An evaluation of the Tacis Country Programme in Russia

Final synthesis report

January 2000
The Tacis Country Programme Evaluation began in October 1998 on behalf of the EC-SCR Evaluation Unit.

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The opinions expressed in this report do not necessarily reflect those of the European Commission.
FOREWORD

This Evaluation of the Tacis Country Programme in the Russian Federation follows a series of previous sectoral and thematic evaluations and up to the moment discussions on Tacis’ new orientations in the coming years.

The objectives of the present evaluation have been comprehensively understood to include:

• Providing recommendations regarding the possible re-orientation of programme objectives and focus, resource allocation patterns and sectoral policies as an input to the 2000 programming exercise; and

• Contributing to the reflection on the future evolution of EC co-operation in the Russian Federation from the year 2000 onward.

The Evaluation emphasises the second of the above objectives, and therefore is very forward-looking in policy content. Traditional evaluation aspects have been thoroughly explored while assessing sectoral and horizontal themes.

This is reflected in the two-volume report structure:

Volume 1 – Synthesis – comprises a synthesis of the main findings, with a particular emphasis on strategic and process issues, and a summary of the key recommendations; and

Volume 2 – Sectoral and Horizontal Issues – comprises the analyses and evaluations of the main sectors and some horizontal themes.

Volume 1 is available in hard copy and on the web site of the Evaluation Unit of SCR. Volume 2 can only be consulted on that website: http://europa.eu.int/comm/scr/evaluation/index.htm

The two volumes have been conceived as stand alone documents, which complement one another, but can be read independently. Volume 1 addresses a wider public and aims at supporting reflections on future planning of the EU-RF technical and co-operative partnership. Volume 2 is mainly directed at persons involved in the Programme management and implementation process. Both volumes are based on the key concepts which are summarised in the common Executive Summary. A key proposal for a new approach and instruments fostering Partnership is developed in Volume 1 and is also included as a Preface to Volume 2.
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<th>Description</th>
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<tr>
<td>AP</td>
<td>Action Programme (annual)</td>
</tr>
<tr>
<td>CFSP</td>
<td>Common Foreign and Security Policy</td>
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<td>CS</td>
<td>Common Strategy</td>
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<tr>
<td>CU</td>
<td>Coordinating Unit</td>
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<td>CUP</td>
<td>Cambridge University Press</td>
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<td>DAC</td>
<td>Development Aid Committee</td>
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<td>DG</td>
<td>Directorate General</td>
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<tr>
<td>EBRD</td>
<td>European Bank for Reconstruction and Development</td>
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<td>EC</td>
<td>European Commission</td>
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<tr>
<td>ECSR</td>
<td>EU Common Strategy towards Russia</td>
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<tr>
<td>EES</td>
<td>European Expertise Service (PAP’s management)</td>
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<td>ER</td>
<td>External Relations</td>
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<tr>
<td>ESSN</td>
<td>European Senior Service Network</td>
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<td>FSU</td>
<td>Former Soviet Union</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>GNP</td>
<td>Gross National Product</td>
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<tr>
<td>HIID</td>
<td>Harvard Institute for International Development</td>
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<td>HR</td>
<td>High Representative (for CFSP)</td>
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<tr>
<td>IFI</td>
<td>International Financial Institutions</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IP</td>
<td>Indicative Programme</td>
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<tr>
<td>JSC</td>
<td>Joint Steering Committee</td>
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<td>JTAC</td>
<td>Joint Tacis Advisory Committee</td>
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<tr>
<td>LIEN</td>
<td>Link Inter European NGOs (SPPs)</td>
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<td>MS</td>
<td>Member States</td>
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<tr>
<td>ME</td>
<td>Ministry of Economy</td>
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<td>MLE</td>
<td>Medium-large scale enterprises</td>
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<tr>
<td>NEP</td>
<td>New Economic Policy</td>
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<tr>
<td>NIP</td>
<td>National Indicative Programme (multi-annual, same as NP)</td>
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<tr>
<td>NP</td>
<td>National Programme (multi-annual, same as NIP)</td>
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<tr>
<td>ODA</td>
<td>Official Development Aid</td>
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<td>PAP</td>
<td>Policy Advisory Programme</td>
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<td>PCA</td>
<td>Partnership and Cooperation Agreement</td>
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<td>PCM</td>
<td>Project Cycle Management</td>
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Executive Summary

The present Executive summary includes the main analyses, findings, and recommendations of the Evaluation. It comprises as well a sort of glossary, to explain some key concepts, which are largely used in the report. Such explanations are identified with Italic fonts and are framed in the text.

The context of the evaluation

The Russian transition

The Collapse of Russian society

The Russian transition has been going on for the past 10 years and is far from being achieved. GDP level [1998 = 55% of 1990] and living standards have fallen drastically, since the collapse of the economic and social structures. The process of building a new market-driven economy in a modern democratic society has proved to be much slower than originally expected and has been characterised by profound difficulties and crises at different levels: financial, institutional, legal, and political.

The lessons of experience

The realisation that the establishment and enforcement of a competitive framework should have preceded and accompanied both privatisation and liberalisation represents one of the key lessons from ten years of transition. After the explosive economic crisis of 1998 this lesson was more fully recognized and shared.

The problem, however, is how to build up such a framework in general, and particularly now in the Russian Federation, when a number of very strong financial and social positions have been built outside and against any competition rule.

Process facilitation v/s top down assistance

A way to build such a framework is by facilitating the internal process of social dialogue and negotiation, experimentation, and learning at all levels of society.

Many donors’ sponsored projects continued to explain the “right way” to the Russians instead of helping them to find "the best way in their conditions". Especially after 1994, the Russian problem in various sectors was not a lack of knowledge of the market economy in theory but rather an inability to apply this knowledge in a constructive way to the Russian context.

To shift from a top-down transfer of know-how to a process facilitation approach, it is necessary for most projects to include a strong component of exchange of information, and even comparison and emulation, among the different Russian institutions, enterprises, and NGOs, which are engaged in similar processes. Such an approach emphasises the importance of the lessons to be learnt from the Russian process, with external technical assistance taking on the role of facilitator, gathering the lessons of outside experience, in order to understand better the Russian one.
Tacis programme in Russia

A large TA programme

Tacis has participated since the beginning in supporting the reform and restructuring process, together with the international community, through the establishment of the largest Technical Assistance programme ever, whose total engagement, in Russia, has attained almost 2 billion € since 1991. Despite its large size, however, the programme was just one relatively small component of the total Official Development Aid (ODA) flows that benefited Russia in the same period. According to the Development Aid Committee (DAC) classifications, the total aid received by Russia, from 1991 to 1997, amounts to 42,188 MUS$.

The strategic framework

According to the strategic documents of Tacis, its key strategic priorities correspond to those of the main donors in Russia (the IFIs, USAID, and EU member states). They may be summarised as follows:

1. To build the framework for a market economy:
   a. focus on know-how transfers and human resources development
   b. enhance privatisation and enterprise restructuring
   c. support the establishment of a new legal and institutional framework

2. To strengthen the democratic process:
   a. support good governance and decentralisation
   b. support the participation of civil society

More recently the framework of the EU-Russia relationships affecting Tacis has been supplemented with a number of acts and facts:

- the establishment of a global Partnership and Cooperation Agreement (PCA), signed in 1994, and entered definitely into force in December 1997;
- the approval by the EU member states of a Common Strategy for Russia, according to the Amsterdam treaty, in May 1999; and
- the enlargement of the EU which has extended and will further extend the common borders and the areas of connection between Russia and EU.

The PCA and –though very recent– the EU Common Strategy bring two strong concepts, which are relatively new for Tacis and, more generally, for the donor community in Russia, into the strategic framework of EU-Russia relationships:

- partnership as the way to address most cooperation problems between the two parties, at all levels; and
- the gradual integration of Russia into a common European economic space, which implies trade liberalisation, joint infrastructures, approximation of the legal and institutional framework.
The broad concept of Partnership can be used to characterise the particular type of cooperation between two countries who decide to act as equals –partners– in a number of fields, in which they recognise that their interests are interdependent and can be dealt with on a joint basis. In the context of the EU-Russia relationship, Partnership should intend to facilitate common understanding and co-operation, to build a basis of for increasing integration between the EU and Russia, as a condition for peace and prosperity all over Europe. "Strengthening the strategic partnership between the EU and Russia, since the future of Russia is essential to the future of the continent and constitutes a strategic interest for the EU" is identified as a key objective in the EU Common Strategy.

The implementation of a Partnership implies the establishment of various linkages between the partners:

i) a two-way intellectual exchange--i.e. an open and systematic exchange of the relevant information and lessons from the experience;

ii) twinning and networking-- i.e. the establishment of horizontal linkages (and/or networks) among relevant public institutions, private enterprises and organisations of civil society

iii) transparent decision making at various levels.

Tacis instruments

To implement its strategy, Tacis has set up a number of instruments:

1. The National Programme, which is based on an Indicative medium-term exercise, and an annual Action Programme, agreed upon with the Russian counterpart. The relevant total engagement (in the period 1991-99) amounts to about 1.3 Billion €, and includes:
   a. the mainstream programme, composed of a number of relatively large projects [the present average size is about 3M€], which accounts for about 75% of the National Programme; and
   b. the Small Project Programmes (SPPs), which are demand-driven small projects, in different fields.

2. The Regional Programme, including inter-state projects and Donors Coordination, which are agreed upon each year with the different CIS coordinators. The relevant total engagement for Russia (in the period 1991-99) amounts to approximately 380 M€ (excluding 280 M€ for Nuclear Safety), according to the current estimates.

3. Other support and complementary activities, for a total commitment of about 145 M€.

The findings of the evaluation

Coherence and relevance

Coherence and consistency

Tacis has made considerable management and financial efforts to respond with coherent actions to its strategic framework, which, in the case of Russia, became particularly large and quite ambitious as seen above. However, Tacis was not in the position to play a leading role in the
donors’ community, due to a number of external and internal constraints and in practice had to follow a narrower scope, along the line of the major donors until 1997.

Strengthening the regulatory framework and democracy have been addressed only to a limited extent. Most resources have been allocated to: (i) enterprise privatisation and restructuring; and (ii) training and education. With respect to the nature of Tacis interventions, most programmes have been based on transfer of know-how from western European consultants to Russian beneficiaries, whilst *partnership* has remained limited to specific projects, and *process facilitation* has occurred occasionally, in some successful actions.

**Relevance**

Within these limits, Tacis action was highly relevant in the early stages of the transition (1991-94), when Russians were thirsty for the rudiments of western management, and several important structural processes, like privatisation, were beginning.

Then (1994-97), the transition process became much more complex. Many unforeseen problems arose and resistance stiffened. The issue of knowing the western methods and procedures became less important than the need to understand and address the specific Russian constraints. Under these new conditions, the programme became limited in its global relevance. Tacis needed to identify strategies and programmes able to bring into practice *partnership* and *process facilitation*.

At the sectoral level, programmes in institutional training and higher education retained their relevance. Relevant support to post-privatisation and enterprise restructuring, in industry and agriculture, however, was hampered by the fact that effective enterprise restructuring encountered a multiplicity of problems, such as delays in the reform of the legal and institutional framework; poor law enforcement; weak governance at federal, regional and local level; inadequate development of civil society structures and local NGOs.

**Russian ownership**

Russian participation and ownership is generally perceived as being higher in the small projects, where the identification of beneficiaries is more direct, and the selection/instruction process is speedier. The projects themselves need, in most cases, strategic consistency.

From a more general point of view, the two parts of which the “Ta-cis” acronym is composed, both create some conceptual obstacles to Russian ownership in the programme: (i) *Top down* technical assistance from Western Europe is met by some resistance by Russians who are more accepting of a clearly established and actual framework of partnership; and (ii) Russia may find it difficult to consider itself as “just one of the NIS”.

**Impact**

Considering the global impact of the programme as the result of the combination of its *relevance* and its *influence* on donors’ coordination and policy dialogue with the government, the impact evaluation may be summarised as follows:

- particularly high in education and training;
- medium in governance;
- medium to low in enterprise restructuring and building the framework for a market economy.

It appears necessary to strengthen the Programme’s *influence* through the establishment of its partnership networks and activities, in some of the key reform processes.
Influence and visibility

The role of visibility and influence in determining Tacis impact has been particularly addressed in the evaluation and needs a short explanation.

Visibility is often considered a key criterion for project evaluation. The desire for visibility originates from the concern that there may be good/effective projects whose impact is limited because people’s attention is not sufficiently attracted to them. The risks of overemphasizing the effectiveness of increased visibility to improve project impact include adding many ‘lights or flags’ onto projects without a corresponding increase in substance, favouring short-term effects, and unsustainable output may result.

The influence of a donor is a function of the ownership of the aid by the beneficiary and arises out of the acknowledgement of the usefulness and validity of the assistance received. On occasions, influence is confused with interference. Interference – or rather the capacity for interference – is instead a function of the leverage power of a donor over the beneficiary.

The instruments and the management process

National Coordination and policy dialogue

The current coordination of the programme by the Ministry of the Economy in Russia is not to Tacis’ advantage. The Ministry of Economy is not in charge of the PCA and relationships with the EU, and has to cope with many pressing priorities. The role of the Coordinating Unit should be clearly defined as a sort of secretariat of the National Coordinator, to facilitate its dialogue with the Russian beneficiaries and the EU counterparts. A permanent consultation mechanism between the Commission and a strengthened National Coordination would ensure more flexibility and relevance in the programming process.

Project type and size

In the spirit of simplifying the management process, the Brussels administration enthusiastically embraced the increasing concentration of Tacis mainstream activity on a few large centralised programmes. In some cases this has brought about inefficiencies and loss of beneficiary ownership. Several main rigidity factors need to be addressed to forestall future problems including:

- inflexible procedures in the definition and implementation of the projects;
- administrative centralisation;
- thematic centralisation; and
- increasing value of contracts.

On the other hand, the existing Small Projects Programmes (SPPs) may be considered a more flexible tool, but still require attention in the following key areas:

- most of the present SPPs need a coherent strategic framework and an adequate policy support to avoid being demand-driven instruments characterised by a limited scope;
- increased participation by the Russian side in the final selection of the projects by the steering committee in Brussels is needed in the majority of cases;
- increased multi-annual allocation of funds is needed to enable SPPs to help Tacis in promoting strategic partnerships and coordination with other donors.
Donors' coordination

Donor coordination in the present situation is ensured by a strong effort of the Delegation to gather and disseminate information in Russia, both with the member states and the other major donors. Donor coordination should now take the next step and extend to the identification and implementation of joint and/or complementary actions, especially among the EU member states.

Regional and federal level

Up until 1995-96, Tacis designated a number of priority Regions to concentrate on. From 1996-98, however, more attention was focused on the Federal level, to speed up policy reform in the different sectors, and to concentrate similar regional interventions under the same umbrella. It is now time to once again ensure the full participation of the most dynamic regions by supporting those regions willing to pioneer the reform processes despite some hesitation at the federal level.

Investment

Direct investment procedures should be simplified to ensure the smooth and efficient operation of the projects themselves. The increase in the share of Tacis funds available for investment should be limited so as to not alter the nature of the programme and its goals.

The recommendations

Improving the policy framework of RF-EU Technical and Economic Cooperation and the Programme Instruments to enhance partnership

The main recommendation of the present Evaluation is to introduce on a broad scale a new approach in the RF-EU technical and economic co-operation based on partnership, process facilitation and instruments of a different nature.

This new approach will require strengthening Tacis function as an instrument of the global EU-Russia relationships by:

- shifting from a focus on top-down Technical Assistance to a focus on Partnership; and hence
- helping Russians to find their own solutions to problems (process facilitation).

Accordingly, new intervention instruments should be set up to overcome the present rigidities and inefficiencies, as well as to improve the relevance of actions. Such instruments should combine well defined strategic frameworks at sectoral level and large financial allocations with twinning and networking between EU and Russian partners, dialogue-driven projects, and process facilitation in Russia.

Such new instruments should be conceived as cluster programmes, in which a common strategic framework, is implemented through relatively independent, diversified and flexible components. Such cluster programmes could take the name of EU-Russia Partnership Initiatives, in the key thematic areas identified for Russia by the new Tacis regulation, by the PCA and the Common strategy.
Strengthening the policy dialogue and the programming process

The institutional set up of Tacis in Russia should be reviewed, to ensure a higher level and permanent policy dialogue, day by day joint problem solving, transparency and efficiency.

The Programme should ensure a balanced participation of the federal, regional and local authorities, avoiding the establishment of unnecessary hierarchies.

**Improving member states’ participation and Donor coordination**

Donors’ coordination should strengthen the ongoing efforts for appropriate information sharing and coordination.

Particularly in the case of the Member States and some IFIs, the Programme should be able to incorporate their participation into its *Partnership Initiatives*, and to establish stronger synergies. With respect to the Member states, such *Partnership Initiatives* of the EU Programme should increase its capacity to build on the experience of Member States and to give them a larger strategic impact.

**Increasing the strategic consistency of the programme at the sectoral level**

The various sectoral and thematic strategies should be reviewed to give adequate priority to the framework issues, and to enhance partnership and process facilitation components and approaches.

**The need for an Information campaign in Russia**

Russians need to know more about the EU, EU strategies towards the Russian Federation, and related partnership opportunities. The Programme should address the importance of this need.

**Improving Data bases and Programme information**

The information available on Programme activities and opportunities should be improved to emphasise its practical focus, through the provision of well-organised and maintained databases, and other information on the actual programme implementation and performance, to facilitate both experts’ evaluations and public opinion awareness.
1 SOME KEY FIGURES OF THE TRANSITION IN RUSSIA

Some basic data relating to the Russian social and economic scene in the last decade should be taken into account.

1.1 Collapse of the income level

According to World Bank figures\(^1\), the Russian Federation has a population of 147.3 million with a 1997 GNP per capita of US$2,740. This level of GNP per capita classifies the country among the low-middle income range, with Peru, Turkey, or Thailand, and below most European countries, with the exception of the Balkans. GNP per capita has decreased more than 40% since 1989. When calculated by the Purchasing Power Parity method, GNP per capita is 4,200 US$, 34% less than in 1989.

1.2 The first stage

After a very hard period characterised by the collapse of the command economy since 1989 and the dissolution of the Soviet Union in 1991, and until the dramatic political crisis of October 1993, Russia experienced relative political stability and the first measurable economic improvements. The electorate ratified a new constitution, and parliamentary elections were held peacefully. By mid-1994, the mass privatisation program was completed, with 70 percent of non-defence enterprises —approximately 80,000 small businesses and 14,000 larger firms— privatised. As a result, 40 million Russians became shareholders. More than 30 percent of households came to own their homes. Positive developments were also visible in the strengthening of democratic processes, such as: grassroots citizens’ organisations; new political parties, labour unions and advocacy groups; and the gradual devolution of administrative powers from the central government to the regions and municipalities; independent newspapers, TV and radio stations.

1.3 From the recovery to the present crisis

The downward trend in real output was reversed in the second half of 1997. Real Gross Domestic Product (GDP) grew, for the first time during the transition, by 0.8% in 1997. The drop in trade that accompanied the break-up of the former Soviet Union was also reversed. However, Gross Domestic Investment remained insignificant. A major obstacle in this regard was the fact that the implementation of structural reforms was too patchy to create a favourable climate for private sector development, and new private investments lagged behind. Table 1 on the following page summarises the main Russian social and economic indicators for 1996.

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\(^{1}\) World Development Indicators (1998) – CD ROM
In June 1997, the unemployment rate began to show visible signs of decline, reflecting growth in business activity for the first time during the reform era. In October 1997, unemployment decreased to 6.4 million or 8.9% of the labour force. Poverty, however, still remained a serious problem. The working poor, families with many children, and one-company towns, where factories had been downsized or closed, experienced the greatest difficulties.

In late 1997, Russia was affected by a deep financial crisis, due to the effect of the Asian crisis, and the deterioration of domestic political support for the reform process. Investors were concerned at the weak capacity of both government and parliament to adopt and enforce pending key economic decisions, essential to combat the international and domestic crisis. What was needed, in particular, was an increase in tax collection from the large enterprises, as well as more security and transparency for investment, democracy and control in corporate governance, and new laws of land tenure.

This lack of political will pushed investors, first to desert the government securities market (GKOs and OFZs), thus depleting the country’s foreign exchange reserves in the process, and then to deny any credit to the Government’s anti-crisis Economic and Financial Stabilisation Plan.

<table>
<thead>
<tr>
<th>TAB. 1: BASIC SOCIAL AND ECONOMIC INDICATORS (YEAR 1996)***</th>
<th>Unit</th>
<th>Russia</th>
<th>Turkey*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Population mid-1996</td>
<td>Million</td>
<td>147.7</td>
<td>62.7</td>
</tr>
<tr>
<td>GNP per capita 1996</td>
<td>USS current</td>
<td>2,410</td>
<td>1,920</td>
</tr>
<tr>
<td>GNP per capita 1996</td>
<td>USS PPP</td>
<td>4,200</td>
<td>4,290</td>
</tr>
<tr>
<td>GNP 1996</td>
<td>USS billion</td>
<td>356</td>
<td>185</td>
</tr>
<tr>
<td>GDP growth</td>
<td>1990-96 (%)</td>
<td>-7</td>
<td>7.8</td>
</tr>
<tr>
<td>Population growth</td>
<td>1990-96 (%)</td>
<td>-0.1</td>
<td>2</td>
</tr>
<tr>
<td>Labour force growth</td>
<td>1990-96 (%)</td>
<td>0.1</td>
<td>2.5</td>
</tr>
<tr>
<td>Life expectancy at birth</td>
<td>Years</td>
<td>66</td>
<td>68.5</td>
</tr>
<tr>
<td>Infant mortality</td>
<td>%</td>
<td>17</td>
<td>42</td>
</tr>
<tr>
<td>Adult literacy</td>
<td>%</td>
<td>99</td>
<td>82</td>
</tr>
<tr>
<td>Combined gross enrollment</td>
<td>%</td>
<td>78</td>
<td>60</td>
</tr>
<tr>
<td>Secondary education</td>
<td>% female</td>
<td>51</td>
<td>39</td>
</tr>
<tr>
<td>Labour force, female</td>
<td>% of total</td>
<td>49</td>
<td>36</td>
</tr>
<tr>
<td>Population below poverty line****</td>
<td>%</td>
<td>11**</td>
<td>..</td>
</tr>
</tbody>
</table>

*The comparison with Turkey is particularly interesting and also striking, considering the very different situation of just ten years ago.

Turkey is a fast growing low-middle income country, and has geographic and historical—and often conflicting— links with Russia. Alongside some similarities in the income-related figures, Turkey has a strong growth dynamic in GDP and population, whilst Russia has more positive social indicators.

** this percentage is one of the lowest among the countries in transition and the low-middle income countries (source: Russian Economic Trends MU February 1999)

***source: World Bank – Development indicators - CD ROM

**** 2 Purchasing Power Parity USS/day
In August 1998, the government announced its emergency decisions: larger fluctuation of the Rouble; restructuring of treasury bills; and a 90 days moratorium on repayments of principal. A new government was set up in September 1998. A sharp increase in the rate of Rouble devaluation and inflation took place.
2 A SHORT DESCRIPTION OF THE TACIS PROGRAMME

2.1 The origins of Tacis and external support for the transition in Russia

In July 1990, at a G7 meeting it was decided to ask the IMF and other agencies to prepare an agenda for action to speed up the economic transition process in Russia.

It is very difficult to get a precise idea of the financial aid allocated by the IFIs, EU, and G7 countries to the Russian transition for lack of properly co-ordinated information, standardisation, and transparency.

However, some considerations and estimates may be made as follows:

- Tacis was the biggest technical assistance programme ever launched and the largest in Russia, where it allocated slightly less than 2 billion € up to 1998 (see Tab. 2); it was immediately followed by USAID, which allocated approximately 1.2 billion US$ up to 1997;
- the TA programmes of the IFIs and the bilateral aid from various donors were smaller and, in the case of IFIs, linked to specific loans;
- IMF net credit to Russia in the period 1992-97 exceeded 18 US$ billion, and World Bank loans, in the same period, amounted to about 9 US$ billion;
- bilateral soft loans from EU member states are more difficult to identify, although – according to OECD data– they may have amounted to approximately 25 billion € in the period 1991-97;
- according to DAC classifications, the total aid received by Russia, from 1991 to 1997, amounts to 42,188 MUS$.

2.2 Tacis Regulations

Tacis programming and implementation are based on the specific Council Regulations. These were issued in 1991, 1993, 1996, and a new Regulation for the period 2000-2006 has been approved in December 1999. The Regulations establish the key references of the programme, i.e. goals, objectives, instruments and procedures. From 1991 to 1994, the Council Regulations provided the basic strategic framework for Tacis.

In 1994, a Partnership and Cooperation Agreement was signed between the EU and Russia, establishing general principles and priorities, into which Tacis –like other cooperation programmes– was to be fitted. The PCA came into force in 1996. In May 1999, at the end of the

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2 The figures below are tentative estimates, from official documents, in which the classification of the aid is not homogeneous.
3 USAID, 1998 programme proposal.
5 Tacis was originally set up under the auspices of the 1989 EC/USSR Trade and Economic Agreement, the only relevant existing legal instrument, but one which was already completely overtaken by events by 1991.
present study, the first EU Common Strategy towards a third country was approved for Russia. It is clear that such a strategy must represent the key strategic reference for the new Tacis in Russia.

### 2.3 Programming instruments

Tacis assistance has three main delivery mechanisms:
- national mainstream programmes;
- small projects, or facilities; and
- regional programmes.

#### 2.3.1 National mainstream programmes

The national programme for Russia absorbs approximately one third of Tacis funds and represents slightly less than two thirds of the total country allocation (see Tab. 2). Funds are programmed on the basis of the multi-annual Indicative Programmes (IPs) and annual Action Programmes (APs), in which also the global national allocations for most SPPs are established.

#### 2.3.2 Small Project Programmes

The Commission operates some twenty different Tacis SPPs in Russia. The major SPPs are:

- Democracy Programme
- European Expertise Service (EES)
- City Twinning
- European Senior Expert Service Network (ESSN)
- Joint Venture Programme (JVP)
- LIEN (NGOs)
- Tempus
- Bistro
- Productivity Initiative (PIP)
- Policy Advice Programme (PAP)
- Bangkok facility (with EBRD)
- Customs programme

These SPPs were developed to meet a specific type of assistance need, or to serve a specific target group. They can meet the demands for assistance more quickly than the national or regional programmes and, with few exceptions, the size of the project interventions is currently smaller than € 300,000.

**Regional (inter-state) programme**

The identification and selection of projects for the regional (inter-state) programme is done annually at a joint meeting of CU representatives, upon instructions of the respective line Ministries. The Commission chairs this meeting. Some problems with achieving unanimity have been reported.

### 2.4 Tacis “products”

The set of products supplied by Tacis currently corresponds to the list below:

- Training;
- Institution building;
- Standalone Technical Assistance, either on policy or technical matters;
- Networking and Twinning, between Russian and EU private or public enterprises/institutions;
• Technical Assistance as an investment catalyst, for restructuring and other feasibility studies; and
• Cost-sharing Technical Assistance, for private enterprises, through special SPPs, like ESSN and TERF

The cooperation services provided by Tacis have gradually changed over time. Small investments —to integrate the know-how transfers— have been included among the mechanisms in the framework of cross-border cooperation and of the joint venture programme for SMEs. Such investments may not exceed 10% of the total annual allocation, according to the current Regulation, and should be increased by up to 25% in the new one.

2.5  Actors in the programme

The policy guidance of the programme is ensured by the External Relations Directorate General (former DG1A) of the Commission. Within the DG, Unit C1 is in charge of general policy in the NIS area, and Unit C2 is responsible for Russia. The Common Service for the External Relations (SCR) is presently in charge of the programme’s implementation. The other main actors in the programme are:

- National Coordinator (NC) – representative of the Russian government;
- Coordinating Unit – should be the secretariat of the NC and the Tacis liaison organisation of the Russian Government
- Monitoring Unit – through several EU/Russian sector teams consisting of a European and a local expert, it is responsible for monitoring projects in the field.
- Partner organisation or project partner (PO) - the organisation receiving assistance in project form;
- EC Delegation in Moscow, which includes a Tacis technical team;
- Tacis Technical Offices - 6 regional support units, with the role of information and management facilitators;
- Task Manager (TM) - permanent or hired staff members of the EC/SCR, based in Brussels, responsible for managing a number of contracts, on a sector basis;

2.6  Tacis funding

Since the start of the Tacis programme in 1991, the European Union has allocated a relatively stable volume of funds to the Tacis programme in Russia, an average of approximately 240 M€ per year between 1991 and 1998. The level of Tacis funding is not significant in terms of contribution to GDP/GNP. The average allocation represents less than 2€ per capita per year. This is nevertheless above the overall Tacis average, and reflects both Russia’s size and influence (Tab.2).

Tab.2 shows the total amount of Tacis allocations to Russia. Under the heading “Other programmes”, all Tacis funds that are not allocated through the national programming procedure have been considered. It is normally assumed that one half of these funds benefit Russia. The total allocations for Russia have been calculated according to this estimate. The relative size of total Tacis allocations, total Russian allocations, and Russian allocations under the National programme is shown in Tab. 3.

More than 280 projects have been prepared in the period under review. Almost 70% of the contracts are for amounts of over € 300,000, for which formal tendering procedures are required. In total, these account for 97 percent of the total value of contracts. The average value of those contracts valued at more than € 300,000 is just under 2 million €.
The evaluation unit has completed a broad programme of evaluation of the different Tacis components. Table 4 shows the evaluations available for Russia at the end of the present study. The findings of these evaluations have been taken into account in the implementation of the present country evaluation.

### 2.7 Tacis Evaluations

The evaluation unit has completed a broad programme of evaluation of the different Tacis components. Table 4 shows the evaluations available for Russia at the end of the present study. The findings of these evaluations have been taken into account in the implementation of the present country evaluation.

### Table 2: EU Tacis: Funds Allocated to Russian Federation

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Nuclear safety and environment</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>6</td>
<td>5</td>
<td>10</td>
<td>8</td>
<td>42</td>
</tr>
<tr>
<td>Restructuring PSD development</td>
<td>27</td>
<td>30</td>
<td>55</td>
<td>43</td>
<td>41</td>
<td>31</td>
<td>29</td>
<td>32</td>
<td>18</td>
<td>306</td>
</tr>
<tr>
<td>HRD and Public administration</td>
<td>47</td>
<td>25</td>
<td>44</td>
<td>19</td>
<td>53</td>
<td>34</td>
<td>27</td>
<td>33</td>
<td>20</td>
<td>302</td>
</tr>
<tr>
<td>Agriculture</td>
<td>51</td>
<td>21</td>
<td>13</td>
<td>16</td>
<td>17</td>
<td>11</td>
<td>13</td>
<td>9</td>
<td>5</td>
<td>156</td>
</tr>
<tr>
<td>Energy</td>
<td>42</td>
<td>16</td>
<td>21</td>
<td>20</td>
<td>18</td>
<td>12</td>
<td>13</td>
<td>9</td>
<td>4</td>
<td>155</td>
</tr>
<tr>
<td>Transport</td>
<td>33</td>
<td>15</td>
<td>14</td>
<td>14</td>
<td>13</td>
<td>9</td>
<td>7</td>
<td>8</td>
<td>5</td>
<td>118</td>
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<tr>
<td>Policy advice and SPPs</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>19</td>
<td>0</td>
<td>26</td>
<td>31</td>
<td>28</td>
<td>23</td>
<td>127</td>
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<td>Telecommunications</td>
<td>0</td>
<td>5</td>
<td>5</td>
<td>4</td>
<td>5</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>2</td>
<td>31</td>
</tr>
<tr>
<td>Others</td>
<td>0</td>
<td>0</td>
<td>10</td>
<td>15</td>
<td>15</td>
<td>3</td>
<td>4</td>
<td>10</td>
<td>8</td>
<td>65</td>
</tr>
<tr>
<td>Total NP</td>
<td>213</td>
<td>112</td>
<td>162</td>
<td>150</td>
<td>162</td>
<td>135</td>
<td>133</td>
<td>142</td>
<td>93</td>
<td>1,302</td>
</tr>
</tbody>
</table>

Other Programmes

The estimate is based on the hypothesis that 50% of funds allocated to the NIS concern Russia.

Regional programmes*                          | 25   | 12   | 35   | 24   | 23   | 25   | 21   | 22   | 16   | 203   |
Nuclear Safety                                 | 27   | 30   | 44   | 33   | 30   | 40   | 34   | 17   | 12   | 267   |
Donor coordination**                           | 0    | 28   | 10   | 10   | 20   | 25   | 27   | 29   | 29   | 178   |
Programme implement.                           | 3    | 12   | 6    | 11   | 12   | 19   | 17   | 16   | 19   | 115   |
Others***                                     | 0    | 0    | 0    | 5    | 5    | 6    | 6    | 5    | 5    | 32    |
Total                                          | 55   | 82   | 95   | 83   | 90   | 115  | 105  | 89   | 81   | 795   |
Grand Total                                    | 267  | 193  | 256  | 233  | 250  | 248  | 238  | 228  | 173  | 2,097 |

*includes Interstate and Cross-Border Cooperation (from 1996); **includes 50% of EBRD Bangkok facility and International Science and Technology Centre, ***includes Coordinating Units, Monitoring, Information and Evaluation; ****includes Democracy Programme.

**Sources:** The Tacis Programme Annual Report, 1997; European Commission databases.

### Table 3: Tacis allocations 1991-97 (M €)

- All Tacis
- Tacis in RF
- RF NIPs

### Table 4: Evaluations available on Tacis in Russia (May 1999)

<table>
<thead>
<tr>
<th>Private sector</th>
<th>Productivity Initiative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Democracy Programme</td>
<td>Food and agriculture</td>
</tr>
<tr>
<td>Management training in the NIS</td>
<td>Tempus</td>
</tr>
<tr>
<td>Tacis interim evaluation, 1995</td>
<td>EES Facility</td>
</tr>
<tr>
<td>City Twinning</td>
<td>Intl Science and Technology Centre</td>
</tr>
<tr>
<td>Other SPPs</td>
<td></td>
</tr>
</tbody>
</table>
PART II: The Context of the Evaluation

3 A SYNTHETIC PROBLEM ANALYSIS OF THE RUSSIAN TRANSITION

3.1 The key steps in the Russian transition

The transition process can so far be divided roughly into three periods.

3.1.1 The first period (1991-1994)

This period spans the years from 1991 –the first year of Tacis, which corresponds to the birth of the present Russian Federation– to 1994, when the bulk of the mass privatisation was concluded earlier than foreseen, and the Government had definitely overcome the dramatic institutional crisis of 1993.

This period is characterised by the collapse of the former production and distribution system, which caused a number of emergencies, especially in the food sector, in nuclear safety, transport, etc.

Until the crisis of 1993, there was uncertainty about the behaviour of the army and the possibility of building a democratic society in the transition towards the market economy.

Russia lacked the basic skills of economic management. Moreover, the general education and training systems had collapsed, along with the production and distribution systems, due to a lack of financial resources and motivation. In this context of crisis, the foundations of the market economy had to be built from scratch as rapidly as possible, with difficult choices having to be faced.

There were also inflated expectations about the possible benefits of the transition and the technical and financial support that Western Europe and the US (through the IFIs and other TA instruments) could provide to accelerate the process and limit its costs.
This period extends from 1995 to 1997, up to the 1998 crisis. It had generally been hoped that in this period forces inside Russia would have benefited from the new political and institutional environment: production and trade should have recovered, and democracy improved. Slight signs of change occurred at the macroeconomic level (see the Tab. 5, on GDP index), but this was not enough to generate an unambiguous positive trend.

**3.1.2  The second period (1995-1997)**

This period extends from 1995 to 1997, up to the 1998 crisis. It had generally been hoped that in this period forces inside Russia would have benefited from the new political and institutional environment: production and trade should have recovered, and democracy improved. Slight signs of change occurred at the macroeconomic level (see the Tab. 5, on GDP index), but this was not enough to generate an unambiguous positive trend.
As it turned out, in this period, a number of events and processes set things going in a different direction:

### TAB.7: SUMMARY OF THE KEY STRATEGIC CONCERNS THAT CHARACTERISED RF TRANSITION, IN 1991-94 AND 1995-98

<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Collapse of the former production and distribution systems, and related emergencies, for food security, nuclear safety, transport, etc.</td>
<td>Appearance of a new monopolistic structure of the economy, inhibiting the development of a free market. Related to this, a widespread resistance to change among a number of key groups (big company managers and workers, senior bureaucrats, political leaders...) delays some key reforms: e.g., the land reform, and the establishment of a competition framework in some key sectors.</td>
</tr>
<tr>
<td>Uncertainty about possible return to an authoritarian system and political instability.</td>
<td>Pervasive illegal behaviour in the business environment: e.g., lack of accountability in corporate management, tax evasion, illegal practices for market control.</td>
</tr>
<tr>
<td>Lack of skills in economic and policy management, and collapse of the education and training systems.</td>
<td>Related difficulties in the democratic process and reduced confidence in Western partnership.</td>
</tr>
<tr>
<td>Need to speed up the creation of the structural basis of a market economy.</td>
<td>Intolerable social imbalances.</td>
</tr>
<tr>
<td>Positive expectations and confidence in Western models and support.</td>
<td></td>
</tr>
</tbody>
</table>

- The privatisation process, under the advice of the Western partners, was very fast and preceded the establishment both of a new legal and regulatory framework, and the institutional set-up necessary to ensure its management and enforcement. This allowed a new private-based monopolistic structure to emerge in the main markets, causing deep-seated economic inefficiencies and serious drawbacks to governance and democracy.
- In this framework of inefficient markets and weak governance, illegal practices –from small-time corruption in the public services to organised crime– become widespread. Any attempts, either from Russians or foreigners, to engage in business outside the protected monopolistic structure were strongly discouraged.
- Among the population, increasing social imbalances, absolute growth of poverty, and civil insecurity were not compensated for by the benefits of the new market economy and gave rise to growing hostility towards reform.
- On the international side, the Chechnia crisis, as well as the fear of possible isolation in Europe, weakened the democratic process and Russian confidence in Western partnership.

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6 There is relatively extensive literature on this subject. This literature regards some main subjects, such as:
- the appearance of "old new elites" and the ethic question in the transition (see: A. Aslund, How Russia Became a Market Economy, Brookings Institution, Washington, D.C., 1995)
- the establishment of new inefficient strategies for business management (see: C. Gaddy and B.W. Ickes, Why Are Russian Enterprises Not Restructuring, in Transition 8/98, and Beyond the Bailout: Time to Face Reality about Russia's Virtual Economy; in Foreign Affairs 77/98)
- the complexity of and negligence in building up a new legal and institutional framework (see: J. Elster, C. Offe, et al. Institutional Design in Post-communist Societies: Rebuilding the Ship at the Sea, CUP 98)
3.1.3 The present period (1998-present)

This is characterised by the economic crisis that exploded in August 1998. A source of grave difficulties, the crisis nevertheless created a number of opportunities for the transition process, which may be summarised as follows:

- The crisis acts as a filter on enterprises. It pushes towards bankruptcy and failure many of the more inefficient ones in both the financial and industrial sector, and —together with the devaluation of the Rouble— is creating more favourable conditions for the more competitive ones.
- After the explosion of the crisis, there was a marked change in the international approach to transition, and new more realistic strategies are being adopted: the IFIs and the donor community are putting much more emphasis on building the structural framework, as a condition for market liberalisation and enterprise restructuring (see Tab.13 at page 28).
- In the face of a dramatic budget deficit and in order to meet the requirements of the IMF, the government has started fighting against the many shady practices in the tax services, and its tax collection capacity is increasing.

The crisis however has also caused new problems by:

- strengthening political resistance to the transition process, in the face of the general decline in living conditions and the increase in poverty; most entrepreneurs, particularly in the larger companies, have hardened their opposition to some key changes in the reform process; and
- increasing the weakness of the reformist parties in the Federal Duma, and the general political instability provoked by the imminence of both the parliamentarian and presidential elections.

3.2 Changes in Russian priorities and demands

In the initial stages, the Russian need for assistance was much more general and undetermined than in the following periods. The key Russian demands of the West, included:

- establishing links and relationships with the West, at all levels and in all sectors and areas, to recover 70 years of isolation;
- acquiring the basic information on the market economy, and its functioning, as well as on the democratic institutions, in order to conceive and start up the reform processes at the different levels;
- facing a number of dramatic emergencies regarding various domains: financial, social, distribution, food, etc.

Later on, many processes started up: some of them achieved apparent success in a short time, e.g. mass privatisation; others were slowed down by unforeseen difficulties and resistance; others led to unpredicted changes accompanied by new problems. In such a situation, Russian demands changed, and, according to some of the researchers mentioned above, new priority needs appeared as follows:

- adapting the reform prescriptions coming from the West to the Russian context, finding the Russian path and sequences to economic and institutional change;
- building the basis for social dialogue and participation, in order to sustain the new economic and institutional set up;
- including Russia—as a nation and a civil society— in a favourable context of relations, at the international level, and especially in Europe. This should avoid any

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7 According to several sources (RET, Update April 1999, and data published in the press) there was an important increase in tax collection in the first months of 1999, especially with respect to customs duties.
form of political and cultural marginalisation but also reduce the internal costs, both financial and social, of the reform processes, and give back to the Russians –at least in some domains– a high international profile.

3.3 Lessons from the experience: was there a missing link in the past process?

3.3.1 An overview of the present debate

Many authors –especially after the 1998 financial crisis– have tried to analyse the structural weaknesses of the Russian transition. One of the focal points of these studies was the comparison between the Russian and the Chinese experiences.

According to J. Sachs & W. Woo (1996), the transition in Russia and other NIS was much more complex than in China due to some strong structural differences, such as: a much larger and pervasive state sector in the FSU economies; the much greater weight of heavy industries in the economy; the absence of excess labour force generated by agriculture; the absence of big foreign investment flows like the wholesale movement of labour-intensive industries from Hong Kong to Chinese Special Economic Zones (SEZ).

Many have stressed the importance of the competition framework, as a pre-requisite for privatisation and liberalisation. This point of view has already been mentioned above. According to several of these authors, the Chinese government –apart from its authoritarian set up, which is not considered an essential component of the successful approach– established and enforced a competition framework, particularly in the SEZ, before launching corporatisation of SOEs, mass privatisation and market liberalisation, and has retained some basic controls, e.g. over the financial markets.

Finally, a strong argument, in the ongoing debate, is represented by the pragmatic approach of the Chinese reform process, as opposed to the ideological and rather dogmatic one applied in Russia. "Crossing the stream by reaching for the next stone became the guiding strategy [of the Chinese]." This argument also includes other considerations besides pragmatism: according to some authors, Russia was unable to learn from previous experience, since all the social pacts, networks, and bodies –which existed before the start up of the reform, and could have acted as a sort of collective memory in a learning by doing process– were swept away by a revolution.

The argument that the reform process in Russia and in most NIS was based on top-down prescriptions instead of on learning by doing processes is stressed by many authors. The relevant analyses regard the key transition strategies that were adopted following western advice and under the pressure of local lobbies, and the broad characters of technical assistance.

8 Jeffrey Sachs and Wing Thye Woo, China's Transition Experience, Reexamined, in Transition 3-4 1996
11 V. Benzeniger op.cit.
12 Bertrand de Largentaye, Tacis and privatisation: sector policy analysis, EC/DG1A/C6 1998, provides a very objective and instructive description of the big-bang process in Russia. Mass privatisation was proposed and led by a Russian team supported by the assistance of a group of foreign advisors. The Russian team was headed by Mr...
provided by western consultants. Western technical assistance is often criticized as an external top-down exercise, which does not help in building the internal processes within the institutions as well as within enterprises. The relatively better results –or acceptance– of western technical assistance in Central European Countries are considered a consequence of the focus that these countries put on European integration, as the basic reference for institution building, and the adoption of new policies and standards.

### 3.3.2 Main Lessons

All the different positions that have been discussed above highlight one aspect of the actual situation, although they have a different impact on the key question: what to do now?

Jeffrey Sachs’ position, which emphasises the very heavy structural bottlenecks of the process in Russia, is indisputable, but it is not very helpful, especially considering that in the earlier stages, when understanding such difficulties might have been very useful, they were simply denied.

On the other hand, the realization that the establishment and enforcement of a competition framework –often also referred to as a regulatory, legal and/or institutional framework– should have preceded and accompanied both privatisation and liberalisation represents one of the key lessons from ten years of transition. Most policy makers, agencies and researchers now agree on this point, although many of them until a few years ago held different opinions. The problem however is: how to build up such a framework in general, and particularly now, when a number of very strong financial and social positions have been built outside and against any competition rule.

Here, the third group of arguments mentioned above may help provide key insights. It is possible –though very difficult– to build such a framework simply by facilitating the internal process of social dialogue and negotiation, experimentation, and learning at all the levels of society.

Stiglitz’s paper (4/99) contains a useful scheme (Tab. 8), in which two opposite metaphors are compared and which may help us to understand the difference in approach needed to deal with

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14 “Privatization prior to establishing an effective regulatory or competition framework can be a recipe for a disaster. We know, at least from hindsight, that part of the failures in Russia were due to paying insufficient attention to the preconditions for a market economy” in J.D. Wofelson, *A Proposal for a Comprehensive Development Framework (A Discussion Draft)*, World Bank 1999, page 5.

15 “It is also clear to all of us that ownership is essential. Countries must be in the driver’s seat and set the course. They must determine goals and the phasing, timing and sequencing of programs... And we must work to achieve the strategy with our colleagues in the government, in the international development community, the civil society, and the private sector”. *Ibidem*

16 *Whither Reform?*, op. cit.
transition, particularly in Russia, in order to re-build the mechanisms of self-Regulation and social learning that seem to have been destroyed by the *revolutionary* change that took place\(^\text{17}\).

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**Table 8: "Battle of Metaphors" (from J.E. Stiglitz, *Whither Reform?*, op. cit.)**

<table>
<thead>
<tr>
<th>Continuity vs. Break</th>
<th>Shock Therapy</th>
<th>Incrementalism</th>
</tr>
</thead>
<tbody>
<tr>
<td>Discontinuous break or shock—razing the old social structure in order to build the new.</td>
<td>Continuous change—trying to preserve social capital that cannot be easily reconstructed.</td>
<td></td>
</tr>
</tbody>
</table>

| Role of Initial Conditions | The first-best socially engineered solution that is not "distorted" by the initial conditions. | Piecemeal changes (continuous improvements) taking into account initial conditions. |

| Role of Knowledge | Emphasizes explicit or technical know-edge of end-state blueprint. | Emphasizes local practical knowledge that only yields local predictability and does not apply to large or global changes. |

| Knowledge Attitude | Knowing what you are doing. | Knowing that you don't know what you are doing. |

| Chasm Metaphor | Jump across the chasm in one leap. | Build a bridge across the chasm. |

| Repairing the Ship Metaphor | Rebuilding the ship in dry dock. The dry dock provides the Archimedian point outside the water so the ship can be rebuilt without being disturbed by the conditions at sea. | Repairing the ship at sea. There is no "dry dock" or Archimedian fulcrum for changing social institutions from outside of society. Change always starts with the given historical institutions. |

| Transplanting the Tree Metaphor | All at once transplantation in a decisive manner to seize the benefits and get over the shock as quickly as possible. | Preparing and wrapping the major roots one at a time (*nemawashi*) to prevent shock to the whole system and improve chances of successful transplantation. |

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\(^{17}\) Ironically, it could be said that Russia seems destined to need a NEP after a revolution (the *New Economic Policy*, launched in 1924, to mitigate some of the destructive effects of the revolution of October 1917).
4 THE FRAMEWORK OF EU-RUSSIA RELATIONSHIP

In this chapter, an analysis is made of the main components of the strategic framework of Tacis in Russia. The relevant evaluations, at this level, refer to: the coherence and consistency of the programme; the relevance to the Russian context; the overall impact. A number of specific and complementary issues are dealt with in the text boxes.

4.1 The early stage

After the request by the G7 meeting mentioned above, by December 1990, a Study of the Soviet Economy was ready, the main recommendations of which were: price and trade liberalisation, and mass privatisation. The international community was asked to provide adequate funds and technical assistance to support the transition process.

At the European Council held in Rome in December 1990 the need for a major initiative was accordingly recognised, and a year later the Tacis programme was launched. At the same time the EU and its member states played a full role in the efforts of the International Financial Institutions (IFIs) to help cope with the turmoil. Even though Tacis was the biggest technical assistance programme ever launched, it was dwarfed from the outset by the sums provided by these other institutions.¹⁸

4.2 The main components of the Tacis strategic framework

4.2.1 Regulations and Programmes

In 1991, the Council Tacis Regulation stated one main objective:

“the transition to a market economy”

In the Regulation of 1993, the following phrase was added:

“and thereby reinforcing democracy”

In recognition of the fact that undesirable forms of capitalism were developing which seemed to need stronger forms of democratic guidance and control, the 1996 Regulation gave equal weight to both objectives, which were formulated as

“transition to a market economy and reinforcing democracy”.

¹⁸ Although the programmes are of different natures and the direct comparisons have little sense, it may help to realise that IMF and WB together have provided Russia with about 15 times the financial contribution made by Tacis in the same period. See the figures in Part I, point 2.1.
Programming is based on the overall objectives laid down in the Council Regulations. However, the 1991 and 1993 Regulations do not provide any implementation strategy for achieving Tacis objectives. Instead, they identify a number of indicative areas eligible for Tacis support, commonly referred to as the Tacis Priority Sectors, and stipulate that the programme should:

- stimulate conditions favourable to private investment;
- encourage the development of CIS inter-state economic links and trade flows;
- encourage dialogue between the social partners in the NIS states.

In the 1996 Regulation, two important changes were introduced for future programming. The Tacis programme was given a supporting role in the context of Partnership and Cooperation Agreements (PCA) between the EU and various NIS countries. Secondly, Tacis was allowed the flexibility to use part of its funds (some 10 percent) for investment purposes 19. Democracy appeared in the form of a conditional statement.

In the new Council Regulation 2000-2006 20, the wider objectives are formulated as follows:

Transition to the market economy; and
Reinforcing democracy and the rule of law

where “reinforcing the rule of law” represents an additional objective, compared to the 1996-99 Regulation.

The new Regulation, also includes:

- an increase of up to 20% for investment-related activities (art. 6.2);
- an Incentive scheme, which should allow a portion of the resources to be used to respond to the best proposals coming from the partners states, in addition to the NPs (art. 4);
- a strong criterion of management concentration, with respect to the project size (art. 2.2);
- another strong criterion of thematic concentration (art. 2.4). In the Indicative Programmes the areas of cooperation will be selected out of the list indicated in Annex II of the new Council Regulation.

National Programmes

Another main strategic tool of Tacis is the NIP, which presently provides a framework of strategic references and priorities at the national level, for 3-4 years, i.e. for the whole duration of the present Regulation. NIPs for Russia have been established so far for 1991, 1992, 1993-95, and 1996-99.

The first two NPs were characterised by the need to respond to a number of emergencies, particularly in food distribution, the energy sector, and management training. Since 1993, the NPs have been extended to three years, and their main focus is on privatisation, enterprise restructuring and SME development. Tab. 9 shows the sector allocations made in the Action Programmes, according to the priorities established in the NPs.

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19 “It is necessary to permit a limited amount of financial allocation to be used for small-scale infrastructure projects in the context of cross-border co-operation; whereas the development of small and medium enterprises is a priority in all the NIS and Mongolia, ……it is therefore appropriate to provide equity funding for small and medium sized enterprises……by means of support for establishing joint ventures.”, in the 1996 Regulations.

20 The new Regulation as been approved by the Council of the European Union the 21st of December 1999.
The last NIP (1996-99) reflects the relevant Council Regulation, but emphasises a clear specific hierarchy of objectives, which is slightly different from the Regulation, as shown in Tab.10 below, under the Tacis policy heading. In the NIP, the key policy objective of Tacis is identified as support to enterprise, in order to maximize the benefits of mass privatisation. The other priorities are clearly seen to be complementary to the main objective.

Implicitly, the 1996-99 NIP stresses the idea that Tacis has a specific role in the global EU policy towards Russia: whilst the EU policy deals with a wide range of priorities, including democratic reform, economic cooperation and security issues, Tacis concentrates its efforts on the transition to the market economy.
**TAB. 10: SYNTHESIS OF THE 1996-99 INDICATIVE PROGRAMME**

<table>
<thead>
<tr>
<th>EU and Tacis policy</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>EU policy</strong></td>
</tr>
<tr>
<td>Democratic reform, economic cooperation; security cooperation, foreign policy cooperation and cooperation on justice and home affairs. Action Programme of the EU General Affairs Council of 13.5.96. It refers to Tacis as a principal instrument of the EU.</td>
</tr>
</tbody>
</table>

**Tacis Policy**

- Very significant emphasis on enterprise support with a strong investment link.
- To accompany this transformation, continued emphasis needs to be put on human resources development with continued emphasis on management training and new emphasis on legal training.
- Due to the manifest social problems of the restructuring process, social protection becomes a new major emphasis.
- In accordance with the possibilities of the new Regulation, Tacis will strengthen its orientation on environment.
- Food and Agriculture, energy and transport and telecommunications will continue as important selected areas.

<table>
<thead>
<tr>
<th>Selected areas</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Enterprise reform</strong></td>
</tr>
<tr>
<td>Enterprise reform is vital for Russia’s transition to a market economy.</td>
</tr>
</tbody>
</table>
- Practical restructuring assistance will be provided:
  - to help larger companies adjust to market conditions through deep restructuring
  - to support and stimulate SMEs

<table>
<thead>
<tr>
<th>Human resources development</th>
</tr>
</thead>
<tbody>
<tr>
<td>The reform of the public administration:</td>
</tr>
</tbody>
</table>
  - support to administrations in the regions
  - the selective training of staff of federal bodies

<table>
<thead>
<tr>
<th>Social protection</th>
</tr>
</thead>
<tbody>
<tr>
<td>• pension system</td>
</tr>
<tr>
<td>• health sector</td>
</tr>
<tr>
<td>• labor conditions</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Food and agriculture</th>
</tr>
</thead>
<tbody>
<tr>
<td>Action will centre on farm enterprise restructuring:</td>
</tr>
</tbody>
</table>
  - help provide the appropriate framework
  - assist farm enterprises, concentrating on cereal and animal production
  - develop dealer and wholesale networks
  - promote better access to finance

<table>
<thead>
<tr>
<th>Energy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Completing the reform of legal and institutional mechanisms, to develop the management and financial capacity of the sector’s enterprises, and improve energy efficiency in industry</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Transport and telecommunications</th>
</tr>
</thead>
<tbody>
<tr>
<td>Actions such as the reinforcement of the Trans-European Networks.</td>
</tr>
<tr>
<td>Environment – Integrated approach - Strengthening of institutions, legislation and training - Nuclear safety programme, Inter-state, Cross-border cooperation programmes</td>
</tr>
</tbody>
</table>

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21 This box contains only quotations from the original text of the NIP, without any words added.
4.2.2 Partnership and Cooperation Agreement

Tacis must fit into a wide political and economic framework. Tacis was originally conceived under the above-mentioned EC/USSR Trade and Economic Agreement, of 1989. Later, the EU and the Russian Federation began the negotiation of a Partnership and Co-operation Agreement, signed in 1994, which was ratified at the end of 1997.22

Among the key aims of the PCA, the following are of particular importance for Tacis:

- building a global partnership: political, economic, and cultural;
- establishing a regular dialogue on political issues;
- strengthening generalised trade and investment links;
- gradually integrating Russia into a wider European economic area;
- establishing a future free trade area between the European Union and Russia.

The Agreement follows a number of guiding principles:

- democratic principles and human rights; and
- economic integration between Russia and Europe aims at an exceedingly high level of ambition23.

On the Russian side, the integration between Russia and Europe is given even more weight. “I believe a decisive step has been made towards renewing the unity of our continent. This Agreement is a document setting out precisely and clearly the conditions and stages of Russia's return to economic Europe, as an equal partner,” said President Yeltsin when the PCA was being signed.

The PCA with the Russian Federation reveals a particular and early sensitivity on the part of the EU with respect to a number of themes which were not currently part of the ongoing aid programmes in the years 1994-96, in particular: the global partnership, the generalised reciprocal links, and the perspective of integration in a common European space. This perhaps explains the length of time elapsing between the signature and the entering into force of the agreement.

On the other hand, however, the PCA generated a multitude of joint committees and talks, whilst it lacked clear and specific links with the financial resources available for EU aid to Russia. This feature was not necessarily a shortcoming of the PCA, and probably corresponds to political concerns of the two parties. However, it does limit the capacity of the PCA to promote operational cooperation programmes.

4.2.3 The EU Common Strategy and other related issues

Along with the consolidation of the PCA, a number of other factors should be considered in order to complete the understanding of the political framework, which characterises the very particular EU-Russia relationship, and should represent a key reference for the Tacis country programme. Among such factors, the most important –though very recent– is the establishment of the EU Common Strategy, agreed upon by the General Affairs Council in May 1999 as provided for in the Treaty of Amsterdam.

A synthesis of the structure and the main components of the EU Common Strategy for Russia is provided in Tab.11. The strategy is built –inter alia– on a number of ongoing objective processes, which will change things in Europe, as well as on existing cooperation initiatives, that should be considered when discussing the Tacis strategic framework.

22 An Interim Agreement was signed in 1996 covering economic and trade issues
23 Quoted from EC – DG IA: presentation of PCA on DGIA Web site – March 1999
The following appear to be the most important objective processes:

- extension of the EU’s already long border with north-western Russia, which will be further extended as new countries join the EU;
- possible substantial increase in the trade flows and cross-border relationships between Russia and EU with the enlargement of the EU to the East. Such relationships will be vital not only to trade but also to the environment, to security and nuclear safety; and to immigration and crime prevention;
- possible inclusion of the political and military weight of the Russian Federation in a European common peace and security design (prevent incidents like the 1999 crisis in Kosovo through inclusion).

### TAB. 11: EU COMMON STRATEGY ON RUSSIA (A SYNOPSIS)

<table>
<thead>
<tr>
<th>PART I: VISION OF THE EU FOR ITS PARTNERSHIP WITH RUSSIA</th>
<th>PART II: AREAS OF ACTION</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Strategic goals and principles:</strong></td>
<td>1. Consolidation of democracy, the rule of law and public institutions in Russia</td>
</tr>
<tr>
<td>- a stable and democratic Russia, governed by the rule of law, with a prosperous market economy, for the benefit of both Russian and EU people</td>
<td></td>
</tr>
<tr>
<td>- maintaining European stability, promoting global security and responding to the common challenges of the continent through intensified cooperation with Russia</td>
<td></td>
</tr>
<tr>
<td><strong>Principal objectives:</strong></td>
<td></td>
</tr>
</tbody>
</table>
- Commitment to working with Russia at federal, regional and local levels  
- Sharing with Russia the various experiences of the EU and MS in building modern political, economic, social and administrative structures  
- Strengthening the strategic partnership between the EU and Russia, since the future of Russia is essential to the future of the continent and constitutes a strategic interest for the EU  
- PCA, with its aim of promoting the integration of Russia into a wider area of cooperation in Europe, is the core of the EU-Russia relationship  
- The EU and MS will coordinate and conform their positions to this strategy |
| |  
- support institutional reforms  
- institutional training  
- possible support to free elections  
- human rights and abolition of death penalty  
- EU-Russia contacts among politicians and assemblies, at all levels  
- cultural-educational exchanges  
- support to independent NGOs  
- refugees  
- gender parity |
| | 2. Integration of Russia into a common European economic and social space  
- high level policy dialogue  
- EU coordinated policies in the IFIs  
- regulatory framework  
- fiscal policy and management  
- banking reform  
- structural and economic reform (including business restructuring and SMEs)  
- increased sectoral competition  
- private property (land)  
- approximation of Regulations and standards  
- access to WTO and future EU-Russia free trade area  
- investment promotion and trade liberalisation  
- Cooperations in key areas, such as science, aircraft, space…  
- development of cultural industries  
- training of managers and entrepreneurs  
- social dialogue: unions, employers' organisations  
- application of ILO standards  
- social protection reforms |
1. Consolidation of democracy, the rule of law and public institutions in Russia
2. Integration of Russia into a common European economic and social space
3. Cooperation to strengthen stability and security in Europe and beyond
4. Common challenges on the European continent

**Instruments and means:**
1. General provisions (treaties, HR for CFSP...)
2. Council, Commission, MS
3. Coordination of MS, both in international fora and in Russia
4. Implementation and reviews (at least an annual review)
5. Cooperation (mainly through PCA and its instruments)
6. Specific initiatives

<table>
<thead>
<tr>
<th>3. Cooperation to strengthen stability and security in Europe and beyond</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a.</strong> political dialogue</td>
</tr>
<tr>
<td>- CFSP High Representative</td>
</tr>
<tr>
<td>- joint foreign policy initiatives</td>
</tr>
<tr>
<td><strong>b.</strong> Russia in the European security architecture</td>
</tr>
<tr>
<td>- collaboration in the relevant forum (OSCE)</td>
</tr>
<tr>
<td>- European Security Charter</td>
</tr>
<tr>
<td><strong>c.</strong> preventive diplomacy</td>
</tr>
<tr>
<td>- conflict prevention (OSCE and UN)</td>
</tr>
<tr>
<td>- arms control and disarmament</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>4. Common challenges on the European continent</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>a.</strong> energy and nuclear safety</td>
</tr>
<tr>
<td>- sectoral reform</td>
</tr>
<tr>
<td>- international agreements</td>
</tr>
<tr>
<td><strong>b.</strong> environment and health</td>
</tr>
<tr>
<td>- nuclear and chemical wastes, especially in NW Russia</td>
</tr>
<tr>
<td>- environment legislation</td>
</tr>
<tr>
<td><strong>c.</strong> fight against crime and judicial cooperation</td>
</tr>
<tr>
<td>- key conventions</td>
</tr>
<tr>
<td>- exchange of experts</td>
</tr>
<tr>
<td>- money laundering, illicit traffic of human beings, drugs</td>
</tr>
<tr>
<td>- visa policy and immigration</td>
</tr>
<tr>
<td><strong>d.</strong> regional/cross-border/infrastructure issues</td>
</tr>
<tr>
<td>- regional focus, northern dimension, neighbouring countries</td>
</tr>
<tr>
<td>- border management and customs</td>
</tr>
<tr>
<td>- linking EU-RF transportation systems (TECs)</td>
</tr>
</tbody>
</table>

**PART III: SPECIFIC INITIATIVES**

**Political and security dialogue:**
- more continuity to the existing dialogue under PCA; possible permanent mechanism; crisis management
- non-proliferation
- control of biological, chemical matters

**Dialogue on economic questions:**
- macro-economic stability, Euro related issues, EU enlargement
- support to comprehensive economic programmes

**Trade and investment:**
- WTO
- Improve investment climate

**Fighting organised crime:**
- staff training
- legal framework
- effective cooperation
- Europol convention

**Twinning:**
- Strengthening of public institutions: regional, local
- civil society: professional associations, unions, universities, NGOs, media (contribution of "Community programmes", such as "Tacis, Tempus, and Democracy")

**Exchange programmes for students and scientists**

**Health and welfare systems**

**Cross-border and regional cooperation**

**PART IV: DURATION** ➔4 years
The main ongoing initiatives include the following:

- the EU Northern Dimension, which covers the environment, infrastructures and other issues specific to the northern sub-region of the EU and its neighbouring countries;
- the Trans European Networks, or transport corridors (TEN); and
- trade agreements and trade issues related to the Russian accession to the WTO.
PART III: Main Findings of the Evaluation

5 COHERENCE AND RELEVANCE

5.1 Coherence and consistency of Tacis strategy

The aim in this section is to examine the coherence and consistency of the programme, as it has actually been implemented, vis-à-vis the EU/Russia relationship framework illustrated in Part II.

5.1.1 The past

In the period 1990-94, the EU did not have a global strategy for Russia. The Tacis Regulations were the main EU strategic document for EU-Russia co-operation until 1994. They were focused on the main emergencies, as well as on the accelerated creation of a market economy capable of standing on its own feet.

The first Tacis programme referred to the 5 priorities established by the European Council in Rome (1990), namely:

- management training in the public and private sector;
- financial services;
- energy;
- transport; and
- food distribution.

Since 1994, however, the strategic framework of relations between the EU and the Russian Federation has changed. The signing of the PCA and the Tacis Council Regulation of 1996-99 reveal this change, albeit to different degrees.

The PCA introduced wide-ranging and innovative issues and, in particular, involved an approach based on including Russia in a framework partnership, instead of following the approach then prevailing at the international level based on the acceptance (or the learning) by the Russians of an external model.

Accordingly, also the 1996 Tacis Regulation allowed ample scope for the new priorities, such as the consolidation of the democratic process— including the problem of governance at the federal, regional and local levels— and the construction of a new institutional framework. Although Tacis is defined as an instrument to support the PCA, which came into force in December 1997, the Regulation does not clearly define the way in which the generalized partnership supported

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James D. Wolfensohn, *The Challenge of Inclusion*, in *Annual Meetings Address* by the President of The World Bank - Hong Kong SAR, China, September 23, 1997
by the PCA could modify the (prior) traditional mode of operation of Tacis. Only recently (June 1999) were the mechanisms linking the PCA and Tacis implementation introduced.\(^{25}\)

As for Indicative Programmes, the 1993-95 NIP is understandably focused on the support provided for the processes of privatisation and restructuring of enterprises, and on the continuation of the huge and praiseworthy efforts of management training undertaken from the outset. The 1996-99 NIP introduces six areas of cooperation and an horizontal subject (Environment) taking into account the more open logic suggested by the 1996-99 Regulation. However, the allocations made in the relative Action Programmes—at least until 1998—seem to follow a logic resembling more closely that of the preceding NIP, as private sector support is still receiving the single most important part of the budget.\(^{26}\). According to this logic, Tacis would be very strongly called upon to complete the privatization process, according priority to the restructuring of the enterprises and to the promotion of SMEs. The other fields would play a somewhat lesser role.


<table>
<thead>
<tr>
<th>Year</th>
<th>Priorities</th>
</tr>
</thead>
</table>
| 1991-1994     | - Focus on the Food sector, Energy, and other emergency areas. Particular attention was given to the big cities  
                - Strategic priority to the transfer of know-how (training) to manage the transition toward the market economy  
                - Support of the accelerated privatisation of state assets, as the basis for economic recovery and democracy |
| 1995-1998     | - Focus on SMEs and enterprise restructuring in the industrial and financial sectors, to maximise the benefits of the privatisation process  
                - Support of enterprise restructuring and technological change in agriculture  
                - Support of management training and education, continued from the previous phase  
                - Support of Democracy and Civil society, mainly through the mobilisation of EU NGOs  
                - Combining enterprise restructuring with social measures, to mitigate any adverse social impact |

After initial attempts in the 97 and 98 programmes, the 1999 Action Programme is increasingly showing a global change in the direction indicated in the Regulation and Indicative Programme, particularly as far as a series of projects related to Governance, Market Regulation Framework and Industrial Cooperation are concerned.

This innovation is a clear sign of an ongoing process of reflection inside Tacis which is taking place in accordance with the changes in the overall strategic framework of the EU-Russia relationship. This is certainly true for the sector priorities, while it appears to be less evident as far as the approach is concerned. Further examination of this point, is deferred until later in this volume (see Approaches and instruments).

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\(^{25}\) EU-Russia PCA Sub-Comittees are invited to produce inputs of advisory nature that will be used in the development of sectoral strategies and Area Orientation papers. In addition, members of SCR, Tacis section of Delegation and Russian staff of the CU will attend sub-committees meetings on the Russian or Commission side.

\(^{26}\) From 1996 to 1998 the enterprise support sector received 90.3 MECU out of the 326.2 MECU AP total budget, i.e. the 27.7% of the total allocation. This figure is significantly increased if we include actions aimed at enterprise support within sectoral programmes.
5.1.2 The new Regulation and the Common Strategy

In 1999, two new facts emerged that must be taken into consideration: the approval of the EU Common Strategy towards Russia, and the new Tacis Regulation, which covers the next 6 years.

Implications of the Common strategy

The Common Strategy, clearly states in the definition of its strategic goals how the interests of Russia and the European Union are interrelated. The economic and democratic development of Russia is a fundamental objective, not only for the good of the Russians but for all European citizens. Stability and security in Europe are inconceivable without very close collaboration between the RF and the EU. Several great challenges involving peace, prosperity and technological progress mark the common future of the two partners. The Common Strategy incorporates and further develops the content of the PCA, which becomes one of its principal instruments.

With the development of the Common strategy, Russia (and similarly Ukraine, for which there is now also a Common Strategy) becomes indeed a very special case among the NIS. It becomes increasingly clear that the EU considers transition in Russia as a medium-long term process, that must be carried out in the framework of a comprehensive partnership –political, economic, institutional and cultural.

What are the implications of such a principle for Tacis in Russia? To start with, several questions must be asked, even though the answer to them is not automatic and is actually extremely complex for reasons of timing, organization and human resources:

- Does it still make sense to continue dealing with Russia, as one of the NIS, instead of looking at Russia as the continental partner of the EU, its biggest neighbour, its obligatory interlocutor for long-term peace and security?
- Does it still make sense to place a strong emphasis on technical assistance, is it hard for the Russians to accept TA, and could excessive TA intervention hamper the establishment of a true partnership?

Ignoring for a moment the complex organisational problems and the ongoing processes of strategic and management restructuring inside the European Commission, it could be suggested that Tacis should substantially change to become a key instrument of the global partnership and long-term integration process between EU and Russia. This would increase its consistency with the PCA, according to the principles established by the Common strategy. Tacis should work towards the establishment of inter-institutional networks between the two partners, including: private enterprise; central and local government bodies; scientific and training institutions; civil society groups, and NGOs. There should be a special focus on joint projects, especially in transport infrastructures, customs, trade standards, and financial Regulations. This new focus would have the effect of reducing the traditional TA component of Tacis, since the transfers of know-how would then take place between partners as a method for approaching common problems.

Can the new Regulation improve its response to such new challenges?

In the new Regulation the above questions and needs are globally taken into account. Principles such as regional differentiation, establishment of durable relationships between EU and Russian entities, less emphasis on technical assistance and major use of twinning mechanisms, are all included.

The need for a regional differentiation of Tacis’ sectors of cooperation is also acknowledged, and as far as Russia is concerned this leaves room to elaborate an implementation strategy in
line with the Common Strategy framework though this is not mentioned in the Regulation when speaking about Russia.

The new Regulation indicates that Tacis shall aim at concentrating on a few large projects. This will have to be implemented carefully to not compromise the essential characteristics of flexibility and adaptability needed for obtaining a full participation and ownership by the Russian side, and for achieving a global partnership. According to the PCA and the Common Strategy, the global partnership should:

- be extended to all levels – federal, regional and local;
- refer to multiple institutional subjects, ranging from public administration, to the organization of civil society and private enterprise; and
- encourage the participation of the member states.

5.1.3 Tacis and other components of the strategic framework

To conclude this chapter on the coherence of the Tacis Country Programme in Russia within the strategic framework of the EU-Russia relationship, it could be said that Tacis follows its own specific policy within the broader framework of the PCAs and the Common Strategy, as is implicitly stated in the 1996-99 NIP (Tab.10). While acknowledging the acceptability of this view in principle, the present evaluators do not share it. The validity of any such a view must be evaluated against the context of the situation in Russia, as will be attempted in the following chapter.

5.2 Relevance of Tacis to the Russian context

5.2.1 Relevance in the first period (1991-1994)

As emerged from the preceding analyses, the needs and questions arising out of the context of the early transition period were relatively easy to identify, even though the strategic choices to be made were extremely complex and were to cast a long shadow over the future. These needs and demands regarded several large categories: internal emergencies; need for information and relations with the external world; need for basic know-how regarding the governance of the country in the new conditions and the start-up of the great processes of change.

Tacis, in just a few months, succeeded at setting up the complex organizational machinery needed to handle financial flows and technical assistance on a large scale. The Russians interviewed acknowledge the huge efforts and great personal commitments of both the European managers and the technical assistants during this period.

Tacis played a very important role in the first three or four years:

- a number of emergencies, especially in food supply and distribution, energy and transport, were tackled with comparative success;
- Russian lack of management skills under market conditions elicited a quick response from Tacis in the numerous and effective interventions to train public and private managers;
- in mass privatisation, the experience accumulated by European experts in Western Europe, East Germany and other Central European countries turned out to be very useful and rapidly applicable. Above all, Russians were prepared to listen;
in the initial stages, the large number of consultants sent by Tacis represented an opportunity for Russians to have an exchange of views, which most of them had been looking forward to for decades.

As far as the great strategic choices made during that time –i.e. mass privatisation– Tacis did not play a leading role, nor could it. This role was played above all by several Russian groups, with the intellectual and financial backing of American groups.

5.2.2 Diminished relevance in the second period (1995-1997)

Framework issues were overlooked

Later on, however, Tacis’ response seemed to overlook the specific constraints (see Tab.7) that had arisen during the transition. While training and education programmes were maintained at a reasonably high level, much of the strategy continued to focus on enterprise restructuring –in industry and agriculture– and SME promotion, without adequate guarantees that the necessary basic structural changes would be implemented (see Tab. 9). For instance, effective enterprise restructuring was hampered by a multiplicity of problems, such as: delays in the reform of the legal and institutional framework; poor law enforcement; weak governance at federal, regional and local level; inadequate development of civil society structures and local NGOs.

It appears that the IFIs, the USAID and other major donors had similar problems. This strongly reduces the specific responsibility of Tacis, which was not, and is still not, one of the major players in discussing and advising on transition strategies.

At the same time, however, it must not be overlooked that ever since 1994 the PCA had stressed the importance of establishing a long-term partnership and of implementing common action programmes in several fields: creation and enforcement of a legal framework (Title VIII), industrial cooperation (art 56, 57, 76), cooperation in science and education (art. 62, 63), in the environmental field (art. 69), in transport (art. 70), in drawing together business and trade legislation (art. 55), etc.

Without fear of exaggeration it may be said that, in 1994, with the signing of the PCA, the EU adopted an extremely advanced and farsighted stance in its relations with Russia –a stance that only much later was to be shared at the international level. Tacis –involved in management tasks and under the pressure of acting in a context with major IFI’s and other agencies– was unfortunately unable to take full advantage of the innovative contributions of the PCA.

Process facilitation and partnership versus top-down assistance and advice

Another element undermined Tacis global relevance, in the second stage: the method and the means used to assist the Russian transition. Too many projects continued to explain the “right way” to the Russians instead of helping them to find ”the best way in their conditions”. Especially after 1994, the Russian problem in various sectors was not a lack of knowledge of the market economy in theory but rather an inability to apply this knowledge in a constructive way to Russia.

This undermining element –which Tacis shared with the majority of other donors– limited the programme’s capacity to help the more advanced reform experiments, in particular at the

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27 This article, mentions "the establishment of continuous and stable links between the Community and Russian operators, in order to improve the flow of information to SMEs, and promoting cross-border cooperation...Business Cooperation Network and Euro-Info-Correspondence Centres". Such schemes are already applied with success among the EU enterprises and between the EU and Latin America ones, but not yet with Russia.
regional and local levels. Nevertheless, Tacis achieved a number of successes in this direction, which might be used as a basis for improving the overall programme approach. For example, the project of assistance to health reform in Karelia teaches us a number of valid points concerning how to find the "Russian way" to reform:

- partnership in seeking and discussing possible reform models; and
- learning by doing, based on a wide-range of information and participation processes at the local level.

The case of agriculture, for example, is typical of the limitations of the “right way” or “top-down” advice approach. Many programmes were financed to teach new agricultural technologies and farm management techniques to the old kolkhoz, which had simply changed their legal status into shareholding companies. Little was done to support the attempt by some regions to start the agricultural reform process at the local level through the establishment of new land market Regulations and other significant measures. This oversight meant that such Russian initiatives as there were, did not flourish.

<table>
<thead>
<tr>
<th>TAB. 13: LIBERALISATION AND PRIVATISATION SHOULD FIT INTO A COMPREHENSIVE FRAMEWORK (WB, 1999)</th>
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</thead>
<tbody>
<tr>
<td>Successful development is a consequence of the coherence and coordination among the components below:</td>
</tr>
<tr>
<td>Structural</td>
</tr>
<tr>
<td>2. An Effective Legal and Justice System</td>
</tr>
<tr>
<td>5. Education and Knowledge Institutions</td>
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<tr>
<td>14. Special National Considerations</td>
</tr>
</tbody>
</table>

The idea that the development and transition processes should follow a much more complex path than the one applied in Russia is presently at the centre of a deep revision process in the World Bank. The table shows the issues that should be taken into account at country level, to ensure a successful process. Cf.: James D. Wolfensohn *A Proposal for a Comprehensive Development Framework*, op.cit.

The same may be said of the Energy sector, where a large part of the programme was devoted to know-how transfer for energy saving projects, in situations in which most of the consumers were not paying for the energy, and therefore were not at all interested in saving it. Different regional governments are aware of the issue, and would like to start testing adequate reforms, indicating that Tacis should become more sensitive to such a demand, and find adequate ways to respond.

The Russian scene is inevitably complex. A number of attempts have been made and are being made at the regional and federal levels to cope with problems of the kind outlined above. In most of the field illustrated in the above table Tacis has a comparative advantage –especially in

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28 In this project Tacis has displayed a wide range reform alternatives, highlighting the different experiences existing inside the EU, and allowing the Russians to participate on an equal footing in a debate on the reorganization of the public health services, which is completely open in the EU member states.

29 Saratov, Tumen.
the fields of legal framework and good governance—in that the EU and Russia, in their history and culture and in the structures of their societies, are much more alike than is the case with other non-European donors and the IFIs. Therefore, Tacis should do more, both as a facilitator of the internal processes, and as a key partner to enhance the establishment of a new structural framework.

Box 1: Process facilitation

To shift from a top-down transfer of know-how to a process facilitation approach, it is necessary for most projects to include a strong component of exchange of information, and even comparison and emulation, among the different Russian institutions, enterprises, NGOs, that are engaged in similar processes. Such an approach emphasises the importance of the lessons to be learnt from the Russian process, with external technical assistance taking on the role of facilitator, gathering the lessons of the EU experience, in order to understand the Russian one better. A good example of this positive approach is the Tacis project in the Health sector in Karelia.

The importance of the process facilitation is very visible in the relationship between the regional and the federal levels in the reform process. For instance, a very large proportion of the public sector and public services are now the responsibility of regional and sub-regional authorities, and much of what happens in these services is beyond the reach of Federal policy. Projects aimed at gathering and facilitating the dissemination of experience among regions would be an effective complement to other projects aimed at scaling the heights of policy-making at the Federal level. Some recent Tacis projects, such as Municipal Management and Regional Asymmetries, have sought to combine the two aspects on an innovative basis, although in the framework of big and relatively inflexible projects.

Does Tacis have a comparative advantage vis-à-vis the other donors' programmes?

After the first few years, Tacis shared the same weaknesses at the programme relevance level as the majority of donors, namely:

- strategies that underestimated the structural realities underlying the transition; and
- approaches that underestimated the need for experimentation and learning by doing in the country.

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30 This is one of the strong points of the Common Strategy. Of course, the argument could be used also in the opposite way: there are deep historical divergencies in Europe that cannot be set aside overnight. However, the big EU lesson is precisely that the same differences that generated conflicts and war in the past may bring complementarities and synergies in a peaceful environment.
Given this, one may wonder if Tacis should have taken a different line from the IFIs’ big bang approach which most other major donors also followed. There is no easy answer to this question. With respect to the past, it could be argued that Tacis was the only programme whose specific institutional and policy framework should have suggested paying more attention to both framework and process issues. Certainly, Tacis had neither the authority nor the capacity to propose a global alternative for Russia’s transition, though it should have paid more attention to building horizontal partnerships of equals, as in some successful programmes like Tempus.

With respect to the future, Tacis should emphasise its specific character, thus becoming a truly decisive instrument for translating into practice several important objectives set by the Common Strategy and many of the PCA objectives.

It must be acknowledged that several recent programmes attempt to respond to this need, at least from the thematic point of view, for example, the Regional Policy and Municipal Management programmes. Other programmes also tend to develop more effectively horizontal relations among enterprises and Russian ownership, including forms of co-financing, e.g. TERF and EBAS II. However, in spite of these appreciable changes, the management of the majority of these programmes—with the exception of those organized as SPPs—takes place in the form of centralized projects that are by nature relatively un-adaptable to real processes and less suitable for representing the concepts of partnership and Russian participation.

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31 J. Stiglits cit. in Tab. 8, page 8: Attempts to initiate overnight deregulation-sometimes known as the “big bang”-ignore the very sensitive issues of sequencing...

32 The Tempus programme foresees that a consortium is created among universities from EU (2) and RF (1). Therefore, institutions participating in a project are partners of a consortium and there is not a relationship “contractor-beneficiary” as in the main stream top-down projects. In addition, activities are based on exchanges of experience that take place in two directions: E-W and W-E. This approach has been underlined as a success factor by the Evaluators of the Tempus programme.
Box 2: Comparative advantages/disadvantages of Tacis vis à vis the IFIs

Disadvantages
- shortage of capacity to go from policy analysis and advice to concrete measures in certain areas;
- lack of financial leverage instruments;

Advantages
- Tacis is the instrument of a political and economic partnership – not only a technical institution– that makes it much more credible to Russia for help in strategic long-term changes;
- Tacis is able to establish explicit linkages with the public institutions, enterprises, research centres, and organised citizens, in the EU member states and in the EC framework;
- Tacis reflects sensitivities and approaches, that are not far from Russian cultural and historical background, and may represent for Russians an important tool to accelerate their integration in Europe.

Such a comparative definition should suggest that Tacis, reduce traditional technical assistance and develop new forms of technical and economic cooperation, keeping in mind the practical impact of different actions and the necessity of gradual implementation:
- inter-institutional networking, including: different levels of governance; judiciary and legislation; taxation; customs and trade standards; migration; etc.
- industrial cooperation for both SMEs and MLEs
- joint environmental projects
- joint infrastructure and technological projects to facilitate cross-border transport and communications

5.2.3 Russian ownership

The top-down, consultancy-driven approach may be one of the reasons for the reluctance of Russian partners to join in enthusiastically, which was noted in most sector evaluations and many project interviews. Many Russians interviewed by the Evaluation Team lacked a clear idea of Tacis’ wider objectives.

On the Russian side, Tacis is attached to the Ministry of Economy, whose external relations are almost totally absorbed by vital negotiations with the IMF. Tacis’ difficulty, until recently, in recruiting enough Russian experts, as compared to the practice of other major donors, further impeded its progress towards becoming a true partnership programme.

33 See for instance the Evaluation of Tacis Enterprise restructuring and private sector development programme in RF.
Finally, the two parts of which the Ta-cis acronym is composed, may produce an undesirable response from the Russians:

- Traditional top down technical assistance is not something that Russians will accept easily from the EU for any length of time. There needs to be a well established framework of reciprocity and emphasis on fighting together to solve common problems; and
- Russia may find it difficult to consider itself as “just one of the NIS” in its relationship with the EU even if it is seen as primus inter pares.

5.3 Overall impact of the programme

Measuring programme impact is a very complex exercise. The normal difficulties involved in measuring the impact of a country programme are increased by the very fast-changing framework of the Russian transition, and the number of stakeholders in the process. This is why a methodological shortcut has been adopted (as shown in the Box 4 p. 34) to make a general assessment of the potential global impact, whilst specific impacts have been evaluated at the sector level (see chapter 6, Vol. I and Volume II).

Potential global impact is measured in function of the Relevance - qualitative and quantitative and ex-post- and of the influence of a donor. The influence of a donor is a function of the ownership of the aid by the beneficiary and arises out of the acknowledgement of the usefulness and validity of the assistance received. Influence has been chosen instead of Visibility as a criterion to assess potential impact as it goes beyond the mere existence of visible outputs and embraces also the outcomes34 of a project.

One important conclusion on the potential global impact of Tacis is summarised by the comment of a Russian manager in a group involved in Tacis projects and which has been used as the evaluation Focus groups by the Evaluation team:

“The major positive result of the TACIS Program is linked not so much with direct, visible outputs brought by European experts into Russia, but much more with setting up methods and habits resulting in establishing traditions of cooperation between the Russian and European experts. This proved to be crucially important for Russia, which has been developing for many dozens of years in conditions of isolation from Europe. The TACIS Programs up to now have made acquainted Russian and European experts and therefore have built a basis for their normal cooperation in the future”.

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34 Outputs are usually defined as the expected results of a project, which allow one to verify the project’s achievements with reference to a specific project objective. Outcomes are contributions to the overall objective and deal mostly with intangible results, such as changes in attitude and mentality.
### Box 3: Visibility or Influence?

Often visibility is considered a key criterion for project evaluation. Visibility is defined as:
- the existence of visible successful outputs; and
- their adequate dissemination at media level.

The search for visibility originates from the concern that there may be good/effective projects whose replication is limited because people's attention is not sufficiently attracted to them. If such a concern has any foundation, the concept of *Visibility* provides too easy a way to respond to it: merely by putting too many lights or flags on the projects, favouring short term effects, and even risking unsustainable outputs.

The replication concern should be addressed through a number of instruments, which include: professional dissemination; building the learning and communication process among the enterprises/institutions involved; reflecting the most advanced experiences in donor coordination; linking the operational level of the cooperation more satisfactorily with the highest political dialogue and its impact on public opinion. All together, these instruments could identify the *Influence*, which is something more complex than mere *visibility*. A few examples drawn from the evaluation may help to distinguish between Visibility and Influence:

- A programme which has a relatively low visibility, like Tempus, has had one of the most powerful impacts, affording better higher education services for thousands of Russians;
- Several support programmes to public administration reform have performed well, although their output may be barely visible in people's minds, something which is in any case very difficult to measure;
- Other programmes that have created relatively visible development agencies and bodies have had no impact and have proved comparatively ineffective.
Box 4: For a simplified assessment of the potential global impact

To address the complex issue of measuring the Tacis impact, a particular methodology has been developed:

- **a. qualitative relevance**: the actual country performance has been compared to the Tacis global strategy, both in general, and in particular in the sectors focused on by the Tacis CP. This exercise has included qualitative and quantitative evaluations: were the objectives set out in the CP strategy met, and to what extent? did the country performance generate any other significant effect -albeit unexpected and/or undesirable?

- **b. Quantitative relevance**: Tacis relative weight in global resource allocation to the processes that have led to the actual country performance have been assessed.

- **c. Global ex-post relevance**: the two steps above provide a yardstick for the ex-post relevance (both qualitative and quantitative) of the CP; it does not permit the impact to be evaluated as yet. It should be considered more as a means of assessing the potential global impact.

- **d. Influence**: the strategic role played by Tacis in the main reform processes has been assessed in comparison with the other donors in order to evaluate the specific ‘responsibility’ of Tacis -as a key TA programme- in the main strategic and operational options. This exercise provides a basis for evaluating the influence of the donor.

- **e. Impact**: by combining the evaluations mentioned in sections "c" and "d", a simplified assessment of the potential global impact may be obtained

Other relevant conclusions concerning potential global impact of Tacis in the two key sectors, Private Sector Development and Human resources and Governance, are summarised here below.
5.3.1 Private sector development

The global impact of the donors’ action in this sector, to which Tacis contributed, was highly significant, as it provided the resources, the strategies and the operational plans for coping with the transition. There is now open debate (*ibidem*) on the quality of this impact and it is generally considered that a large number of undesirable effects were produced.

More specifically, the impact of the donors’ –and thus also of Tacis– may be considered significant in the privatisation process\(^{35}\), where it brought about dramatic changes. In the post-privatisation phase, however, the intervention has led to few changes, compared with expectations. Enterprise restructuring, despite the important resources invested by Tacis, had a low impact\(^{36}\), especially because the structural framework issues were not adequately addressed.

On the other hand, Tacis’ influence has been limited even when the basic strategic choices concerning the sequencing and pacing of the transition were made by the donors community and RF Government, despite the fact that it invested heavily in supporting privatisation, enterprise restructuring and the promotion of SMEs, sectors that absorbed the greatest overall percentage of programme resources (Tab.9).

In view of what has already been said with reference to the comparative advantage of Tacis, it is unlikely that it will be able to increase its influence in the specific area of the IFIs: the support of short-term reform programmes in both the macro-economic and sectoral field. There is no doubt that this support must be continued, although its profile will continue to be complementary to that of the IFIs, and so the specific influence exerted will be limited.

In conclusion, Tacis’ potential impact may be considered substantial if we take into account the amount of resources invested (quantitative relevance). However, the limited qualitative relevance of its actions and its relatively small strategic influence in the sector signify that Tacis cannot be held to have had important responsibility for the type of changes that took place.

5.3.2 Human resources and governance

In several fields of this sector the importance of the allocated resources is combined with strong Tacis influence. In the case of university co-operation, as in that of city management, Tacis has represented one of the main points of reference among donors.

There was significantly high impact in education and institutional training. Tacis represented the main resource for warding off collapse and allowing recovery and updating of higher education and management training systems. These benefits to the educational system have had a substantial impact on the sector level\(^{37}\), however, the full impact of their extension to the real world –i.e. to the reform process– can only be appreciated in the long term.

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\(^{35}\) In this phase, as stressed in the “Evaluation of Tacis enterprise restructuring and private sector development program in the Russian Federation”, even some relatively “ineffective” project had an impact. In particular, in the case of the St. Petersburg hotel privatisation project, notwithstanding some difficulties during the privatisation process the work done by the consultants later served as basis for the formulation of a privatisation strategy.

\(^{36}\) This is especially the case of the ESCs, which had broad client basis. Also if there were cases of success, on the whole the situation does not seem to have improved significantly (See evaluation of ER mentioned above).

\(^{37}\) In particular, in the field of management training, when projects had been designed to deliver training directly to the end users (managers and technical specialists). The “Evaluation of activities in the field of management training in the NIS” identified good examples in this category, with some evidence of impact on individual attitudes and organisational decision-making.
Impact, though still significant, was medium in governance and lower in the social sector. Especially in the early stages, Tacis was one of the main windows through which Russians could “look at the West”, and learn from alternative experiences. However, when the issue became that of which solutions to apply to the changing and diversified Russian situations, then the impact was low, since Tacis was only partially able to support the Russian learning processes, except in specific cases, such as the Health programme in Karelia mentioned above. A building partnership rather than the top-down approach could have increased the influence of the programme, and encouraged Russians to embrace it.

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38 See also the operational review of Tacis programmes in the field of Human Resources in RF carried out by Tsantis for the activities of 1992-97 and published in October 98.
6 SECTORAL AND OTHER HORIZONTAL ISSUES

This chapter is a synthesis of sectoral and horizontal issues analysed in Volume 2. The main recommendation coming from the sectoral studies is a proposal for a new approach including a different kind of implementation instrument. This proposal is described in detail under Part IV of the present volume. Where other recommendations have been identified, they are reported in this chapter.

Findings reported in the chapter are based on previous sectoral evaluations, when available, and on the work carried out by this Evaluation Team. More detailed justifications are included in the corresponding chapters of Volume 2, Sectoral and Horizontal Issues.

6.1 Private sector development

6.1.1 Background

Privatisation was one of the crucial steps in Russia’s transitional process. By June 1994 some 24,000 medium and large enterprises had been corporatised and 15,000 privatised, with 90,000 more privatised at a local level. The first wave was based on a combination of subsidised management and employee buy-outs, and voucher-based mass privatisation which, by favouring insiders, reduced political tensions and thereby speeded up the process. The second wave of privatisation, by auction, from 1995 onwards, worked less well.

6.1.2 Key problems of the sector

There have been two major crises leading to total collapse in 1995 and 1998. After the first, the banking Regulations were strengthened and capital requirements increased. But this did not prevent the crisis in 1998. In the interim period, ineffective lending policies, arbitrary decisions and poor inter-bank administration hampered the growth of the private sector economy due to the non-availability of funding for working and investment capital.

The stock exchange was not sufficiently developed to enable companies to raise money, and insurance for business risk was practically unobtainable. Competition policy was inadequate for smaller companies to compete against former state-owned monopolies. And new investors were discouraged by the uncertainty of the legal and financial environment.

Generally, managers in newly-privatised enterprises lacked the incentives and skills to find and compete in new markets, while old guaranteed markets within the former Soviet Union and COMECON disappeared. Barter became rife and assessment of enterprises’ financial positions difficult.

39 The “Evaluation of the Tacis Enterprise restructuring and Private sector development programme in RF” was completed in March 1998. This evaluation has been used as a reference and source of findings for the present chapter.
6.1.3 Tacis priorities and main interventions

The aims of Tacis were:

- to help promote private investment by the establishment of a market infrastructure, of a basic legal framework for market transactions;
- to help restructure the productive base (both the private sector and the military-industrial complex);
- to help the restructuring and diversification of the financial sector and the promotion of new private initiatives through SMEs and foreign investment and partnerships.

In practice, only a few interventions have been made in the area of the structural framework, and most resources have been concentrated on TA for enterprise restructuring and SME development.

6.1.4 Main evaluation issues

The relevance of the programme has been limited by poor intervention on the structural framework, which represents a basic condition for privatisation and restructuring, although Tacis may not be considered the organisation mainly responsible for the key orientations in the sector.\textsuperscript{40}

Impact, effectiveness, and sustainability of the Tacis private sector development programme were all affected adversely by the lack of proper frameworks for legal reform, economic banking and financial services, and investment. As with all assistance programmes, Tacis ought to intervene only when there is a market demand to exploit the results.

Some very positive actions should be mentioned.

- \textit{Management Training}. In many regions management training has created a widespread Russian capacity to assist enterprises on a sustainable market basis.
- \textit{Industrial Cooperation}. During the military conversion programme, Tacis showed that it can act as a very effective facilitator of exchanges among Russian and European enterprises by successfully encouraging industrial cooperation.
- \textit{TERF}, the \textit{Productivity initiative}. These and other similar more recent programmes – though some only in the initial stages– seem highly appreciated by the beneficiaries, and are indicative of a new emphasis on the horizontal linkages and bottom-up initiatives, instead of traditional technical assistance.

As illustrated in the three examples above, actions succeeded wherever the right Russian partner was available to drive through the necessary changes and was supported by a European counterpart able to provide the know-how and help follow through. Partnership and twinning models have proven to be more effective than pure consulting.

SMEDA and ERC type\textsuperscript{41} projects, although they may have contributed to sectoral development at an early stage, do not appear to be sustainable and their relevance, under present conditions, is relatively weak.

6.1.5 Recommendations

Industrial co-operation- as stressed in the new regulation proposal- should be encouraged in the future. Activities, based on horizontal linkages and co-financing, such as TERF and FIDP,
should be expanded. Such changes would be helped by a stronger Russian presence in project execution.

6.2 Energy Sector Development

6.2.1 Background

Between 1991 and 1998 the Energy Sector accounted for 13% of the funds committed to the Tacis programme, involving in excess of 130 projects. Energy efficiency projects represented around 27% of the total budget allocation and the oil, electricity and gas sub-sectors utilised approximately 57% of the budget. The oil gas and electricity sub-sectors are of strategic importance to the Russian Federation with oil and gas accounting for some 50% of Russian foreign exchange and absorbing 30% of total investment in Russia.

6.2.2 Key problems of the sector

Primarily the fundamental drivers of effective energy management, economic energy and fuel pricing, and legislation and Regulation are not yet in place and the sector is struggling with the issues of tariffs and non-payments. As a consequence, investment is not available and the sector faces considerable problems, technical and organisational inefficiencies as well as a difficult financial situation. The difficulties are further exacerbated by the need for restructuring in the utilities industry, particularly in the electricity and coal sub-sectors.

6.2.3 Tacis priorities and main interventions

Up to 1994 the Tacis energy programme operated under the aegis of the European Energy Charter. Tacis aimed to assist the reform process by introducing EU based methodologies through legal economic and administrative actions concerning ownership, development of resources and privatisation.

Tacis very quickly introduced a strong regional approach whilst still maintaining activity at the federal level, aiming particularly at institutional reform. Since 1996 Tacis intervention has closely followed the PCA, focusing on the development and implementation of a legal and regulatory framework applicable to the energy sector monopolies, addressing the establishment of a national tariff policy and promoting energy saving activities.

6.2.4 Main evaluation issues

The relevance of the programme has been high, if the general strategies are considered. The current Tacis programme has a strong relationship with the PCA and is addressing the provision of the structural framework that will provide the fundamental drivers for effective energy management and restructuring of the energy sector.

The projects included in the Action Programmes in past years, however, placed too much emphasis on energy efficiency and other technological changes, given the existing structural framework. Indeed, the impact and effectiveness of the Tacis energy sector programme has been diminished because the framework for legal and regulatory reform, economic, energy fuel pricing and investment is still not in place in the Russian Federation.

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42 No previous evaluation exists for this sector. An analysis, though not exhaustive has been conducted by the Evaluation Team and is the basis for the findings here summarised and described in detail in Vol. 2
Whilst Tacis intervention has had an important impact as an agent for change, the overall impact has not been great and the **sustainability** of many Tacis projects has been low. Lack of finance for investment and structural framework deficiencies have generally contributed to this relatively poor performance. Tacis intervention has performed better when demonstration, dissemination and replication of the project outcomes have been clearly defined from the outset.

### 6.2.5 Recommendations

To improve **impact**, Tacis intervention must be undertaken in an environment that is capable of implementing the outcomes. Attention must therefore be paid to ensuring that Regulation, economic pricing, tariffs, etc., are appropriate for driving implementation. Tacis must reinforce its support for the introduction of these drivers and also ensure that follow-through of Tacis intervention is carefully assessed and that the opportunities Tacis provides can be delivered in an appropriate market environment once the projects have been completed.

The trend in the Russian Federation is towards decentralisation and there are several regions that are willing to start implementing a new sectoral reform framework and testing pilot approaches at federal level. Tacis should ensure it supports these regions.

On this basis, greater emphasis should be placed on the technique of demonstration, dissemination and replication. To improve **sustainability** Tacis intervention should develop a stronger Russian presence in project execution and develop a closer cooperative partnership. Possibilities for co-financing projects should be more rigorously explored at the outset.

### 6.3 Transport Sector Development

#### 6.3.1 Background and Key Problems of the Sector

Transport costs are higher in Russia than in other Western countries because of the geographic and climatic conditions as well as the uneconomic distribution of industry. The total size of the transport infrastructure is adequate for the current low levels of traffic but needs to be modernised in particular to improve multi-modal SPPs for containers.

Lack of capital investment is a serious problem. Some investment has been provided by the IFIs, especially the EBRD and World Bank, but there is no direct linkage with the Tacis programme. The investment facility within Tacis has not been used in this sector.

#### 6.3.2 Tacis Priorities and Main Interventions

In the initial years of the Tacis programme, transport was given a high priority because of the need to remove bottlenecks to trade and to improve the efficiency of the Russian economy as a whole. More recently, the total size of the programme has been significantly reduced. The budget for the transport sector for 1999 has been cut to 8.5 M€. This is the lowest level since the Tacis programme began and compares with an average of 18 M€ for the previous seven years. At the same time, under new Regulations, priorities are to be determined by the Partnership and Co-operation Agreement (PCA), which plans to improve border crossings and Trans-European corridors (TENs) and support the Pan-European Transport Areas (PETRAs).

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43 A previous evaluation of the sector does not exist. Therefore, a sector analysis, though not exhaustive has been carried out in the framework the present Evaluation. Such analysis has led to the findings summarised in this chapter.

44 The relevant TENs are number 2 from Berlin, Warsaw, Brest, Minsk to Moscow; number 9 Helsinki, St. Petersburg to Moscow; and number 1 linking Kaliningrad, Tolpaki, Sovietsk, Dorozhnoye and the Polish border. The Black Sea is one of the EU’s PETRAs.
6.3.3 Main Evaluation Issues

To better evaluate the relevance of the programme, it should be noted that the development of a comprehensive transport policy is made difficult by the fact there is no single government ministry for transport: there are different Ministries for different sub-sectors. As a result, the Tacis programme has developed as a collection of individual projects with little cohesion. All of the Tacis projects, however, were relevant to the needs of the Russian transport system.

Mixed success has been achieved in terms of their effectiveness and sustainability. During the early years, the most successful projects were the small projects, which provided technical assistance and training in Western procedures, as in the aviation industry. The least successful were the larger and more general projects for the big institutions, notably the Port of St. Petersburg. Support for improvements to inland waterways has been effective although the overall commercial benefits are limited and progress in opening the waterways to foreign ships has been slow.

6.3.4 Recommendations

Sub-sectoral recommendations. It is recommended that greater emphasis should be given to road haulage. The privatisation of road haulage companies has resulted in the need to establish a competitive regulatory framework, including support for small enterprises and supporting SPPs. Greater effort will be required to support the establishment of inter-modal SPPs in particular for the use of containers. There is also a need to modernise the railways, though the Ministry of Railways is a reluctant partner.

More strategic recommendations. It will be important to bring together relevant decision-makers on both the Russian and European sides, regional governments and other institutions including the IFIs, along with the private sector to establish a common agenda and agreement on future tasks, particularly with respect to programmes such as the TENs, PETRAs, and geographical areas like the North-Western region.

6.4 Telecommunications

6.4.1 Background and Key Problems of the Sector

Efficient communications are essential for a modern market economy and also to link Russia with the West. During the Soviet period, telecommunication systems were neglected and large-scale investment in new technology was required along with standards compatible with those in the West. Also new forms of Regulation had to be introduced.

6.4.2 Tacis Priorities and Main Interventions

Tacis has given priority to small training programmes to assist the introduction of modern equipment, technical assistance to harmonise technical standards and develop a regulatory system. More recently, attention has been given to supporting the relevant clauses in the PCA.

6.4.3 Main Evaluation Issues

The Tacis projects in this sector have in general been relevant to the needs of the Russian economy, have been effective in achieving the objectives set and have been well supported by

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45 No previous evaluation exists for this sector. An analysis, though not exhaustive, has been conducted by the Evaluation Team and is the basis for the findings here summarised and described in detail in Vol. 2.
their Russian counterparts. The projects have also been consistent with the PCA. However support by Tacis for telecommunications has been a small and declining programme, with a relatively poor impact. In 1999, there are to be no new projects. One justification for this is that the sector is in a ‘near market’ situation and, given better economic conditions overall, should be capable of financing its own future development.

6.4.4 Recommendations

Such arguments, however, do not apply to the further development of harmonised standards. Moreover, Western co-operation in Information Technology should be mutually beneficial and there is a need to establish mechanisms to foster future co-operation and partnership between Russian and Western companies and agencies.

A more positive approach on the part of the Russian Government is required to stimulate investment through liberalisation and encouragement of market entry. It may be appropriate to link any increased Tacis expenditure to this sector to greater progress towards market reform and the establishment of an independent regulatory authority. As a result, Tacis support in this sector could continue to be highly effective. This is crucial to the support of the relevant clauses in the PCA. It is recommended that the current reduction in Tacis finance should be reviewed.

6.5 Agriculture

6.5.1 Background

The Russian Food and Agriculture Sector continues to play a vitally important role in the country’s economic system and the reform process. Even before the crisis of August 1998, macro-economic factors - lack of purchasing power even for food, growing price disparity between industrial and agricultural produce, worsening investment climate - had a negative impact on the sector. Farmers and managers have been slow to adapt to a market environment and 82% of farming enterprises are unprofitable. Nearly half the stock of agricultural machinery has exceeded its useful life. For Tacis, the sector is one of the six priority sectors with 13% of the budget, and with an allocation of nearly 172 M€ since 1991.

6.5.2 Key Problems of the Sector

The farm structure has remained almost unchanged and competitiveness in the sector is very low in spite of the transfer of 90% of farms into private hands. The sector suffers from its very high political and social exposure. The reform process is very slow and now practically at a standstill, especially with respect to: (i) land, to promote a more efficient allocation thereof; (ii) the market, to remove the remaining heavy monopoly situations and other distortions in both input and output markets; (iii) institutions, to introduce competition criteria into research, training, and extension services; and (iv) rural finance.

On the other hand, agriculture still plays an important role as regards employment in the poorest areas, and its restructuring is constrained by the lack of employment alternatives and poverty alleviation measures.

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46 The “Evaluation of the Food Production, Processing and Distribution Sector in RF” was completed at the end of 1998. This evaluation has been used as a reference and source of findings for the present chapter.
6.5.3 Tacis priorities and Main Interventions

Tacis overall objectives have included strengthening the agricultural sector, improving food production, securing domestic food supply and supporting reform and the private sector in agriculture. Actions covered: land reform, wholesale retail and distribution, agro-processing and restructuring of large enterprises, training and natural resource management. In the early years, Tacis placed more weight on food supply issues, later on managerial and technical support and restructuring, and more recently on legal and technical support for land reform and training.

6.5.4 Main Evaluation Issues

In general, Tacis action in agriculture, as in the case of most donors, has not been successful in tackling the key problems, due to the very strong resistance mentioned above. A more open, and flexible attitude, would probably have suggested closer support on a pilot basis to those regional governments who are engaged in speeding up the reform process.

The action on Land Reform, with two big projects under way, is highly relevant, but there is the risk that it will remain in a merely technical dimension. Moreover, its impact and effectiveness has been reduced by the inability to mesh with the World Bank’s well-funded LARIS project covering the same ground. As regards action relating to wholesaling, retailing and distribution, more attention might have been paid to providing market and financial information in a rapidly changing scene, and to addressing the issue of competition between Russian products and imports to enable Russian producers to elaborate a better production strategy. Restructuring-related action proved less than effective when the Russian beneficiaries turned out to be part of the large minority who found it impossible to adjust to new conditions. Some training projects based on advanced Western methodology were less relevant than more straightforward market-related training. The recent shift of emphasis in Tacis action in the agricultural sector from the regions to the centre has caused some resentment and –in some respects– goes in the opposite direction to that expected. A more active and direct participation of regional authorities and institution should be pursued in the coming years.

6.6 Public administration and social sectors

6.6.1 Background

The problems of public administration and social protection are complementary. The State in Russia has been greatly weakened over the last ten years as an institution, to the extent that its structures and authority require radical re-invention and rebuilding. The weakness of the State as an institution is reflected in a serious lack of financial resources. Only a very small proportion of Russia’s real wealth goes into government official revenues, compared with the rest of Europe. The problem is not just that of poor tax collection. The weakness of the State has led to its being compromised by many other interest groups, which in turn leads to a loss of legitimacy among the population. The idea of the State (at all levels) as primarily a provider of public services rather than a focus of authority, power and privilege, remains only weakly developed, and there are few moves towards greater transparency in government and administration.

47 An evaluation for the entire sector does not exist. However, a mid term Operational review of Tacis programmes in the field of Human Resources in RF was carried out by Tsantis for the activities of 1992-97 and published in October 98. An Evaluation of the Tacis Management Training projects was also completed in 1998. These documents have been used extensively as basis and reference for the findings of the present Evaluation. The Evaluation Team has conducted analysis of those areas not specifically covered by the above mentioned reports.
Since August 1998, there have been signs that the problem has been recognised and that there may be the political will to set about restoring the integrity of the state administration, while at the same time supporting decentralisation for greater efficiency. The scale of the problem and any attempt to solve it goes far beyond any of the institutional donors, although Tacis is the only one to have built up a ‘critical mass’ of projects in this area. It is essential that the EU participate actively in re-building the Russian State, but it is doubtful whether the methods and approaches which have served Tacis up till now would be appropriate to this task (see below).

6.6.2 Key problems of the sector

Despite the constitutional settlement of 1993-4, and subsequent laws (such as the 1995 Law on Bases of Local self-government) there are still major unresolved differences over the division of power, resources and functions between the federal, regional (subject of the Federation) and local levels. The complexity of this issue would have been a sufficient cause of problems even without the massive increase in the demand for public and social services that followed the collapse of much of Russia’s industry (thus reducing tax revenue from traditional sources) and from mass privatisation (involving the dismantling of the whole system of enterprise-based ‘social infrastructure’).

6.6.3 Tacis Priorities and Main Interventions

Tacis interventions in Public Administration initially emphasised Training of Trainers, on the successful model of Tacis projects in the wider field of Human Resources. In social protection, the emphasis from the start was on the development of new systems to cope with new demands. Programmes in both areas were systematically regional, working through federal agencies and their subsidiaries in the regions selected for special attention by Tacis. This approach was suited to the period of reform and experimentation that characterised the period 1991-5 in the Russian Federation. However it became increasingly clear that democratisation and higher turnover of officials at lower levels of the state meant that training might have little long-term effect; and central government was unwilling or unable to provide resources or administrative support to turn regional innovations into federation-wide policy.

Considerations such as these led to a re-direction of Tacis policy towards federal ministries as beneficiaries and towards ‘policy advice’ rather than training as the main method of delivery (although in practice the training element remains substantial).

6.6.4 Main Evaluation Issues

The analysis underlying the shift of priorities in 1996 appears relevant. The scale and increasing complexity of the problem facing the Russian state administration were such that a more ambitious form of engagement than training courses seemed to be called for. In practice the effectiveness of such a change was partially compromised, since it was (reportedly) implemented in such a way that beneficiaries began to oppose the idea of ‘policy advice’ as being intrusive and an infringement of sovereignty.

The problem was that it was not simply the form of Tacis’ intervention but also its mode of operation that needed to be changed to meet the challenge of the Russian crisis. The idea of ‘Know How Transfer’, which had been highly relevant in the early 1990s, was becoming less so in the late 1990s.

As was said in the Russian Focus Groups:

“The problem of Russian institutions is not that the people in them didn't know enough about their Western equivalents, but that they face great difficulties in applying the lessons of this experience”.
Western consultants were not always equipped to handle this type of problem, and process issues in the way the Tacis programmes were administered have sometimes undermined their relations with the beneficiaries. Russian consultants have since been more widely used in projects, but are insufficiently integrated into the early stages of some projects, leading to mutual suspicion and duplication at a later stage. In public administration and social protection, it is difficult to separate process issues from subject issues. Tacis has generally been correct in its identification of issues. However, without a parallel change in its mode of operation, from ‘know-how transfer’ to ‘partnership and facilitation’ – in other words towards a focus on the process of change rather than the details – little will be achieved and even the best-conceived policy advice (and much was given, particularly in 1998-9) will remain impressive only on paper.

6.6.5 Recommendations

Tacis should build on its position as the main source of external policy advice and training in the public administration and social protection fields. It should attempt to complete its ascent of the ‘policy ladder’ to provide inputs not only to the regional and ministerial but also to the top governmental level. The Russian system is currently such that only if the very top level is accessed can the necessary changes developed through past Tacis projects be implemented. Such an attempt might have been futile in the mid-1990s, but there now appears to be sufficient pressure to consolidate government to make the attempt worthwhile.

In the other direction, Tacis should focus more on the problems of big cities, which are extremely important politically and economically but have received little attention throughout most of the period of Tacis intervention. There should also be more emphasis on democratisation and joint working between government and the voluntary sector, given that government can no longer expect to be able to provide a remotely adequate level of services unaided.

Tacis should see process issues as increasingly central to this area, so that facilitation, partnership and the active dissemination of policy proposals and debates (across both regional and ministerial boundaries) comes to be seen as an integral part of the Tacis approach. This would imply wider programmes, more and smaller projects, a clear division of labour between EU and Russian experts and facilitation and partnership taking the place of know-how transfer and technical assistance. This would imply recognition by both parties that it is in their processes rather than their informational or structural base that the real problems of the Russian government and public services lie.

6.7 Environmental protection

6.7.1 Background

In the former Soviet Union, natural resources were frequently exploited in a gross and inefficient way leading to extensive adverse environmental impact in terms of emissions into the air and water courses and land degradation and pollution by waste and rubbish dumps.

Industrial production in the Russian Federation, because of its inefficient use of resources such as energy, water and raw materials, significantly contributes to pollutants that can have a global

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48 No previous evaluation exists for this sector. An analysis, though not exhaustive, has been conducted by the Evaluation Team and is the basis for the findings here summarised and described in detail in Vol. 2.
impact as well as a local dimension. This adverse environmental impact has had, and continues to have, serious consequences for health and mortality rates, both within the Russian Federation and globally.

Structural changes and declining industrial and agricultural production have not been associated with a commensurate reduction in pollution levels. In reality the situation is worsening in the Russian Federation for the following reasons:

- historical pollution problems have not been addressed;
- plant and equipment, due to lack of investment, is frequently not maintained or replaced and is operated incorrectly in terms of pollution prevention or mitigation; and
- pollution prevention control Regulations and legislation are not abided by because the inspection and reinforcement procedures are not rigorously applied.

6.7.2 Overview of Tacis Intervention

Prior to 1996, environmental issues were primarily limited to other sectoral activities and were treated as horizontal actions. Specific environmental actions have taken place since the beginning of Tacis intervention. These included such actions as the reduction of polluting emissions, pollution control, waste treatment and management, development of clean energy technology, environmental impact assessment and preparation of environmental codes of practice. Environmental components have also been part of several national projects and specific initiatives such as the Black Sea project. An environmental audit was included as a standard part of the Terms of Reference in all 1993 military conversion projects.

The objectives of the 1996-1999 Indicative Programme relating to the environment were the systematic inclusion of environmental considerations in the design of projects in all sectors of Tacis activity and the elaboration of free-standing actions to support the integration of the mainstream of economic activity. These objectives reflect the high priority accorded to environmental concerns in the PCA.

6.7.3 Evaluation issues

Prior to 1996, whilst the issues addressed were relevant and appropriate, the approach of integrating an environmental dimension throughout the various sectors did not prove effective or consistent across the sectors. It had little effect on the environmental problems faced by the Russian Federation.

In 1996, Tacis recognised that the previous policy was not working. Treating their environmental issues under their own sector heading and identifying free-standing actions that could support the integration of environmental considerations across the whole range of sectoral activities was a significant step forward. Tacis intervention continued to ensure environmental issues were integrated into all sectors.

In 1997 the 1996/99 Indicative Programme was updated to ensure that the integration of environmental actions throughout economic activity was reinforced by identifying environmental criteria for the design of the Terms of Reference.

Whilst it is considered too early to accurately assess the impact of the revised 1996 approach on environmental matters, the strategic approach of strengthening institutions, legislation and training is considered appropriate and relevant. Tacis intervention is however primarily concerned with current environmental performance and less so with historic pollution. Additionally a major problem that is not addressed is the level of investment required to induce significant changes. This will continue to be one of the major problems that will dictate the pace of environmental improvement.
6.7.4 Recommendations

Effective Tacis intervention in environmental matters should focus on institutional building at the regional and federal levels in order to enhance sensitivity, information systems, and management capacity in the relevant fields, in particular:

- to improve information and monitoring capacity;
- to review the framework for environmental Regulation and legislation;
- to assist with the improvement of the environmental inspection and compliance enforcement procedures;
- to assist with identifying incentive schemes for environmental improvement; and
- to assist with identifying options for financing and investment of environmental improvements.

6.8 Main issues to strengthen the rule of the law

6.8.1 Background

On paper, the Russian legal system appears to be fairly coherent and extensive, since it includes a relatively modern Constitution (of the “Presidential” type) and a large range of statutory acts. But its effectiveness and impact on the functioning of public institutions and on the everyday lives of most citizens is far from satisfactory.

One reason seems to be poor planning with regard to the key issue of harmony between different Regulations as well as between these Regulations and existing realities and traditions. Some newer pieces of legislation were simply copied from alien legal cultures without introducing an adequate institutional and regulatory framework at the same time. In other cases, the various legislative acts, laws and ensuing Regulations arose from conflicting viewpoints, sometimes yielding to different pressures, sometimes trying to strike a compromise between them; quite frequently attempting to find a regulatory solution to transient problems.

Another reason for the system’s shortcomings lies in the lack of a prevailing “culture of legality.” This is a general, predominantly psychological, characteristic of the Russian public at large. Feelings of mistrust and repulsion towards the authorities are combined with a perverse, deep-rooted idea of the rule of law as an obstacle, rather than a fount of rights and redress. Over-Regulation, corruption and criminal pressures tend to strengthen these attitudes.

Political instability begets legislative instability and adversely affects foreign investment, which is the key to the country’s economic development. The current political debate surrounding the Foreign Investment Bill is a case in point. Foreign investors polled about the Bill stressed the importance of a stable legal system rather than ephemeral tax or other benefits.

The taxation environment is unstable and the overall tax treatment still unbearably heavy-handed towards both domestic and foreign entities.

The division of powers between the federal centre and the regions has not been sufficiently clarified at the constitutional level. Implementing legislation has often failed to strike a proper balance between subjects’ rights, powers and responsibilities. The result has been opacity, confusion and red tape.

Investment-sensitive sectors such as mining, oil and gas, telecommunications, as well as real property have been particularly affected. The unresolved issue of land ownership prevents the
use of land as collateral. The role of NGOs in Russia is particularly critical, yet legislation regulating their activity is still not properly codified and tax benefits are inadequate.

The level of compliance of the Russian judiciary with foreign judgements and arbitration awards remains one of the lowest anywhere.

6.8.2 Other donors

Since 1991, Russia has received assistance from the IFIs and many other organisations, and from governments, including help with legislation, training, electoral assistance and constitutional reforms.

The Legal Reform Project, jointly funded by the WB and the Russian Government, to help the effective functioning of market institutions, is by far the largest initiative of legal assistance ever launched in collaboration with a foreign entity in Russia. It includes not only support for the Russian Government in designing legislation and improving judicial training for the relevant courts and arbitrators, but also focuses on fostering a ‘culture of legality’.

6.8.3 Recommendations

To date, Tacis has had a limited impact on the Russian legal system, with some successes but no overall plan. More Russian involvement would help to engender a better public perception of law reforms, so that people would feel that they “own” the reforms instead of being the passive recipients of them.

Tacis needs to coordinate its projects with those of other donors, particularly with the WB and on the Russian side with the Russian Foundation for Legal Reform.

A specific contribution that Tacis can provide in this, as in many other fields, is the establishment of inter-institutional linkages between Russia and the EU Member states with respect to the completion of the legislation, training of judges, training of the tax police, anti-corruption measures, etc.
7 TACIS INSTRUMENTS AND RELATED KEY MANAGEMENT ASPECTS

This chapter attempts to analyse how the Tacis types of intervention (top-down projects in the mainstream programme, bottom-up SPPs, and investment schemes) favoured or hindered the attainment of the programme objectives and what has been the effectiveness and efficiency of related key management aspects: role of Russian counterparts in programming; the resources available and management procedures; donor coordination.

7.1 The projects in the mainstream programme

7.1.1 Project size: project aid or programme aid?

The average project size in the Tacis mainstream programme has been increased over the last three years in order to make management easier and to increase the impact and visibility of the intervention. Under the 1996-99 Regulation, the number of projects decreased from more than 100 per year to about 32. The present project average size, excluding SPPs, is currently 3 M€. The proposed new Regulation for 2000-06, continues this trend and introduces a minimum size of 2M€ per project in the case of Russia.

Per se, the “project” instrument, especially if of a large size, does not seem to be particularly suitable for coping with problems of transition in Russia in a participatory and effective way. In the narrow sense, the project instrument is imported into development cooperation programmes from the mechanical engineering and building sectors, in which it is possible, and necessary, to keep track as accurately as possible of the inputs required to obtain the desired outputs and in which it is possible to measure with equal accuracy the quantity and quality of the outputs obtained.

In all development cooperation sectors, it is preferred to use the “programme” instrument when the situations to be coped with are complex and multiple, and a single project would be too big. A programme is simply a set of projects (or measures) corresponding to a single strategy but each having an operational autonomy of its own with respect to the others and being of a manageable size.

A programme with many diversified components is also referred to as an “umbrella” programme as, within the scope of the common objectives, it is actually able to incorporate even several programmes that are differentiated by activity, geographic area, etc. The PCM (Project Cycle Management) is well suited to defining complex programmes in view of its cascade structure: it allows an optimal ratio to be maintained between the whole and its various parts, whatever the level of complexity desired.

49 The problem of projects’ size has already been pointed out by the previous Evaluation of the Enterprise Restructuring and Private Sector. The authors stressed, in particular, the fact that large projects often mean multiple objectives and/or excessive geographical scope which can result, ultimately, in an inefficient use of resources.

50 The experience of structural funds inside the EU is very instructive in this connection: it ranges from the General Support Framework of the cohesion policies, to the Priority Axes relating to a specific strategic objective (1 to 5), to Sub-Programmes involving the Priority Axes components, to the Measures, down to projects involving individual enterprises.
In our particular case it must be ascertained in what way these more complex implementation instruments have been applied, or would be applicable, to Tacis, and how they could facilitate the programme’s content of partnership on an equal footing as opposed to a one-way knowledge transfer.

7.2 Small Project Programmes

7.2.1 Different types of SPPs and their advantages

SPPs are more like "programmes", in the definition given at paragraph 2.3.2. In parallel with the mainstream programme, Tacis also foresees this instrument, which account for 25% of the Russian NIP, against an average of 11% for the whole of Tacis.

SPPs are mechanisms whose distinctive features may be very different. Generally speaking, they provide quick and efficient tools for responding to the demands of the beneficiaries at the grass-roots level, in different sectors. The requirements for participation differ from one SPP to another. Once Tacis funds have been earmarked for a particular area of activity, Russian organisations (with or without the support of an EU partner) can make proposals for specific initiatives or general requests for assistance.

Within the different areas of activity, such as political co-operation, private sector development, or international co-operation, two main types of SPPs may be identified:

- Specific programmes pursuing specific objectives but managed outside the national programme on a cross-border basis (Tempus, City Twinning and others);
- Small programmes to complement major programmes (Bistro).

The main features of the SPPs are the following:

- Partnership-based relationship with the beneficiaries;
- Flexibility;
- Budget allocations are made globally and allow the financing of several small projects;
- Demand –driven projects;
- High sense of ownership;
- Direct participation of regional entities;
- In presence of highly changeable situation of top ministerial officers, they allow the introduction of some reforms at least at the grass-root level;
- They represent a strong basis for durable relationship after the end of the project;
- They allow a genuine exchange of experiences in line with the idea of process facilitation rather than consultant-driven transfer of know–how.

7.2.2 Weaknesses of Small Project Programmes

Their main weaknesses may be summarised as follows:

- Most of the present SPPs need a coherent framework of objectives\(^{51}\), outputs, activity types, inputs and implementation methodology;

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\(^{51}\) In some cases excessive emphasis has been placed on formulation and implementation of individual projects to the detriment of more integrated policy objectives. This fact, as stressed for example in the evaluations of the “Policy Advice Programme” or the “City Twinning Programme”, brought to a lack of synergies and complementarity with the mainstream programme.
- SPPs often are not implemented by professional project managers
- The final selection of projects is made by a steering committee in Brussels, without the participation of the Russian side\(^52\). Existing SPPs are in most cases managed by the contractor, who has a direct link with Tacis task managers in Brussels, makes the pre-selection of the projects and controls their execution, while the beneficiaries as well as the Delegation and the National Coordinator relatively sidelined\(^53\);
- with some exceptions, there are no multi-annual allocations of funds and without them SPPs are of little help to Tacis in promoting strategic partnerships and coordination with other donors;
- The management of SPPs is quite expensive compared to their budget\(^54\) size and the use of external contractors, without sufficient independence in decision making, creates bottlenecks in the implementation process by introducing an additional administrative layer in the decision-making process and contracts monitoring\(^55\);
- The Commission policy role is often tempered by the higher visibility of the managing contractors.

### 7.3 Project Cycle issues

#### 7.3.1 Participation of Russians in Programming

One of the strong recommendations of the global Tacis interim evaluation (1997) calls for a shift from a demand-driven to a dialogue-driven approach in the programming phases. In Russia, much progress has already been made in improving Tacis planning and the recently created mechanisms to involve PCA sub-Committees go in this direction\(^56\).

**The Tacis National Coordinator**

As already illustrated the fact that the Ministry of Economy (ME) is the National Coordinator is one of the obstacles to full Russian participation\(^57\). The ME is not in charge of the coordination of the EU-Russia PCA, into which Tacis should fit, and is not the most suitable Russian body to deal with the whole gamut of EU-Russia relations.

In addition, it is not clear whether this privileged dialogue with the ME allows regional Governments to be involved in Tacis negotiations, programming and monitoring.

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\(^52\) This does not apply to the Tempus case where representatives of Russian academic world and of CU participate in the selection process.

\(^53\) See the description of the programme’s management system in the “Evaluation of the Tacis Policy Advice Programme”.

\(^54\) This is the case, for example, of the Productivity Initiative Programme, which has been evaluated as having an inadequate economic impact considering its high cost per participant. See the “Evaluation of the Productivity Initiative Programme”.

\(^55\) An evident case in this sense is the City Twinning Programme: the divisions of task between a Secretariat (located in Brussels) and a Technical Assistance Unit (located in Paris) appeared to the evaluators a constraint on the overall efficiency of the programme management. See “Evaluation of the City Twinning Programme in the NIS and Mongolia”.

\(^56\) The real implementability and effectiveness of such a dialogue mechanism is still to be verified, due to the number of actors involved in these sub-committees and the several tasks they have.

\(^57\) It should be noted that, although requested, the relevant officers in the ME could not find the time to meet the evaluation team, nor were able to designate an expert to participate in the team. This has been considered as a sign of a distance on their part vis-à-vis the programme, which may be due to other prevailing priorities, but could also indicate a weak sense of programme ownership.
The Coordinating Unit

The Coordinating Unit (CU)\(^{58}\), which should be in charge of the programming process, is in an ambiguous and difficult institutional position. Its functions and structure have not substantially changed since the beginning of Tacis, when the EU had no Delegation in Russia, and the whole programme was managed in a sort of emergency framework.

In the Russian view, the CU is a support unit of the ME: the latter exercises its authority, without having the actual capacity to manage the Tacis programming process. In such a situation, the CU takes full responsibility for processing the requests received from the different regions, as well as from other Ministries and organisations. The selection decisions and criteria do not reflect any particular strategic vision and are not fully transparent. In some cases, they may seem unjustified to the beneficiary (e.g., regional government) and the evaluator alike.

In the European view, the CU is not the proper Russian counterpart, since it is only a support unit for the counterpart. On the other hand, it is the only Russian body with a national vision of the programme and the capacity necessary to liaise with the programme partners in the different regions and sectors. The CU is not itself a joint body, but has some of the characteristics of a joint body\(^{59}\), since in the initial stages, it was the only permanent body representing Tacis in Russia.

7.3.2 Managing Implementation

Selection procedures

Following the existing procedures, each year the country Action Programme is submitted to the Tacis Committee\(^{60}\), accompanied by a list of large projects, for which project sheets have to be submitted, including the identification of budget allocation, counterparts, objectives, activities, and main inputs. After approval by the Committee, the preparation of the projects begins. From the moment the AP is approved, it still takes eighteen months on average before project implementation starts.\(^{61}\)

Project design and rigidities

During the period of project preparation, and for the entire duration of the project, the basic definition of the project cannot change. Moreover, in many cases, in order to facilitate Tacis administration, the bigger projects combine rigidity of design with a complex and over-centralised institutional set up, which is due to the need to assemble a multitude of separate projects under a single institutional umbrella. Project concentration on fewer large projects reduces flexibility and increases central control.\(^{62}\)

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\(^{58}\) The Unit had no Status until 1994 and reported directly to the Russian Agency for Aid Coordination and Development (RAACD). In 1994, it moved to the Ministry of the Economy (ME), after the RAACD closed down. At the time, an EU National Coordinator, acting on behalf of the Minister, was designated.

\(^{59}\) The CU is presently composed of 7 Russian and 6 European experts; 5 support staff; 1 bookkeeper. They are organised into 5 sectors: Agriculture; Enterprise support; Human resources; Energy, Transport and Communications; and the Environment. The role of the European staff is not very clear and this generates quite a few conflicts with the Russian experts.

\(^{60}\) EC and EU member states

\(^{61}\) Timing has been a major theme for almost every Tacis’ project. It is generally observed in other evaluation reports (ex. Evaluation of the Food Production, Processing and Distribution Sector in the Russian Federation and Management Training Evaluation) that the long gestation period from the project idea to start up has created special problems in situations where the environment was undergoing rapid change.

\(^{62}\) According to the comments collected by the evaluation team, beneficiaries feel less involved in big projects, since these are remote and cover many different institutions, thus increasing the quantity of red tape. For instance
The same rigidity has also been observed in large mono-thematic projects, in which both the federal level (for policy definition) and the local level (for the management of case studies, or pilot experiences) are addressed. In these cases, the need to predetermine the local applications (share of investments, locations, etc.) adds further elements of rigidity, which prevent the intervention from supporting real processes and more advanced local dynamics.

Another factor of rigidity is represented by the constantly increasing value of the contracts. While it is relatively easy to evaluate and select the best proposals at the tendering stage, it is much more difficult to check the quality of a project’s implementation. While the monitoring activities were expected to be a management tool in this sense, in practice monitoring has become mechanistic and overly concerned with adherence to Tacis procedures and guidelines, to the detriment of technical quality and influence of monitoring. However closely the activities are monitored, qualitative evaluations are still often subjective and difficult, as the results of an AT project are not dependent solely on the quality of the service provided. Furthermore, taking legal proceedings against a contractor in order to suspend or even cancel a contract and starting over again from scratch can be more costly for the Tacis administration than for the defaulting contractor. This situation causes distortions in the consultancy market. Cases have been reported of service companies that are increasingly specialized in the preparation of bids that, once the contract has been awarded, manage project implementation carelessly and tend to replace the more valuable and more expensive experts.

Project Management: procedures and available human resources

The reasons for favouring concentration into large projects are manifold and totally understandable for anyone with some idea of the Commission's administration. The Commission services in general and, in our particular case, those having the task of implementing Tacis, are overloaded beyond all reasonable limits. Each task manager is responsible for managing a projects portfolio of more than 20M€ which is considered far above an effectively manageable size by the DG ER and SCR Management. The level of management centralisation is out of proportion to the limited resources available and the complexity of the programmes resources. Therefore, even a minor request for amendment to a contract entails a procedure lasting months. Moreover, these difficulties are multiplied by the ongoing processes of reorganisation, redistribution of responsibilities, and relocation.

Tacis Technical Offices

These Offices have proved to be very effective in collecting, processing, and disseminating information on the Tacis programme at the regional level, as well as providing logistic support to Tacis and EU technical staff.

Their additional roles within the PMC have been evaluated as of little effectiveness, mainly due to their unclear tasks and roles vis-à-vis the other actors, namely the EU Delegation and the Coordination Unit or sometime as a duplication, for instance in the case of monitoring...
activities. Therefore the possibility of involving them in a new programming mechanism may generate some concerns if the role of the actors currently involved in programming is not carefully assessed and defined. In addition, taking into account that any new programming procedure should be as simple as possible, the introduction of an additional step/interlocutor may result in an unnecessary increase in the bureaucratic structure.

Box 5: Most common weaknesses in the Tacis project cycle
(a synthesis of interviews with different Tacis stakeholders)

<table>
<thead>
<tr>
<th><strong>policy management and programming</strong></th>
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<tbody>
<tr>
<td>a. The relevant DG has not itself the resources to carry out in depth policy analysis for project preparation and negotiation, and it does not use the existing SPPs (PAP) in such a perspective</td>
</tr>
<tr>
<td>b. The ToR are drafted by consultants, who take into account the technical coherence of the single project much more than its policy consistency with both Tacis and other donors’ strategies</td>
</tr>
<tr>
<td>c. Often projects do not include process facilitation components to enhance exchange of information, demonstration, and policy discussion, among the different actual and potential partners in Russia</td>
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<thead>
<tr>
<th><strong>project preparation</strong></th>
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<tr>
<td>d. This is a long and complex procedure. It used to take about 3 years to start a project after its inclusion in the Action Programme. Now considerable progress has been accomplished. The time span has been reduced to about 1.5 years. This time is acceptable for the preparation of a big initiative, while it is still too long for the establishment of short-term actions</td>
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<table>
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<tr>
<th><strong>implementation rigidities</strong></th>
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<tr>
<td>e. Mechanisms to allow changes and adaptations in ongoing projects do exist, but are cumbersome. This is one of the most serious bottlenecks in project management, and causes inefficiencies or time loss when applying for amendments and changes</td>
</tr>
<tr>
<td>f. The rigidity of the procedures obliges Tacis to establish detailed activities and inputs in the project document, even when no reasonable basis exists for predicting them. This generates input-driven instead of objective-led projects</td>
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<tr>
<td>g. Purchasing equipment in Tacis contracts is very complex and financially burdensome for contractors. Office equipment is generally bought at the end of the projects. Authorisations and tenders are needed even for very small amounts (&gt; 5,000 euro)</td>
</tr>
<tr>
<td>h. The duration of big projects is too short and mechanisms for extending successful projects, without undertaking a new preparatory process are restricted</td>
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<tr>
<th><strong>EU and Russian consultants</strong></th>
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<tbody>
<tr>
<td>i. The existing tender procedures, the evaluation criteria and the relatively low</td>
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average rates generate a number of distortions in the behaviour of the contractors with respect to the EU consultants: sometimes the quality of the implementation differs from the quality of the proposal, and the best consultants are changed after an initial period.

j. It is difficult to use high level Russian consultants, since: (i) their role is not envisaged as an essential one in most project documents; and (ii) the average rates applied by Tacis are very low, corresponding to an interpreter's fee.

### Documentation and monitoring

k. The documentation system needs major improvements. Each task manager has his or her own database, and there is no project numbering system.

l. Standardised and accurate project monitoring is ensured by the monitoring unit, but more policy-based sectoral monitoring is not available.

### Evaluation

m. Although a systematic evaluation exercise has been carried out with coverage of all the main sectors and SPPs, its feedback on the decision-making process could be improved, as is shown by the limited participation of a number of key actors.

### 7.4 Tacis and investment

A key issue to improve Tacis credibility and beneficiary ownership is the linkage between Tacis projects and investment. Tacis is not an investment programme, even if in the latest Regulation the allocation of limited funds for investment has been allowed (10%) as matching funds to improve the effectiveness of TA, and to finance the implementation of small pilot projects and complementary small infrastructure projects. In the new draft Regulation, the share for investment catalyser funds is likely to be increased to 25% of the total financial allocations. Such an increase will not resolve the problem. The crucial point is how to maximise the relationship of Tacis activities for partnership promotion and TA, on the one hand, and existing sources of investment on the other.

The increase in the share of Tacis funds available for investment should be limited, considering the nature of the programme and its goals. If Tacis is to increase its capacity to create real partnerships, its resources cannot be used for infrastructures and buildings, beyond what is strictly necessary for its policy purposes. Moreover, direct investment under Tacis is subject to complex procedures which often threaten to paralyse the projects themselves.

Tacis should be well placed to undertake various actions to facilitate investment, from the mobilisation of beneficiaries and liaison with investors, to feasibility studies performed jointly with the investors. The important thing is to use Tacis as a mechanism owned by Russian and European beneficiaries to identify opportunities and mobilise resources, and to avoid over-emphasis on the top-down consultant service approach. Tacis projects based on the partnership approach will avoid the risk of being “owned” by contractors, and instead will be a vital means to build the future of Russia. After a pre-identification with the relevant beneficiaries, the involvement of various sources of investment should be promoted, either IFIs or private investors, and the way forward should be discussed with them.
7.5 The Regional dimension

Tacis has always been particularly sensitive to the regional issue in Russia. The regional dimension is a key factor in Tacis ownership and success, in Russia. The geographic, social and political multiplicity of Russia, the very different dynamics that characterise the regions, and the current weak decision-making capacity at the federal level, make it necessary to combine the federal and regional approaches, and to avoid any kind of subordination of the latter to the former.

Up until 1995-96, the regional dimension was pursued through a number of priority Regions to concentrate on and for which Regional Action Programmes were prepared.

From 1996-98 on, greater attention was paid to the Federal level, to speed up policy reform in the different sectors. One current approach is based on agreement on a specific project with the relevant Ministry at the federal level, with the inclusion of a regional dimension. The project is conceived to provide policy advice to the Ministry —e.g. set up a federal policy in the relevant sector—and to test such a policy in one or more regions.

This kind of approach does not seem to ensure the full participation of the more dynamic regions. It may happen that:

- the selection criteria of the region concerned are not based on its commitment and actual capacity to tackle the relevant problems, but simply reflect federal concerns and preferences; and/or
- the regions are merely asked to implement federal guidelines, and therefore it is very difficult to establish a bottom-up process of policy innovation, rather than top-down relationships.

These weaknesses are also the consequence of a lack of flexibility in the project set-up, as discussed above.

A better-balanced participation, at both the federal and the regional levels, would meet the demand of many regional governments and would also be a way to establish healthy competition among the Tacis partners. Some Regions are ready to proceed with trying out new policies and even new legislation. Other regions may experience particular problems that need Tacis assistance. Other regions again may be in a strategic position to promote RF-EU networks and joint programmes. All these regions should be adequately informed through the TOs, and encouraged to identify EU institutional partners and prepare proposals for Tacis support.

7.6 Donor coordination

A good standard of exchange of information among the EU Member states has been achieved in Moscow, through regular meetings and some specific collaboration. A joint Working Group with the EBRD has been established to better coordinate bank restructuring and SME interventions. With the World Bank, there is a close coordination in bank sector reform and fiscal management. Coordination with the Member states and the other donors was intensified after the 1998 financial crisis.

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68 This is true of several new projects: e.g. support to the mining cities
69 The evaluation team had the occasion to appreciate such an attitude in several regions: Karelia, in the health and energy sectors; Saratov, for land legislation; etc.
It appears that with respect to the IMF and particularly the World Bank, there is already sufficient participation of Tacis representatives in the coordination groups and meetings held by these IFIs. This should ensure a degree of conformity in the various approaches and a certain complementarity in the various programmes.

Further steps have been made in the search for collaboration and synergies with the World Bank and the EBRD, particularly with respect to the Bangkok facility (EBRD), and the SME credit fund. It is not clear, however, what the specific role of Tacis is—or its comparative advantage—apart from providing additional funds.

With respect to the EU Member states, apart from an acceptable level of exchange of information, there are instances of specific collaboration in many fields, but they are often limited and relatively isolated. Strengthening the Tacis initiative for donor coordination is not an easy task, yet it could be quite beneficial. This could happen if Tacis is able to bring value-added to donors’ activities. For instance, in areas such as Industrial cooperation, rule of law, Networks, Tacis can count on the experience of the European Commission in similar programmes as well as on the institutional links within Member States. This represents an important valued-added feature to projects financed by bankers or individual Member States.
PART IV: Conclusions and Recommendations

8 PROPOSAL FOR PROMOTING PARTNERSHIP

8.1 The Challenge of Tacis

As demonstrated in the previous chapters, the main problem of any proposal for improving Tacis instruments seems to consist of how to combine two apparently conflicting needs – strategic clarity and management simplicity vs. ownership by the beneficiaries and decentralisation.

If a project is designed to get people moving by mobilising their own resources, then it must be adapted to their real abilities and limitations, taking into account the actual changes in the real world, especially in the fast-changing circumstances of Russia today. To ensure full ownership by the actual beneficiaries – enterprises, universities, local government bodies, and NGOs – and an acceptable degree of flexibility, it is probably preferable that a project be relatively small. Small projects seem to be actually much more appreciated than big ones. Especially in the post-crisis period, there was a lot of pressure from the Russian side on programmes such as Bistro and EES, which may focus on very specific issues and are very easily deliverable.

On the other hand, small projects often lack the strategic and medium term size suitable for Tacis assistance. It would be impossible and strategically misguided to invest the majority of resources in this type of project, shifting all Tacis into a jumbo Bistro and a demand-driven programme.

The choice of instruments is also a function of the kind of relationship pursued with Russian counterparts through Tacis Programme. The new framework of EU-RF relations (the PCA and the Common Strategy) as well as the findings of the present Evaluation clearly indicate the need to move towards a new approach in the technical and economic co-operation with the Russian Federation. Such an approach should privilege a partnership relationship aimed at creating durable links building internal processes in Russia, and favouring direct exchanges of experiences rather than simply delivering top-down consultant-driven transfer of know-how.

One solution is to use a limited number of strategically focused large scale Partnership Initiatives organised as Cluster Programmes, i.e. programmes that include different instruments and components, and a multitude of actions under the same policy and strategy framework. Such Partnership Initiatives would have several features in common with the present SPPs – such as the bottom up approach, the twinning and the partnership framework – but also some

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70 An increase of the upper limit allowed for Bistro projects, the small project fund managed directly by the Delegation, is under discussion. This may be a laudable change, but it would not resolve the problem, especially if we consider that the trend in the core Tacis programmes is rather the opposite.

71 This risk has been widely pointed out by the Tacis Interim Evaluation carried out in 1997 by the then DG1A Evaluation Unit. The latter evaluation recommended that the dialogue-driven programme should be used as an alternative to the demand-driven one.
marked differences, namely, a clear medium-term framework and a significant concentration of resources and simplified management structure.

8.2 Launching some key Partnership Initiatives through Tacis in Russia: general issues

We believe that Tacis would benefit from a gradual reorganisation around a number of key Partnership Initiatives. The evaluation suggests that an open discussion process among stakeholder could be initiated to prepare adequate proposals. Such discussion should be conducted on the following issues.

The strategic framework of a Partnership Initiative must be prepared thoroughly and stem from a participatory and negotiated process involving the Russian and European beneficiaries. Among other things, it would include:

- an accurate definition of general objectives, priority axes, sub-programmes (if any), and types of action (either measures or projects) to promote, support and finance;
- the target beneficiaries in Russia, at the federal, regional and local levels;
- reference institutions in the EC and the MS; and
- project presentation modes and criteria of eligibility.

The other key point in the elaboration of the Partnership Initiative is its operating system, including the involved actors and the allocation of resources. Here, the main objective should be to reconcile the Commission’s need to maintain its political role, strategic visibility and influence over the Programme within its resource constraints while simplifying the management system, in order to increase flexibility and advance a partnership approach without loosing in terms of transparency and efficiency.

The elaboration of an appropriate operating system should include a thorough analysis of existing models of aid to third countries already operating within the Commission to verify the manageability and effectiveness of certain Partnership Initiatives and of their instruments. For
example, The Food Security programme run by the DG Development deploys a set of instruments including Budget support, local projects and relevant Management Units, and a Policy Advice Network (RESAL), which has very interesting characteristics. It is composed of distinct and co-ordinated groups of experts from different companies, who back up the relevant DG Unit in its work of policy analysis, programme identification, policy and programme monitoring, in accordance with both the actual demand and a well defined strategic framework. RESAL is a programme worth about 20 M€ spread over 3 years. Different sector programmes could benefit from this type. At DG Development –where the big top-down projects were experienced more negatively and therefore criticised more strongly– other Units adopted similar models: e.g. Macronet (structural adjustment), Diagnos (private sector), etc.

To cite a completely different example, reference may be made to the EC funded Al-Invest programme in Latin America (51 M€). This resembles the Tacis SPPs much more closely but is much more decentralised. Its purpose is to facilitate industrial co-operation among small and medium sized enterprises in Latin America and Europe. It is run entirely by private decentralised bodies, such as entrepreneurs’ associations and chambers of commerce, and the key to its success is its strong ownership orientation.

The example of structural funds in the EU member states has already been cited but deserves note here. It provides interesting insights, especially as far as the combination of strategic guidance and grassroots initiatives is concerned.

When referring to the standard actors involved in a Partnership Initiative, they should be the following:

- A joint steering committee;
- One central unit (PMU) and/or several decentralised units for project management and administration;
- Different expert teams (independent of the PMU) for policy advice, project identification and monitoring, diversified by geographic and/or thematic area;
- Networks of private and/or institutional beneficiaries, in both beneficiary country (in this case RF) and the MS;
- Unit/s for project monitoring and control (independent of the PMU).

The effective role and use of the individual categories and structure indicated above depend on the feasibility of certain structures from the political, strategic and management point of view, and require lengthier internal discussions by Commission services.

In addition, the open nature of the Partnership Initiatives could gradually incorporate closer forms of co-ordination with the instruments of the Member States specifically concerned. Accordingly, such a co-ordination could also be extended to include the IFIs –at least in specific cases, when the investment component is particularly important.

As for the financial allocation, a Partnership Initiative, being conceived as Clustered Programmes, requires important financial allocations, to guarantee from one side the activation of different kind of components and instruments and, from the other, a certain continuity and security of funding. It is considered that a minimum amount could not be less than 10M€, varying according to the sector covered, and given the diversification and complexity of the actions required.

72 The whole programme is worth almost 500 million € per year. It applies to countries in the CIS area, SE Asia, Latin America and Africa.
73 For instance, Asia-Invest programme is 45 M€ over 5 years, Asia-Urbs, 30 M€ over 3 years with 26 million for projects.
Various sectors and thematic areas could be positively addressed through a Partnership Initiative. Since it is mainly an instrument for institutional strengthening and process facilitation, the Partnership Initiative seems a very suitable approach for areas such as, strengthening rule of law and the legal and judiciary framework. Other EU programmes in the area of Industrial co-operation, indicate that the Partnership Initiative could also be an appropriate approach for enforcing the institutional framework and eventually as a link/pre-investment phase. This Evaluator also believes in the effectiveness of the Partnership Initiative approach in areas such as environmental management and Trans-European transport corridors, where European and Russian institutions could confront and exchange their experience on similar/common problems. The mentioned areas are strongly sensitive from a strategic point of view and need a clear and unambiguous policy set up. At the same time, however, they need to be addressed through a multitude of actions, with the involvement of a large number of partners, at different institutional levels.

There are several instruments, which could be envisaged within a Partnership Initiative. It is suggested to make an extensive use of twinning as a core instrument for promoting partnership and durable links. The use of the twinning instrument, in different forms, has been positively experienced in several Tacis SPPs and projects, especially Tempus, Productivity Initiative, Industrial Cooperation, and City Twinning. This approach is successfully applied in other geographic areas, such as Latin America –Alinvest (industrial cooperation), Alpha (Universities), Urbal (Municipalities) – and in Asia. Moreover, a twinning programme represents the typical EU comparative advantage, by allowing actors in the beneficiary countries to establish durable links with EU partners in the different member states, and by profiting from the large and diversified EU experience.

Accordingly, the projects within the Partnership Initiatives will be normally identified in a twinning framework, i.e. through a joint exercise of discussion and exchange of experience between Russian and EU partners. Such a framework may be built through periodic meetings, exchanges of visits, and specific information campaigns, which will represent an important component in each Partnership Initiative. The projects will be based on the bottom-up approach and will preferably be of small-medium size, lasting for a duration of one or two years, and featuring the possibility of receiving additional funds, if successful. A Partnership Initiative may include typical twinning projects, but also more traditional projects based on training and transfer of know-how, provided that the latter are strategically coherent and represent a clear step in the partnership process that characterises the Partnership Initiative.

Traditional technical assistance through professional consultants and research institutions should be also used for providing advice, training and carrying out studies, with the aim to facilitate the identification and/or the implementation of twinning projects. Experts acting as facilitators in seminars can be a way to stimulate the creation of partnership giving birth to twinning projects. From the other side, traditional TA could allow intervention through top-down actions, which would add a more strategic/policy dimension to grass-roots activities.

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74 Twinning is here used in the definition made by the Commission Service (DG ER): “twinning refers to a common, well defined project, jointly implemented by two similar institutions of the EU and Russia in view of establishing a long-term relationship”.

75 Despite the name, City Twinning is not the area where twinning has been most successful, since the lack of a strategic framework and the poor linkages with the Tacis programmes on decentralised governance have hampered the impact of the project.

76 The Evaluation of the EC Regional Programmes in LA (1998) is very positive on these programmes, particularly for their capacity to establish durable and sustainable links, not only between EU and LA partners, but also among the LA partners themselves. Such a conclusion is very important, if applied to Russian partners.

77 Models of this kind of schemes are several in EU partnership programmes, both within Europe (Europarternariat) and for third countries, as mentioned above.
implemented through twinning projects. Finally, traditional TA could allow outputs of twinning projects to be followed up by pre-bankable investment studies, to name one example.

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**Box. 7 PARTNERSHIP INITIATIVES**

How could the **Partnership Initiatives** be conceived?

- based on multi-annual allocations, much bigger than the present average
- built on key partnership objectives, such as,
  - promoting industrial cooperation;
  - effective joint environmental management;
  - strengthening the rule of law
  - improving trans-European transport corridors;
  - enhancing cooperation to strengthen the legal and judiciary framework;
- relying on a specific strategic framework, including objectives and activities, agreed upon at the highest policy level, in close coordination with the EU member states and possibly the IFIs;
- focused on the promotion of inter-institutional exchanges (among both private and public bodies), and network relationships, in Russia as well as between Russians and Europeans;
- identifying target beneficiaries, specific action typologies, eligibility and application criteria.

Who could be the actors of the **Partnership Initiatives**?

- headed by a joint steering committee;
- administered by a management unit, assigned to a contractor;
- assisted by specialised expert teams for on-line advice;
- operated through a number of partner institutions in Russia and Europe;

How would the **Partnership Initiatives** work?

- establishment of a core activity, e.g. policy support of a federal body, and/or basic information concerning the opportunities provided by the **Partnership Initiative**;
- application by beneficiary institutions for joint (Russian-European) small-medium size projects, based on a competition scheme;
- screening of applications and financial decisions every year;
- a strong Russia-wide campaign should be carried out through the Tacis Technical Offices, and, in the EU member states, focused on the opportunities provided by the different **Partnership Initiatives**.

How could the **Partnership Initiatives** be financed?

- the global multi-annual and annual allocations — as is done now — would be made by Brussels, after a detailed preparation of the programme, which does not involve however complex technical evaluations, since the actions financed by the **Partnership Initiatives** would be defined by the applicants;
- the specific actions, or projects, once they have been evaluated by the relevant experts and approved by the joint steering committee, are financed by the Commission;
- the specific actions/projects could be approved for two years, would be renewable for several years if their results were judged satisfactory and their work programmes would be updated from time to time and adapted to changing conditions.

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### 8.3 A Model of Partnership Initiative for Russia

Given the above ideas and the findings of the Evaluation, the following model for a **Partnership Initiative**, conceived as a **Clustered programme**, is proposed as a basis for future Commission discussions.
The *Partnership Initiative* is an umbrella under which instruments of different nature are used and inter-action of the different actors is sought, in order to create a more coherent approach to a sector of co-operation. Secondly, the *Partnership Initiative* should increase the use of twinning projects and the bottom-up selection approach while keeping a strong focus on strategy. Finally, it should make it possible for a relatively limited number of Commission’s Task Managers to implement a sector/area programme of an important budget size.

**The Structure and Actors**

*a. Joint Steering Committee.* Each *Partnership Initiative* should be headed by an EU-Russian joint steering committee, composed of DG-ER, SCR and Delegation, as regards the EC; NC, representatives of federal line Ministries and local governments concerned, as far as Russia is concerned, and when necessary—with a consultative role—MS instruments, IFIs and others. The tasks of the JSC could be: (i) adopting a politically coherent strategic framework; (ii) evaluating the *Partnership Initiative* and ensuring policy feedback.

*b. Experts Network.* It is considered important to strengthen the Commission’s role in developing new co-operation policies and strategies by creating small *think tanks* covering the main sectors in which the *Partnership Initiatives* will be launched. The role of this structure will be to develop studies in areas that are important to support the Commission’s policy, strategy and programming role. In addition, such a group of expert could be used to develop systems for dissemination of the results; to monitor strategic issues within a *Partnership Initiative*; and as a support to Task Managers in charge of an *Initiative* to facilitate coherence and dialogue. This latter within a single *Partnership Initiative*, as more than one Task Manager will be in charge of the *Partnership Initiative* (at least two, one in the DG ER and one in the SCR), but also among the different Initiatives, since overall programme coherence will have to be guaranteed and pursued. In addition, the Experts Network could provide support to the Commission in securing that the different instruments (advice, training, feasibility studies, twinning) of a *Partnership Initiative* are coherent, mutually complementing and that they complete one another.

The Expert Network will be made of specialists in development and aid instruments, mainly with economic and social background coming from both Europe and the Russian Federation.

An example of such a kind of support is already in existence within the Commission Services (DG Development) for the Programme Food Security.

*c. Project Management Unit.* This structure should mainly be responsible for the administration and implementation of the twinning component; for networking promotion; and for information campaigns. The PMU should be an administrative BAT and its physical location will depend on the degree of decentralisation desired by the Commission. To set up the PMU in Russia could facilitate the access to information and the participation in the *Partnership Initiatives* and possibly increase the visibility of the Initiative and improve relations with potential local beneficiaries. On the other side, there might be several constraints to create an independent structure in Russia staffed with European and local experts. In particular, if there is no decentralisation of decision making process, the simple physical decentralisation may lead to unnecessary bureaucratisation and, consequently, slow down of the implementation process.

Supported by the Experts Network and the Technical Facilities, the PMU should organise thematic seminars and meetings for EU and RF organisations to facilitate the creation of partnerships for future twinning projects. With the support of the Technical Offices, the

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78 In this framework an expert team is also working in NIS
PMU could launch Information Campaigns in the RF regions so as to promote more balanced participation in the projects. The PMU will be mainly in charge of managing the process which will lead to the selection of the projects, and their later implementation. The skills required for the PMU would be: events organisation, process administration, financial and budget management, data processing, information, communication and publishing.

d. **SPPs.** These will be specialised resources available for project partners in case of need and/or to be used by the Commission to carry out top-down strategic actions to complement/sustain results from projects. These SPPs could take the form of framework contracts. It is considered that they should be of two kinds:

- **Counselling and Training.** This will be a pool of technical experts in the sector of the respective **Partnership Initiative** able to intervene to provide technical assistance in the form of advice and training in a specific field. This SPP should include experts coming from specialised institutes, training centres and companies from the sector of the **Partnership Initiative.** For example, if the Initiative is in the field of enforcement of Law, then the pool could comprise public administration schools, institutes for normalisation, specialised agencies and associations. The request for the use of this SPP should be approved by the Commission, but could be introduced by the Expert Network or by the single projects partners (through the PMU). It could be advisable that for certain kinds of action and for a certain amount, the SPP could be activated directly by the PMU (eventually with an agreement of the Expert Network).

- **Investment facilitation.** According to the specific field of the **Partnership Initiative**, such a component may take different forms: a broker service, an advisory support, a direct linkage with EU funded investment funds (Joint Venture Fund, EBRD-World bank credit lines), a capacity to execute feasibility studies possibly with the participation of potential investors. The access to this SPP should be more selective than in the above case given the link with potential investments. Proposals for the use of this technical assistance could be assessed by the Expert Network before submission to the Commission. Specialised banking institutions, and/or consulting companies should be appointed for carrying out this technical assistance.

**Project financing**

The PMU will be responsible for the Information campaigns on how to participate in the **Partnership Initiatives** and on its different components, which will be organised several times a year. The PMU will also finance the participation in seminars and meetings by potential partners using the Experts Network and Technical SPP as support for content issues. The objective of these events will be to facilitate networking among potential partners and to promote partnerships for twinning projects in areas that are in line with the strategic framework of the **Partnership Initiative.**

As previously mentioned, the core of the **Partnership Initiative** is the development of twinning projects. These should be selected through a periodic open call for applications based on priorities, objectives and participatory modalities established by the JSC and the Commission. Selection procedures should be managed by the PMU with final decision on the screening results taken by the Commission. The screening should be the result of a process including consideration of project management aspects, technical aspects as well as of relevance with the local context. The Experts Network and the Facility for Counselling and Training could be

79 The possibility to link this facility with the Bangkok facility requires further analysis to avoid duplication and to increase the visibility and influence of the EU in the investment promotion activity.

80 The selection procedure utilised in the framework of the Tempus programme is considered a good balance of the three components and a good example of sharing responsibility between the Commission and the PMU.
used in this screening process. Projects should be of small-medium size and funding should be made in a single instalment for small projects or in annual instalments for the others, in order to reduce financial procedures during project implementation. The projects should include a clause for allowing possible extension if successful.

From twinning projects, as a follow up or as an outcome, other projects could be generated. According to the sector of the Partnership Initiative, this could take the form of other twinning projects implemented by a wider network of partners (see for instance the example of Urb-Al), or could become a proposal for a pre-investment or feasibility study.

Allocation of funds to the different components of an Partnership Initiative could be made as follows:

- Experts Network
- SPPs
- PMU

Through restricted tender with contracts at least of 3 years (with mid-term evaluation clause).

- Meetings/ seminars
- Information campaigns
- Twinning projects

Annual allocation to be managed by the PMU (for meetings and Information campaigns based on presentation of an annual programme of activities).

Management

One of the aims of the Partnership Initiative is to simplify the management system in order to comply with the chronic lack of resources of the Commission service. The creation of the above three structures (Experts Network, SPPs and PMU) is a step in that direction. However, given the fact that the Commission will keep control and its final decision-making role for the different activities it is highly advisable that every Partnership Initiative has more than one Commission Task Manager allocated to its management. The tasks under the Commission responsibilities would be:

a. Agenda, animation and outputs of JSC;
b. Proposal for each Partnership Initiative strategic framework;
c. Approval of the results of project screening and participation in the screening;
d. Agreement on the Annual Work Plan of the PMU;
e. Agreement on the use of the SPPs;
f. Participation in events;
g. Approval of studies, proposals made by the Experts Network;
h. Launching studies and strategic monitoring to be carried out by the Experts Network;
i. Management of the 3 main contracts (Experts Network, SPPs and PMU).

To carry out some of the above tasks, the Commission would have available the Experts Network which would provide support in points a), b), e) and, as said above, in facilitating the liaison among the different Task Managers in order to secure internal Partnership Initiative and overall programme coherence.

Finally, given the fact that all Partnership Initiatives are based on the idea of dialogue through meetings, seminars and various events, a support structure specialised in conference and events organisation available for all Partnership Initiatives across the sectors would be appropriate. In this way, such activity could be taken away from the tasks of the PMUs and allocated to a specialised company identified through tender procedure from among companies working in the
field of events organisation and management. The PMU will remain financially responsible for activating such a support for the activities under its responsibility (information campaign and networking events) and will provide inputs gathered from the Commission, Experts Network and Technical Facilities (if necessary). Through such an arrangement, the conference SPP could be used for:

- JSC meetings;
- An Information Campaign in Europe;
- Networking events (seminars, meetings).

The same approach could be also used for the Information and Publishing activities that are required by the different Partnership Initiatives.
TAB. 14 A  POSSIBLE SYSTEM FOR THE PARTNERSHIP INITIATIVE

EC Management
Joint Steering Committee
Commission Services
Experts Network
EU-Russian Network Promotion
Information Campaigns
PMU
Twinning projects

Specialised Technical Assistance and Training Facilities

Investment facilitation support

Advice, Liaison and monitoring

Advice, Coherence and Screening
9 SUMMARY OF KEY RECOMMENDATIONS

9.1 Improving the policy framework of RF-EU Technical and Economic Cooperation

1. The Tacis programme in Russia should strengthen its function as an instrument of the global Russian-European technical and economic cooperation, in the framework of the EU Common Strategy towards Russia and the EU-RF Partnership & Cooperation Agreement (PCA).

2. According to the principles and approaches established in the Common Strategy and PCA, as well as being based on an adequate understanding of the actual transition processes in Russia, EU cooperation should:

- shift from a focus on Technical Assistance to a focus on Partnership; and
- aid Russians to establish a framework and means for comparing their experiences with those of their EU partners, setting up possible collaborations, learning by doing, and finding their own solutions to problems.

3. Further recommendations, in this field, include the following:

- the principles established in the Common Strategy and PCA should be included in the Explanatory Note to the new draft Regulation for Tacis;
- in the DG-ER, the strategic guidance of the programme in Russia should be strengthened.
- In order to maximise its influence, Tacis must develop to the utmost its capacity to act as an instrument of the European Union, and thus as a priority –although not the sole– channel of access to a medium- long-term partnership involving enterprises, institutions and groups of citizens from the two areas.

9.2 Improving the strategic focus and partnership capacity of Tacis instruments in Russia

4. The establishment of well defined strategic frameworks at the sectoral level and large financial allocations should be combined with demand driven small projects, through the identification of new types of actions and task sharing. The mere concentration of the actions in large centralised projects –which is the present trend and likely to be reinforced according to the new draft Regulations– is not a solution. In this respect, more flexibility should be allowed in the new draft Regulation.

5. The concentration of the Programme on three areas, as proposed in the new draft Regulation, should not be intended as a limitation on the wide range of partnership domains established by the PCA, nor on the diversified requirements of the present Programme partners, even if concentration of this kind might actually increase programme efficiency. The present wording of the new Regulation draft should be reviewed accordingly.
6. The Programme should be based on a number of medium-long-term strategic Partnership Initiatives, well designed and negotiated at the central level, coordinated with Member states and –when needed– IFIs.

9.3 **Strengthening the policy dialogue and the programming process**

7. The institutional set up of Tacis in Russia should be reviewed, to ensure a higher level and permanent policy dialogue, day-by-day joint problem solving, transparency and efficiency. The following issues should be addressed:
   - The national Coordinator of the Programme, in Russia, should be a top Government personality in charge of EU affairs, able and willing to optimise the partnership nature of the Programme;
   - The Coordinating Unit would be better identified as a Secretariat of the National Coordinator, to strengthen its role and capacity. Its tasks should be to disseminate relevant information, process requests for Tacis assistance, and ensure its own supervision of the whole programme;
   - The programming process should be strengthened by establishing a continuing dialogue between the two parties, represented –on a permanent basis– by the National Coordinator and the EU Commission. The European side should have its own instruments to collect requests for Tacis assistance, which may come from European institutions, as well as from non-government Russian organisations, or from decentralised Russian government bodies, who may prefer not to go through Russian channels first, but rather go directly to an EU office;
   - Medium-term programming decisions and a periodic global evaluation should fall to a high level joint committee, meeting once a year;
   - A permanent high level dialogue on Tacis should be established between the Commission, the National Coordinator, and the representatives of those regional governments, who are, or wish to be, more involved with Tacis;
   - European and Russian technical bodies in charge of Tacis should meet more often, to check and coordinate the programming pipeline and other programme management issues. A continuous flow of information and negotiation should be established; and
   - The regional Technical Offices should be retained and extended to ensure dissemination of information, liaison and logistic support.

8. The Programme should ensure a balanced participation of the federal, regional and local authorities, avoiding the establishment of unnecessary hierarchies. A healthy competition among the Programme partners should be encouraged, particularly by promoting the participation of those regions that are ready to try out new policies and even legislation, even before the federal Government is able to overcome the political vetoes of the different parties.

9.4 **Improving member states’ participation and Donor coordination**

9. Donor coordination should strengthen the present positive exchange of information and coordination of separate programmes, among the most important donors. A specific recommendation concerns the updating and maintenance of the G7 Database on donor coordination.

10. Particularly in the case of the Member States instruments and some IFIs, the Programme should be able to include their participation in its strategic Partnership Initiatives, and to establish stronger synergies. With respect to the Member States
instruments, such Partnership Initiatives should increase the EU Programme capacity to use their experience and to give them a larger strategic impact.

11. The inclusion of other donors in the strategic Partnership Initiatives, or at least a strong coordination of the Partnership Initiatives with the programmes supported by other donors would help address the problem of investment. The Programme by its very nature should attract investment more effectively than by merely increasing the share of direct investment in its budget.

9.5 Increasing the strategic consistency of the programme at the Sectoral level

12. Private sector development. Industrial cooperation, as already foreseen in the new draft Regulation, should be fostered in the future, particularly through specific large scale Partnership Initiatives, aimed at the facilitation of the information flows and cooperation opportunities among both Russian and EU MLEs and SMEs. Such Partnership Initiatives should be linked to specific investment SPPs managed by the IFIs, and/or private banks. In the meantime, other activities, based on horizontal linkages and co-financing, such as TERF and PIP, should be expanded.

13. Energy. Attention must be paid to ensuring that Regulation, economic pricing, tariffs, etc., is appropriate for driving project implementation. Tacis should reinforce its dialogue and its support for the introduction of these drivers, particularly in those regions, that are willing to start the implementation of a new sectoral reform framework. Innovative comprehensive approaches should be tested, linkages with different western European experiences may be established, and a close communication and exchange process with the federal level must be supported.

14. Transport. With respect to the strategic development, it will be important to bring together relevant decision-makers from both the Russian and the EU sides, regional governments and other institutions including the IFIs, along with the private sector to establish a common agenda, particularly with respect to the TENs, PETRAs, and other areas like the North-Western region: large strategic Partnership Initiatives combined with small projects should be launched. With respect to the sub-sectoral priorities, greater emphasis should be given to road haulage, to establish a competitive regulatory framework including support for small enterprises and supporting SPPs. Greater effort will be required to support the establishment of inter-modal SPPs in particular for the use of containers.

15. Telecommunications. The development of harmonised standards and cooperation in Information Technology should be mutually beneficial and there is a need to establish mechanisms to foster future co-operation and partnership between Russian and EU companies and agencies. It is recommended that the current reduction in Tacis finance should be reviewed.

16. Agriculture. Support should be given to enhance a comprehensive reform process at the regional level in the more advanced regions, with inter-regional and federal feedback. The projects should shift into larger scale Partnership Initiatives, including linkages and horizontal cooperation between the selected regions and suitable EU counterparts: local governments, farmers’ associations, specialised companies and potential investors. Such Partnership Initiatives should include small components for demonstration, discussion, support, and possible replication, at the federal level.
17. Public administration and social protection. Tacis should build on its position as the main source of external policy advice and training in the public administration and social protection fields. A strong change is needed, however, in its mode of operation, from the ‘know-how transfer’ approach to the ‘partnership and facilitation’ approach. Without this change, little will be achieved and even the best-conceived policy advice will remain impressive only on paper. In the other direction, Tacis should focus more on the problems of big cities, which are extremely important politically and economically but have received less attention throughout most of the period of Tacis intervention. There should also be more of an emphasis on democratisation and joint work between the government and the voluntary sector, given that the government can no longer expect to be able to provide a remotely adequate level of services unaided.

18. Environment. Effective Tacis intervention on environmental matters should focus on institution building at the regional and federal level to enhance sensitivity, information systems, and management capacity in the relevant fields, and particularly: (i) to improve information and monitoring capacity; (ii) to review the framework for environmental Regulation and legislation; (iii) to assist with the improvement of the environmental inspection and compliance enforcement procedures; (iv) to assist with identifying incentive schemes for environmental improvement; and (v) to assist with identifying options for financing and investment of environmental improvements. A large Tacis Partnership Initiative on environmental protection could help in the identification of a multitude of actions, involving different Russian and EU partners, with the participation of potential investors.

19. Legal framework. Tacis needs to better coordinate its projects with those of other donors, particularly the WB and the Member States. Tacis’ specific contribution in this field, as in many others, could focus on the establishment of inter-institutional linkages between Russia and the EU Member States, with respect to: completion of legislation, training of judges, training of tax police, anti-corruption measures, etc.

**9.6 Launching an Information campaign in Russia**

20. A new Russian-European Technical and Economic Cooperation Programme for the year 2000 would need to be accompanied by a campaign of information and explanation. This should explain that the EU fully understands Russia’s importance and pre-eminent position among the NIS. It should stress the EU’s unique qualifications as a partner to the new Russia. It should emphasise historic ties reaching back a thousand years and more, and geographic ties, as the common border is extended as a result of the enlargement of the EU. The most important theme to stress will be that of joint action and collaboration by neighbouring countries whose historical links go back over a thousand years, as stressed by the EU Common Strategy for Russia.

21. To stress the importance of Russian-European partnership, a major emphasis should be given to the PCA and its main implementation instruments, in particular, Tacis (under whatever name is decided for the Programme). This theme should be driven home in the course of the visits by the President and Members of the Commission to Russia, and perhaps also by Ministers from Member States —it is after all their tax-payers who are footing the bill.
9.7  *Improving Data bases and Programme information*

22. The information available on Programme activities and opportunities should be decidedly improved, to reach two objectives:
   - More accountability vis-à-vis the European Commission, the Parliament and the citizens; and
   - Easier access by potential beneficiaries in Russia.

23. The databases on existing Tacis projects should be brought together, re-organised, and presented in a format suitable for strategic analysis. Most data should be made accessible to the public.

24. The dissemination of Programme information in Russia should not be confined to the realm of PR. It should also provide comprehensive information of interest to potential beneficiaries and partners, at the local as well as the central level, using TOs and local governments and institutions. Specialised liaison staff could be trained at the local government level to carry out this important function. The objective should be to increase the influence of the programme as much as its visibility. The latter, in absence of adequate influence, runs the risk of remaining a purely cosmetic operation that may even at times be detrimental to the programme’s reputation.