



# Takis

# news 6

## ► Marching to a new tune

Breaking down the structures designed to fight a world war has imposed radical changes on the Russian armed forces, down from more than four million troops in Soviet days to some one and a half million today. But until recently, the government has been able to do little about the huge array of issues thrown up by the thousands of officers and soldiers who are suddenly left without a future. As much as anything else, the sheer volume of demobilised individuals who have been trained exclusively to fight for their country represents a critical threat to social stability.

However, after months of consultation, analysis and preparation, the largest training programme of its kind is now well under way, aiming to turn the might of Russia's military machine into a fleet of modern-thinking business managers and entrepreneurs.

Nearly 200,000 officers from the Russian army are currently being demobilised as part of the government's military reform plans. Following a request for support in this area from the government, the Tacis Programme has developed a unique training programme to convert the officers' military expertise to meet the needs of a tough economic climate.

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### ► Sector in-sight

## ► Full steam ahead

Critical to the success of the production and manufacturing industries, transportation networks underpin the economy in a way that no other service can. And because of this, the sector is perhaps one of the most fiercely guarded bastions of the state-run system, even one in the process of transformation. "It's a really tough challenge. Under the former regime, everything was structured to reflect a centralist approach, from an artificial and ultimately false pricing system, to the fact that local authorities had practically no say in the drafting of transport policies," says Michel Gontier, a Tacis task manager in the transport sector. And indeed, the range of areas where Tacis is making a difference is vast; both in supporting the growth of self-sufficiency as rail and road networks meet local demands for reliability and efficiency; and in giving each country the chance to play its part in world trade by developing sea and air links. (continued on page 5 ►)

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Since the wave of demobilisation began, many ex-officers' hopes of starting a new and promising career in civilian life have been frustrated by civilian employers who are unable to appreciate their capabilities. "Former captains and colonels would find themselves working in relatively menial positions that did not match their expectations or make use of their skills," explains Dr Giuseppe Silmo, of Elea, the Italian contractors coordinating the training programme.

### Men-at-arms transformed into managerial elite

Businesses across the former Soviet Union have been hit hard by restructuring. It has forced them to take drastic measures to rationalise the workforce in order to keep their heads above water. It will not be easy for former officers who have recently been demobilised to find jobs, particularly when they are competing with many others in a similar situation. The programme's goal is to enhance the former officers' employment opportunities by providing them with new management skills that are relatively rare at the moment.

"These are some of the most talented men in Russia today who received the best training and education available in the former Soviet Union," says Professor Valery Bizlepkin, the project coordinator. "They are extremely demanding in terms of the complexity of the issues being dealt with by the courses, as well as the pace at which they are taught."

"The main objective of the retraining courses is to provide each former soldier with the know-how either to start up a new business by himself or to work with partners in small business," outlines Dr Silmo. "On the other hand, there is a need for all kinds of specialists in the services field such as bank managers, managers in tourism and marketing, and other kinds of advisers."



Management training for former officers at the Moscow Institute of Economics and Statistics.

The first stages of the Tacis training programme provided Russian professors with the know-how to become course instructors and career counsellors. These sessions, using modern teaching methods at venues across Italy, Germany, Greece and France have produced nearly 400 specialists to run courses in 15 regional training centres in the Russian Federation.

### Curriculum tailored to meet regional needs

The curriculum of each centre has been drawn up to meet regional needs. "St Petersburg and Novgorod are both cities with immense potential for expansion in the tourism industry, for example. A hotel complex in Rakovo, set among forests and lakes near Moscow, could be transformed into a centre catering for a range of activities from business tourism to cultural tours and educational trips," says Dr Silmo. "By contrast, in the Urals, the focus is on mining and heavy industry. Togliatti, in the Volga region, is dominated by factories producing a wide range of goods from cars and chemicals to cement."



Source: ITAR-TASS

Parades such as this one belong to a bygone era when the army could afford to employ thousands of men. Cutbacks in military spending have had a huge impact on troops.

### Working towards meeting demand

Over the next three years, 16,000 former officers will learn to draw up business forecasts for potential partners and investors such as banks. These forecasts will include information on expected sources of income, projected finance costs (including the cost of servicing loans) and should help them to demonstrate how they intend to make an enterprise viable. "At present few Russian executives feel comfortable with free market practices," says Dr Silmo. Market-oriented effective sales representatives, financial controllers and customer services personnel are increasingly in demand.

Meanwhile, a similar ECU 7.3 million initiative has been launched in Ukraine. GOPA Consultants of Germany have won the contract to train an estimated 8,000 officers over the next three years. Assisted by Elea, they will focus on Kiev and Kharkov. But the aim is the same; to enable former warriors to compete in a new kind of arena and redeploy their specialised leadership skills to develop business rather than military strategies. ■



# Contract Information

## Budget 1995 - supplement

### Staffing for Coordinating Unit in Moscow

#### Introduction

This is a supplement to the 1995 Tacis Contract Information booklet. It provides details of a Tacis project, staffing for the Coordinating Unit in Moscow, for which the European Commission intends to launch a restricted invitation to tender.

Information on how to apply for an invitation to tender is contained on the reverse of this document.

**Sector** Coordinating Units

**Project cost** ECU 1.3 million

#### Rationale and objectives

The Tacis Programme is managed in cooperation with Coordinating Units (CU) which are based in the capital cities of the partner countries. The Coordinating Unit is a state organisation under the responsibility of the partner government.

The CU in Moscow is headed by a state official and comprises a number of national staff members and a support team of five expatriate experts provided by the European Commission.

The contracts of the experts financed by the European Commission come to an end in December 1995.

The purpose of this project is to provide a team of five western experts as from January 1996 for an initial period of one year. The contract also envisages the provision of logistics support to the whole CU.

The team will comprise a team leader and four project managers to cover the following priority sectors:

- human resources development
- enterprise restructuring development
- infrastructures
- energy, including nuclear safety
- food production, processing and distribution.

The main tasks of the CU are to participate in the preparation of the Indicative Programme and the annual Action Programme, and to support the implementation of the Action Programme.

A restricted tender will be organised in the second half of 1995.

Those companies which are interested in being invited to tender for this project may send a letter of interest following the instructions overleaf.



European Commission • Tacis Information Office • Directorate General External Relations:

Europe and the New Independent States, Common Foreign and Security Policy and External Missions (DG IA)

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# Explanatory note: How to express interest in an invitation to tender

Companies and organisations from the European Union and the New Independent States may express their interest in being invited to tender for this project by sending a short letter, as set out below.

## Cover sheet

Country: Russia

Project title: Staffing for Coordinating Unit in Moscow

Company/organisation name .....

.....

.....

Address .....

.....

.....

Contact person.....

.....

Phare/Tacis Central Consultancy Register n°

(if applicable).....

Tel n° (please include country and city codes)

.....

Fax n° (please include country and city codes)

.....

## Continuation sheets

To this cover sheet please attach continuation sheets (maximum two pages) which cover the following

- track record and qualifications of the company/organisation
- relevant experience in the New Independent States and Mongolia
- availability of experts for the project specified

This is not a pre-selection process, nor a formal call for an expression of interest. The European Commission reserves the right to invite companies and organisations drawn from any eligible source to tender.

The implementation timetable, the scope of the contract and the allocated budgets may vary from the published details.

## Correspondence should be addressed to

A. T. Loreti  
European Commission  
DG IA - C-7  
Rue d'Arlon 88 2/57  
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## ► Par for the course

In the first three months of 1995, the European Union strengthened its trade and cooperation links with three partner countries currently participating in the Tacis Programme. Partnership and Cooperation Agreements (PCAs) were signed with Kazakhstan in January, Kyrgyzstan in February and Belarus in March.

The agreements are the main instrument for the intensification of bilateral cooperation with these countries in the short and medium term. Respect for democratic principles and human rights are an essential element of these partnerships.

The PCAs establish a formalised political dialogue and a wide-ranging framework for cooperation between the parties in political, commercial, economic and cultural matters. Provisions cover such areas as trade in goods, cross-border services, the establishment and operations of companies, competition, the liberalisation of capital movements and intellectual property. Broader issues are also addressed, including cooperation to tackle certain illegal activities. The PCA with Belarus contains a provision on cooperation to prevent nuclear smuggling.

Interim Agreements which will enable the parties to implement the trade provisions of the PCAs in advance of ratification by their national parliaments have already been initialled with all three countries.

The agreements will now need to be ratified by the parliaments of the EU Member States and the partner countries, and to receive the assent of the European Parliament. The European Parliament has already announced that it will withhold assent from the PCA with Kazakhstan, following President Nazarbaev's dissolution of Parliament, until a return to parliamentary democracy is assured. ■



## ► Still waters run deep

In his nineteenth-century novel, 'The House of the Gentry', Ivan Turgenev describes how the Russian aristocracy would retreat to the spas on the shores of Lake Baikal, then part of Mongolia, to take the waters during the balmy summer months.

These days, the forests and mountains around Lake Baikal are as popular as ever with Russian tourists looking to escape the muggy heat of the cities. But Lake Baikal is far more than just a tourist resort - as large as Belgium, its size and depth give it an ecological importance unrivalled by any other expanse of fresh water. Not only is it the deepest lake in the world (at 1,600 metres) but it also contains 20 per cent of the earth's fresh water and has a unique ecosystem.

A group of experts and officials from the Tacis Programme in Brussels and the European Commission's Delegation in Moscow have just returned from a visit to Lake Baikal to analyse the region's needs for the 1995 Tacis Programme. "There are growing national concerns about the effects of pollution on the lake and its surroundings, which, although not yet irreversible, will soon become a very real health hazard with far-reaching consequences," explained Christopher Le Breton, the Tacis task manager for environmental projects who took part in the mission.



Source: ITAR-TASS

Lake Baikal is the largest expanse of fresh water in the world.

Chemicals discharged into the air from an aluminium smelter in Bratsk are causing acid rain. This kills off the forests which in turn is affecting the trans-Baikal airshed. DDT, a chemical which was banned for use in pesticides many years ago in western

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Europe, has contaminated the soil and is now seeping down to the water table. Last year, a deadly virus, said to have been caused by pollution killed several species of fish in the lake itself.

"Basically, one of the main themes we are stressing for 1995 is environmentally sustainable development. But it is hard for the local business and industrial community to actively address this concern when they are faced with recession and the phenomenal pressures of restructuring," continues Mr Le Breton.

Commission officials met with local administrators from Irkutsk and Ulan Ude, the capital of the autonomous republic of Buryat. "Obviously it will be a while before experts are actually sent down there," says Mr Le Breton. "We spent some time with the authorities explaining the issue of accountability to the European Union taxpayer and the process of identifying individual projects for the authorities' approval; drafting terms of reference, organising calls for tender and drafting contracts. The results of our mission will not be seen immediately. But we are much further ahead on programming this year as Tacis has considerably improved the way it commits money," he adds.

There are several research institutes, such as the Russian/Siberian Academy of Science, which need funding both to continue environmental monitoring and research and to learn how to process this information properly so that it can be used by commercial organisations. "These institutes have remarkable facilities and have acquired tremendous amounts of knowledge." Mr Le Breton adds that "with our support, in a few years they could actually be transferring the benefits of their technology over to western Europe." ■



Source: ITAR-TASS

Although not yet visible, pollution from neighbouring industrial plants is already having a devastating effect on the lake's unique eco-system.

## ► Nuclear safety fears laid to rest

Deliveries of nuclear safety equipment to the Russian Federation, which often used to be blocked by contractors fearful of third party lawsuits in the event of nuclear accidents, can now go ahead. The findings of important studies can also now be implemented. A Memorandum of Understanding has been signed between the European Commission and the Russian Federation which resolves this thorny issue of liability by defining responsibilities and procedures.

Companies involved in the Tacis nuclear safety programme had balked at supplying equipment to the former Soviet Union as long as they risked being sued in the event of a nuclear accident. One expert explains that, "Firms like ours had been involved in training and scientific studies since 1992, but couldn't take the risk of supplying essential equipment until the legal problems had been resolved."

The Memorandum is of a temporary nature, as the only long-term solution is for countries to become party to international conventions. However, the agreement means that nuclear

safety projects can proceed to in-depth phases, leading to real improvements in safety. ■



Source: Leningrad Nuclear Power Plant

Leningrad Nuclear Power Plant: reactor upgrading.

► **Sector in-sight**

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**Knowing where to start**

When the process of transformation began in the former Soviet Union, there were some distinguishing structural features common to all forms of transport which dictated to a large extent the type of support that the Tacis Programme would provide. Central government was solely responsible for operating the transport system which was itself subject to vertical integration unsuited to competition. For instance, the running of shipping lines was undertaken by port authorities, while airport authorities were responsible for the airlines. The whole structure of the transport sector depended on a series of separate



The best developed transport network in Soviet times was undoubtedly the railways. However, both infrastructure and rolling stock need extensive investment if their former efficiency is to retain a competitive edge.

monopolies which were not linked and which were in no state to meet the demands of a market economy. And although in general the qualifications of the staff were satisfactory, they lacked the managerial skills and financial resources to maintain assets. "In 1991, we had no idea how to absorb a market-oriented system. We had never heard of audits, we didn't know what marketing was, and we really did not know what to expect from a support programme," says Vasily Malakha, an adviser to the Tacis Coordinating Unit in Moscow recalling just some of the problems which faced him and his colleagues four years ago.

**Introducing new values**

"With Tacis experts, we looked closely at the way each transport sub-sector worked," expands Mr Malakha. "Basically, the transfer of know-how had to be directed at setting up systems that work in demand conditions rather than supply conditions. A big problem was the lack of an adequate legal framework to sustain the kind of changes that needed to be made. And then, of course, people needed to be trained across the board in management, sales and marketing techniques. This is being complemented by twinning and exchange programmes which are working particularly well in the airport and port sectors as they are also helping to build up our international markets."



Source: ITAF-TASS

The metros of Moscow and St Petersburg provide the principal means of inner city travel for the urban commuter. Tacis is introducing modern systems and providing training for Russian personnel.

**Attracting investment**

The railway network which laces together the sparsely populated lands of the former Soviet Union was at one time probably the best railway system in the world. Its importance was underlined by the fact that there was a Ministry of the Railways with exclusive competence in this area, while the Ministry of Transport dealt with roads, air, and sea transport. "Like other sectors, it needed substantial reform to become competitive. But unlike other sectors, the railways need massive investments in infrastructure and a very careful approach to restructuring almost before you can talk about training and the transfer of know-how," continues Mr Malakha. Tacis has been working closely with the European Bank for Reconstruction and Development (EBRD) to assess the viability of investment projects in the railways. In addition, an ECU 300 million loan from the EBRD for Russian Railways is currently under discussion.

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Source: Regional Council of Northern Ostrobothnia

The Oulu-Archangelsk-Komi corridor: the NoWe rail link between Ledmozero and Kotchikoma means speedier access for freight traffic from northern and central Russia to the transport networks of the European Union.

## ► Sector in-sight

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### A new transport corridor

Railways are certainly a crucial factor in the development of commercial relations with Russia's neighbours to the west, particularly since it lost its traditional direct 'windows onto Europe'; the Baltic states, Ukraine and Belarus. Finland's recent entry into the European Union (EU) means that the Russian Federation now borders the EU, with the region of Karelia providing a whole new range of opportunities for trade and exchange.

Tacis has identified this north-western region as a priority for support in the 1995 Programme. But it is not the only organisation to recognise the border region's unique business potential. A cooperative venture has been set up between a special Commission of the northern region of Finland, and Gelleflint, a Karelian joint-stock company, to strengthen the Oulu-Archangelsk-Komi corridor. Gelleflint has bought a 125 km stretch of land to build and operate the first Russian non-state railway from Ledmozero to Kotchkoma. The rail link will give freight traffic from the northern and central regions of the Russian Federation speedier access to the Finnish rail network and the year-round operating ports of the Sea of Bothnia. "This is the new way forward; with Gelleflint's purchase of the land, we have all the makings of a truly commercial organisation and partnership," says Mr Malakha. According to the Russian Ministry of Economy, the link should help "solve the problem of cargo transport in north-western Russia and create favourable conditions for exports and imports." Mr Malakha adds that, although final decisions are still pending, "Tacis is proposing to provide them with the logistical expertise that they need to meet European Union standards."



Source: ITAR-TASS

Tacis is helping Aeroflot and other national airlines to restructure so that they can benefit from competition.

### Becoming high-fliers

The sheer size of many of the New Independent States, together with their remoteness and the inadequacies of land transport, means that air transport has a vital role to play in the movement of passengers and urgent freight. However, in the past, in order to encourage people to fly, the civil aviation industry suffered from a low pricing policy, so little investment could be made, either in keeping equipment and technology up to date, or in making the sector self-sufficient.

Aeroflot, which once controlled the entire civil aviation complex for the whole of the former Soviet Union, is being restructured and split into different entities such as airports, civil aviation departments and airlines. All of these are facing acute short-term problems – the development of managerial skills, training, corporate organisation, financing and tariffs as well as legal issues. Yet the potential for significant hard currency earnings through the provision of reliable transit routes for the fast-growing traffic between western Europe and the Far East is huge.

At one level, this involves turning airports into commercially viable economic centres. "We are helping airports to develop into private markets for service providers," explains Mr Gontier. Tacis is investing in know-how and management training to develop small and medium-sized service providers within airports to stimulate competition, break up the monopolies and ensure that former employees have the chance to redeploy their skills. "This means that airports can become profit centres, generating income by creating a whole new business environment as in western European airports."



Source: ITAR-TASS

Air Traffic Controllers across the New Independent States are mastering English, the international language of airspace, thus contributing to improvements in safety standards.

### Up, up and away

It is not only on the ground that the air transport sector needs direction. Up in the air, any increase in traffic is hampered by the lack of capacity to handle new routes and more users. With several sovereign airlines operating in newly-defined national airspaces, there is an urgent need to upgrade English language skills. (English is the internationally recognised language of Air Traffic Control or ATC.) Tacis identified English language training to international standards as a priority back in 1991 as part of a master plan for air traffic management.

Oliver de Baer, a Tacis expert who was previously working in the Tacis Coordinating Unit in Kazakhstan, remembers a near miss in August 1994: "If it had not been for the quick-thinking reactions from the ATC personnel who had benefited from our training, we would have had a really serious accident at Almaty airport." Stefan Scheidmann, an expert based in Moscow, explains how priorities have developed to focus on on-the-job training.



"First we helped the Russian authorities to set up training centres for trainers who are now teaching new controllers and helping older controllers to brush up their English. We are now creating opportunities for western European controllers to spend three-month periods at the centres. This will not only help to change attitudes but will also make the job of understanding messages received in English easier."

### Havens of prosperity

One of the ways in which Tacis originally prioritised support for the transport sector was to identify the main points of foreign trade and transit. Whereas airports were the crossroads for passenger transport, the bulk of imported cargo and goods needed to supply the manufacturing industry came in through the ports. With the close of access to ports on the Baltic Sea in Estonia, Latvia and Lithuania, the seaport of St Petersburg assumed an unparalleled importance in Russian economic recovery. Tacis experts, such as the Hamburg Port Consulting authority, are working with the port authorities both in St Petersburg and in Odessa to develop the kind of structures that can process increased volumes of cargo more efficiently and generate a diversified and competitive environment.

### Multi-modal freight terminals

Tacis is working with the Russian Ministry of Transport on the 'Terminal' programme, responding to the urgent need to create multi-modal terminals to cope with the huge increases in products travelling around the former Soviet Union. Tacis experts worked with the city authorities in Moscow to assess their priorities, the existing infrastructure and the traffic congestion situation for a feasibility study to adapt their terminal facilities. The experience gained on all sides will also be put to good use to design terminals in St Petersburg and Kazan. ■



The terminal at the port of Odessa is working at half capacity due to the poor state of facilities. A Tacis project is preparing detailed studies on a centralised computer cargo handling system and training managers and technicians

### Integrating assets

As Tacis support for transport develops to meet the challenges of transformation, new ideas are continuously coming to the fore to create open and competitive markets, such as new plans to integrate different transport systems so that networks can be mutually beneficial. Multi-modal transport is becoming increasingly popular, particularly in the context of the Tacis multi-country programme. "There is practically no institutional or physical structure to deal with combined transport," explains Mr Gontier. "For instance, a roll-on roll-off system is the only alternative in order to avoid the waste of resources involved in capital-intensive parallel structures. While railways are a vital element of this system, maintenance of the road system is equally important. We are looking at the feasibility of the system on an international scale." ■



Rail and road networks throughout the New Independent States.

## ► Teaching the masters of the land

It is 6 am on a Monday morning in a small village near Yakutsk and Mr Tusakovoye is finishing up in the dairy before going in for breakfast and the weekly radio agricultural programme 'Masters of the land'. "It speaks about things which really help farmers," he says of the BBC series which has been running since the beginning of the year, broadcast by Radio Russia to some ten million people throughout the Federation from Yaroslavl to Vladivostok.

'Masters of the land', financed by the Tacis Programme, was developed by the BBC Marshall Plan of the Mind Trust to address some of the issues raised by the complexities of economic transformation in the farming world. "The move towards privatised agriculture is one of the most important developments in the Russian Federation. We are aiming to help farmers become better businessmen and to understand the whole process of production through to selling," explains Tim Grout-Smith, the series' producer. "We sent out a researcher to visit farmers in regions such as Ekaterinburg, Omsk, Tyumen and Voronezh, following up contacts provided by Tacis. He came back with lots of questions on every aspect of farming. So we've been dealing with these in the series by looking at the way farmers work in other countries."

The BBC team interviewed farmers, cooperatives and associations in countries as diverse as Holland, Israel, Hungary and Canada about the issues thrown up by the research. "We met many agricultural specialists at the annual farmers' trade fair in St Petersburg. The head of AKKOR, the Russian national umbrella body of privately owned farms, told us that cooperation between farmers is vital for agricultural reform in the Russian Federation

as they simply can't survive on their own – cooperatives give farmers more power in the marketplace. So we went to Israel to visit a dairy and poultry moshav near Haifa. In the moshav system, farmers own their land but the village markets the produce collectively. We interviewed Russian speakers in Israel for one of our programmes about the advantages of the system as a model for successful farming in the Russia Federation, and we got really positive audience feedback".



Source: BBC

BBC executive producer Tim Grout-Smith interviews Konstantin Mezentshev, the deputy president of the Russian private farmer's association AKKOR.



Source: BBC

Another unexpected success in the series was a programme on the legal aspects of land ownership. Mrs Ikonitskaya, the Deputy Director of the Institute of State and Law was invited to 'a question and answer' session on topical legal issues which became a forum for discussion on the legal minefield of property law and farmers' rights. "One farmer had written in to ask for advice as the local raion was refusing to return his land to him and he wanted to raise the issue in court. This is a common situation at the moment as the laws on land ownership are not very clear, despite the fact that the constitution guarantees an individual's right to his land. Mrs Ikonitskaya advised him to get the raion's refusal down on paper before anything else, which would give the farmer grounds for challenging the authorities in court over his constitutional land rights. This may seem basic, but practical issues like these are often the real cause of people's problems," explains Mr Grout-Smith.

Focus groups of businessmen and farmers in Voronezh have been keeping diaries of their reactions to the programmes which will be analysed by an audience research team. Letters received to date are enthusiastic about the blend of foreign case studies matched with discussion and interviews with Russian agro-specialists and businessmen, not least, "this kind of programme should have started five years ago". ■

## ▶ Market diagnosis for military plants

For decades, the Soviet Union's pride was without doubt its military-industrial complex, churning out advanced and sophisticated equipment to support its army. As much as one third of the specialised factories across the former Soviet Union were top secret, run by the Military Industrial Commission (known by its Russian acronym VPK). Overall, the defence sector contributed to 20 per cent of gross industrial output for the Russian Federation alone. But the conclusion of the cold war brought an abrupt end to production on such a massive scale. Overstaffed and often inefficient, the monolithic industry was threatened by collapse as it faced a drop in demand. The need to convert factories from military to civilian output was inevitable. Some six million workers – potentially a considerable political force – were faced with redundancy over the next three years, with many jobs concentrated in specific provinces where the whole population depend on employment in the military production sector.

### Shunning civilian markets

St Petersburg's Svetlana used to be the largest factory manufacturing micro-electronic components for tank and aircraft radios and transmitters in the former Soviet Union. Most of its production was destined for military use, while Svetlana's civilian output focused primarily on making glass tubes for a Russian television manufacturer, whose sets had the dubious reputation of exploding on the day of purchase. By 1990, the manufacturer was buying its supplies from Philips and had cancelled its contract with Svetlana. This loss, coupled with cuts in military orders, left Svetlana with a cash-flow crisis.

A similar situation faced Leningrad Optical Mechanical Organisation (LOMO). Seventy-five per cent of its production was dedicated to making gun sights, missile guidance optics and submarine periscopes. It also produced cameras and microscopes for civilian use. But by 1993, it was clear that LOMO cameras lacked consumer appeal and could not compete with cheaper imports.

### Learning by experience

TZN (Rheinmetall) and Deutsche Ost-West Consult (DOWC/Dresdner Bank) were appointed by the Tacis Programme to work with LOMO and Svetlana. Dr Gerhard Hubricht of TZN explains: "Having been through the experience of modern defence conversion ourselves, we knew about the range of problems that restructuring brings." Russian defence enterprises were technically many years behind in terms of western production standards and had never been subject to western-style quality control. TZN and DOWC provided on-the-job training in sales techniques, conducted marketing and feasibility studies, and offered legal advice.

### Price versus quality

For LOMO, microscopes and endoscopes had the greatest growth potential. Despite difficulties with production and quality, its optics for telescopes were easily among the best and cheapest in the world. But demand was limited and only mass production could ensure a regular cash flow. So LOMO chose to focus on markets where low pricing and standard quality are key success factors.

### Focusing on an entrepreneurial outlook

Svetlana also needed new customers and markets to survive. With the support of DOWC, products with poor profit potential were identified and abandoned. Instead, specialisation and customer satisfaction were targeted for reform. Restructuring has brought employees into direct contact with the market, giving them a clear customer focus. A corporate strategy has led to eight investment projects, each subject to a business plan. This planning has provided vital information regarding capital requirements, marketing activities and projected profits.

### Stopping the brain drain

Coupled with consumer choice is the challenge of retaining trained staff who are attracted to rival companies offering higher salaries. Shortages of skilled workers have hit both LOMO and Svetlana badly. Tacis provided intensive on-the-job training for both workers and management to replace those who had left, recommending a performance-related wage structure to encourage staff loyalty. Meanwhile, several western companies are showing interest. LOMO has produced a presentation folder and a marketing campaign for potential international partners. Turnover is rising fast and high projected sales are a strong indication that this process has been successful. ■



Source: TZN

Optical equipment produced by LOMO is still widely held to be among the best in the world.

## ► Russians draw up blueprint for the future



A group of Russian architects learn about new management techniques in the classic surroundings of the Royal Institute of Architects of Ireland.

Russian architects who spent four months working in Dublin with Irish counterparts have now returned home armed with certificates, eager to put their newly-acquired skills into practice. Twenty-one architects were chosen from a group of forty who had taken part in a one-month academic course in Sukhanova, near Moscow, on building procurement and on meeting the demands of a changing working environment. Competition to join the Tacis-funded initiative was fierce, and consequently, "the participants were really motivated and produced some outstanding work," said Maria Kiernan, the overall programme coordinator from the Royal Institute of Architects in Ireland.

Once in Dublin, the 21 architects from Moscow, St Petersburg, Sochi and Tver, stayed with local Irish families. Some worked with private practices while others were based at the Office of Public Works. The main objective was to learn through observation and by taking part in real projects. The course covered the various stages of the building procurement process, from briefing sessions with the client, negotiating with planning authorities and design consultants to preparing drawings; as well as interviews with suppliers, subcontractors and dealing with site inspections. Most building projects take longer than four months, but the architects were able to maximise their experience by participating in a number of different projects.

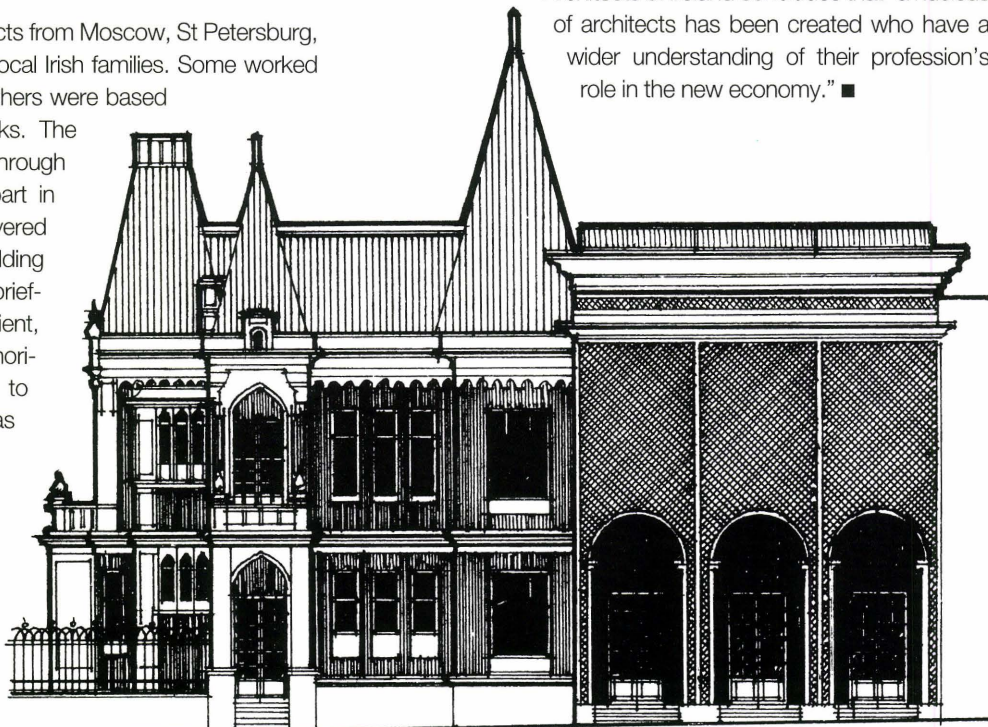
### Vote of confidence

At the concluding session in Sukhanova, Mr Yuri Gnedovski, President of the Union of Architects of Russia (UAR) offered full and immediate membership to all those who had taken part in the Tacis programme. The UAR has stringent membership requirements and has never before been open to younger members of the profession. In opening the union's doors to the Tacis 'graduates', Mr Gnedovski signalled the importance of the expertise gained by the architects and underlined the value of their certificates.

### Bridging the gap

While the building industry may be thriving in Moscow, it is less buoyant elsewhere. Those who returned to St Petersburg and Tver found that job opportunities were limited. Those who had been lucky enough to find work also encountered difficulties with their old working environment. But all considered their new-found knowledge vital to the reform of Russian building procurement. The architects have since set up the Russian Architectural Management Association to operate as a division of the UAR. One of their first tasks is to translate all the lecture notes from the Tacis-funded course from English into Russian. This way, the architects hope to make their knowledge accessible to the rest of their profession.

The Irish architects involved also thought the programme was successful. The report of the Royal Institute of Architects of Ireland concludes that "a nucleus of architects has been created who have a wider understanding of their profession's role in the new economy." ■



The home of the Union of Architects of Russia drawn by Julia Kovaleva who participated in the Tacis course.

## ▶ Tall oaks from little acorns grow

Helping a government to change the way it runs its economy demands a flexibility of approach that cannot always be met by one organisation alone. Both the Phare and Tacis Programmes work closely with international financing institutions, as grant-financed know-how can play a significant part in planning and stimulating investment and lending projects.

The Programmes have poured some ECU 90 million into the Bangkok Facility since the agreement was signed in 1991 with the European Bank for Reconstruction and Development (EBRD). Under the Facility, the European Union provides the EBRD with financing for know-how and preparatory work in support of the EBRD's lending and equity operations.

"It is important to assess whether a project proposed under the Bangkok facility suits Phare and Tacis priorities in terms of location and replication impact," says Antonio Izquierdo Ramón, the Tacis EBRD coordinator, explaining the value of pre-investment studies financed by the Tacis Programme.

A relatively small initial outlay (often no more than 10 per cent of the total value of the EBRD-related project) to finance a study assessing a project's viability, offers the EBRD and investors the relevant information that they need to lend and invest, and to obtain loans for investment purposes.

Without Tacis and Phare, many EBRD projects would have failed to take off as the EBRD lacked the resources to undertake

feasibility studies and other preparatory work required by the bank," explains Mr Izquierdo.

### Monitoring projects' progress

Tacis funds are used by the EBRD to pay for feasibility studies or pilot projects, as the bank is not able to pay for these itself. "We insist on progress reports and monitor training programmes to ensure that the transfer of know-how is being achieved in a way that is consistent with our objectives," explains Mr Izquierdo.

### Where the money goes

By the end of last year, Bangkok Facility Funds had been used to finance a total number of 213 projects. Out of these, 71 projects (ECU 31 million) helped to generate 34 EBRD investments worth ECU 1,133 million.

The subjects of the studies funded by Tacis and Phare ranged from repairs to the Brest-Minsk Russian border highway in Belarus, to fossil fuel power plant efficiency studies in Ukraine and numerous privatisation programmes, especially in the financial services sector.

Each ECU spent on preparing the ground in the form of feasibility studies and other preparatory work, generates around ECU 100 in investment. "This process has a super-multiplier effect. It really is money well spent," concludes Mr Izquierdo. ■

## ▶ Bistro update

Bistro is a special facility managed by the Delegation of the European Commission in Moscow to finance small-scale projects that can meet local needs quickly and efficiently.

Some 19 new projects were approved in the first quarter of 1995. The majority of these relate to business and management training or democracy and social development.

### Support for the Third International Conference on SMEs

The International Fund for the Support of Economic Reforms organised the Third International Conference on Small and Medium-sized Enterprises (SMEs) involving some 600 participants from all over the Russian Federation.

The conference brought representatives from Russian regions and various Russian and international organisations together with local entrepreneurs to discuss the problems and look at the opportunities currently open to SMEs in the Russian Federation.

### Seminars on marketing and export promotion for the Republic of Udmurtia

The autonomous Republic of Udmurtia is situated in the centre of the Russian Federation. It has a highly educated work force,

a well-established local research base and low labour costs. However, it suffers from a severe sense of isolation owing to its former status as a 'forbidden zone'.

One of the most important objectives of a Tacis project which started in September 1994 is to develop twinning activities between European manufacturers and their Udmurt counterparts which could lead to further cooperation and export opportunities.

A series of seminars is being organised for selected managers and officials in the field of marketing. The results of these seminars will be used to develop materials for marketing officials in Udmurt.

A study tour is expected to follow the seminars so that officials can gain first-hand experience of the skills necessary to attract foreign investment.

The combination of seminars, workshops and study tours should enable the officials to draft guidelines for a development plan for the Republic. ■

## ► Business development news

### Tacis JOP

The Tacis JOP programme has just held a second seminar targeting Russian companies who want to learn about the requirements for setting up joint ventures with European partners. The joint venture programme was set up in January 1995 focusing on two key areas, and is already generating a great deal of interest from businesses which could prosper through partnership with European firms.

The first strand will foster the creation of joint ventures by helping managers to develop business plans and by working with European banks who will consider applications for financing from Russian firms and their European partners. The second strand will attempt to provide zero interest rate credits for existing joint ventures for repayment in roubles within a four-year period.

### SME Newsletter

Small and Medium-Sized Enterprise Development Agencies (SMEDAs) and Business Communication Centres (BCCs) throughout the New Independent States have started to publish a newsletter to inform potential investors and business partners about the scope of activities that they support. The newsletter is being coordinated by the Amsterdam Chamber of Commerce and Industry which is collecting information from the SMEDAs and BCCs and which also hopes in this way to encourage the organisations to benefit from common experiences.

All Development Agencies and Business Communication Centres are invited to contribute to the newsletter by contacting the Amsterdam Chamber of Commerce and Industry on Tel (+31-20) 523 66 00.

## ► Energy news

### New Energy Centre opens

A new Tacis Energy Centre was opened in Ekaterinburg at the end of April to help local industrialists, particularly from the energy sector, develop energy-efficient production methods and reduce air and water pollution. The project is being managed by a consortium led by Inno Tec System Analyse GmbH of Germany and includes Birch & Krogboe of Denmark and ESB International of Ireland.

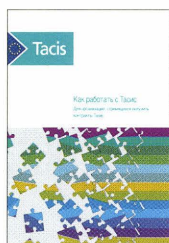
The Centre's primary aim is to raise awareness of the benefits of energy efficiency and environmental improvements by demonstrating efficient energy use for selected residential, public sector and industrial sites. 'Energy managers' will be trained in western management techniques to promote energy efficiency, monitor the environment and control pollution.

The Ekaterinburg Energy Centre is at Ulitsa Bazhova 79/44, 620219 Ekaterinburg, the Russian Federation.

## ► New publications

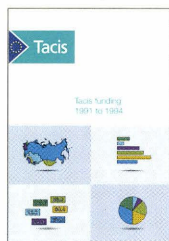
### How to work with Tacis? (Russian)

The Russian version of this publication will shortly be available from the Tacis Information Office. It explains the rules, processes and procedures which lead to the awarding of Tacis service and supply contracts.



### Funding booklet

A concise overview of funding by country and sector provided under the Tacis Programme from 1991 to 1994, available from the Tacis Information Office.



### What is Tacis? (Finnish)

The Finnish version of What is Tacis? is now available from the Tacis Information Office. The publication is produced in all official European Union languages and in Russian. It presents the aims, activities and techniques of the Tacis Programme.

### Contract Information Update 3

A new update of the Tacis Contract Information booklets which provide information about projects from Tacis Action Programmes for which the European Commission organises restricted invitations to tender. It is available from the Tacis Information Office.



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