measures. The goal is to have measures that are Strategic, Measurable, Attainable, Reliable and Time-based. Measures will include socio-economic impacts as well as physical results. Develop a system of budget monitoring to increase the possibility of effective use of budget funds.			
Desired Result/Impact Improved budget performance efficiency and accountability for both revenue and expenditures. Improvement in the environment for investments and in citizens' understanding of the governmental functions and trust in government operations.			
		Prof LOE	
Project Components	Duration	Expat	Russian
A <u>Analyze current situation</u> Collect information on current budget activities, including objectives of activities financed	2 months	2 4	7 2
B <u>Recommend measures</u> Recommend measures that are strategic, measurable, attainable, reliable and time-based. Staff and citizen groups should be consulted in the development of the measures. Provide methods of data collection and initial calculations.	4	4 8	14 4
C <u>Provide training</u> Provide training to all levels of the administration and the government and to citizens' groups to increase understanding of the meaning and use of the monitoring indicators. Several levels of training should be provided depending on the target audience.	2	2 4	7 2
Recipients of TA/Training Primarily Finance Department but other units of the administration will have to be trained to implement the program, including developing meaningful indicators.			
Methods of Delivery Classroom, individual and group meetings, reports and manuals.			
Known Issues and Prerequisites Willingness of staff in administration to participate.			

Develop Property Tax Base Data System				
Location Samara		Priority Ranking 10		
Project Description/Scope Develop data base for property tax administration for individuals and legal entities This will include design of data bases, software, training and initial data entry for taxpayers register and cadasters It will also include procedures for keeping registers current and sharing information with interested parties				
Desired Result/Impact Improvement of property tax collections and improvement of payment discipline The development of this system will also improve the operation of the private property market				
			Prof LOE	
Project Components		Duration	Expat	Russian
A	Preparation Identify organizations involved Review current procedures Define desired output Identify sources and characteristics of data	2 month	2 4	48
B	Prepare systems design Work with users to agree on systems design	3	7 2	14 4
C	Design and implement systems Design and implement systems including software development, manuals and training	5	12 0	60 0
Recipients of TA/Training Finance Department				
Methods of Delivery Study tours in Russia and abroad Classroom training Individual and group meetings				
Known Issues and Prerequisites		Ability of Oblast to purchase hardware		

Formalize Intra-regional Budgetary Relations				
Location Samara		Priority Ranking <i>II</i>		
Project Description/Scope This project would develop a formal procedure for distributing revenue and expenditures between the Oblast and local budgets. This project would first seek broad agreement on the underlying principles and then draft legislation and procedures as required for consideration by the appropriate bodies.				
Desired Result/Impact The result would be a predictable, fair, stable system of revenue and expenditure distribution based on criterion in legislation and procedures. Local and Oblast officials would be able to base their budgets on known factors. Transfers would be based on a logical methodology.				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Preparation</u> Review existing Russian legislation and actual practices in the Oblast over the past two years. Translate key documents, including budgets, into English. Prepare description of current processes and results. Identify key participants in the process.		1 month	1 2	3 6
B <u>Describe alternatives</u> Prepare a report that presents alternatives for discussion, including estimates of financial impacts.		2	2 4	2 4
C <u>Organize and hold discussions</u> Prepare materials, organize discussions in a variety of formats – large groups, small groups, individual meetings.		2	2 4	4 8
D <u>Prepare recommendations</u> Based on discussions, prepare recommendations for changes. Discuss with responsible Oblast, local officials.		1	1 2	2 4
E <u>Draft legislation, procedures</u> Based on decisions by Oblast, local officials, draft legislation, procedures.		1	1 2	3 6
Recipients of TA/Training Finance Department Department of Economy Financial Resources Unit				
Methods of Delivery On the job training, meetings, production of reports				
Known Issues and Prerequisites Political will to reduce flexibility				

Revenue Analysis to Improve Collections, Fairness				
Location Samara		Priority Ranking 12		
Project Description/Scope Analyze the Oblast tax legislation, tax potential, tax collection practices including auditing and controls, potential sources of non-tax revenues, monitoring the results of tax collections, especially new taxes Develop procedures and methods for forecasting revenue Provide recommendations for changes in procedures for tax processing The analysis will evaluate the tax system for equity, relation to federal taxes and capability of meeting socio-economic development objectives				
Desired Result/Impact The results should be increased tax revenue, increased equity in the administration of taxes, a better understanding of forecasting methods and improved forecasts It should also identify opportunities for new sources of revenue				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Analyze current situation</u> Collect information on current practices and legislation Analyze effectiveness, impacts		3 months	7 2	10 8
B <u>Prepare recommendations for improvements</u> Recommend improvements in legislation and practices Develop recommendations in close co-operation with the administration and the government		3	7 2	7 2
C <u>Develop draft legislation and procedures</u> Prepare draft legislation and procedures based on accepted recommendations		2	4 8	9 6
Recipients of TA/Training Finance Department Department of Economy Financial Resources Unit				
Methods of Delivery Study tours within Russia and abroad Intensive meetings with officials Classroom roundtable discussions				
Known Issues and Prerequisites Ability of local officials to spend time Availability of data for analysis Ability of Oblast to finance equipment necessary to implement recommendations				

Improve Efficiency Through Better Expenditure Analysis				
Location Samara		Priority Ranking 13		
Project Description/Scope Introduce methods of analysis of expenditures to promote efficiency in the use of funds This will include both methods of analysis of current expenditures and methods for forecasting future expenditures It will also include development of measures for efficiency and output and the development of minimal social norms				
Desired Result/Impact A system of expenditure analysis and forecasting that becomes part of the regular operating procedures of all departments in the government A system of efficiency and output measures that will allow the public, administrators and the legislators to monitor performance Methods of forecasting expenditures that identify key variables A cadre of officials trained in the use and development of expenditure analysis and forecasting methods Optimization of budget expenditures that should free funds for vitally important projects in the Oblast and may result in the reduction of expenditures or increases in revenues in the future				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Analyze current situation</u> Collect information on current staffing, practices and legislation		2 months	2 4	4 8
B <u>Recommend improvements in expenditure analysis and forecasting</u> Analyze the effectiveness of current methods Identify additional methods Identify staff for training Provide training		1	2 4	4 8
C <u>Develop efficiency and output measures</u> Recommend measures that are strategic, measurable, attainable, reliable and time-based Staff and citizen groups should be consulted in the development of the measures Provide methods of data collection and initial calculations		2	2 4	4 8
C <u>Prepare necessary draft legislation and procedures</u> Recommend improvements in legislation and procedures Develop recommendations in close co-operation with the administration and the government Prepare draft legislation and procedures based on accepted recommendations		1	1 2	2 4
Recipients of TA/Training Finance Department Department of Economy Financial Resources Unit.				
Methods of Delivery Classroom, reports, individual meetings				
Known Issues and Prerequisites Willingness of participants to adopt new methods Willingness of administration to implement efficiency improvements and measures				

Increase Accountability, Control, Transparency in the Budget Process				
Location Samara		Priority Ranking 14		
Project Description/Scope Develop procedures for budget preparation, approval and execution with opportunities for citizen participation Develop recommendations concerning public hearings, newspaper publications, television and other mass media presentations to keep people informed about the budget and solicit their opinions Develop a system to provide opportunities for citizen participation with interested groups and NGOS				
Desired Result/Impact Development of mutual trust and cooperation between government and citizens Improved budget performance Budget responsive to public desires Improved role of public in budget monitoring Reduction of improper use of government funds				
			Prof LOE	
Project Components		Duration	Expat	Russian
A	<u>Preparation</u> Document current budget preparation practices, formats	1 month	1 2	2 4
B	<u>Develop recommendations</u> Work with administration staff and citizen groups to agree on process	3	3 6	7 2
C	<u>Draft procedures and legislation</u> Draft any procedures and legislation necessary to implement the agreed recommendations	2	2 4	7 2
Recipients of TA/Training Finance Department				
Methods of Delivery Classroom, individual and group meetings, written reports				
Known Issues and Prerequisites		Commitment of all parties to a constructive dialogue		

Develop the Budget as a Policy Instrument				
Location Samara		Priority Ranking 15		
Project Description/Scope This project would develop a process for developing the budget as a policy instrument taking citizens' interests into account. It would demonstrate how the budget's expenditure and revenue decisions can be used to further the socio-economic development of the region. It would emphasize medium and long term planning, communication, participation by all interested parties and evaluation of trends.				
Desired Result/Impact Improvement of local tax and expenditure legislation, establishment of an atmosphere of cooperation and trust between citizens and the government and increased attention to realistic long term fiscal planning. Improved political awareness of the population.				
			Prof LOE	
Project Components		Duration	Expat	Russian
A Preparation Collect information on the budgets and socio-economic conditions of the region for the past two years and document the budget process. Translate key documents into English.		2 months	2 4	4 8
B Develop Alternatives Prepare a report that presents alternatives for discussion, including estimates of socio-economic impacts of various types of budget decisions.		1	2 4	4 8
C Organize and hold discussions Prepare materials, organize discussions in a variety of formats – large groups, small groups, individual meetings.		3	3 6	7 2
D Prepare recommendations Based on discussions, prepare recommendations for changes. Discuss with responsible Oblast, local officials.		2	2 4	4 8
E Draft legislation, procedures Based on decisions by Oblast, local officials, draft legislation, procedures.		2	2 4	4 8
Recipients of TA/Training Finance Department Department of Economy Financial Resources Unit				
Methods of Delivery Meetings, written reports				
Known Issues and Prerequisites Political willingness to open the budget process				

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Encourage Investment in Residential Construction				
Location Samara		Priority Ranking 16		
Project Description/Scope Training officials in new methods of encouraging investment in residential construction (mortgage, housing loans, site planning, codes, administrative procedures) Reviewing Oblast legislation and procedures affecting residential construction to identify ways of modifying it to stimulate development This will include methods of property disposition, building codes and other factors Identifying areas most attractive for development and assisting the Oblast administration in preparing plans for development				
Desired Result/Impact Increased tax base, reduced budget expenditures, improved living conditions				
			Prof LOE	
Project Components		Duration	Expat	Russian
A Preparation Collect data on residential construction, laws and procedures affecting residential construction Interview potential participants in residential construction to identify barriers		2 months	2 4	2 4
B Provide Training Provide training in methods of encouraging residential construction Agree on action program		2	2 4	2 4
C Draft Legislation and Procedures Draft necessary legislation and procedures to implement action program		2	2 4	2 4
Recipients of TA/Training Department of Economy Department of Construction and Architecture				
Methods of Delivery Classroom Individual and group meetings, roundtables				
Known Issues and Prerequisites Willingness to change local laws and procedures There is consideration for Samara to become a participant in the World Bank financed housing project If this happens some of this component may be available through that source				

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Evaluate the Present and Potential Impact of the Public Sector				
Location Samara		Priority Ranking 17		
Project Description/Scope Assess the impact of Oblast fiscal and administrative policies on the development of the Oblast and the socio-economic condition of the population. This will lead to a better understanding of the trends and demonstrate the best mechanism for improving socio-economic conditions.				
Desired Result/Impact A better understanding of the Oblast government's impact on conditions in the Oblast and recommendations for changes that would improve conditions.				
			Prof LOE	
Project Components		Duration	Expat	Russian
A	<u>Gather data</u> Gather data on government activities and impact	2 months	2 4	7 2
B	<u>Hold seminars and workshops</u> Hold seminars and workshops to discuss and evaluate data	2	2 4	4 8
C	<u>Prepare final report</u> Prepare final report in several levels of detail for distribution	1	1 2	2 4
Recipients of TA/Training Finance Department Managerial Staff of the Oblast Administration Department of Economy				
Methods of Delivery Classroom training and workshops, roundtables Reports				
Known Issues and Prerequisites There is a danger that this could be too unfocused and not contribute to policy development but this can be avoided through careful management				

FUTURE TECHNICAL ASSISTANCE RECOMMENDATIONS
FOR KHABAROVSK

The overall logic of the long-term technical assistance is based on developing activity to coordinate interests of the Kraj with those of municipal administrations. These should allow for transparency and openness of the budget process with subsequent transition to optimizing taxation. They should develop further the activities of municipal administrations in enhancing budget revenue. Within the framework of the project, one can explore ways to reduce expenditures, based on social equity and economic efficiency. This would promote a comprehensive approach to resolving problems of managing public finances in Khabarovsk Kraj and its various governance entities.

Immediate technical assistance comprised two distinct parts. In February 1999, a three-day conference was held in Khabarovsk. At this conference the officials of the various regional and local administrations gave their recommendations. In April, the short term technical assistance team assessed the needs for future technical assistance which might be provided under another phase of the same initiative, should it materialize and be funded.

The limited short-term technical assistance was targeted to more efficient revenue planning for the regional budget of the Khabarovsk Kraj. This was expected to be substantially enhanced by the development of improved methodology for calculation of regional social standards for the municipal budget of the City of Khabarovsk and the potential changes in the applicable regional legislation.

However, it was the perception of the entire team of specialists, together with many of the local participants, that the issue of minimum social standards could not be addressed on its own. Two additional issues immediately became clear. Firstly, establishment of minimum social standards, however credible and justified, cannot necessarily be the sole basis for the development and planning of revenue projections. These will be influenced by other economic factors than only the demand for services and support expenditures. Secondly, minimum social standards need to be transformed into unit costs, for budgetary and accountability purposes. Thus, these will, inevitably, affect expenditure planning, within the budget. They will also require proper accounting, including cost accounting, to validate their eventual achievement and credibility.

Two further matters, of a more technical nature, add to these concerns. Firstly, the calculation of minimum social standards must inevitably rely heavily upon samples from economic statistics. These, however, are far from fully reliable and will become even less so as economic activity moves more and more outside of the public domain. Secondly, even the most advanced and comprehensive accounting systems are never fully accurate, with respect to cost definition. Thus, neither the setting of standards, nor the measurement of their achievement, can ever be fully reliable. These standards and measurements, therefore, will need to be carefully interpreted by statisticians and accountants, rather than being blindly accepted.

Geographical and Jurisdictional Activity and Impact

The Administration of Khabarovsk Kraj supports the idea to continue the current activity with the Administration of Khabarovsk City, essentially expanding and deepening the scope of work. Simultaneously, Khabarovsk Kraj Administration considers it expedient to go ahead with similar activity in the city of Komsomolsk-on-Amur – the second largest and economically important city of the Kraj. Comparing the results obtained while applying the above approach to the cities of Khabarovsk and Komsomolsk-on-Amur will be especially interesting.

The Administration of Khabarovsk Kraj also proposed to investigate the budget process using the most typical rural region – Vanino – as an example. In the opinion of the Kraj Administration, the process of streamlining budget relations should also involve heads of township and village administrations of the region. This work is second in rank, according to the Khabarovsk Kraj Administration. The experience compiled during the Vanino regional studies can be highly important for the whole Kraj, taking into account the opportunity of making its results available throughout other areas. Dissemination of experience to be gathered can be in the form of training seminars, held for administrations of other areas, villages and townships.

Inter-governmental Financial Relations

The budget matters clearly impinge upon governance issues within the Khabarovsk Kraj, especially with reference to economics and finance. This concerns every level of governance: federal, regional, municipal and local. It also concerns the relations among them, including the inter-governmental financial relations. Because of the massive changes taking place at present, it is natural that these relations are somewhat fragmentary, clumsy and untidy. This is, however, expected to gradually change, to a system that is less confrontational, more harmonious and more carefully structured. This is an essential ingredient in the establishment of fair and reliable financial relationships. To encourage and enhance these changes, it is important to establish clear, certain, reliable and consistent definitions of responsibility among the various units of government. This is especially important at different hierarchical levels, such as between the regional and municipal governments.

One possible way to strengthen this aspect is to establish a system followed in many (though not all) states of the U S A. This is based on what is known as Dillon's Rule, after the judge who promulgated it. Essentially, it mandates that every local government in a state may exercise **only** those powers and duties that the state specifically requires or permits by law. If additional powers are required, these must be granted by new state legislation. This practice is followed, for example, in the U S State of Virginia. Moreover, Dillon's rule emanates from – and is consistent with – the British doctrine of "*Ultra Vires*" or "Beyond the Powers." It is still the basis of all local government in Britain. Thus, it is consistent with at least one American state and one unitary national government, from which examples have been taken in the short-term technical assistance presentations.

Because of the Russian tradition or practice – under both imperial and communist rule – of strong central control, the use of the "*Ultra Vires*" precedent may well prove to be a useful interim step. It permits the possibility of an acceptable comfort level, instead of allowing powers

and duties, as at present, to become the subject of constant dispute and discord. Certainly, this would place the ultimate powers with the “subjects of the federation.”

The exercise of powers and duties by municipal and lower levels of government, under these conditions, would be consistent with what happens now in both the United Kingdom and many states of the U S A , where local democracy clearly flourishes. Every municipality would be free to follow its own policies, within the framework only of the Russian constitution, federal law and the laws of the regional Duma.

The Budget as a Policy Instrument

Every public budget has a relationship with an economy and a community. It is to be presumed that the Russian national and local economies will become increasingly robust. It is also to be hoped that the community is one that cares about its fellows, especially the young, the elderly and the disadvantaged. As the private economy provides the basic resources for regional and local communities, there is a clear obligation to study it in various ways, for at least two principal purposes. First, regional and local governments must discover what contributions the public sector can make, through their infrastructure and public services, to the immediate and the long-term enhancement of the economy. Second, economic statistics and other information must be used to determine how much ought to be spent upon various public services, especially those necessary to sustain the communities’ more disadvantaged residents, as well as providing collective public services.

Concurrently, revenues to support budgetary expenditures, however essential, will not just materialize automatically. They need to be planned and generated, to ensure that the budgeting is based upon a balancing of operational and support expenditures by adequate and appropriate revenues. Otherwise, the community may be solving problems now – only to pass them along, in financial (or physical) terms, to its successors, even to children and grandchildren. Part of the task has been – and will continue to be – to discover, as public officials, how all of this may best be achieved. Proper budgeting process is also essential.

Revenue Analysis and Enhancement

The Kraj and the Khabarovsk Municipality have both suffered a serious loss of revenue, in real terms, during the last several years. This situation almost certainly applies to all the other local government units as well. Not only does this curtail necessary expenditures, it also encourages the use of public assets for the purpose of earning revenue, instead of providing the services for which they were originally intended¹. It is urgent that there be a clear definition of expenditure and revenue authority, both in total and among the different units of government. Otherwise, there will be no assurance of stable and growing resources to expand and enhance badly needed

¹ For example, the Khabarovsk Housing Trust appears to be using its equipment and labor force partly to earn revenues to supplement its budget. This suggests that the entity is either over-capitalized (or over-supplied with labor) or that needed repairs and maintenance of houses and other municipal property are being curtailed or postponed. Moreover, rudimentary accounting systems, which tend to under-recognize capital cost recovery, will overstate the benefits from this alternative and potentially wasteful use of public resources.

services or to fund capital investments. Still less will the governments have the capability to service new debt, for capital expenditure that cannot be financed from current revenues.

Consistent with practices followed in most other countries, it is to be expected that there will be a certain flow of financial resources downwards, from higher levels of government (e.g. federal, republic, Krai and Oblast) to lower levels (e.g. municipalities). These flows should take the form of well-structured general or categorical grants. However, democratic local government also depends upon specific and exclusive revenue authority being designated to various levels of governance, especially municipalities, for their own, unencumbered lawful use². Most commonly, local government units are assigned the power to levy and collect property taxes. There is no reason why Russia, in the long run, should not follow this precedent.

It is important for this matter to be thoroughly investigated. Then, when the potentials are clear, appropriate legislation must be passed and suitable procedures implemented, to ensure that revenue due to each governmental unit is properly assessed and fully and promptly collected.

Expenditure Analysis and Management

It might be asserted that a major function of governmental management is the allocation of revenues to different services and the controlling of expenditure against those services. It is therefore important to ensure that expenditure is made only on those activities which are urgent and essential and that they be made in a manner which is consistent with the principles of economy, efficiency and effectiveness. This requires that every activity be reviewed with care by its managers and operators, as well as the central financial staff, so that only that expenditure which is useful is allowed. Among the potential solutions to expenditure management are investigations into possibilities for contracting out of services to private operators or for performing certain functions in partnership with the private sector.

Information Technology

As relationships among the various levels of government become clearer and more settled, each level of governance will need to develop mechanisms and formats to share economic and financial data among one another and to accurately record it. There will, thus, be a need to develop and improve information technology and database management. Computers will become more useful – and increasingly essential – at every level of government. There will almost certainly be a need to establish local area networks within each local government unit. Also, it will be important to share information openly, on all relevant matters, with other levels of governance.

² The present situation in the U.K. is instructive. After the failure of the “poll tax,” it was considered politically impossible to re-introduce the domestic property tax, which the poll-tax had replaced. Thus, for the time being, the U.K. relies upon a “hybrid” council tax, together with a much higher level of government grants. Consequently, less than 20% of total revenue now comes from local sources. This contrasts with over 50% from local sources, before the domestic property tax was abolished. There is now a serious “leverage” concern, because after government grants have been fixed, every 1% increase in local expenditure engenders at least a 5% increase in *local* taxes.

Accounting Systems

The core of a good financial information system is its accounting framework. It will be necessary to develop and use more modern, and more comprehensive, systems than those currently in use. These should be based upon recognized accounting standards, to which all are required to adhere. Full disclosure and explanation should accompany deviations. At present, concern is merely upon cash receipts and payments. While this is of paramount importance, it is far from sufficient for a comprehensive system. Such a system needs, in addition, to reflect the differences between capital and recurrent activities and to do this separately for each service or program. The system should be capable of producing information about costs of services and programs, including the costs of consumption, destruction and use of long-life assets. Moreover, the value of these assets must be constantly updated, to reflect both inflation and alternative potential uses³. Thus, the accounting system should primarily record stewardship over all public resources. It should also be capable of helping to measure actual performance of activities against budgetary expectations. This will require cost and management accounting.

Financial Reporting and Auditing

Finally, when financial statements are published, they will provide little assurance and confidence, to the public or to potential investors (including potential bond purchasers), unless they are audited, according to generally accepted auditing standards, by independent, competent and qualified auditors. Reliance, as in the past, merely upon budget figures or cash-based statements will prove increasingly outmoded and unsatisfactory. Instead, government at all levels will need to re-establish the trust of its people for the management of community resources: money, materials, machinery, and, manpower. Moreover, it will be seen as the public trustee in the management of all long-term assets and for the full and timely discharge of liabilities.

³ In the U.K., this is required by law and by the recommended accounting practices for local government, promulgated by the Chartered Institute of Public Finance and Accountancy.

Recommendations Summary

Given below is the priority ranking, as agreed upon with the key officials, of long term future technical assistance and training, in various governance units within the Khabarovsk Kraj. Please see the attached schedules for specifics.

Projects	Priority
Improve Legal and Administrative Framework for Inter-governmental Financial Relations	1
Develop Budget as Instrument of Policy	2
Revenue Analysis and Enhancement	3
Assist in Management of Expenditures	4
Assist in Development, Management and Operation of Modern Information Technology	5
Introduce Comprehensive Accounting Systems and Assist in adoption of Generally Accepted Accounting Standards and Practices	6
Financial Reporting and Auditing	7

Inter-governmental Financial Relations			
Location Khabarovsk Kraj		Priority Ranking 1	
Project Description/Scope. This project would develop a formal procedure for identifying exclusive service and related expenditure responsibilities between the Kraj and the local government entities. It would also rationalize the system of inter-governmental financial transfers and establish exclusive revenue authority at each level of governance. This project would first seek broad agreement on the underlying principles and then draft legislation and procedures, as required, for consideration by the appropriate bodies.			
Desired Result/Impact The result would be a system of clear, certain, reliable and consistent definitions of responsibility among the various units of government. This would engender predictable, fair, stable revenue and expenditure distribution based on criterion in legislation and procedures. Local and Kraj officials would be able to base their budgets on known factors. Transfers would be based on a logical methodology.			
			Prof LOE
Project Components	Duration	Expat	Russian
A Preparation Review existing Russian legislation and actual practices in the Kraj over the past two years. Translate key documents, including budgets, into English. Prepare descriptions of current processes and results. Identify key participants in the process.	1 5 months	1	3
B Describe alternatives Prepare a report that presents alternatives for discussion, including descriptions and estimates of financial impacts.	1	1	2
C Organize and hold discussions Prepare materials, organize discussions in a variety of formats – large groups, small groups, individual meetings.	1	1	2
D Prepare recommendations Based on discussions, prepare recommendations for changes. Discuss with responsible Kraj and local government officials.	1	1	2
E Draft legislation and procedures Based on decisions by Kraj and local government officials, draft legislation and procedures.	1	1	2
Recipients of TA/Training The Kraj Administration and Duma			
Methods of Delivery On the job training, meetings, analysis and reports			
Known Issues and Prerequisites Political will to reduce flexibility. Consistency of proposed laws and practices with the Russian Constitution and laws of the Russian Federation.			
Attachments A selection of appropriate materials from the Annexes of the Regional Public Finance and Investment report. Additional information and examples from Russia and other countries, as appropriate.			

The Budget as a Policy Instrument and Process			
Location Khabarovsk Krai and the City of Khabarovsk		Priority Ranking 2	
Project Description/Scope This project would develop a process for developing the budget as a policy instrument, taking citizens' interests into account. It would demonstrate how the development and refinement of minimum social standards, and the unit costs related to these, could be used as tools to better assist in forecasting budgeted revenue. It would also facilitate the determination of the adequacy and appropriateness of expenditures.			
Desired Result/Impact Improvement of local tax and expenditure legislation. Establishment of an atmosphere of cooperation and trust between citizens and the various government units and an increased attention to realistic long term fiscal planning. Improved political awareness of the population. This will facilitate decisions to deliver local services more effectively and further the socio-economic development of the region. It would emphasize medium and long term planning, communication and participation by all interested parties and evaluation of trends.			
		Prof LOE	
Project Components	Duration	Expat	Russian
A Preparation Collect information on the budgets and socio-economic conditions of the region for the past two years and document the budget process. Translate key documents into English.	1 month	1	3
B Develop Alternatives Prepare a report that presents alternatives for discussion, including estimates of socio-economic information and its impacts of various types of budget decisions.	1	2	4
C Organize and hold discussions Prepare materials, organize discussions in a variety of formats – large groups, small groups, individual meetings.	2	1	4
D Prepare recommendations Based on discussions, prepare recommendations for changes. Discuss with responsible Krai and local government officials.	1	1	2
E Draft legislation and procedures Based on decisions by Krai and local government officials, draft legislation, procedures.	2	2	4
Recipients of TA/Training Finance, Economic Departments and Duma			
Methods of Delivery Meetings, written reports, discussions with individual staff			
Known Issues and Prerequisites Political willingness to open the budget process. Consistency of proposed laws, practices and formats with the Russian Constitution and laws of the Russian Federation.			
Attachments A selection of appropriate materials from the Annexes of the Regional Public Finance and Investment report. Additional information and examples from Russia and other countries, as appropriate.			

Revenue Analysis and Enhancement				
Location Khabarovsk Kraj and the City of Khabarovsk		Priority Ranking 3		
Project Description/Scope Analysis of the Kraj tax legislation, tax potential, tax collection practices including auditing and controls, potential sources of non-tax revenues, monitoring the results of tax collections, especially new taxes Development of procedures and methods for forecasting revenue Providing recommendations for changes in procedures for tax processing The analysis will evaluate the tax system for equity, in relation to federal taxes and capability of meeting socio-economic development objectives				
Desired Result/Impact The results should be increased tax revenue, increased equity in the administration of taxes, a better understanding of forecasting methods and improved forecasts It should also identify opportunities for new sources of revenue It should also create an enhanced sense of fairness among taxpayers, leading to a restoration of confidence in government				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Analyze current situation</u> Collect information on current practices and legislation Analyze effectiveness, impacts		3 months	4	8
B <u>Prepare recommendations for improvements</u> Recommend improvements in legislation and revenue administration practices Develop recommendations in close co-operation with the administration and government Discuss tax and charge policies with members of the Dumas and representatives of the general public		4	4	8
C <u>Develop draft legislation and procedures</u> Prepare draft legislation and procedures based on accepted recommendations		3	3	6
Recipients of TA/Training This project will involve legal and administrative staff concerned with tax policy, as well as tax collection officials, financial analysts, budgeting and accounting staff				
Methods of Delivery Study tours within Russia and abroad Intensive meetings with officials Classroom instruction and roundtable discussions				
Known Issues and Prerequisites Ability of local officials to spend time Availability of data for analysis Ability of Kraj to finance equipment necessary to implement recommendations				

Management of Expenditure Analysis				
Location Khabarovsk Kraj and the City of Khabarovsk		Priority Ranking 4		
Project Description/Scope Introduction of methods of analysis of expenditures to promote efficiency in the use of funds This will include both methods of analysis of current expenditures and methods for forecasting future expenditures It will also include development of measures for efficiency and output and the development of unit costing methodology to evaluate achievement of minimal social norms				
Desired Result/Impact A system of expenditure analysis and forecasting that becomes part of the regular operating procedures of all departments in the government A system of efficiency and output measures that will allow the public, administrators and the legislators to monitor performance Methods of forecasting expenditures that identify key variables A cadre of officials trained in the use and development of expenditure analysis and forecasting methods Optimization of budget expenditures that should free funds for vitally important projects in the Kraj and may result in the reduction of expenditures or increases in revenues in the future				
			Prof LOE	
Project Components		Duration	Expat	Russian
A <u>Analyze current situation</u> Collect information on current practices, regulations and legislation Analyze effectiveness, impacts and limitations of current practices		3 months	4 5	9
B <u>Prepare recommendations for improvements</u> Recommend improvements in legislation and in budgeting and accounting practices Develop recommendations in close co-operation with administration and government		3	4 5	9
C <u>Develop draft legislation and procedures</u> Prepare draft legislation, budgeting and accounting and procedures based on accepted recommendations Obtain authority from federal officials, as appropriate		2	4	8
Recipients of TA/Training Budget and accounting staff at departmental and central levels Service managers and staff of their departments dealing with financially-oriented administrative procedures Members of the Dumas of the Kraj and Municipalities, responsible for budgetary matters				
Methods of Delivery Study tours within Russia and abroad Intensive meetings and hands-on training with officials Classroom instruction and roundtable discussions				
Known Issues and Prerequisites Ability of local officials to spend time Availability of data for analysis Ability of Kraj to finance equipment necessary to implement recommendations				

Information Technology				
Location Khabarovsk Kraj		Priority Ranking 5		
Project Description/Scope Automation of critical financial and non-financial information, as well as administrative procedures				
Desired Result/Impact The results should be increased, more accurate and more timely flow of information at all levels of government and in all departments Single data inputs could be transformed and used for a variety of purposes Prompt management information, in a suitable form, could be provided to operational managers, senior government officials, elected representatives and the general public Faster and more friendly access of the public to governmental offices could be facilitated Levy and collection of taxes could be made more efficient and therefore fairer Eventual sharing of information among government entities and development of publicly-accessible web-sites				
			Prof LOE	
Project Components		Duration	Expat	Russian
A	Analyze current situation Collect information on current financial and other information processing practices Analyze effectiveness, impacts and breakdowns	UNDER REVIEW	UNDER REVIEW	UNDER REVIEW
B	Prepare recommendations for improvements Recommend improvements in information requirements and related processing systems Develop recommendations for systems in close co-operation between Kraj administration and other local government units			
C	Help Evaluate and Select Systems and Software Companies Discuss information and systems requirements Examine and evaluate similar systems used elsewhere Design systems Establish schedules for system implementation Purchase hardware Install pilots and use on a parallel basis with current systems Gradually implement tested systems into the information framework of the governmental units			
D	Develop and implement procedures Progressively hand over tested systems to governmental units As confidence is developed and validated, arrange for cessation of manual and other systems now replaced Continue to test and modify the new systems			
Recipients of TA/Training The Budget Department				
Methods of Delivery Study tours within Russia and abroad Intensive meetings with officials Classroom roundtable discussions Demonstrations of system software and hardware Computer officials' training in systems				
Known Issues and Prerequisites Ability of local officials to plan and spend time Availability of data for analysis Ability of Kraj and other government units to finance equipment necessary to implement recommendations Concern over timely delivery, compatibility, reliability and maintenance of equipment				

Accounting Systems				
Location Khabarovsk Kraj		Priority Ranking 6		
Project Description/Scope Introduction of comprehensive methods of analysis of income and expenditures together with assets and liabilities This is to promote greater efficiency and effectiveness in the recording and reporting of the use of funds and assets and over the discharge of liabilities It will include methods of analysis of recurrent income and expenditures of capital investment expenditures and their financing It will also include development of cost accounting, leading to measures for efficiency and output This will, in turn, engender a capability to evaluate the development and use of minimal social standards and expenditure norms It will also provide the information to produce periodic financial statements, for management of performance of activity and full public accountability				
Desired Result/Impact Credible demonstration and record of stewardship over resources and the measurement of performance A system of expenditure and income analysis that becomes part of the regular operating procedures of all departments in the various government units A system of efficiency and output measures that will allow the public, administrators and the legislators to monitor performance, based on actual results of activities Gradual accumulation of data to assist in forecasting revenues and expenditures A cadre of officials trained in the use and development of income and expenditure analysis and complete records of assets and liabilities Development of actual data on costs of services, for comparison with budget estimates Use of actual results should identify available funds for vitally important services, support expenditures and projects in the governmental unit and may result in the reduction of expenditures or increases in revenues in the future				
			Prof LOE	
Project Components		Duration	Expat	Russian
A	Analyze current situation Collect information on current accounting and other financial information processing practices Analyze effectiveness, impacts and actual or potential breakdowns (May be coordinated with data-processing study)	3 months	3	9
B	Prepare recommendations for improvements Recommend improvements in accounting requirements and related processing systems and administrative procedures Develop recommendations for new, improved and expanded systems, in co-operation between the Kraj administration and other local government units	2	4	8
C	Evaluate and Select Systems Discuss information and systems requirements Examine and evaluate similar accounting systems used elsewhere Design systems Establish schedules for system implementation Relate the design and scheduling with the data-processing activity Gradually implement tested systems into the accounting framework of the government	12	12	24
D	Consolidate New procedures As confidence is increased and validated, arrange for cessation of manual and other systems now replaced Continue to test and modify the new systems	(As needed)	(As needed)	As needed)
Recipients of TA/Training The Kraj Administration and the above units of local government				

Methods of Delivery Study tours within Russia and abroad Intensive meetings with officials
Classroom round-table discussions Demonstrations of accounting system software and hardware
Secondment of staff for training in accounting systems Formal training courses in Russia or elsewhere

Known Issues and Prerequisites Consistency of proposed laws, practices and formats with the
Russian Constitution and laws of the Russian Federation Essential to follow requirements (as may be
amended) of the Federal Ministry of Finance and other authorities Necessity to cooperate and coordinate
with other related activities in other parts of Russia and at other levels of governance Ability of local
officials to plan and spend time Availability of data and equipment for analysis Ability of Kraj and other
government units to finance equipment and materials necessary to implement recommendations Concern
over timely delivery, compatibility, reliability and maintenance of data-processing equipment Adequate
training facilities and programs

Possible Contacts Prof Prof Sergey V Lyubimov, Head, Economics and Management of
Construction Department at the Khabarovsk State University of Technology, with reference to public
utility enterprises Mrs Lubov A Lakhina, Dean of the Faculty of Accounting and Auditing at the
Khabarovsk State Academy of Economics and Law

Financial Reporting and Auditing				
Location Khabarovsk Kraj		Priority Ranking 7		
Project Description/Scope Preparation, audit, presentation and dissemination of Financial Statements, prepared in accordance with acceptable accounting principles – or best practices available Use of the same methodology to produce interim (audited or unaudited) reports				
Desired Result/Impact Credible demonstration, permanent record and publication of stewardship over resources and the measurement of performance Validation of published statements as a fair presentation of the state of financial affairs and of the financial activities for the period of the statements Ability to use statements as part of presentations to potential lenders, investors or bond-rating agencies Facilitation thereby of lower cost and greater access to financial markets for capital investment funding General enhancement of the reputation of the local and regional communities as of good standing and reliability, relative to potential suspicions of corruption or mismanagement				
Project Components		Prof LOE		
		Duration	Expat	Russian
A	Analyze current situation Collect information on current financial and other information processing and reporting practices Analyze effectiveness, usefulness, timeliness for credibility and accountability	1 month	2	4
B	Prepare recommendations for improvements Recommend improvements in financial reporting formats and requirements and related processing systems Develop recommendations for systems in close co-operation between Kraj administration and other local government units	3	3	6
C	Design Format of Financial Reports Discuss information and legal requirements Examine and evaluate similar reports used elsewhere Design reports Establish schedules for production of reports and implementation of audit arrangements	3	3	6
D	Develop draft legislation and procedures Discuss legal requirements for production of reports, appointment of auditors, sanctions arising from matters revealed during audit Draft regulations or legislation consistent with general laws of Russian Federation	1	1	3
Recipients of TA/Training The Kraj Administration				
Methods of Delivery Study tours within Russia and abroad Intensive meetings with officials Classroom round-table discussions Demonstrations of accounting system software and hardware Secondment of staff for training in accounting and audit Formal training courses in Russia or elsewhere				

Known Issues and Prerequisites Consistency of proposed laws, practices and formats with the Russian Constitution and the laws of the Russian Federation Essential to follow requirements (as may be amended) of the Federal Ministry of Finance and other authorities Necessity to cooperate and coordinate with other related activities in other parts of Russia and at other levels of governance Ability of local officials to plan and spend time Availability of data and equipment for production of understandable and credible financial statements Ability of Kraj and other government units to finance equipment and materials necessary to implement accounting recommendations Concern about reliability of data-processing equipment Adequate training facilities and programs

FUTURE TECHNICAL ASSISTANCE RECOMMENDATIONS

FOR SAKHALIN ISLAND

The technical assistance team met with each of the key officials at the beginning and the end of the short-term technical assistance engagement in Sakhalin. In addition to clarifying the expectations of the short-term conditions and requesting local involvement, the interviews focused on the local economic and fiscal conditions in the Oblast and the potential for additional technical assistance. In addition, when appropriate, the same information and the relationships between the Oblast and the local municipalities were discussed with the cities. The point of departure and /or clarification was the list of long-term technical assistance needs that was developed at the February conference in Khabarovsk. The diagnostic conference had been attended by many of the same individuals with whom we met in Sakhalin. The lists were reviewed, further defined and amended as necessary with each of the respondents in light of the on-going engagement.

Each of the principle respondents identified areas of technical assistance, which would interest and benefit them. The lists may overlap, but they are not common or integrated into a single set of priorities. In fact, at the time of the engagement many of the officials were involved in a protracted budget struggle, which consumed their time and polarized many of their positions.

Given below are composite rankings of the key officials for short term and long term future technical assistance and training in Sakhalin Oblast. While the lists are merged, the Sakhalin officials continued to maintain their organizational perspectives. We met with the Oblast officials from three departments, from the Oblast Duma and from three cities. Still, many of the requests overlap and are so noted. One of the greatest benefits from additional technical assistance will be to give the Oblast and municipal leaders new policy platforms on which to resolve their issues.

Please see schedules on following page for specifics. All estimates of level of effort (LOE) are in months (20 days per month).

Sakhalin Future Technical Assistance Summary

Project	Priority
Assist in Oblast Budget Analysis and Transparency	1
Assist in Intergovernmental Budgetary Relations	2
Establish Regional Strategic Priorities	3
Assist in Capital Budget and Investment Planning	4
Assist in Municipal Budget Analysis and Planning	5
Develop Regional Incentives to Economic Investment	6
Assist in Financial Planning	7

Oblast Budget Analysis and Transparency				
Location Sakhalin		Priority Ranking 1		
Project Description/Scope Adapt a Budget Analysis and Transparency Model to the needs of an Oblast administration. The Model would be a tool to assist the Finance Department of the Oblast and the finance committee of the Oblast Duma to analyze the trends in budget revenues and expenditures. By better understanding patterns to provide further analysis of the Oblast tax legislation, tax potential, revenue collection practices, potential sources of non-tax revenues, and monitoring the results of tax collections, especially new taxes. Development of procedures and methods for forecasting revenue and expenditures. The analysis will evaluate the budget system for equity, efficiency and effectiveness, in relation to federal taxes and responsiveness to municipal capability of meeting socio-economic norms and objectives.				
Desired Result/Impact The results should be increased understanding of revenues and expenditures, a better understanding of budget planning and forecasting methods. It should point to areas of fiscal economy and regional reorganization. It should also create public officials who are more confident in their understanding to the fiscal parameters. First it would make the budget more analytical, and second, more transparent to the Duma members and then finally, prepare the Oblast officials to be more confident and prepared to share this budget information proactively to the media, local groups and concerned citizens.				
			Professional LOE	
Project Components		Duration	Expat	Russian
A Convert the municipal budget analysis and transparency model to an Oblast tool that would include the budgetary legal changes through 1998		2 months	1 2	3 6
B Install the Oblast Budget Analysis Model (OBA) on the Department of Finance and Duma systems and train both on the uses and maintenance of the model. Enter five years' information and data and demonstrate the full utility of analysis to administration and legislative decision-makers		1	0 6	4 2
C Work with the staff to prepare a users manual		1	0 6	2 4
D Prepare local staff to analyze the budget trends and assist them in preparation in the materials and process of a budget policy dialogue and public presentation		2	1 2	3 6
Recipients of TA/Training Department of Finance, Duma Finance Committee Contact Sergei A. Ponomarev, Deputy Chairman, Sakhalin Regional Duma				
Methods of Delivery Technical assistance, on the job training, policy dialogue roundtables and desk-top publishing consultation				
Known Issues and Prerequisites The competition between the Duma and the Administration will have to be managed				

Intergovernmental Budgetary Relations				
Location Sakhalin		Priority Ranking 2		
Project Description/Scope This project would develop a formal procedure for distributing revenue and expenditures between the Oblast and local municipal and district budgets. It would also establish regional criteria for social norms and standards. This project would first seek broad agreement on the underlying principles, develop a consensus approach to intergovernmental issues and then, assist in drafting regional legislation and procedures. The project should be able to build on advances made in St. Petersburg, Khabarovsk and Novosibirsk.				
Desired Result/Impact The result would be to minimize the highly politicized conflict about scarce public resources and create a system of more predictable, fair and stable revenue and expenditure distribution. The system would be based on criteria in legislation and procedures, which encourages fiscal federalism at the regional level. Local and Oblast officials would be able to base their future budgets on better-known factors and clearly identified reciprocal relationships. Revenue transfers would be based on a logical methodology. Responsibilities would be understood by all of the jurisdictions and transparent to the public. Finally, resolving the issues within the region would allow Sakhalin to proposed legislative changes at the federal level.				
			Professional LOE	
Project Components		Duration	Expat	Russian
A Review Russian legislation and the Oblast practices and procedures for the last three years		2 months	1 2	4 8
B Conduct a study tour of key Oblast and municipal officials to St. Petersburg, Novosibirsk, and Khabarovsk to meet with their colleagues and administrators		2	1 2	2 4
C Assist the Department of Finance in drafting and validating the social norms for regional application		2	1 2	4 8
D Vet the regulations with the study tour participants		1	0 6	1 2
E Propose and draft appropriate changes to federation legislation to reduce the reciprocal cash flows		2	0 6	3 6
Recipients of TA/Training Finance staff of the Oblast and cities and the appropriate oversight committee of the Duma				
Methods of Delivery Technical assistance, roundtables, study tours within Russia,				
Known Issues and Prerequisites This issue colors all relationships between the Oblast and the municipalities and until it is resolved, cooperation and collaboration on economic development is improbable.				

Establishing Regional Strategic Priorities				
Location Sakhalin		Priority Ranking 3		
Project Description/Scope This project would first introduce the concepts of intergovernmental collaboration and cooperation and would identify strategic planning as a concept and a process for exercising regional and local initiatives. The process for strategic planning would be developed to involve the public, governmental, enterprise and business stakeholders who realize the need for a unified Sakhalin approach to optimize investment opportunities emerging from the new oil and gas production revenues. It would produce the first strategic plan by setting regional priorities that are equitable, collaborative and transparent. These priorities could be introduced into a capital investment program and then, as shared priorities, could be implemented through a multi-year capital budget process in whichever level of government is most appropriate for the task. [See next recommendation]				
Desired Result/Impact The nature of intergovernmental dialogue and regional discourse would be altered to allow for a process of preparing, revising and implementing strategic planning. A non-local, Russian facilitator who would earn the respect of the key regional officials and stakeholders and who would have the skills to avoid existing patterns of confrontation would broker a public dialogue. The strategic planning process would include established criteria and procedures for carrying out long term capital investment planning with the additional revenues. Production of a strategic planning document with wide distribution would include a mechanism for reporting on results and systematically updating it. This intervention would contribute to the actual process of providing for sustainable economic development and accountable utilization of the energy royalties.				
			Professional LOE	
Project Components		Duration	Expat	Russian
A Specify the process with the leadership and gain the commitment from key stakeholders to participate in a Strategic Planning Taskforce		1 month	1 2	2 4
B Agree on the problems and develop a consensus on critical issues, explore alternative solutions		2	2 4	4 8
C Conduct a study tour to Alaska to focus on Visioning and Goal setting including joint workshops with Alaska legislators and state government officials		1	2 4	2 4
D Develop a Vision for the Sakhalin's Future with a concrete action plan with benchmarks that can be monitored and evaluated annually		3	2 4	6 6
E Train local resource people to maintain the process		1	1 2	2 4
F Conduct a series of public meetings to share the vision and elicit public comment and feedback. Revise the Plan		2	0 6	4 8
Recipients of TA/Training Regional Leaders from within and without government, local resource trainers, legislators and administrators who are involved in policy development				
Methods of Delivery Technical assistance, roundtables, study tour to Alaska, mentoring, process monitoring, follow-up training				
Known Issues and Prerequisites Timing has to consider the election calendar and there needs to be full support from political and business leadership by the end of phase A				

Capital Budget and Investment Planning			
Location Sakhaln		Priority Ranking 4	
Project Description/Scope This will provide for the development of a capital planning and investment program and provide in-depth training of selected officials in the Oblast administration in investment analysis and capital budget preparation. Training will include methods for evaluating investment projects as well as social projects including lessons from practical experience. By developing a capital investment planning policy, it would normalize the use of the energy royalties in a capital improvement program for investing in an under-developed public infrastructure and create a political climate that would attract private investment capital. Finally, implementation of the policy would coordinate the capital and operational budgets for better utilization of resources.			
Desired Result/Impact Improvement in the use of budget funds through the development of higher levels of professional expertise and improved decision making. Set of criteria for project selection based on budget efficiency, social impact and financial return. Determination of growth indicators for the region to be used in prioritizing and identifying capital projects. Attract additional private sector capital investment, once the Oblast policies, priorities and procedures are established. It would show how an investment policy could increase the positive social impact of capital improvements.			
		Professional LOE	
Project Components		Duration	Expat
			Russian
A	Review Russian Federation legislation, best Russian and international practices and with local officials and staff develop a local strategy	1 month	0 6
B	Draft local legislation based on local strategy, multi-year best practices, and actual and projected resources, analyze proposed projects to test the decision criteria	2	1 2
C	Assist in preparation a Capital Investment Budget and CIP document and tutor the officials in taking it to the Duma and the public for hearings	2	1 2
D	Formalize practical learning with training that will allow the Oblast to sustain their process and policies	1	0 6
E	Develop a strategy of attracting investment capital that would complement the public improvements	2	1 2
Recipients of TA/Training Oblast Departments of Investment and Finance and Economics Committee of the Duma. Contact Oleg P Konukh, Deputy Chairman			
Methods of Delivery Technical assistance, on the job training, policy dialogue, policy and legislative development and training			
Known Issues and Prerequisites Federation legislative framework is in flux and creative ways will have to be developed to bring resources into the budget without losing federal transfers			

Municipal Budget Analysis and Planning			
Location Yuzhno Sakhalin		Priority Ranking 5	
Project Description/Scope Update and adapt the Budget Analysis and Transparency Model to the needs of Sakhalin municipalities so that the cities can better understand and analyze their budgets. The pre-existing model would be revised to incorporate the 1998 Russian budget changes and standardized to allow for cross-city comparisons. The initial focus would be Yuzhno Sakhalin as the largest and most involved city. The innovative practices would be disseminated to other cities and then there would be a common basis for explaining their budgets to the public and their budget needs to the Oblast Administration. The process now is centralized, political and reactive. The revised model then needs to be installed in the municipal administration on existing equipment where possible and existing personnel trained on the analytical capacities, data collection and budget planning. In the case of Yuzhno Sakhalin the finance department is completely non-automated.			
Desired Result/Impact The city would have the capacity to more critically analyze its own budget and the trends. It would encourage more municipal initiative on developing own-source revenues and considering economy, efficiency, effectiveness and equity in use of the municipal resources. With improved budget performance efficiency and accountability for both revenue and expenditures there should be an improved quality of municipal services and in citizens' understanding of the governmental functions and trust in government operations. On subsequent stages of dissemination and training the Sakhalin Association of Cities would serve as an effective intermediate organization for sustainability.			
			Professional LOE
Project Components	Duration	Expat	Russian
A Adapt and update the municipal budget analysis and transparency model	1 month	1 2	2 4
B Procure and install a mini-system computer system for Yuzhno Sakhalin	2	0 6	2 4
C Install software at city level and train personnel to operate and maintain, initialize with 5 years' data and information	1	0 6	3 6
D Demonstrate the full utility of analysis to administration and legislative decision-makers	1	0 6	2 4
E Work with the staff to prepare a users' manual	1	0 6	2 4
F Prepare city staff to analyze the budget trends and assist them in preparation in the materials and process of a budget policy dialogue and public presentation	2	1 2	4 8
Recipients of TA/Training Municipal finance and budget staff for Yuzhno Sakhalin and colleagues from other cities and departments			
Methods of Delivery Orientation seminar, on the job training, mentoring and demonstration and training of analytical computer processing skills			
Known Issues and Prerequisites Project would have to buy 2-3 PCs, a jet-ink color printer and net work components [Commodity costs would be less than \$15,000 plus some training] Officials of the Oblast Duma thought this was a key component to resolving budget and intergovernmental relations			

Regional Incentives to Economic Investment

Location Sakhalin	Priority Ranking 6		
Project Description/Scope Careful analysis of the current policies, practices and tools of regional incentives and their effectiveness. Development of additional recommendations for improvement in the socio-economic conditions in the Oblast and for improving regional financial policies to promote economic development. Introduction of techniques for measuring socio-economic costs and benefits of economic development proposals. Evaluation of the criteria for providing both tax and non-tax incentives and investment guarantees. Identification and mapping of the more promising sectors of economic development and strategies for attracting sectoral investment and development. Inventory of unused tangible and non-tangible assets available in the Oblast. Assessment of local labor force abilities and training needs. Assessment of existing local industries' capacity for new development. Development of an integrated program to promote economic development with recommendations on the organizational implementation.			
Desired Result/Impact More effective utilization of tax and non-tax incentives. Realization of effectiveness investment policies. Broader perspective on use of resources including existing labor force, properties and perspectives. Establish greater confidence and support in attracting investment, improving budgetary revenues, improving socio-economic conditions of the population.			
			Professional LOE
Project Components	Duration	Expat	Russian
A Analyze Russian, Sakhalin and international economic development strategies that depend on incentives	1 month	1 2	2 4
B Gather data on economic resources available on Sakhalin including labor, property and intangible assets and develop into a resource database	2	0 6	3 6
C Conduct a series of roundtables identifying opportunities and barriers to economic development and evaluating the incentives and tools that are available,	1	0 6	2 4
D Develop revised strategy that is more inclusive and supported by the different levels of government, business, community groups and citizens	2	2 4	3 6
E Review the need for regional legislation	1	0 6	2 4
Recipients of TA/Training Oblast Department of Investment, Duma and its Committees			
Methods of Delivery Technical assistance, on the job training, roundtables, and training in group process (consensus building) and information dissemination			
Known Issues and Prerequisites The Department of Investment is working on many of these issues and is seeking broader intellectual insight and practical experience			

Financial Planning

Location Sakhalin

Priority Ranking 7

Project Description/Scope

This project will introduce, and provide for the application of, state of the art methods of budget planning, including multi-year budgeting for both capital and operating expenses. It will include analysis of the trends of revenues and expenditures of the Oblast and provide forecasting tools and methods. The long-term projections will include working collaboratively with "donor" enterprises and taking into account their strategic business development plans for future revenue perspectives. It will also include development of a long-term fiscal plan for the Oblast. This fiscal plan will cover all sources of funding, including borrowing and joint venture investments. It will also consider alternatives to government provision of services or government construction, such as concessions, leasing and privatization.

Desired Result/Impact

Improvements in the quality of short and long term budget plans and increase in reliability. A well thought out long range fiscal plan that has the support of key participants in the process will be both a product and the means of measuring the Oblast record in financial planning. The serious study of this subject will recommend the development of fiscal policies and regional legislation.

Project Components	Duration	Professional LOE	
		Expat	Russian
A Systematic review of representative international and Russian sub-national fiscal plans and financial policies which would yield case studies for the formal training	2 months	2 4	4 8
B Conduct financial planning seminar using case studies and practical applied polices that would be relevant to Sakhalin stage of development	1	1 8	3 6
C Conduct series of policy dialogues with the financial leaders of the major tax paying enterprises, banks and Oblast	2	0 6	2 4
D Assistance in developing the first Fiscal Plan for the Oblast	2	0 6	2 4
E Assistance in drafting enabling regional legislation on fiscal policy	2	1 2	2 4

Recipients of TA/Training

Oblast Departments of Investment and Economics, interested members of the Oblast Duma, local bankers and financiers

Methods of Delivery Technical assistance, on the job training, classroom training, roundtables, study tours within Russia and abroad, etc

Known Issues and Prerequisites Oblast Duma has particular interest in knowing the future plans of the enterprises in the Oblast. It is not clear why these organizations would share this information, unless they are either recruited or obligated into the process.