

**TACIS 2002
ACTION PROGRAMME
RUSSIAN FEDERATION**

1. Identification

<i>Form of programme:</i>	National
<i>Beneficiary Country:</i>	Russian Federation
<i>Title</i>	Action Programme
<i>Year:</i>	2002
<i>Cost:</i>	€90 million
<i>Budget Line:</i>	B7-520
<i>Legal basis:</i>	Council Regulation (EC, EURATOM) No 99/2000 of 29 December 1999 concerning the provision of assistance to the Partner States in Eastern Europe and Central Asia
<i>Duration:</i>	Contracts financed under this programme shall enter force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than 31.12.2005 The technical activities provided for under this programme and all contracts must end by 31.12.2006
<i>Programming:</i>	EuropeAid Cooperation Office Delegation of the European Commission in Russia
<i>Implementation:</i>	Delegation of the European Commission in Russia
<i>Remarks:</i>	No administrative expenditure will be financed under this programme

2. Summary of the programme

The Action Programme 2002 for Russia comprises a series of actions in support of the Russian Government's economic, social, administrative and legal reforms. It supports the practical implementation of key aspects of the high-level policy dialogue between the EU and the Russian Federation and will contribute to the implementation of the Partnership and Co-operation Agreement (PCA), the Northern Dimension Action Plan and the objectives of the Common Strategy for Russia.

The technical assistance measures included in this Action Programme have been agreed with and will be implemented with the support of the Tacis National Coordinator for Russia.

The programme will, on the basis of Council Regulation (EC, Euratom) No 99/2000 concerning the provision of assistance to the Partner States in Eastern Europe and Central Asia, implement activities in the following areas of co-operation selected under the Indicative programme 2000-2003 and its revision for years 2002-2003: "Support for Institutional, Legal and Administrative Reform", "Support to the Private Sector and Assistance for Economic Development" and "Support in Addressing the Social Consequences of Transition".

The Action Programme 2002 will be financed through an EC grant of €90 million and will include fourteen *individual projects* in addition to the *Tempus* programme and three *Small Projects Programmes*: the **Policy Advice Programme (PAP)**, the **Institution Building Partnership Programme (IBPP)** and the **Managers' Training Programme (MTP)**.

Support for institutional, legal and administrative reform

The Action Programme will focus on **administrative reform** and the improvement of **inter-budgetary relations**, state budget reform and financial transparency in particular in the South of Russia. The project **Administrative Reform II** will support the development of the human resources of the Russian public administration while the project **Financial Transparency of Federal Funds to South Russia** will improve the financial transparency and efficiency in the use of federal funds transferred to regional administrations, using Southern Russia as a pilot region. The project **Legal Institutional and Economic Federalism** will aim at delineating clearly the competencies between the federal, regional and local authorities. These three projects will contribute to the overall objective set by the National Indicative Programme 2002-2003 of adapting legislation, the judiciary system and the public administration to the requirements of a market economy and a democratic society. In the area of judicial reform the focus will be on the strengthening of the independence, immovability, competence and professionalism of the judiciary and the defence of human rights. Two projects, Assistance to the Arbitration Court System and Training of Bailiffs and Legal Professions will improve the organisation and efficiency of the difference professions involved and their level of competence particularly in economic matters. In the framework of the **Tempus** projects this Action Programme will aim at upgrading curricula and teaching materials, strengthening the role of higher education institutions in the society, the implementation of staff and student mobility programmes and the development of professional skills in public and private institutions.

Support to the private sector and assistance for economic development

Emphasis will be put on **deregulation and corporate governance** with actions that will improve the business and investment climate. The programme will support the implementation of **auditing reform** to increase the credibility of audit statements of Russian enterprises through the enhancement of the professional skills of practitioners and the strengthening of the regulatory bodies. The programme will also concentrate on the **Commercialisation of Science and Technology** by supporting the implementation of comprehensive innovation policies which will involve the R&D institutes and business. Action Programme 2002 will also assist in the development of **Credit Co-operatives** which will improve the business climate for SMEs. Finally the **EU-Russia Energy Dialogue** will be underpinned by two important projects under this area of cooperation: **Harmonisation of long-term EU-Russia energy policy** and **Institutional Support to Kyoto protocol implementation**. The latter will be conditional upon the ratification by the Russian Federation of the Kyoto protocol.

Support in addressing the social consequences of transition

The programme in this area will concentrate on reform of the **social security and pensions system** in line with market economy principles, the prevention and control of **HIV/AIDS** and the development of specific educational programmes for social adaptation and re-integration of **Children and Youth at Risk** and the improvement of **municipal services**. While the overall objective is to contribute to a reduction in social disparities and to the improvement of living standards, the set of proposed projects will support the development of a modern funded pension system based on the investment of individual contributions; the implementation of a national HIV/AIDS strategy focused primarily on raising public awareness and the development of educational programmes for the re-integration of

children and adolescents at risk. Finally it is proposed to contribute to improve the water quality standards in St. Petersburg and reduce the effluent discharges to the Gulf of Finland by funding a **Sludge Incineration Plant (SIP)** - part of the South West Water Treatment Plant (SWWTP) in St. Petersburg. This will be financed with co-ordinated actions from other donors (Denmark, Finland and Sweden) and lenders (EBRD, EIB and NIB).

Project selection has been made after appraisal of individual project ideas with the National Coordinating Unit, particular attention being given to the projects' anticipated systemic impact, to its coherence with the Russian government's reform and to co-ordination with Member States' and other donors' programmes. Due regard has also been paid to an appraisal of risks, to the choice of counterparts (commitment to the reform process and implementation capacity), as well as to EC expertise and to the comparative advantages of Tacis.

3. Country update

In 2001, President Putin managed to maintain political and economic stability, consolidating his own position as President. In 2001 there was progress notably in the areas of judicial reform and land reform. Judicial reform aims at increasing the protection of citizen's rights, namely in the transfer of prosecutors' power to the courts and at providing more procedural safeguards in civil and criminal cases. Land reform has made non-agricultural land transactions possible, enabling industrial enterprises and private citizens to own land. From 2002 the costs of the judicial system, police and prosecutors have been shifted to the federal budget. Nevertheless, there is much to be done in the areas of military reform and administrative reform, which Vladimir Putin highlighted as a priority in his *Message to the Federal Assembly* in April 2002.

As far as the development of civil society is concerned, Russia and the EU reiterated their commitment at the EU-Russia summit on 29 May 2002 to strengthening a society based on respect for democratic principles and human rights. Today non-governmental organisations in Russia are still unable to make an impact in the political arena and lacks the financial means to become a *third force*. Human rights violations continue in Chechnya and intentions to bring their perpetrators to justice remain largely unrealised. Continued development of independent media, freedom of speech and pluralism of the press are essential if the Russian government's objective of creating a modern democratic society is to be realised. The core support for President Putin in the Duma should ensure that the reform process continues.

Russia's economic performance since the 1998 financial crisis has been very positive. Economic growth has been underpinned by growth in domestic demand and investments. Growth rates have run at around 6% for the last three years while inflation (+/- 20%) is falling steadily (14% planned in 2002). The economy has been slowing down from November 2001 and growth for 2002 is forecast at around 4%. President Putin has repeatedly asked the Government to ensure the higher economic growth rates needed to close the economic gap between Russia and developed European economies.

Furthermore a very large number of the planned structural reforms have been already adopted, the large pre-crisis deficits have been turned into substantial surpluses, current account deficits have been replaced by healthy surpluses and international reserves are high. This has allowed anticipated payment of some foreign debt. Recent figures for foreign direct investment (up 40% in the first quarter of 2002) are at last starting to show

an improvement although they still lag behind the figures for FDI of other economies in transition.

The depreciation in the real effective exchange rate of around 45% combined with buoyant world prices for oil and gas (two of Russia's key exports) has led to significant improvements in industrial profitability and investment and to higher real wages and consumption. The high energy prices accounted for half the turnaround in the current account and increased fiscal revenues.

Fiscal policy has remained prudent with major efforts to raise tax collection, combined with simplification and reform of the tax regimes. The tax base has been broadened and the tax burden reduced. This includes a 13% flat rate for personal income tax, reduced turnover and payroll taxes and SME tax simplification.

Major steps in the reform process that underpin economic performance include legislation on the sale of real property and, currently, passing through the Duma, on sales of agricultural land. In the Duma some 30 economic bills have been passed recently including measures to reduce the tax and administrative burden on SMEs. Despite Russia's achievements much still remains to be done. Key areas still to be tackled include the reform of the financial services sector. Proper financial regulation and supervision must be introduced and the dominant role of the state-owned banks needs to be clarified. A further major element of reform still to be completed concerns the so-called 'natural monopolies' particularly the energy sector where domestic energy prices can be as low as 10% of world prices for the same commodity. This applies especially to gas supplies but it is also relevant for the electricity sector and the railways.

A further major step that Russia still has to complete is WTO accession. Recent work in the WTO in Geneva has shown a number of areas where Russia's proposals are still deficient. However, Russia remains committed to accession as soon as possible and can therefore be expected to make the necessary efforts to allow progress to be made.

The Government's reform programme devotes particular attention to social issues and Russia's poor public health record is increasingly seen as a major challenge. A broader political consensus seems now to exist on the need to address basic social problems and re-launch deep structural reforms, which should enhance the quality of basic public social services while ensuring minimal safety nets to the most vulnerable population groups. Work has started on the establishment of the outlines of a modern social policy, incorporating concepts of medical and social insurance. Pension reform is a particularly important item on the agenda and a detailed plan of legislative and administrative changes is being implemented to this end. The Duma has also laid the ground-work for allowing pensions to be invested in funds. The high levels of AIDS in Russia is of particular concern.

Russia has rebounded impressively from the 1998 crisis. Prudent economic policy and positive energy prices have allowed Russia to produce a very healthy set of figures across the board. The economy is now slowing down however (GDD growth in 2002 foreseen to be only 3.8%) and the President is clearly concerned to maintain growth through the coming electoral periods (Duma/2003 and Presidency/2004). This has been manifested by concern that the government actively promote policies for growth and, secondly, by a continuing commitment to the reform process.

4. Past EC assistance and co-ordination with other donors

This Action Programme builds up on successful past projects. Recent Tacis Action Programmes included projects such as *Reform of Auditing* (Action Programme 1999), which improved the understanding of the similarities and differences between current RSA (Russian Standards of Auditing) and ISA (International Standards of Auditing), or *Administrative Reform* (Action Programme 2001), which will support the development of a general methodology in reforming State bodies through pilot approaches. Both projects will find a natural continuation in Action Programme 2002 as a result of the importance attached by the Russian Government to these areas which are at the heart of the government reform programme.

The two projects **Assistance to the Arbitration Court System** and **Training of Bailiffs and Other Legal Professions** will take further the experience and results of the project *Legal Protection of Economic Operators* (Action Programme 1998), recently completed, which performed activities such as training of arbitration courts judges, improvement of organisational and management capacities of the selected courts and court information collection as well as studying specific issues such as intellectual property rights protection and the enforcement of the Commercial Code.

Other Tacis projects of which the Action Programme 2002 components haven't taken stock are *Science and Technology Development in the Russian Market Economy* (Action Programme 1996) and *Innovation centres and scientific cities* (Action Programme 1998), *Regulation of Energy Resource Development and Environmental Protection in the Timano-Pechora Region* (Action Programme 1999), *New Regional Environmental Centres* (Interstate Programme/Regional Cooperation Programme - 1998) and *Rural Cooperative Credit Strategies and Pilot Demonstrations Projects* (Action Programme 1998), in which a number of credit, sales-supply and other service cooperatives have been established that proved effective.

In the area of human resources development through the improvement of training quality in higher education institutions, Tacis has used the **Tempus** programme as its main instrument. Around €76 million were allocated to Russia between 1994 and 2000. The Tempus programme significantly contributed to the development of co-operation between Russian and EU higher education institutions.

Tacis has also implemented two major projects *Partnership in health, education and social assistance*, in collaboration with UNICEF, and *Developing a system of social services for vulnerable groups* which will be followed up in Action Programme 2002. Besides Tacis has already worked in regional initiatives on health reform in the North West of Russia through the projects such as *Support to Social and Health Care Reform in the Republic of Karelia* (Action Programme 1995) and *North West Health Replication* (Action Programme 1999). The Special Action for the Baltic Region 2001 includes the €2.5 million project *Prevention and control of communicable diseases in North West Russia* which will support the development of comprehensive strategies to curb the spread of communicable diseases among high-risk groups, particularly prisoners and inmates of penitentiary institutions in North West Russia. The project should be primarily, though not exclusively, targeted at HIV/AIDS and TB prevention. It should also help raise public awareness of communicable diseases in North West Russia.

Besides, several recent short-term Tacis projects under the *Bistro* facility or the *Policy Advice Programme* (PAP) included components relevant to projects under Action Programme 2002 in particular in areas such as *administrative reform*, the *regional finance reform* or the *legislative support for the creation of credit co-operatives*. The *Policy Advice Programme* has been particularly active in assisting the Ministry of Economic Development and Trade in introducing the funded part of the *mandatory pension system*.

Exchange of views and information with EU Member States and other bilateral and multilateral donors on their respective assistance programmes has continued. Meetings with representatives of the Member States have allowed for discussions on the overall programming strategy. The Delegation of the European Commission in Russia maintains a regular dialogue with Member State Embassies, the International Financial Institutions (IFIs) and other major donors. The National Co-ordinating Unit (Department for International, Financial and Economic Institutions Co-operation of the Ministry of Economic Development and Trade of the Russian Federation) for its part carries out regular meetings and exchanges views with other donors and IFIs.

Russia's efforts to reform its **public administration** have attracted much interest from donors such as the World Bank or DfID. Also the lessons taken from the **Judicial Project** undertaken by DfID from 1998 to early 2002 are of particular importance for the two projects already mentioned earlier in this particular area of co-operation. International financial and donor organisations play a considerable role in the development of **credit systems for small businesses**. For example, the EBRD is supporting SMEs through a programme of crediting; USAID is also implementing a programme of credit guarantees for SMEs. Moreover EU banks and funds are very active in crediting co-operatives. The German Transform programme has supported the development of credit co-operatives since 1999 both at federal and regional level.

In the **health care** sector monthly donor inter agency meetings are organised by the World Health Organisation and held at the Delegation. These meetings have proved to be very useful in avoiding duplication and creating synergies between different projects. The Delegation is also a member of the working groups under the auspices of ILO and UN which are organised to discuss issues related to social policy: **pension reform, labour markets** and **poverty reduction**.

Concerns about the **HIV** epidemic and related communicable diseases are high amongst international donors. The most prominent initiative in this area has been taken by DfID which will soon launch a £ 25 million programme over the next 5-7 years aimed at establishing better knowledge of the epidemiological situation and demonstrating the effectiveness of targeted HIV programmes for high risk groups. UNAIDS has started a joint response initiative on HIV/AIDS in Russia and together with WHO will enhance its advocacy role in this regard.

As far as **Pension Reform** is concerned, the World Bank, through the Social Protection Insurance Loan project, will conduct preliminary research on the possible structure of the investment portfolio of the Russian Pension Fund and private pension funds, while Canadian Aid (CIDA) will familiarise Russian experts in the introduction of individual pension accounts into the State Pension Fund. USAID has conducted several conferences linked to pension reform, while SIDA has supported study visits for Russian experts and policy makers to Sweden to familiarise with the Swedish experience on pension reform and its applicability to the Russian context.

Finally the **Sludge Incineration Plant** linked to the *Southwest Wastewater Treatment Plant* (SWWTP) in St. Petersburg, a complex investment project, is linked to other donors and lenders' actions such as those lead by the bilateral programmes of Denmark, Finland and Sweden in the Russian Federation and international lenders such as EBRD, EIB and NIB.

5. Lessons learnt

The conclusions of previous and on-going reviews and evaluations of the Tacis programme have influenced the development of the Action Programme in a number of ways:

- Tacis is focusing progressively on a limited number of areas and projects, agreed as a result of a dialogue-driven approach linked to the PCA implementation process. Priority areas selected for Tacis support are important for EU-Russian relations and for the Government's reform programme.
- Partnership programmes between EU and Russian institutions, from both the public and non-governmental sectors, have also been increasingly promoted within the framework of the revised Small Project Programmes.
- Efforts will be concentrated, as much as possible, on a limited number of regions, in order to maximise the synergy amongst initiatives in the three areas of co-operation, as well as impact and visibility, while promoting dissemination and replication in a wider group of regions.
- The network of Tacis Local Support Offices must work closely with local and regional authorities to promote and facilitate the participation of regions in Tacis projects and activities as well as to facilitate the dissemination of results.

6. Programme Components

6.1 Support for institutional, legal and administrative reform

6.1.1. *Legal, administrative reform and regional policy*

At the end of 2000, the Ministry of Economic Development and Trade became responsible for developing proposals for the concept of public service reform. An inter-agency commission has been set up, on the orders of the Presidential Administration, to draft the concept. The Government's reform strategy and subsequent programme to reorganise public administration involves the establishment of an integrated civil service system in the Russian Federation that would provide for equal conditions of service and career development. In the short term the structure of public administration will be rationalised and a full public administration programme of reform will be developed. The 2001 Action Programme Tacis project *Administrative Reform I* aims at supporting the governmental concept plan for civil service reform in Russia. Furthermore several short-term Tacis projects on administrative reform have been implemented with a focus on the development of a Code of Conduct for civil servants. The project **Administrative Reform II (Human Resources Development)** will focus on human resource management and training of civil

servants by supporting the training, retraining and professional development programs for civil servants in cooperation with appropriate Russian training institutions. The project is oriented towards the development of a human resource policy for civil servants (including enrolment and career path in the civil service). The training of trainers and key civil servants will take place both at federal level and regional level in cooperation with the Academy of Civil Servants and other relevant training institutions. The project will select 3-5 pilot regions for the training of civil servants at regional level.

The economic situation in the regions effects the overall situation inside the Russian Federation and determines political stability of the country. The problems to be tackled by the project **Financial Transparency of Federal Funds to South Russia** are widely known: weakness of currently used financial and budgetary systems for distribution and allocation of federal and regional funds and improper or untargeted use of these funds. Existing systems of controls and surveillance are not sufficiently effective. A number of different entities such as Federal and Regional Auditing Chambers, the Control and Revision Inspection of the Ministry of Finance or the Ministry of Interior often work without appropriate coordination neither improving nor supporting, but hampering normal economic development. The objective of this project is to improve the financial transparency and efficiency in the way federal public funds are used in the regions, for which Southern Russia will be a pilot region, and to develop control procedures insuring proper transfer and allocation of federal disbursements to those regions and training the beneficiary staff in using these procedures.

The main objective of the project **Legal, Institutional and Economic Federalism** will be to support the Presidential Administration in delineating clearly the competences between the federal, regional authorities and local self-governments, taking into consideration the capacities of the new institutional structures formed at the interregional (federal districts) level in close consultation with the concerned local and regional authorities. A key success factor for the project will be the involvement of the regions and other local authorities, as well as the seven *Federal Okrugs*.

The **Tempus** programme will aim at modernising the structure and management of higher education institutions to support the reform of training and education in the Russian Federation.

6.1.2 Judicial Reform

Fair, predictable, transparent and timely law enforcement is a prerequisite for the consolidation of democracy and civil society. It is also essential for establishing a climate conducive to business and investment, which is free from bribery and corruption. Properly functioning arbitration, civil and other courts, committed to respect for the rule of law and their independence from the executive will support fundamental freedoms and rights and equality of treatment for all citizens and economic operators before the law. Judicial reform and the modernisation of working methods is a priority under Russia's long-term development programme in order to foster public confidence in the justice system. Judicial reform is essential for the progress of economic reforms and the consolidation of human rights. Several important new laws have recently been adopted in this area, including a Criminal Procedural Code that entered into force on 1 July 2002. Other laws still need to be adapted and updated to protect fundamental liberties and deal with new issues such as environmental protection

The overall objective of the project *Assistance to the Arbitration Court System* will be to enhance the protection of economic operators (either local or foreign) and the legal security of minority shareholders, one of the objectives stated in the National Tacis Indicative Programme for 2002-2003. In particular, the project will deal with issues such as intellectual property rights, corporate law, the protection of shareholders, contracts law, bankruptcies and administrative issues (conflicts with the Tax or the Customs Administration, conflicts at regional/local level on licensing and registration issues and other matters). The project will improve the handling of these issues by training the relevant judges and improving *inter alia* the procedures, working methods and activities of Arbitration Court administrators.

The project called **Training of Bailiffs and Other Legal Professions** will aim at improving the organisation and efficiency of the bailiffs institution by training bailiffs on the execution of court decisions, improving their skills and working methods and at fostering the organisation of the professional bodies of the professions involved.

6.2 Support to the private sector and assistance for economic development

6.2.1. Deregulation and corporate governance

The Russian Government's programme for social and economic development for 2002-2004 identifies the attraction of both domestic and foreign investments as one of the key factors for medium and long-term economic growth. The introductions of reliable and internationally recognised audit statements is an important condition for making Russian entities more transparent and credible for investors and eventually increase the attractiveness of Russian assets for investors. The lack of reliable financial and economic information for potential investors and shareholders prevents investment and business development in the country and limits the competitiveness and market value of Russian companies. Continued technical assistance is required in Russia for institutional building, legislation strengthening and in providing training. The project **Supporting the Implementation of Auditing Reform** will contribute to the increase of credibility of audit statements of Russian enterprises through enhancing professional skills of practitioners and institutional strengthening of the regulative bodies. The project will work with the Ministry of Finance and professional associations in elaborating new Russian Auditing Standards and enforcing existing standards similar or close to International Standards of Audit. It will assist the Ministry of Finance in the introduction of quality control procedures and enhance self-regulation in the audit profession and professional skills of audit practitioners through training publications and dissemination of best practices.

The project on **Science and Technology Commercialisation** will strengthen innovation in Russian science and technology through the development and implementation of a comprehensive state innovation policy. More specifically, the project will develop the innovation infrastructure of the Russian Academy of Sciences as a key element in the exploitation of R&D results in industry as well as expand links between R&D institutes and the business environment, including the involvement of the existing innovation and scientific cities. The project will also develop mechanisms for the commercialisation of R&D as well as further expand relations between the EU and Russian in this area.

The project **Harmonisation of Energy Policies of Russia and the EU** has been conceived in line with the major policy and technical issues highlighted within the framework of the implementation of the EU-Russia Energy Dialogue. Therefore, the project is aimed at

providing technical assistance to the Russian authorities addressing the following four interrelated aspects: the overall strategic issues, the conditions for attracting investments, the energy market reforms and the security of transport infrastructures.

Up-to-date, 84 countries have signed the *Kyoto Protocol* including all developed countries and almost all CIS countries. The project **Institutional Support to Kyoto Protocol Implementation** will prepare the conditions for implementation of the Kyoto Protocol as well as supporting the creation of a mechanism for operating a market for GHG (Green House Gas) emission quotas. This project will be subject to the ratification by the Russian Federation of the Kyoto Protocol.

Finally, further improvement of the environment for SMEs in Russia will contribute to enterprise development and job creation. On 19 December 2001 the State Council of the Russian Federation approved the outline of the concept of State policy of support and development of small entrepreneurship and confirmed the importance attached by the President and the administration to this sector. A key problem widely recognised by the government and the business community is access to finance for Russian SMEs. The Russian market for equity financing and banking for SMEs is extremely limited. Enterprises therefore depend on internally generated funds or seek financial support from friends and relatives, which is inefficient, not transparent and creates additional risks. The project **Credit Co-operatives** will create new opportunities for business expansion for small enterprises by increasing the intermediation of private financial resources. Credit co-operatives could flourish in a financial environment where banks are still weak and confidence in financial institutions has been shaken by several recent meltdowns. The project will support the development of legislative norms and regulations required for development and functioning of a system of mutual crediting; the improvement of co-operation between all SME stakeholders; the development of financial norms for credit transactions as an insurance and regulatory instrument for cooperatives; and the development of mutual insurance and guarantee mechanisms, as well as protection of rights of co-operative members. The project will work with selected regional authorities and self-regulatory and other interested organisations.

6.3 Support in addressing the social consequences of transition

6.3.1. Social reform

Under this area of co-operation, priority will be given to the reform of the pension system according to market economy principles; the prevention and control of HIV/AIDS and the development of specific educational programmes for the re-integration of children and youth at risk. The project on **Pension Reform** will assist the Russian government in the implementation of a mandatory funded pension system based on a comprehensive reform package guaranteeing reliability, transparency and public accountability. To this end, the project will develop regulations on the formation and investment of pension reserves, establish effective supervision mechanisms for the investment process and balance the right of pensioners with the responsibilities of the State in the long-term financing of the pension system. The objective of the project **HIV/AIDS Prevention and Combating, phase I** is to support the development of a comprehensive public awareness and information campaign for the prevention of the HIV/AIDS epidemic in Russia. This public awareness campaign will be targeted at the population at large with a view to informing it about HIV/AIDS, promoting preventative education and behaviour and fostering changing attitudes towards infected groups. It will pay specific attention to the so-called 'bridge

population' which contributes to the spread of HIV/AIDS from high-risk groups such as intravenous drug users (IDUs) to the general population such as young heterosexuals. Developing a specific and targeted approach to improving the well being of children and youth at risk of social exclusion is the objective of the project **Children and Youth at Risk**. Specifically, it will develop educational programmes for the social adaptation and re-integration of children and young people at risk of or suffering from social exclusion, in particular adolescents without family support and young adults leaving orphanage care.

6.3.2 Municipal services

St. Petersburg is the biggest city of the Baltic Sea region with a population of around 4.6 million. The City Administration, through the water and wastewater utility Vodokanal, is implementing a programme for modernisation of the water supply and wastewater facilities within the city and in the surrounding suburban areas. The modernisation programme is aimed at achieving two main service level targets by year 2015: the European drinking water supply standards and compliance with HELCOM¹ recommendations for effluent discharges to the Gulf of Finland (reduction of the discharge of untreated effluents). In this context, the Tacis project for the construction and complete installation of a **Sludge Incineration Plant (SIP)** is part of the overall project for the completion of the **Southwest Wastewater Treatment Plant (SWWTP)** in St. Petersburg. Therefore, this investment project is linked and co-ordinated with parallel actions of other donors (Denmark, Finland and Sweden) and lenders (EBRD, EIB, NIB), which participate in funding the SWWTP. The investment costs for the construction and provision of complete equipment for the SIP are covered by Tacis, as well as supervision activities and technical assistance interventions.

7. Complementary EC Assistance

7.1 Complementary actions under the Action Programme/Financing Proposal

7.1.1 Policy Advice Programme

The Policy Advice Programme will continue to support the Russian government, the Parliament and other relevant institutions in the area of policy-making as a complement to the main Tacis projects. PAP will operate in particular on three major areas: Macro-economic and general economic policy work, PCA implementation and WTO accession and Reform of natural monopolies and support initiatives.

7.1.2. Institutional Building Partnership Programme

The Institutional Building Partnership Programme will support the twinning of a wide range of organisations from Russia and from the EU Member States. It will have two windows. The first window will support joint activities between key Russian and EU

¹ The "Convention on the Protection of the Marine Environment of the Baltic Sea Area" – also known as the Helsinki Convention administered by the Helsinki Commission (HELCOM) - aims at protecting the Baltic marine environment from all sources of pollution. All states around the Baltic Sea (Denmark, Estonia, Finland, Germany, Latvia, Lithuania, Poland, Russia and Sweden) and the European Community participate in the Convention

public organisations (e.g. ministries, courts of justice, customs services). The second window will support co-operation between non-governmental organisations and between local authorities.

7.1.3 Managers' Training Programme

In order to complement education and training activities foreseen under the first and third areas of co-operation, support will be provided for an additional phase of the Tacis Managers Training Programme (MTP). The objective of the programme will be to contribute towards the improvement of management skills and practices in Russian enterprises through the organisation of internships in European companies for both senior and junior-level Russian managers.

7.1.4 Tempus

Tempus aims at supporting the reform and restructuring of the Russian higher education system and its adaptation to the new socio-economic needs, with a particular focus on the regions. It does so through interaction and balanced co-operation between institutions in the EU Member States and the partner countries organised in consortia. Consortia create long term co-operation links between the partners, which should evolve towards issues such as academic recognition, credit transfer and development of joint-curricula. Priority areas of Tempus activities are jointly defined by the European Commission and national authorities in line with the areas of co-operation in the mainstream Tacis programme. Projects address in particular: (1) curriculum development and renewal in priority areas; (2) reform and modernisation of the structure and management of higher education institutions in view of strengthening their role in the society; (3) development of skills-related training to address specific higher and advanced level skills shortage during the economic reform, in particular through improved and extended links with industry; (4) contribution of higher education and training to citizenship and the strengthening of democracy. Special attention will be given to training in journalism and media.

7.2 Other complementary actions outside of this Action Programme

The Action Programme 2002 will be supplemented by other assistance funded from 2002 budgets under the Tacis Nuclear Safety Programme, the Tacis Regional Co-operation and Cross Border Co-operation programmes, the Tacis technical co-operation programme with the EBRD (The "EU-EBRD Investment Preparation Facility", formerly known as the "*Bangkok Facility*"), the support to the International Science and Technology Centre, the Special Action in favour of the Baltic region, as well as the European initiative for Human Rights and Democracy.

8. Programme Implementation

The Action Programme will be implemented in accordance with the following elements:

8.1 Implementation & Management

Contracts financed under this programme shall enter force no earlier than the signature of the Financing Memorandum in due form by the competent signatories, and no later than **31.12.2005**, being the expiry date of the associated Financing Memorandum. Therefore:

- Any relevant contract or grant must have entered into force, having been signed by all the relevant parties, by this expiry date.
- Any contracts or grants that have not been entered into force, having been signed by the signature of all the relevant parties by this expiry date will be not be finalised but will be cancelled and considered null and void.
- Any balance of funds under this programme that has not been used to fund contracts or grants that are in force by this expiry date will be de-committed as soon as possible thereafter.
- No addenda adding funds from this programme to any contract or grant may be entered into after this expiry date.

The deadline by which all contractual activities under this programme must cease is no later than one calendar year after the expiry date of the relevant Financing Memorandum (i.e. by **31.12.2006**). Therefore:

- No addenda to any contract or grant funded by this programme shall be entered into after the implementation deadline².

The Programme will be implemented by the Commission in conjunction with the Russian authorities on the basis of financing memoranda (see Article 3(5) of Regulation 99/2000), project counterparts and contracting firms and institutions. For the government of the Russian Federation, the general co-ordinating responsibility will be with the Tacis National Co-ordinator, supported by a Deputy National Co-ordinator and the Tacis National Co-ordinating Unit.

The Programme will be managed by EuropeAid Cooperation Office with deconcentration of management responsibility for project implementation to the Commission Delegation in the Russian Federation. The procedures laid down in Art 13 of the Council Regulation (EC, Euratom) No. 99/2000 are applicable to this Programme.

8.2 Monitoring, Evaluation and Audit

Monitoring & Evaluation

In addition to regular follow-up and controls carried out on the spot, if necessary by the Commission services and the Court of Auditors, a contract has been concluded with independent consultants to monitor the programme. This contract covers the whole Tacis programme, and will work upon requirements for periodic assessments of project progress against objectives. These will include on-the-spot visits to projects and interviews with stakeholders. Reporting will be in standardised formats giving scores to aspects of project performance.

Audit

Operations financed under this programme will be subject to supervision by the relevant Commission services and the Court of Auditors to be carried out on-the-spot if necessary. The accounts and records of expenditure under the present Programme may be checked at regular intervals by an external auditor contracted by the Commission, without prejudice to the responsibilities of the Commission, including the European Antifraud Office (OLAF), and the Court of Auditors.

² Note that the end date for contractual activities refers to project implementation activities, and not the date for submission of final report or final invoice.

8.3 Tendering Procedures

The contracts for services, works and supplies shall be concluded in accordance with the tendering and contract award procedures laid down in the Financial Regulation, Council Regulation 99/2000 and the "Manual of instructions for contracts concluded for the purpose of Community co-operation with third countries" (adopted by the Commission on 10 November 1999).

9. Cost and financing

The Programme will be financed through a Community grant of €90 million, allocated as follows among the different actions:

<u>Area/Project</u>	€ Million
1. Support for Institutional, Legal and Administrative Reform	17.0
<i>Legal, administrative reform and regional policy</i>	
- Administrative reform II (Human resources development)	
- Financial transparency of federal funds to South Russia	
- Institutional, legal and economic federalism	
<i>Judicial reform</i>	
- Assistance to the arbitration court system	
- Training of bailiffs and other legal professions	
2. Support to the Private Sector and Assistance for Economic Development	14.0
<i>Deregulation and corporate governance</i>	
- Supporting the implementation of the auditing reform	
- Science and technology commercialisation	
- Harmonisation of EU-Russia energy policy (Energy Dialogue)	
- Institutional support to Kyoto protocol implementation (Energy Dialogue)	
- Credit cooperatives	
3. Support in addressing the social consequences of transition	32.5
<i>Social reform</i>	
- HIV/AIDS prevention and combating, phase I	
- Pension reform	
- Children and youth at risk	
<i>Municipal services</i>	
- Construction of the Sludge Incineration Plant at the South West Waste Water	

Treatment Plant (SWWTP) in St. Petersburg

4. SMALL PROJECTS PROGRAMMES **25.00**

4.1 Policy Advice Programme	(€3 million)
4.2 Institution Building Partnership Programme	(€9 million)
4.3 Managers Training Programme	(€3 million)
4.4 Civil Society, training and education: - Tempus	(€10 million)

5. RESERVE **1.5**

TOTAL **90.0**

10. Government Commitment. Conditionalities.

Assistance is provided on the basis of the existence of the necessary elements for the continuation of co-operation through assistance, in particular respect of democratic principles and human rights, as well as the obligations of the Russian Federation as set out in the Partnership and Co-operation Agreement.