

## The external relations of the Novgorod region of the Russian Federation

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*Alexander Sergounin*

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### *Hinweis*

Die vorliegende Studie wurde im Auftrag des SCHIFF als eine von mehreren Fallstudien über die auswärtigen Beziehungen von "ostsee-nahen" russischen Regionen erstellt.

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### *Editorial Note*

The present study is commissioned by SHIP as one of several case studies on the external relations of Russian regions located in proximity to the Baltic Sea.

The author, *Alexander Sergounin*, is professor of political science at Nizhny Novgorod Linguistic University.

## Novgorod the Great: a general overview

### *General information*

Lord Novgorod the Great is one of Russia's most ancient towns and a major centre of European civilisation in the Middle Ages. In June 1999, the town celebrated its 1,140th anniversary. Medieval Novgorod controlled an immense territory, spreading from the Kola peninsula in the North to Torzhok in the South. As a member of the Hanseatic League it had trade relations with many Northern European countries.

The Novgorod oblast (region) in its present form has been founded on 5 July 1944. The Novgorod region, an area of 55,300 sq. km, is located about 530 kilometres (330 miles) north-west of Moscow. It consists of 21 districts, 10 towns, 22 villages and 3843 rural settlements. The region has a nearly homogeneous population of 736,900, 96 per cent of which are ethnic Russians. The oblast centre, Novgorod the Great, has about 240,000 inhabitants. 71 per cent of the population live in the urban area. <sup>1</sup> Along with other Russian regions such as Pskov, Tula, Ivanovo, Tver, Ryazan, Smolensk, the number of population in Novgorod oblast is in a natural decline over the last decade.<sup>2</sup>

The region has a sufficient supply of experienced and skilled manpower previously employed by the region's radio-electronic industry (mostly from the defence sector). About half workforce has a higher or specialised secondary education. The oblast's workforce is 390,000. Novgorod's workforce constitutes of 150,300 people. Of them 28,300 are industrial workers, 11,700 are in small business, 7300 are in commerce and public catering, 6000 are in the transport and communication sectors, 23,100 are in science, healthcare, education, and culture, and 5600 are in municipal and other public services.<sup>3</sup> The rest are students, employees of the federal institutions and banks. The Novgorod State University plays a special role in training a highly qualified workforce for the entire region. It has 19 faculties and trains specialists in more than 40 areas ranging from humanities to natural science.

There were 9,700 unemployed in the region in 1999 (of which 5,400 are in Novgorod itself), that is approximately 2,5 per cent of the region's workforce. The unemployment rate remains significantly lower than the national average. It has been stable for the past two years and even decreased by 20,2 per cent in 1999.<sup>4</sup>

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1) The data is drawn from: *Investment Climate of Novgorod Oblast* (Novgorod: Novgorod Oblast Administration, 1999), p. 2; and The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

2) *Johnson's Russia List*, no. 1404, 2 December 1997.

3) *Veliky Novgorod for Travellers: Guide* (Novgorod: The Novgorod Regional Administration, 1999), p. 88.

4) The Economic Committee of the Novgorod Regional Administration Data Base, 1999. According to the Novgorod Governor Mikhail Prusak, this figure was 2,3 per cent (Karpov, Mikhail. 'President Dolzhen Naznachat Gubernatorov [The President Must Appoint Governors], *Nezavisimaya gazeta*, 5 August 1999, p. 8). However, some experts doubt that these

Similar to many other Russian regions the Novgorod oblast's economy was heavily depended on the military-industrial complex in the Soviet period and had to experience a rather painful transition to the market economy. Now the local industry comprises the following major branches. The chemical industry is the main sector which employs 7,000. The leader of the chemical industry is the joint stock company Akron, manufacturing about 30 products (such as mineral fertilisers, methanol, synthetic ammonia, etc.), providing the entire non-blacksoil Russia with nitrate and nitrophosphate fertilisers and exporting 80 per cent of them. Novgorod machine-building is mostly electronics, chemical and nuclear-power engineering. The electronics sector (6,300 employees) produces closed circuit TV surveillance systems, colour TV sets, assemblies and blocks for them, component parts like microchips, transistors, transformers, capacitors, relays, control and measurement equipment. Other machine-building branches (3,300) produce wood-processing tools, chemical industry equipment, valves for nuclear power stations. The food, construction and wood-processing industries have 2,250, 2,000 and 1,550 respectively. Other sectors - telecommunications, light, energy and printing industries - have 5,900 employees.<sup>5</sup>

Located in the north-western part of Russia, Novgorod has a rather favourable position on all major transportation thoroughways. The overwhelming volume of the total freight and passenger transportation in the Novgorod region is done by motor transport. International freight is handled by six trucking firms with the annual turnover over 110,000 tons.<sup>6</sup> The main traffic routes are to Finland, Germany and Sweden.

The railroad links Novgorod with St Petersburg and Moscow. The Novgorod railway station can process over 120 light and 30 heavy containers per day.<sup>7</sup> On 1 December 1999 a high-speed train R-200 has been put in service between Novgorod and St Petersburg.<sup>8</sup> There are also plans to construct a high-speed railroad between St Petersburg and Moscow which could increase the role of and importance of the railroad transport in the regional economy.

The Novgorod River Port (a local joint stock shipping company) uses 'river-to-sea' cargo vessels to ship locally produced goods to the Baltic states, Finland, Germany, Norway, Poland and Sweden via the river Volkhov and a system of channels. Novgorod's Civilian Aviation Company has a fleet of planes and helicopters to serve cargo and passenger flights. There is also a project to construct an international airport 10 km from Novgorod.

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figures are reliable. While official unemployment is low, if one uses the methodology of the World Labour Organisation to project hidden unemployment, regional unemployment stood at 9.4% in 1996, that is above the Russian average of 8,7 per cent. See Petro, Nicolai N. *Creating Social Capital in Russia: The Novgorod Model*, 18 September 1999 (Washington, DC: The National Council for Eurasian and East European Research, 1999).

5) *Veliky Novgorod for Travellers*, p. 87.

6) *Investment Climate of Novgorod Oblast*, p. 3.

7) *Veliky Novgorod for Travellers*, p. 87.

8) Riskin, Andrei, 'Novy Marshrut R-200' [A New Train R-200], *Nezavisimaya Gazeta*, 7 December 1999, p. 9 (in Russian).

There are several European-level hotels (including the four-star Beresta Palace Hotel) to accommodate travellers in Novgorod. The second four-star hotel Intourist is under construction.

The key element of the business infrastructure is the communication system and this is given special attention in the region. Automated telephone connection is maintained with all the regions of Russia and 137 countries of the world. The services of the ISDN, Internet, Rosnet, Rospak, Relcom, Sprint data transmission network are accessible. Since 1996 Novgorod, one of three Russian cities (along with Moscow and St Petersburg), is connected to the IBM Global Network. Since 1997 mobile phones of the GSM standard have been put into operation. Cellular telephone services are available in three standards: Scandinavian standard NMT-450, European standard GSM-900, and AMPS standard which is rather popular in Russia.<sup>9</sup> Three companies provide pager service contacting 24 Russian regions (97 cities).<sup>10</sup> The INMARSAT international satellite communication is also available.

The Novgorod leadership worked hard to reorganise the economic structure of the region. Despite its lack of natural resources, formidable military-industrial infrastructure, and large rural population, the region succeeded in reforming its economy. 94 per cent of the local industry had been privatised, and small businesses provide over 20 per cent of local budget revenues.<sup>11</sup>

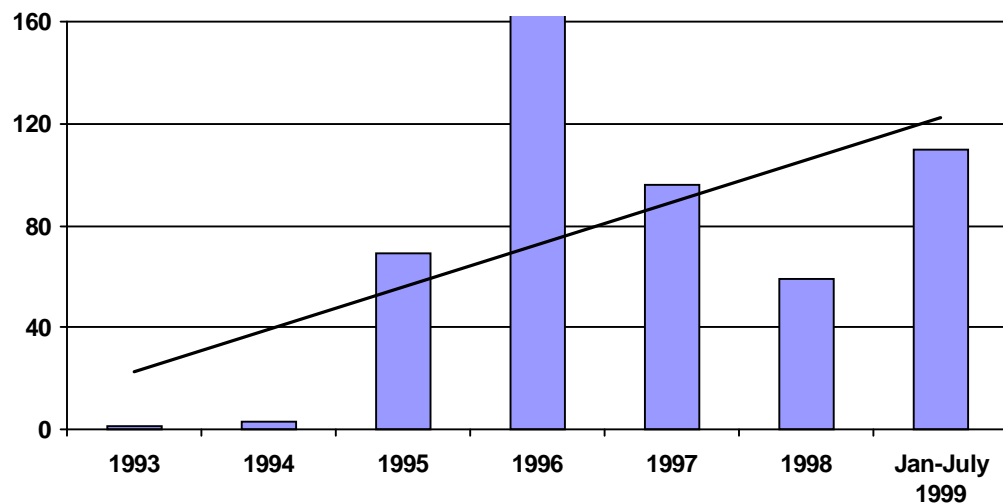
Lured by low taxes and enthusiastic local officials, a growing number of foreign investors are flocking to the Novgorod region. Total foreign direct investment in the region has increased from \$153 million to \$600 million between 1994 and 1999.<sup>12</sup> According to some accounts, 29 investment projects worth of \$1.5 billion are under consideration.<sup>13</sup> Diagram 1 demonstrates the dynamics of foreign investments in 1993-99. According to Governor Mikhail Prusak, 49 per cent of oblast's GDP is derived from foreign investment. In investment dollars per capita Novgorod is second only to Moscow, and is rated third for its economic development over the past six years.<sup>14</sup>

There are about 200 foreign or joint-venture enterprises in the Novgorod region which play a major economic role. They provide 20,000 with jobs and account for 62 per cent of the regional industrial output and 32 per cent of the local

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- 9) *Investment Climate of Novgorod Oblast*, p. 4.
  - 10) *Veliky Novgorod for Travellers*, p. 88.
  - 11) Petro, *Creating Social Capital in Russia: The Novgorod Model*.
  - 12) *Informatsia ob Investitsionnoy Deyatel'nosti v Novgorodskoy Oblasti* [Information on Investment Activities in the Novgorod Region], The Economic Committee of the Novgorod Regional Administration Data Base, as of 6 September 1999.
  - 13) Troyanovsky, Viktor, 'Investory Snimayut Shlyapu pered Velikim Novgorodom' [Investors Take off their Hats to Praise Novgorod the Great], *Rossiyskaya Gazeta*, 6 November 1999, p. 5; and *Rossiyskaya Federatsiya*, 1999, no. 26, p. 6 (in Russian).
  - 14) *Johnson's Russia List*, no. 1380, 20 November 1997; and no. 2183, 18 May 1998.

pension fund.<sup>15</sup> Firms with foreign capital provide half the taxes paid to the region.<sup>16</sup>

Diagram 1:  
Annual Foreign Direct Investment in the Novgorod region, 1993-1999\*



The impact of economic reforms on living standards in the Novgorod region has been dramatic. Between 1995 and 1997 real incomes in the region grew 1.7 times. They continued to rise 6.6 per cent between January - April 1998, compared with the same period in 1997. By contrast, incomes in Russia during this period fell by 7.2 per cent, and in the north-west excluding Novgorod, they fell by nearly 8 per cent.<sup>17</sup> In 1997, an average family income in the Novgorod oblast exceeded the living wage 2,08 times and the region was rated 21st among 89 members of the Russian Federation.<sup>18</sup> Even after the 1998 financial meltdown the index stood at the level of 1,24 and the region occupied the 25th position in the all-Russia rating.<sup>19</sup> The first seven months of 1998 also saw a 5.2 per cent increase in industrial production in Novgorod compared with the same period in 1997, while industrial production in Russia as a whole fell.<sup>20</sup>

15) Troyanovsky, Viktor, 'Gubernator' [Governor], *Dom i Otechestvo*, Special Issue (August 1999), p. 7 (in Russian); *Johnson's Russia List*, no. 3310, 28 May 1999.

16) *Johnson's Russia List*, no. 1380, 20 November 1997.

\*) Source: Petro, Nicolai N. *Creating Social Capital in Russia: The Novgorod Model*, 18 September 1999 (Washington, DC: The National Council for Eurasian and East European Research, 1999).

17) Petro, *Creating Social Capital in Russia: The Novgorod Model*.

18) *Izvestiya*, 25 October 1997, p. 5 (in Russian).

19) *Argumenty i Fauty*, 1998, no. 50, p. 12 (in Russian).

20) Petro, *Creating Social Capital in Russia: The Novgorod Model*

### *Implications of the 1998 financial crisis*

The rouble devaluation of August 1998, the crisis of the banking system and the debt default, hit the region hard. New foreign direct investments in the region have been scaled back more than 40 percent in 1998 compared to 1997, which resulted in a 21 million rouble shortfall in the 1998 budget. Commercial lending within the region fell by nearly a quarter, and for the first time in years pension payments were delayed 2-3 weeks in August and September 1998. The region's flagship investor, British Cadbury-Schweppes, suspended production for a month in September.<sup>21</sup> According to one American investor, it took 20 days to transfer money from St Petersburg to Novgorod to pay for a piece of land purchased by the American businessman to construct a factory.<sup>22</sup>

Despite these setbacks, however, the region has managed to recover faster than many others. Industrial production during the first half of 1999 rose by 5.9 per cent compared to the same period in 1998, while investments in the region increased by more than 80 per cent.<sup>23</sup> "Those who planned to set up here before the crisis confirmed their proposals as early as February. We lost several months, but the shock of last August has begun to fade"<sup>24</sup> Governor Prusak said in May 1999. The local government supported Cadbury by granting the British company additional tax benefits and its production became profitable again.<sup>25</sup> By March 1999 the region's other major investor, the Danish chewing gum manufacturer Dirol, had returned to a level of profitability that allowed it to cut short its tax holiday from regional and local taxes. In August 1999 Dirol opened a second multi-million dollar facility in the region that will allow for both packaging and local manufacture of their products.<sup>26</sup> According to the prognoses made by the oblast administration, in 1999 industrial and agricultural production, unemployment rate, price index and value of public services will make up 105.5, 80.3, 79.8, 123.6 and 105.7 per cent respectively, as compared to 1998.<sup>27</sup>

The implications of the 1998 crisis are still palpable in the region. A number of the Novgorod plants had to stop their production. For example, despite the fact that the state quality certification organisation Gosstandart and the Russian Academy of Quality acknowledged the Novgorod-produced Sadko the best television in Russia, it is no longer being produced, according to a spokesman for the Kvant factory in Novgorod. The television maker, formerly part of the vast defence-industrial complex, was forced to halt production after the state stopped paying back its debts. "If only we could get that money and find an investor or a

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21) Petro, *Creating Social Capital in Russia: The Novgorod Model*.

22) 'FCS St Petersburg Report on Field Trip to Novgorod', *BISNIS Press Release* (October 1998), p. 2.

23) Petro, *Creating Social Capital in Russia: The Novgorod Model*.

24) *Johnson's Russia List*, no. 3310, 28 May 1999.

25) 'FCS St Petersburg Report on Field Trip to Novgorod', *BISNIS Press Release* (October 1998), p. 1.

26) Petro, *Creating Social Capital in Russia: The Novgorod Model*.

27) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

loan, we could start production again," said company representative Vladislav Shaklin.<sup>28</sup>

Due to a lack of hard cash, disruption of the Russian banking system and insolvency of many Russian companies, today Novgorod firms' trade is mostly done by bartering goods and services. Yevgeny Shulman, director of the Splav factory (Novgorod) which specialises in equipping nuclear power stations, has also become a king of barter to ensure his firm's survival. "In 1998, we sold 90 per cent of our production thanks to barter. Only 10 per cent was paid by financial transfers. Bartering is our lifeline," said Shulman. Nearly 65 percent of the production at this factory, which employs 1,500 people, is destined for the nuclear sector. But Splav's main clients, Russian and Ukrainian atomic power stations, have not been able to pay in roubles for four to five years.<sup>29</sup>

However, due to the co-operation with foreign countries and the managerial skills of local administrators oblast's prospects for the future are not so gloomy and can be assessed with cautious optimism.

### *Political situation in the region*

Official documents and many observers point to political and social stability as one of the most important characteristics of the region which makes the latter attractive for investors and tourists.<sup>30</sup> But the main author of Novgorod's revival, the vast majority of analysts maintain, has been its regional governor, Mikhail Prusak, 39, the youngest governor in Russia when first appointed by Boris Yeltsin in 1991. After four years he was returned for a second term by direct election. In September 1999 he was re-elected for a third term.

Mr. Prusak is admired by the radical reformers such as Gennady Burbulis, Yegor Gaidar and Anatoly Chubais. For example, in 1998 the board of directors of the Institute of Economic Problems of the Transition Period headed by Yegor Gaidar awarded Prusak the Alexander II award, a diploma and a premium of 5,000 roubles, which used to be given for the contribution to the accomplishment of economic reforms in Russian provinces.<sup>31</sup> Prusak also gets on well with Viktor Chernomyrdin, Russia's ex-prime minister and leader of the conservative party Our Home Is Russia (OHR). Prusak was a member of the Political Council, a governing body of the OHR.

However, Prusak is rather pragmatic in his political orientations. For example, during the 1999 Duma election Prusak supported an independent candidate Gennady Burbulis, a former State Secretary who played a critical role in appointing Prusak governor in 1991.<sup>32</sup> At home in Novgorod Mr. Prusak has

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28) Sujata Rao, 'Russia Names Top 100 Local Producers', *Moscow Times*, 21 October 1998.

29) *Johnson's Russia List*, no. 3310, 28 May 1999.

30) *Investment Climate of Novgorod Oblast*, pp. 2,7; *Veliky Novgorod for Travellers*, p. 90; and Petro, *Creating Social Capital in Russia: The Novgorod Model*.

31) *Johnson's Russia List*, no. 2070, 19 February 1998.

32) Riskin, Andrei, 'Novgorod Oboydetsya bez Varyagov'[Novgorod Will Manage Without "Vikings"], *Nezavisimaya Gazeta*, 16 November 1999, p. 11; and Nikolayev, Andrei,



managed to stay on good terms with local Communists and Agrarians, helped by his previous experience as a Komsomol leader and manager of a state farm.<sup>33</sup> Rather than trying to break up the old bureaucratic power structures inherited from the Soviet era, he has by-passed them by encouraging the formation of new democratic institutions at district and village level.

Prusak believes that the Novgorod unique model is deeply rooted in its history. In contrast to the starkly centralised model that Muscovite Rus inherited from Kievan Rus (adding its own absolutist tendencies to it), the Novgorod model was characterised by greater openness and democracy.<sup>34</sup> However, Mr. Prusak insists politely that no Novgorod model should be imposed across Russia. Each region should follow the course that suits it best, he says. But Novgorod's place in Russian history, and Russia's search for a post-communist identity, do give the notion of a Novgorod model a special potency. It would answer to Russia's desperate need to root reform and democracy in its own traditions, rather than those of the West. It would have elements pleasing to liberals and nationalists alike. And it would remind other regions that democracy, liberalism and prosperity tend to go hand in hand.<sup>35</sup>

Nearly all more or less significant Russian parties and election coalitions are represented in the region. Interestingly, despite the gubernatorial support the OHR got only 5.89 per cent at the 1999 Duma election. Other survivors of the election race include Unity (Bear) led by Sergei Shoigu (31.55 per cent), the Communist Party run by Gennady Zyuganov (19.8 per cent), Yabloko led by Grigory Yavlinsky (7.18 per cent), the Union of Right Forces headed by Sergei Kirienko, the Liberal Democratic Party of Russia (LDPR) led by extremist Vladimir Zhirinovskiy (6.96 per cent), and Fatherland-All Russia headed by Yuri Luzhkov and Yevgeny Primakov (5.83 per cent).<sup>36</sup>

The regional and city administrations encourage people to create not only political but also civic organisations covering various spheres of public life. These are seen as a major precondition of an emerging civil society in the region. At the end of 1998, there were some 521 officially registered civic organisations and many more that are active but not registered.<sup>37</sup>

To provide civic organisations with a forum for dialogue the so-called Social Chamber has been set up in 1994. To encourage public involvement and

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'Stavlenik Gubernatora' [Governor's Protégé], *Nezavisimaya Gazeta*, 8 December 1999, p. 4 (in Russian). However, Burbulis lost the election race in spite of the gubernatorial support (Riskin, Andrei, 'Novgorodtsy Progolosovali v Piku Gubernatoru' [The Novgorod Electorate Voted to Spite the Governor], *Nezavisimaya Gazeta*, 28 December 1999, p. 11 (in Russian)). In June 2000 Prusak appointed Burbulis a Vice-Governor on relations with the Federal Assembly (*Nezavisimaya Gazeta*, 7 June 2000, p. 3 (in Russian)).

33) On Prusak's biography see Troyanovskiy, 'Gubernator', p. 7.

34) Prusak, Mikhail M., *Reformy v Provintsi* [Reforms in the Province] (Moscow: Veche, 1999), pp. 94-96 (in Russian).

35) Novgorod Velikij. URL <<http://www.alt.current-events.russia>, 18 June 1997>.

36) Riskin, Andrei, 'Novgorodtsy Progolosovali v Piku Gubernatoru' [The Novgorod Electorate Voted to Spite the Governor], *Nezavisimaya Gazeta*, 28 December 1999, p. 11 (in Russian).

37) Petro, Nicolai N. *Creating Social Capital in Russia: The Novgorod Model*.

debate, the local law establishing the Social Chamber stipulates that all decisions of the Chamber must be conveyed to the media, along with any minority opinions supported by no fewer than one-fifth of those present. The administration has also encouraged trade union participation, which has formed the basis for subsequent legislation on "social partnership" between business, labour and government leadership.<sup>38</sup>

The success of economic reforms and a social consensus in the region were prerequisites of Prusak's impressive victory with 92 per cent of the vote in the Novgorod oblast gubernatorial elections on 5 September 1999. His opponents (two independent candidates and a candidate from the LDPR) were able to win only 3.58 per cent.<sup>39</sup> The elections were originally set for 19 December, but Prusak with the support of the Supreme Court of the Russian Federation moved them up three months to increase his chances of winning.<sup>40</sup> Despite the attempts of the local Communists to portray the election as illegal, the vast majority of politicians and analysts (including many of the governor's opponents) acknowledged that Prusak's political authority remains unchallenged. "I am delighted with our voters and the campaign itself," said Sergei Bessonov, the Deputy Chairman of the Novgorod Duma and the Executive Director of the local branch of the OHR. "A different opinion can not exist. This confirms once again that Novgorod residents judge people by their real accomplishments and not by the promises they make. Naturally, among the different contenders, only the incumbent proved by his actions that he does not make empty promises. All his efforts and the efforts of his staff are directed toward creating more enterprises and jobs for the residents of Novgorod oblast and raising the standard of living. There were some inadequacies, but the media is conducting itself very constructively, pointing out insufficiencies to which the governor quickly reacts. Everyone understands the improvements in Novgorod oblast compared with other regions. They touch on everything and are to the credit of the governor, which the voting results affirm."<sup>41</sup>

## External relations in practice: major endeavours

Eight main categories of external activities of the Novgorod region can be distinguished:

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38) Petro, Nicolai N. *Creating Social Capital in Russia: The Novgorod Model*.

39) *Nezavisimaya Gazeta*, 7 September 1999, p. 3 (in Russian).

40) On debates on the legal aspects of the 1999 gubernatorial election in Novgorod see Riskin, Andrei, 'Prusak Opyat Vsekh Perekhitril' [Prusak Outwitted Again], *Nezavisimaya Gazeta*, 3 September 1999, p. 4 (in Russian).

41) Prusak's Novgorod: Dictatorship or Democracy?', *East-West Institute Russian Regional Report*, Vol. 4, No. 35, 23 September 1999.

### *Foreign trade*

The oblast's foreign trade turnover totalled \$431 million in 1998 and \$195,9 million in the first six months of 1999.<sup>42</sup> By contrast with many Russian regions the Novgorod oblast has a positive trade balance: for example, in 1998 the trade balance was \$232 million (export \$331.5 million and import \$99.5 million). The local government tries to develop the export-oriented potential of the oblast. In 1998, 480 Novgorod companies and organisations were engaged in foreign trade.

The so-called 'far abroad' is the main trade partner of the Novgorod region. The oblast traded with 78 countries (of which eight are the CIS member-states) in 1998 and with 64 countries (eight post-Soviet states) in the first half of 1999. In 1998, China and Finland were the largest importers of Novgorod products (38.9 and 15.7 per cent, respectively) while Denmark, Finland, the United Kingdom, and Germany were the main exporters (28.5, 13.1, 10, and 9.2 per cent). The Novgorod region used to export chemicals, wood, wooden produce and machinery. In the overall structure of imports, foodstuff and machinery play a crucial role.

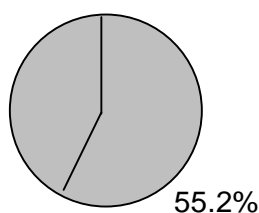
### *Foreign investments and industrial co-operation*

As mentioned above, attracting foreign investment is an important component of economic policies of the local government to support the oblast's economy. In 1998, enterprises with foreign capital participation accounted for 55.2, 88.5 and 51.5 per cent of the oblast's production, exports and imports respectively (see diagram 2).<sup>43</sup>

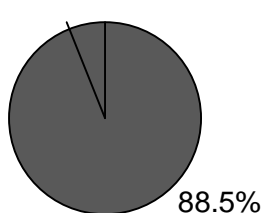
#### *Diagram 2:*

*The share of foreign capital in the region's production, exports and imports*

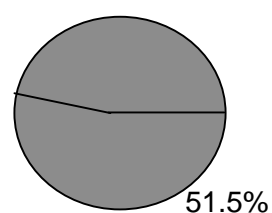
**Volume of production**



**Exports**



**Imports**



In 1998, foreign investment was distributed between the food industry (79,1 per cent), timber and wood-processing industry (10 per cent), communications (3 per cent), and transportation (2.9 per cent). In 1999, 48.9 per cent of foreign

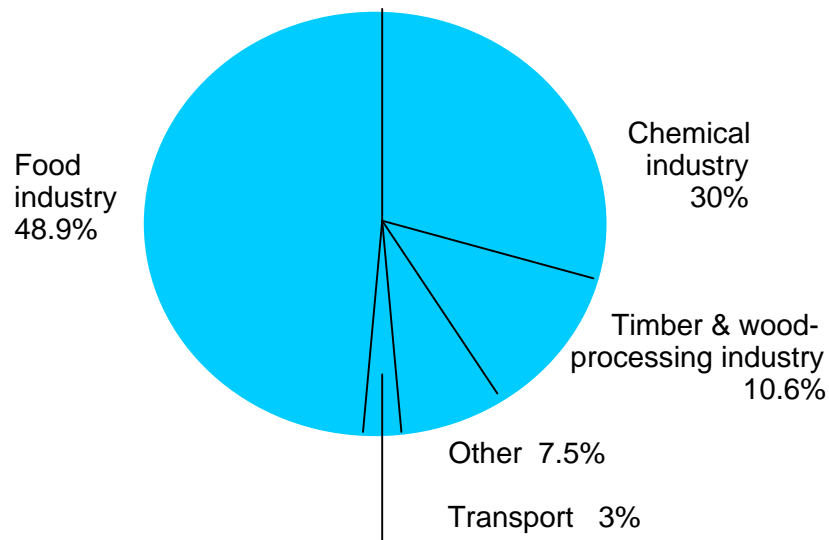
42) *Investment Climate of Novgorod Oblast*, p. 12; and The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

43) *Investment Climate of Novgorod Oblast*, p. 11.

capital was invested in food industry, 30 per cent in chemical industry, 10.6 per cent in timber and wood-processing industry and 3 per cent in transportation (see diagram 3).<sup>44</sup>

40 countries of the world invested in the Novgorod economy. The EU member-states are leading investors: UK (34 per cent), Gibraltar (25 per cent), Denmark (14 per cent), USA (12 per cent), Finland (8 per cent), Germany (3 per cent), Sweden (1,2 per cent).<sup>45</sup> The list of the largest foreign investors includes companies such as Cadbury-Schweppes (UK), DTF Holdings A/S (Denmark), Raute, Schauman Wood, Finnish Holdings Oy (Finland), Pfeleiderer, Sommer GmbH & Co, Schomburg & Co KG (Germany), Mo Do Skog (Sweden), Holzindustrie Preiding (Austria), JIR Broadcast Inc. (USA), and AMKOR (Australia).

*Diagram 3:  
The distribution of foreign investment in the Novgorod economy*



40 countries of the world invested in the Novgorod economy. The EU member-states are leading investors: UK (34 per cent), Gibraltar (25 per cent), Denmark (14 per cent), USA (12 per cent), Finland (8 per cent), Germany (3 per cent), Sweden (1,2 per cent).<sup>46</sup> The list of the largest foreign investors includes companies such as Cadbury-Schweppes (UK), DTF Holdings A/S (Denmark), Raute, Schauman Wood, Finnish Holdings Oy (Finland), Pfeleiderer, Sommer GmbH & Co, Schomburg & Co KG (Germany), Mo Do Skog (Sweden), Holzindustrie Preiding (Austria), JIR Broadcast Inc. (USA), and AMKOR (Australia).

The main investor of the region was until now Britain's Cadbury Schweppes, a leading world confectionery and soft drinks manufacturer which has a 40,000-

44) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

45) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

46) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

strong staff and operates in more than 190 countries. In 1995 Cadbury started its activities in Russia. A confectionery factory in Chudovo, Novgorod oblast was built in a very short period of time, only 13 months. The first chocolate was manufactured at the factory in October 1996. At present, a 150 million dollar factory produces 50,000 tonnes of chocolates per year.<sup>47</sup> Cadbury's production is well-known by its "Picnic", "Wispa", "Fruit & Nut" trade marks. This was supplemented with other kinds of chocolate specially developed for Russia: "Night", with dark chocolate of Cadbury's classic trade marks, the chocolate-waffle bar "Tempo", chocolate bars "Novgorod" and "Rostov", which are the first from the series "Golden Fund of Cadbury".

It should be noted that construction of the factory stimulated the economic development of the Novgorod region. The company invested over \$2 million in the development of the local infrastructure, e.g. renovation of a fire station in Chudovo, restoration of the city water-purifying station and local electric power station. The factory employed 400 and created jobs for 500 more people involved in servicing, transportation, trade, maintenance, housing, etc.<sup>48</sup>

Another major investor, the Danish confectionery company Dandy A/S (Dirol and Stimorol chewing gum) is in a fierce battle with U.S.-based Wm Wrigley Jr Co. for control of the Russian market. Wrigley already has a factory open near St. Petersburg. Dandy operates in Novgorod since 1995 when the ZAO Stimorol Chewing Gum company has been established. A \$10 million "brownfield" investment resulted in setting up in April 1996 a packaging plant which performed a final packaging operation on chewing gum imported from Denmark. The plant employs 120 Russian nationals.<sup>49</sup>

In 1997, Dandy A/S decided to invest \$100 million to construct a production factory to manufacture 7,000 tons of chewing gum a year for the Russian market. The EBRD, Rabo Bank (Netherlands), Den Danske Bank and BG Bank (Denmark), and the Danish Investment Fund for Central & Eastern Europe supported the project by providing Dandy A/S with a loan. In February 1998 the Finnish construction firm Skanska Oy started building a plant in Novgorod. By August 1999 the construction was completed and the production line begun to function. The project created 300 jobs in Novgorod.<sup>50</sup>

Similar to other foreign investors Dandy experienced the sticky business environment both before and certainly after the 1998 financial crisis. "We feel we're at a glass ceiling for Russian buying power and if there is another devaluation we suffer," Philip Wegh, general director of ZAO Dirol, said in an interview with Reuters. "The push now is for all of us to go with Russian suppliers for food-stuffs. Quality questions stopped us initially, but we are working to improve the

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47) Troyanovsky, Viktor, 'Gubernator' [Governor], *Dom i Otechestvo*, August 1999, p. 7 (in Russian). See also *Chicago Tribune*, 23 November 1997; and *Johnson's Russia List*, no. 3310, 28 May 1999.

48) *Investment Climate of Novgorod Oblast*, p. 15.

49) *Investment Climate of Novgorod Oblast*, p. 16; and *Rossiyskaya Federatsiya*, 1999, no. 26, p. 11 (in Russian).

50) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

situation. The crisis has accelerated the process because it the only way to survive now," he added.<sup>51</sup>

It should be noted that along with economic effects psychological implications of the Dandy project are important. The Danish company's confidence in the region favourably influenced US and Finnish entrepreneurs who decided to build a bottling plant and cellulose factory in Novgorod.<sup>52</sup> The decision by Owens-Illinois, one of the world's leading producers of glass and plastic packaging products, to build a 100 million dollar plant in Novgorod is probably the most exciting new deal for the Novgorod administration, since it represents the first major American business investment in the region. Interestingly, of twenty potential new investments (totalling a possible \$1.1 billion) that were being negotiated in the latter half of 1998, the only one - a Yugoslavian pharmaceutical manufacturer - has withdrawn.<sup>53</sup>

Apart from the construction firm Skanska Oy, a number of other Finnish firms have large projects with the Novgorod region. The Russian-Finnish Chudov-RWS was the first joint venture in the region (established in 1990 by the local company Novgorodlesprom and two Finnish firms - Raute and Schauman Wood). The factory manufactures 50.000 cubic metres of the waterproof birch plywood products based on the original Finnish technology.<sup>54</sup> Another promising project is started by the Finnish Holdings Oy which plans to construct a \$40 million factory to produce 150 million glass bottles a year.<sup>55</sup>

Among the most important Russian-German projects a joint venture Novtruck AG (established in 1993 by Sommer, a producer of superstructures, trailers and semi-trailers) could be mentioned. Sommer invested DM 2 million to construct a factory in Novgorod. Currently this plant produces components, assemblies and spare parts for further production in Poland and Germany but in the near future production of superstructures and trailers for the Russian market is planned.<sup>56</sup> There is also a Russian-German joint venture transport and forwarding firm NBI Transport-Service with a fleet of 100 trucks (founded in 1992). The German design bureau Benteller invested DM 1 million to set up a firm Autotechnik-Novgorod to design car components. 11 Russian employees have been trained in Germany.<sup>57</sup> A number of German firms established a joint venture with the Novgorod enterprise "GARO" to develop and produce garage equipment and diagnostics for vehicles.<sup>58</sup> The joint venture Pfeleiderer-Chudovo (established in 1995 on the basis of the local plant) manufactures insulation for roofs, walls,

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51) *Johnson's Russia List*, no. 3329, 7 June 1999.

52) *Johnson's Russia List*, no. 3310, 28 May 1999.

53) Petro, Nicolai N. *The Novgorod Region: A Russian Success Story*, 9 February 1999 (Washington, DC: The National Council for Eurasian and East European Research, 1999).

54) *Investment Climate of Novgorod Oblast*, p. 13; and *Rossiyskaya Federatsiya*, 1999, no. 26, p. 9 (in Russian).

55) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

56) *Investment Climate of Novgorod Oblast*, p. 14.

57) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

58) <http://www.adm.nov.ru>

interstories, equipment and pipe-lines. Its products with the famous German trade-mark Ursa are very popular on the Russian markets.<sup>59</sup> Schomburg invested DM 2 million to build a factory to produce construction materials by March 2000 (40 jobs).

In 1991-95 Austria with the financial help of the international fund East-West constructed a wood-processing factory Madok in the Novgorod region. Upon the completion of the project the factory will be able to produce 100.000 cubic metres of saw-timber a year.<sup>60</sup> At present, all factory's produce is exported to Austria for final processing and re-exporting to the European countries. Madok's officials complain that Russian taxes, customs regulations and the lack of bank credits prevent the enterprise from creating a full-cycle production in the region.

Interestingly, the Novgorod region develops co-operation with the Baltic states located in the adjacent area. Although the Novgorod-Baltic co-operation is not as sizeable as co-operation with the EU member-states it is important in terms of the future Russo-Baltic relations. According to the local statistics, there are 68 companies with investment from the Baltic states (26 with Estonian, 35 with Latvian and 7 with Lithuanian participation). The most significant projects are Estonian-Russian Estros (construction works) and Lakto-Novgorod (dairy produce), Russian-Latvian Mologa Forest (wood-processing) and "Hill" (meat-processing and packing), and Russian-Lithuanian Arda-Lisi (mineral water production and packing) and Novolit (sanitary-hygienic products).<sup>61</sup>

Novgorod has business relations not only with European countries and the US but also with some more remote regions. The Australian company AMKOR invested DM 22 million in building a cigarette packaging plant in Novgorod. AMKOR planned to complete construction by April 2000 and to employ 100 locals. The Chinese company Dali launched a \$0,3 million project to set up a tea packing factory with 30 employees.<sup>62</sup> A former defence plant Splav exports measuring and control equipment for Chinese and Iranian nuclear power stations.<sup>63</sup> In 1998, the Novgorod Spektr TV and video factory agreed with the South Korean company LG Electronics on assembling half a million video players. LG Electronics invested \$0,214 million in a pilot project with a final aim to create 100 jobs.<sup>64</sup>

Along with private companies governmental and multilateral institutions assist the Novgorod region in attracting foreign investment. In 1996, the EBRD established the Regional Venture Funds for Northwest and West Russia with the office in Novgorod.<sup>65</sup>

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59) *Rossiyskaya Federatsiya*, 1999, no. 26, p. 15 (in Russian).

60) *Rossiyskaya Federatsiya*, 1999, no. 26, p. 15 (in Russian).

61) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

62) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

63) *Rossiyskaya Federatsiya*, 1999, no. 26, p. 12 (in Russian)

64) *Johnson's Russia List*, no. 1380, 20 November 1997; and The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

65) *Investment Climate of Novgorod Oblast*, p. 17.

In 1998, the United States started a Regional Investment Initiative Programme with the aim to provide for the transition from the US assistance to investment and partnership programmes. Along with the Sakhalin and Samara regions and the Khabarovsk Province the US-backed programme encompasses the Novgorod region.<sup>66</sup> The World Bank also provided the local administration with two loans - \$16,8 million and \$20 million - to develop infrastructure in Novgorod.<sup>67</sup>

Novgorod state and commercial banks co-operate with foreign banks from 23 countries, including Commerzbank AG, Deutsche Bank AG, BNP Dresdener Bank (Germany), and Bank America International (US).

The Novgorod government's openness and efforts to attract foreign investment have been appreciated by the West. The Parliamentary Assembly of the Council of Europe awarded the Novgorod oblast a Flag of Honour for its endeavours in developing mutual understanding between the European nations. In June 1999, in Vienna, Austria, Prusak was awarded the Euro Christal Globe for his achievements in international co-operation. In 1998, the US Chamber of Commerce conferred the Novgorod region a honorary title of Region of the Year for co-operation with foreign nations.<sup>68</sup> The World Bank rated the oblast among the six leading regions in Russia with the most favourable investment climate.

### *Infrastructure*

Novgorod is one of the 14 Russian towns which won the competition on the City Public Transportation Programme sponsored by the World Bank. A loan has been provided to purchase 80 Mercedes-Benz buses. 40 buses have been repaired and 10 trolley buses supplied for the new trolley-bus line.<sup>69</sup> Another World Bank loan was helpful in constructing and renovating the water-supply and sewer system in Pskov and Derevyanitsky districts of Novgorod. The EBRD and the Swedish International Development Agency (SIDA) funded a similar project as well. Cadbury and Dandy also invested in developing water-supply system in Chudovo and Novgorod. The Finnish Ministry of Environment Protection assisted the Novgorod city administration in carrying out a project on waste utilisation.<sup>70</sup>

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66) Chistov, Alexander, 'Foreign Investment: Regional Aspects', *Ekonomika i Zhizn*, No. 6, February 1998 (in Russian); Helmer, John, 'World Bank Says Reform Bad for Business', *The Moscow Tribune*, June 19, 1998.

67) The Economic Committee of the Novgorod Regional Administration Data Base, 1999.

68) *Investment Climate of Novgorod Oblast*, p. 18.

69) *Investment Climate of Novgorod Oblast*, p. 18.

70) *Kontsepsiya Sotsialno-Ekonomicheskogo Razvitiya Goroda Novgoroda na 1997 God* [The Concept of Social-Economic Development of Novgorod in 1997] (Novgorod: Novgorod City Duma, 1997) pp. 4, 6 (in Russian).



### *Consulting*

Foreign firms assist the Novgorod region in preparing investment projects, management and administration, as well as in drafting legislation on taxation, foreign economic relations, etc. For example, the local government co-operates with leading consulting companies such as Arthur Andersen, Coopers and Lybrand, Carana, Price Waterhouse.<sup>71</sup> The oblast authorities set up an Advisory Council on Foreign Investment which includes representatives of the world's largest transnational companies such as ABB, BASF, British Petroleum, Citicorp, Coca-Cola, Ernst & Young, FATA, FIAT, Itochu, Laval, Mars, Mitsui, Mobil Corporation, Pioneer Group, Procter & Gamble, Renault, Siemens, Tetra, Thompson, and United Technologies.

The Norum-Sofitech Consortium, a private management company, is responsible for operating the Regional Venture Funds for the Northwest and West Russia on behalf of the EBRD. The Consortium consists of Finnfund, Sitra Management (Finland), Den Norske Bank, SND Invest (Norway), CES Nordic (Sweden) and Sofipa (Italy). Since 1996 the Norum-Sofitech assists its Novgorod partners in preparing and managing investment projects.<sup>72</sup> The German Society for Technical Co-operation (GTZ) consulted the local government on privatisation projects under the aegis of the Transform programme. The Swedish National Land Service, SIDA, the US Agency of International Development and the World Bank assisted the local government in developing a regional land registry.<sup>73</sup>

Foreign consulting firms co-operate with similar Russian organisations. For instance, an Inter-Regional Strategic Initiative Foundation (IRSIF) has begun to function in Novgorod in January 1999. The Foundation has been established by the Academy of the National Economy to the Russian government and by the Russian Economics Ministry's Centre for the Promotion of Foreign Investments. As the IRSIF President Valeriy Trofimov, who had worked for seven years as First Deputy Governor of Novgorod region and who had been in charge of attracting investments to the region, put it, "We are called upon to minimise the risk of investors who have opted to operate in our country. We not only provide advice to businessmen as to what they should do. We monitor the entire cycle—from a search for investor, and the choice of a site for an enterprise to the moment it is commissioned under a turn-key scheme." IRSIF now has two offices in Moscow and Novgorod and missions in Kaliningrad and Novosibirsk. The Foundation has signed co-operation agreements with a whole number of regions such as Kaliningrad, Kostroma, Lipetsk, Novgorod, Tver and Leningrad regions, the Komi and Karelian Republics.<sup>74</sup>

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71) Interview with Vasily Ivanov, Chairman of the Oblast Economic Committee, Novgorod Oblast Administration, 11 October 1999.

72) *Investment Climate of Novgorod Oblast*, p. 17.

73) *Kontseptsiya Sotsialno-Ekonomicheskogo Razvitiya Goroda Novgoroda na 1997 God*, p. 7; and Interview with Ivanov.

74) *Johnson's Russia List*, no. 3011, 11 January 1999.

### *Training and educational programmes*

Education is one of the most dynamic areas of the region's international co-operation.

The Novgorod government launched numerous programmes to train local entrepreneurs in international business administration. For instance, a Business and Training Centre for Entrepreneurship and Small Business has been established with the help of the regional authorities. An International Business School was created jointly with the British Know-how Fund.<sup>75</sup> A St Petersburg-based British Construction and Training Company established a branch in Novgorod. The Danish government also set up a training centre in the town. The Konrad Adenauer Foundation and the Ebert Foundation also financed training programmes in Novgorod.<sup>76</sup>

SIDA sponsored a 10-month educational programme to train women from rural areas to manage house-keeping. Russian teachers employed by the programme were trained in Sweden.<sup>77</sup> A follow-up project on the family economy in the transition period with a 1 million Swedish crown budget was initiated by SIDA for 1999-2000. The project is administered by the Gothenburg University, Novgorod State University, Department of Education of the Novgorod City Administration and the Novgorod Agribusiness Re-Training Institute. The project aims at studying food consumption in the Russian families – its quantitative and qualitative aspects – as well as making recommendations for the local government. The intermediate and final results of this research are discussed at a series of workshops.<sup>78</sup>

In 1999 the Swedish government initiated a long-term collaborative educational project titled "Development of Local Democracy and Self-Government in the Novgorod Oblast". There are five sub-projects:

- Urban planning
- General management
- Local legislators and NGOs
- Budgeting and finance
- Human resources management

SIDA also plans to start in 2001 a sixth project on distant learning. On the Swedish part, the Uppsala University and the Association of Local Governments will be in charge of this project. The Russian side will be represented by the Committee on Civil Service of the Novgorod Oblast Administration, Novgorod Branch of the North-western Academy of Civil Service, Novgorod State Univer-

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75) *Investment Climate of Novgorod Oblast*, p. 9.

76) Interview with Vasily Ivanov, Chairman of the Oblast Economic Committee, Novgorod Oblast Administration, 11 October 1999.

77) *Rossiyskaya Federatsiya*, 1999, no. 26, p. 6 (in Russian).

78) Stytsyna, Svetlana H. *The Baltic Co-operation of the Novgorod Oblast and the Yaroslav the Wise Novgorod State University*. Paper delivered at the International Academic Conference "Russia and the European Union: Regional and Economic Co-operation", 13-14 October 2000, St. Petersburg, pp. 4-5.

sity and municipalities. Each sub-project is developed on a competitive basis via the tender procedure. The Academy of Civil Service is responsible for curriculum development and enrolling students from municipal employees.<sup>79</sup>

Under the auspices of the BISTRO programme TACIS provided the oblast with 66.000 ECU to invite European experts to teach economics, finance and management in Novgorod.<sup>80</sup> TACIS also funded a programme on distant education in several areas - agribusiness, new information technologies, ecology and sustainable agriculture, and agricultural consulting. This programme aims at re-training of teachers, curriculum development, creation of electronic textbooks and acquiring new equipment for the Novgorod colleges.<sup>81</sup>

The Baltic University (Uppsala, Sweden) ran five training programmes in the Novgorod State University – "Population of the Baltic Sea Region", "The Baltic Sea Environment", "Sustainable Development of the Baltic Sea", "Sustainable Exploitation of Water Resources", and "Sustainable Urban Planning of the European Region of the Baltic Sea" (SUPERBS). All programmes were conducted at the graduate level.

The agreement on the SUPERBS project was signed up by the Novgorod mayor and the Baltic University in 1999. It is funded by the EU and SIDA (the latter provided 170.000 Swedish crowns). On the Russian part the project is co-ordinated by the Novgorod State University. SUPERBS aims at the study of the positive European experience as regards sustainable urban development. Particularly, the study focuses on issues such as the role of condominiums and co-operatives in housing management and the rational exploitation of regional resources. The programme has three phases, including the final seminar in Novgorod. A book shall result from the project and a documentary shall be produced by the local TV company "Slaviya".<sup>82</sup>

A Russian-American School of Business Administration worked for three years as a part of the joint project initiated by the Novgorod State University and Portland University (US).

In 1997 the US Agency for International Development and the US Information Service established a \$10 million Partnership for Freedom programme (PfF) with the Eurasia Foundation and IREX serving as subcontractors. IREX was mainly responsible for educational projects while the Eurasia Foundation was in charge

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79) Stytsyna, *The Baltic Co-operation of the Novgorod Oblast and the Yaroslav the Wise Novgorod State University*, pp. 5-6.

80) Interview with Mikhail Godgildiev, Head of Department of Industrial Policy and Foreign Economic Relations, and Boris Vishnevsky, Deputy Head of Department of Industrial Policy and Foreign Economic Relations, Novgorod City Administration, 11 October 1999.

81) *Rossiyskaya Federatsiya*, 1999, no. 26, p. 6 (in Russian).

82) Stytsyna, *The Baltic Co-operation of the Novgorod Oblast and the Yaroslav the Wise Novgorod State University*, pp. 3-4.

with grants on social and administrative purposes. PpF awarded 39 and 24 grants in 1998 and 1999 respectively.<sup>83</sup>

### *Tourism*

Renowned for its beautiful architecture and a school of fresco and icon painting, Novgorod has a reputation as a great tourist attraction. Situated between Russia's most famous tourist destinations, Moscow and Saint Petersburg, the north-western region is visited annually by some 30,000 foreigners, mostly Spaniards, Italians, Germans and Americans.<sup>84</sup>

TACIS initiated a pilot project to support a municipal plan to establish a tourist office and develop a regional tourist programme.<sup>85</sup>

The US Information Agency (USIA) funded a programme of co-operation between the Novgorod National Park-Museum and the Fund Colonial Williamsburg. The programme aimed at developing a cultural tourism in Novgorod. There were exchange visits of American and Russian experts. A conference "Cultural tourism in Russia" was held in Colonial Williamsburg. Under the aegis of the programme a tourist guide "Novgorod for visitors" and a brochure on the Novgorod museum shall be published.<sup>86</sup>

Regional tourist officials also intend to develop hunting in the taiga forests that cover some half of the Novgorod region. Hunters come here each year from Italy and Germany to track lynx, bear, fox, elk, wolves and wild boar.<sup>87</sup> Low hunting charges of around a hundred dollars a day make the region more affordable than the West. Another of Novgorod's assets is that the town is home to one of the few luxury hotels (Beresta) in Russia outside Moscow and St Petersburg, thanks to Austrian investors attracted by the local authorities' policies.

### *Cultural and humanitarian co-operation*

The Novgorod region has twinning relations with several foreign towns and regions. The 1994 co-operation agreement between the Novgorod Oblast Administration and the Swedish province Orebrø was one of the first international agreements of this type. Novgorod also established twinning relations with Moss (Norway), Uusikalpunke (Finland), Bielefeld (Germany), Nanter (Greater Paris), Watford (Greater London), Rochester (New York, US), and Tzybo (China).

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83) Interview with Roman Zolin, Executive Director, Novgorod Support Centre for NGOs, 11 Oct. 1999.

84) *Johnson's Russia List*, no. 3314, 31 May 1999.

85) Interview with Isaak Freidman, Head of Department of Foreign Relations, City Promotion and Tourism, Novgorod City Administration, 11 October 1999.

86) <http://www.adm.nov.ru>

87) *Johnson's Russia List*, no. 3314, 31 May 1999.

It should be noted that few of these twinning relations resulted in a full-fledged co-operation; many of them are limited only to exchange of delegations and fact-finding missions. Perhaps co-operation between Novgorod and Bielefeld can exemplify a success story because it led to investment to the Novgorod economy and establishing the Novtruck AG company.

TACIS financed a 100.000 ECU pilot project on developing twin-city relations between Novgorod and Strasbourg.<sup>88</sup> The project of co-operation with Strasbourg which was given the name UPSILON, affected the wide range of aspects of long-term urban development under the topic "Urban planning and improvement of public zones in historical cities". The working plan of the project provided for two-way exchange within 12 months:

- Business trips of Novgorod City Administration officials to Strasbourg to study the European experience of city-planning management, historical and architectural heritage, housing and municipal services;
- Business trips of Strasbourg experts to Novgorod to adapt the European experience to the Russian conditions.

There were some practical results from the above project:

- Joint recommendations on developing historical sites were prepared.
- In the Novgorod City Administration a working group on organisation and co-ordination of further work on implementation of the project UPSILON has been created.
- As a part of the PR campaign the work on the project was covered by the Russian and European mass media.
- In the technical sense a number of regulations on developing historical sites were prepared and implemented.

The project promoted a long-term and mutually beneficial co-operation between Strasbourg and Novgorod. A follow-up project titled "Development of the city economy through tourism" has been suggested. In March, 1998, an economic forum was held in Strasbourg to attract foreign investors. The forum gathered about 50 representatives of French enterprises who expressed their interest in co-operation with Novgorod. Novgorod also took part in the project "ECOS/OVERTURE RUSTRAT" to develop the concept of a Novgorod regional marketing centre.<sup>89</sup>

Given its historical background, Novgorod joined the Hanseatic League in 1993 and takes part in the Hanseatic days that are organised in different Baltic countries on the rotating basis. Novgorod applied for \$800.000 to renovate the Nikolsky cathedral. However, the league provided the town only with a half of this amount. TACIS also provided the local administration with a 100.000 ECU grant to renovate Novgorod's historical centre.<sup>90</sup> Novgorod's representatives take part from time to time in the meetings of the Council of the Baltic Sea

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88) Interview with Isaak Freidman.

89) <http://www.adm.nov.ru>

90) Interview with Isaak Freidman.

States (CBSS) albeit this participation is of a protocol rather than real significance.<sup>91</sup>

The so-called Co-operation Days aimed at developing the region's international contacts became a traditional event in Novgorod. For example, in September 1999, 60 foreign firms and organisations took part in the Novgorod Co-operation Days.

The Novgorod City Administration and its partner organisation 'Linkages' from the sister city Rochester (USA) have obtained a grant from the USIA for implementation of the programme "Solution of municipal and public problems of USA - NIS" for work on the joint project "Partnership for children". The programme continued since December, 1997 till October, 1998. Financing constituted \$29,139. The purposes of the programme were:

- (1) Development and implementation of the programme for training and support of receiving families and adopting families;
- (2) Development and implementation of social adaptation programmes (preparation for independent residing of teenagers).

During the implementation of the programme the following was achieved:

- A detailed plan for receiving families was prepared,
- The programme of their training was developed,
- Seminars on development of the necessary skills for independent residing were organised,
- There have been developed the programs which will be carried out in appropriate social establishments.
- 7 experts from Rochester and 7 from Novgorod had the possibility to visit establishments of their colleagues, to be acquainted with their work experience, to take part in discussions and the development of appropriate programmes.

The experts from both sides are very much interested in continuation of the joint work. The USIA sees the programme as a model for other regions.<sup>92</sup>

It should be noted that thanks to international co-operation Novgorod became one of the most open and friendly Russian regions. The oblast stayed aloof from heated debates on NATO enlargement and the Balkan war. Remarkably, in 1997 a memorial to the German soldiers from a SS division killed during the World War II was opened in Korostyn village on the bank of the Ilmen Lake.<sup>93</sup> Despite some grumbling on the part of the veteran organisations the local authorities demonstrated that they favour reconciliation with the former adversary rather than looking for renewal of enmity.

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91) Matvienko, Valentina, 'The Centre and the Regions in Foreign Policy', *International Affairs* (Moscow), 1996, vol. 42, no. 4, p. 91.

92) <http://www.adm.nov.ru>

93) Riskin, Andrei, 'Cherny Krest nad Ilmenem'[The Black Cross Over the Ilmen Lake], *Rossiyskaya Gazeta*, 4 December 1999, p. 4 (in Russian).

## NGOs

There is also a rather intensive co-operation between Novgorod and foreign NGOs. For example, Novgorod youth organisations established contacts with the Scandinavian youth association Thore's Hammer. The Swedish international co-operation organisation SIDA sponsored a series of conferences and workshops for NGOs both in Sweden and Novgorod. PFF also organised a number of workshops on NGO-administration.<sup>94</sup>

Novgorod became a centre of trade unions' international activities. For example, in October 1997, the ICEM (International Federation of Chemical, Energy, Mine and General Workers' Unions) held a seminar in Novgorod. The seminar brought together Russian and foreign unions involved in the production of energy and also unions representing workers in industries that are major energy consumers. All ICEM-affiliated trade unions in Russia were present and they were joined in their deliberations by delegations from the Russian Trade Union of Nuclear Power and Industry Workers (RTUNPIW) and the Russian Metal and Metal Mining Workers Union. Also in attendance was the ICEM-affiliated Ukrainian nuclear workers' union ATU. The seminar viewed and finalised the new cyber campaign, which is now online in English. The ICEM decided to reproduce as much of the site as possible in Russian too. It was also resolved to create an e-mail-only version of the cyber protest section of the campaign to allow participation by those who have access to e-mail but not to the Web.<sup>95</sup>

In 1995, the Novgorod Oblast United Democratic Centre, an umbrella organisation that unites the local NGOs, signed an agreement with the Orebrø branch of the Worker's Education Union (the Swedish acronym is ABF), an open university-type organisation that deals with adult education. With the financial help of SIDA and the Olof Palme International Centre a series of seminars and workshops on democratisation of the Russian society, party and NGO-building, fund-raising, housing co-operative development was held in Novgorod. Normally, six seminars a year were held in Novgorod (each with 60 participants). Every year the 10 best students attended a seminar in Sweden.

In 2000 the programme was institutionalised by establishing a Free University in Novgorod. The university was supported by the local government. The university's curriculum includes disciplines such as social marketing, social management, fund-raising, economics, human resources, Russian literature and language, Swedish and so on. Courses are mainly taught by professors from the Novgorod State University. The programme is designed for a three-year period and will be continued depending on its success and funding.<sup>96</sup>

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94) Interview with Roman Zolin, Executive Director, Novgorod Support Centre for NGOs, 11 October 1999.

95) *Johnson's Russia List*, no. 1370, 16 November 1997.

96) Stytsyna, *The Baltic Co-operation of the Novgorod Oblast and the Yaroslav the Wise Novgorod State University*, pp. 2-3.

Since there are more than 500 NGOs in the region a problem of co-ordination of their international activities inevitably arises. As a result of such a demand, in 1997, the Novgorod Support Centre (NSC) for NGOs was founded as a part of the Health & Life Foundation. According to the NSC official document, the Centre aims (a) to perform investigations and publish own material to increase the efficiency of the non-commercial sector; (b) to educate and provide NGOs with technical assistance to develop their organisational capacity; (c) to strengthen economic stability in the non-commercial sector of the Novgorod region; and (d) to promote co-operation between NGOs (including co-operation with foreign NGOs).<sup>97</sup>

In particular, the NSC provides the local NGOs with advice, oral or written, and sponsors different activities of the non-profit sector. Consulting and technical assistance include registration of new NGOs, strategic planning, social management, fund-raising, public relations, book-keeping, taxation, drafting legal documentation and so on. NGOs, which do not have their own equipment and resources, may use the NSC's computers, information technology and the library that has literature on NGO activities, handbooks, reports, and periodicals. In co-operation with other Russian and foreign NGOs the Centre organises courses and seminars for NGO activists. The Centre also has the advertisement and information agency which distributes information among the NGOs and assists them with PR. The NSC publishes a bi-monthly bulletin *Patron - New Resources* (600 copies).

## The political and conceptual basis of the external relations of the Novgorod region

Formally, the oblast and the city adopt each year a programme (concept) of social-economic development. This document is a list of priorities in the different areas ranging from industry and housing to taxation and cultural policy rather than a real concept based on a particular philosophy or theory. Such documents used to have a section on external relations. Along with listing concrete projects they can contain some general formula on the necessity to develop co-operation with international organisations and corporations, improve local legislation on investment and taxation, intensify PR campaign, etc.<sup>98</sup>

The foreign policy strategy of and instruments applied by the local government are better explained in policy statements and speeches of the Novgorod leaders. For example, Prusak's political philosophy has been clearly outlined in his lecture in the Kennan Institute's Russian Governors' Forum (2 March 1998). Prusak believes that the task of bureaucrats in the transition is to create

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97) *The Novgorod Support Centre for NGOs* (Information Leaflet). Novgorod: The Health & Life Foundation, 1999, p. 1.

98) See, for example, *Kontseptsiya Sotsialno-Ekonomicheskogo Razvitiya Goroda Novgoroda na 1997 God*, p. 13.



favourable conditions for entrepreneurship and investment.<sup>99</sup> "The main thing we need to do is attract industry and create jobs", said Prusak on another occasion. "When we have jobs then we will get taxes from the workers." Regional officials say foreign investment in turn will spur the growth of a middle class that flourished in Novgorod from the 10th to 16th centuries and help assure long-term stability.<sup>100</sup>

Many analysts attribute the region's success in attracting European, American and Asian investors to bold tax and land policies aimed specifically toward investment. "What is the secret of their success?" Chernomyrdin asked. "The main thing is that they want to and know how to work with investors, and they use non-standard approaches to improve the investment climate."<sup>101</sup>

Novgorod did not wait for the federal government to pass an ideal tax code, but instead worked within the framework of the constitution and the authority given to the regional government to put together its own tax system. According to Prusak, the basic principle of that system is that private individuals should carry the bulk of the tax burden. Prusak admits that this was a very bold step, given the poorness of the region. However, the governor reminds two basic lessons in economics: the poorer the region the more it must do to attract investment; and individuals receiving regular salaries will be willing and able to pay taxes.<sup>102</sup>

Therefore, the Novgorod tax code (effective since December 1994) relieves both foreign and national investors from all taxes until the company becomes self-sufficient.<sup>103</sup> This tax break amounts to approximately 50 percent of all taxes owed by foreign companies in the Russian Federation. For instance, the local administration has given Cadbury Schweppes a five-year tax break. For the Dandy A/S gum factory, it is a six and a half years.<sup>104</sup> Interestingly, the method of calculating full payback period has been developed with the help of Arthur Andersen Company, a world famous consulting firm.<sup>105</sup>

In January 1997, four districts of the Novgorod oblast - Batetsky, Volotovskiy, Marevskiy and Poddorskiy - got a most-favoured economic zone status. All private and state-owned enterprises except for trading firms have got a tax

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99) *Johnson's Russia List*, no. 2183, 18 May 1998.

100) *Johnson's Russia List*, no. 1380, 20 November 1997.

101) *Johnson's Russia List*, no. 1380, 20 November 1997. See also *Johnson's Russia List*, no. 3310, 28 May 1999.

102) *Johnson's Russia List*, no. 2183, 18 May 1998.

103) *O Nalogovykh L'gotakh Predpriyatiyam i Organizatsiyam, Raspolozhennym na Territorii Novgorodskoi Oblasti* [On Tax Benefits for Companies and Organisations Located in the Novgorod Oblast] (Novgorod: The Oblast Duma, 1994) (in Russian).

104) *Johnson's Russia List*, no. 1380, 20 November 1997.

105) *Investment Climate of Novgorod Oblast*, p. 10.

exempt status. The federal taxes are refunded from the regional budget.<sup>106</sup> Total tax benefits amounted to 64 per cent.<sup>107</sup>

In May 1998, the Law on Investment in the Novgorod oblast has been adopted. A new legislation defined ground rules for foreign investment and taxation. Remarkably, the law guarantees investors that the terms of taxation will be invariable regardless of possible changes in the federal legislation. This means that the local government must refund investors in case of any change of the federal law.<sup>108</sup>

Regarding land ownership, since approval of the federal land code has been delayed, Novgorod decided to create its own *de facto* solution that would keep agricultural land restricted but allow investors to own land on which they build production facilities. One such regulation allows the Russian partner in a joint venture to purchase land at very low prices. This in effect gives ownership to the foreign partner as well once the joint venture becomes a legal entity. Moreover, a completely foreign venture is able to lease land for a period of forty-nine years with the option to buy after that time.

The Oblast's regulations also aim to make it more attractive for foreign companies to invest in failing Russian concerns. For example, they take into account the possibility that an investor taking over an existing factory may not need the entire amount of land set aside for that factory. Therefore, the government allows the firm to only pay taxes on the land actually used, and the remaining land is put in a fund for non-liquid assets and distributed to small and mid-sized businesses in need of facilities. In addition, once a foreign company takes over a heavily indebted Russian firm, the oblast's regulations provide for an amnesty on all debt owed by the firm up to the date of sale or creation of the joint venture.

Support for small and mid-sized businesses is another priority for Governor Prusak. Prior to the 1998 financial crisis there were 7,000 small businesses in Novgorod, or one for every 100 citizens. Banks that invest in small and mid-sized businesses are free from taxes on profits. As a result, many larger Moscow and international banks have begun investing in Novgorod, including Smolensk Bank, Avtobank, Promstroi Bank, the World Bank, the European Bank for Reconstruction and Development, and the Export-Import Bank. Moreover, the government has created an insurance fund for small and mid-sized businesses consisting of 100 million new Russian roubles.<sup>109</sup>

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106) *Postanovlenie o Zonakh Economicheskogo Blagopriyatstvovaniya* [Regulations on Most-Favoured Economic Zones]. 27 December 1996 (Novgorod: The Oblast Duma, 1996) (in Russian).

107) *Investment Climate of Novgorod Oblast*, p. 10.

108) *Oblinvestitsionnoy Deyatelnosti v Novgorodskoi Oblasti* [The Law on Investment in the Novgorod Oblast]. 27 May 1998 (Novgorod: The Oblast Duma, 1998), p. 6 (in Russian). See also *Investment Climate of Novgorod Oblast*, p. 10; and Troyanovsky, 'Investory Snimayut Shlyapu pered Velikim Novgorodom', p. 5.

109) *Johnson's Russia List*, no. 2183, 18 May 1998.

Although Prusak is certain that all these issues will eventually be resolved at the national level, the Governor repeatedly explained that it seemed absurd to wait for federal laws when there was concrete work to be done in the region. According to Prusak, Novgorod's favourable business climate is due to the work of the regional legislature and the political and social stability brought about by nine years of governance by the same team of reformers. He also attributes the lack of corruption in the region - noted in a 1996 Interpol study - to the legal framework set up by the government: he explained that if the bureaucracy does not attempt to deprive businesses of what it they requires, the criminal element will not follow suit. The Governor notes that Novgorod's positive results stem from the reform team's conviction that there is no such thing as a dead end economic situation. Prusak strongly believes that optimal solutions can be found if one respects the objective laws of economics and is willing to be proactive in making reform policy decisions.<sup>110</sup>

Despite the lack of a particular document setting forth a regional foreign policy doctrine the local government's strategy could be assessed as efficient and successful. Moreover, this strategy is strongly supported by the local public opinion and interest groups.

Other Russian regions pay a great attention to Novgorod's experiences. For example, the Leningrad region has set about copying the tax breaks and the red-tape-cutting methods that its neighbour, Novgorod, has been using so successfully to draw foreign investors.<sup>111</sup> Ekaterinburg, Kaliningrad, Karelia and Samara also indicated their interest in the Novgorod reformist experiments.

## The external relations of the Novgorod region in the context of Russian Federalism

The Russian Constitution of 1993 is rather vague in defining the foreign policy prerogatives of the centre and regions. According to article 71, the sphere of exclusive authority of the federal centre includes diplomacy, treaty-making, declaring war and peace, foreign economic activities, defence and security, arms production and export/import, definition and protection of state borders, territorial sea, air space, economic zones, and the continental shelf. The area of joint authority includes co-ordination of international and foreign economic relations of members of the Federation, as well as implementation of international treaties (article 72).<sup>112</sup> However, it remains unclear exactly what the term "co-ordination" means. Should the regions inform Moscow about their plans in advance or *post-factum*? Do they have the right to conclude international treaties or not? Could they establish diplomatic, consular, and trade missions abroad or not?

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110) *Johnson's Russia List*, no. 2183, 18 May 1998.

111) 'Russia's Other Governments', *The Economist*, 3 January, 1998.

112) *Konstitutsiya Rossiyskoi Federatsii* [The Constitution of the Russian Federation]. Moscow: Yuridicheskaya Literatura, 1993, pp. 27-28 (in Russian).

To improve the legal basis, Moscow passed a number of federal laws regulating international activities of the regions. The law "On international treaties of the Russian Federation" (July 15, 1995) stipulates that members of the Federation should participate in negotiating and drafting international treaties that concern regions' interests and competencies. The members of the Federation may also recommend to the centre to conclude, suspend, or abrogate treaties. This law, however, did not clarify the status of international agreements signed by the regions.

The law "On state regulation of foreign trade" (October 13, 1995) included in the sphere of joint authority (a) co-ordination of regions' foreign trade; (b) adoption and execution of regional and inter-regional foreign trade programs; (c) receiving foreign loans under the regions' guarantees; (d) regulation of free economic zones and cross-border trade; and (e) providing regions with information. The law granted the members of the Federation the rights (a) to trade with foreign partners on the region's territory; (b) to control trade activities of Russian citizens and foreigners; (c) to adopt regional foreign trade programs; (d) to provide traders with additional guarantees and privileges; (e) to sign trade agreements with foreign partners (only with regional or local authorities); and (f) to establish trade missions abroad (under the auspices of Russian official trade missions) at the regions' expense.<sup>113</sup> The law was received positively by members of the Federation because it provided the regions with both a proper legal basis and broader powers.

The presidential decree no. 370 (March 12, 1996) stipulated that the treaties between Moscow and the regions and accompanying agreements are not to violate the Russian Constitution and must respect its supremacy. They also cannot change the status of a member of the Federation and add to or change what is enumerated in articles 71 and 72 of the Constitution that assign federal and joint authority respectively. The same day President Yeltsin signed a decree no. 375 "On co-ordinating the role of the ministry of foreign affairs in conducting a single foreign-policy course". The decree instructed the regions to inform the Russian Foreign Ministry about their foreign-policy activities, including foreign trips and statements by regional leaders.

The federal law "On co-ordinating international and foreign economic relations of the members of the Russian Federation" (December 2, 1998) elaborated on article 72 of the constitution. The law limits international activities of the Russian regions to trade, scientific, ecological, humanitarian, and cultural co-operation with foreign partners. They are allowed to co-operate only with regional and local governments of foreign states. They can deal with central authorities of foreign countries only via Moscow. The law prevents regions from providing their missions abroad with diplomatic status. According to this legislation, regions' agreements with foreign partners do not enjoy the status of international

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113) *Rossiyskaya gazeta*, 24 October 1995, p. 4 (in Russian).

treaties.<sup>114</sup> The law, together with the law on delimitation of powers of the federal centre and the subjects of the Federation (June 24, 1999), stipulated that the regions should modify their legislation in accordance with the federal law.

It should be noted that the Russian Constitution makes a distinction between the members (subjects) of the federation and municipal bodies (organs of self-government). While the members of the federation are the subjects of control and jealousy on the part of the centre, municipalities enjoy more autonomy in domestic affairs than regions. However, external relations of both types of local government are strictly monitored by Moscow. In reality, foreign policy prerogatives of the authorities are defined by either special agreements between the regions and the centre or informal relations between the regional and federal elites.

The Charter of Novgorod the Great has a provision on international co-operation. According to Article 42, "The City has a right to establish international and foreign economic relations in accordance with the Constitution of the Russian Federation, federal and regional laws and this Charter; it also takes part in implementing of international treaties concluded by the Russian Federation in areas where its interests are involved."<sup>115</sup> However, the city lacks a more detailed description of its foreign policy powers.

The Novgorod oblast is one of the Russian regions which refused to conclude a special treaty on the division of responsibilities with the federal centre. Local officials believe that regions do not need such treaties because the Russian Constitution and federal laws properly regulate relations between the members of the federation and the central government.<sup>116</sup> The Novgorod leaders believe that mutual respect, trust and clearly defined ground rules is all an effective federation needs. Minor problems could be successfully solved through 'quiet diplomacy', including negotiations and personal contacts. According to local officials, they occasionally squabble with the federal bureaucrats but try to avoid making these controversies public.<sup>117</sup>

Interestingly, Novgorod lacks local offices of the Foreign Ministry and Ministry of Commerce which used to underline a particular status of a region in foreign affairs (for instance, St Petersburg, Novgorod's closest neighbour, has both offices). However, this does not prevent the city and the oblast from successful development of international co-operation.

According to Governor Prusak, "relations between region and government are a two-way process, and for Novgorod oblast they are proceeding in a normal busi-

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114) *Sobranie Zakonodatelstva Rossiyskoi Federatsii* [Compilation of Legislation of the Russian Federation]. Moscow: 1999, No. 2, p. 231 (in Russian).

115) *Ustav Velikogo Novgoroda* [Charter of Novgorod the Great] (Novgorod: Novgorod City Duma, 1998), p. 30 (in Russian).

116) Interviews with Ivanov and Svetlana S. Pchelina, Head of the Legal Department, Novgorod City Duma, 11 October 1999.

117) Interview with Ivanov.

nesslike fashion. But the working partnership between government and regions would be more productive if interlinked normative acts - for example, on foreign investment, free economic zones, and licensing and certification - were adopted as a single package."<sup>118</sup> On another occasion, speaking about the activity of the federal government, Prusak noted that there must be four priority directions in its work - adoption of customs and tax codes, pursuance of a policy of reduction of tariffs, and support for Russian commodity producers.<sup>119</sup> This coincides with the opinion of foreign investors. "Of course there are problems, above all with customs," said Helmet Fiveg, director of Pfleiderer-Chudovo, a German-Russian joint venture making insulation fibreglass. "Every time you want to bring in something as simple as a cable you need a certificate."<sup>120</sup>

It should be noted that the 'businesslike' style of region-centre relationship and adherence to methods of 'quiet diplomacy' do not mean that the Novgorod leadership avoids any criticism with regard to Moscow. Prusak identifies a number of controversial areas:

"The regions participating in foreign economic activities should be given timely information about changes to the normative base. We believe the retroactive enactment of documents to be simply ridiculous in the present circumstances. More powers have to be given to the regions in the resolution of organisational questions, for example, the autonomous registration of organisations with foreign investments of more than 100 million roubles, and the registration of shares in enterprises. And to make things absolutely fine, the policy of the Central Bank and the Russian Federation Ministry of Finance on providing credit for projects guaranteed by the regions must be co-ordinated precisely at governmental level."<sup>121</sup>

Prusak also worried about the track taken for several years by the Russian government: "There is no intelligent economic policy in Moscow. We are going to have a disaster if we don't change quickly." He denounced "the omnipresence of banking, finance and oil and gas industry representatives in government who ignore the true economic problems of the country." He regretted seeing in the ministries "too many Muscovites and not enough leaders coming from the regions."<sup>122</sup>

Interestingly, despite of the Novgorod oblast still being dependent on financial aid from Moscow Prusak is not afraid to criticise the central government. There are some grounds for his boldness and optimism. Thanks to Prusak's efficient economic policies, the region has been able to reduce federal subsidies to its budget from 40 per cent in 1993-94 to between 5 and 10 per cent in 1996-1999.<sup>123</sup> Even "This will no longer be the case in four or five years," Prusak said, counting on rapid improvement in the region which showed one of the

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118) *Johnson's Russia List*, no. 1421, 9 December 1997.

119) *Johnson's Russia List*, no. 2187, 21 May 1998.

120) *Johnson's Russia List*, no. 1380, 20 November 1997.

121) *Johnson's Russia List*, no. 1421, 9 December 1997.

122) *Johnson's Russia List*, no. 3310, 28 May 1999.

123) Petro, Nicolai N. *Creating Social Capital in Russia: The Novgorod Model*.

highest growth indexes in Russia before the crash of the banking system in August 1998.<sup>124</sup> According to some reports, the Novgorod leadership hopes that by the year 2001 the Novgorod oblast will become independent from the federal assistance.<sup>125</sup>

Despite his criticism of Moscow's policy towards regions, the Novgorod Governor enjoys the Kremlin's favour. For example, in January 1998 deputy head of the Russian president's staff Victoria Mitina mentioned Prusak as one of the most successful regional leaders. She even stated that "such people should occupy cabinet seats."<sup>126</sup> On 26 March 1999 an informal meeting on the occasion of the 10th anniversary of the first free elections in Russia and the establishment of national parliamentary law was held at the presidential office in the Kremlin. Prusak was again praised as one of the young reformers who contributed to Russia's transition from socialism to democracy and market economy. In August 1999 the then Prime Minister Putin visited Novgorod to support Prusak on the eve of the gubernatorial elections.<sup>127</sup>

However, Prusak's understanding of democracy (including principles of federalism) has substantially been changed with time. At the above-mentioned meeting in the Kremlin he said that an evolution took place in the minds of the first generation of Russian democrats over the last decade. "We understand now that democracy is not the quantity of powers but a quantity of opportunities to realise one's powers," he emphasised.<sup>128</sup>

Particularly, Prusak is concerned with the lack of authority and governance in the country. "Nobody has levers of power, neither the president, the government, the governors, the Duma nor the Federation Council. Nobody. Nobody is in charge," he said on one occasion. "That is the main trouble. Each of us shouts and screams, but we cannot do anything. We are all separate."<sup>129</sup>

To avoid disintegration of the Russian Federation, he maintains, the system of government in Russia should be changed. In his view, it is necessary to make changes in the Constitution so that the President would not be elected by voters but by several representatives of each of 89 Russian regions. He believes that in this case the President will report not to the "mythical people" but to concrete persons. "It is our duty to change the Constitution and to build power which would be genuinely approximated to real life so that reforms could be carried out in the country", the governor stated.<sup>130</sup> Prusak is also very sceptical about the Russian party system. He complains that now political parties groom certain politicians instead of working to reform the country. He proposes to abolish the

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124) *Johnson's Russia List*, no. 3310, 28 May 1999.

125) Interview with Vishnevsky.

126) *Johnson's Russia List*, no. 2018, 14 January 1998.

127) Volkova, Marina. 'Putin Posetil Novgorod' [Putin Visited Novgorod], *Nezavisimaya gazeta*, 21 August 1999, p. 3 (in Russian).

128) *Johnson's Russia List*, no. 3113, 27 March 1999.

129) Slackman, Michael, 'Russia's Inner Struggle: Federal Government Losing Its Authority Over Regions', *Newsday*, 7 March 1999.

130) *Johnson's Russia List*, no. 2187, 21 May 1998.

party-ticket system and elect the Duma only on the basis of single-mandate districts.<sup>131</sup>

Prusak also called for doing away with elections for regional and local leaders. Instead, he advocated giving the president the right to appoint governors, who themselves would appoint local leaders. He argued that elections "continually destabilise the situation. Every time it's a shock for the state. Enormous amounts of money are spent, to no avail."<sup>132</sup> He strongly supported Primakov who put forward a similar idea at his meeting with governors in November 1998. He called it "nonsensical" for one arm of the executive branch to work against the other.<sup>133</sup> Along with Ekaterinburg Governor Eduard Rossel and Tomsk Governor Viktor Kress, Prusak proposed to reinvigorate the Council of Governors, an informal organisation of regional leaders, in order to revive the work of the Council of the Federation, the upper chamber of the Russian parliament.<sup>134</sup> At the same time, Prusak disapproved Primakov's idea to 'enlarge' Russian regions, particularly, to form a single Northwest province instead of Leningrad, Novgorod and Pskov oblasts calling this initiative 'premature' and 'unprepared'.<sup>135</sup>

In February 2000 Prusak together with the governor of the Belgorod oblast Yevgeny Savchenko and the governor of the Kurgan oblast Oleg Bogomolov signed a letter to Vladimir Putin where they suggested to appoint governors, gradually enlarge the regions, subordinate municipalities to the oblast governments, create a Senate instead of the Council of the Federation and an impressive list of economic reforms.<sup>136</sup> The Kremlin reacted positively to these initiatives. It should be noted that the Putin administrative reform was designed along the same lines.

It is also important to know that in 1996-2000 Prusak was a chairman of the Committee on International Affairs of the Council of the Federation. Moreover, in January 1999 he was a deputy chairman of the Parliamentary Assembly of the Council of Europe.<sup>137</sup> This was quite helpful for further developing Novgorod's foreign relations.

To sum up, the Novgorod oblast is a unique region as regards its relationship with Moscow. By contrast with other regions the oblast does not want more autonomy in foreign affairs and does not object against the federal centre's con-

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131) Riskin, Andrei, 'Partiya Regionov—Eto Blef' [The Party of Regions Is Bluff], *Nezavisimaya Gazeta*, 4 March 1999, p. 4 (in Russian).

132) *Argumenty i Fakty*, 1998, no. 15 (in Russian); and *RFE/RL NewsLine*, Vol. 2, No. 99, Part I, 26 May 1998.

133) *Johnson's Russia List*, no. 3614, 10 November 1999.

134) *Rossiyskaya Gazeta*, 2 November 1999, p. 1 (in Russian).

135) Akopov, Petr, Timchenk, Svyatoslav, '89 Subéktov Federatsii - Eto Sliskom Mnogo' [89 Members of the Federation Is Too Much], *Nezavisimaya Gazeta*, 24 February 1999, p. 3; and *Rossiyskaya Gazeta*, 31 October 1998, p. 3 (in Russian).

136) *Nezavisimaya gazeta*, 25 February 2000, pp. 1, 4 (in Russian).

137) Troyanovsky, 'Gubernator', p. 7.



trol provided that the latter would not be counterproductive for the region's international relations.

## Management and Administration

According to Novgorod officials the local managerial system is based on five main principles:

- simplicity;
- easy access to top decision-makers;
- transparency;
- legality; and
- co-operation between all branches and levels of government.<sup>138</sup>

Simplicity means that administrative structures dealing with external relations are few and basic rules are clear and stable. It is very easy to understand who is responsible for what and how the problem could be solved.

According to the second principle, any potential investor may have a direct and prompt access to any public official, including mayor and governor, provided that the waiting period does not exceed two hours.

The decision-making process is transparent; public and parliamentary accountability are real in the region. The local government informs and consults the broad public on major international projects, and the local legislative bodies (the city Duma and the oblast legislative assembly) oversee external activities of their executive counterparts.

Legality implies the respect for law. According to local officials, all external activities of the region are based on the federal and local legislation. They also insist that the Novgorod government is almost free from corruption and, for this reason, foreign investors, being tired of corrupted bureaucrats from Moscow and St Petersburg, prefer the Novgorod region.

The region also enjoys co-operation between executive and legislative branches of government: they are united by their striving for attracting foreign investors and developing the oblast's external relations. There is no conflict between the governor and the mayor as is the case in many Russian regions. They share common views on reformist policy, international co-operation and other important political issues. It is obvious that a 'team spirit' ideology is dominant in the local administrative structures. Moreover, co-operation between the oblast and the city authorities is institutionalised in Novgorod: the mayor also has the rank of a vice-governor.

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138) Interviews with Vishnevsky and Ivanov. See also interview with Mikhail Godgildiev, Head of Department of Industrial Policy and Foreign Economic Relations, Novgorod City Administration, 11 October 1999; *Investment Climate of Novgorod Oblast*, p. 7; and *Veliky Novgorod for Travellers*, p. 90.

It should be noted that this sort of administrative policy is a powerful instrument for attracting foreign investments *per se*.

As mentioned above, the Novgorod administrative system which is responsible for external relations is rather simple. The governor is on the top of the entire decision-making system. He is in charge with taking most important decisions while special units within the oblast and city administrations are responsible for gathering and analysing data, searching potential partners, negotiating, drafting and implementing decisions and so on. However, the governor and the mayor can be involved into the negotiating process too if problems arise or a project is of particular importance for the region. The top officials also used to assume the role of 'chief diplomats' while they travel abroad.

At the oblast level, one of the vice-governors is responsible for the routine control over external affairs. He is assisted by the Oblast Economic Committee which, in turn, has a Foreign Investment Department (staff of six) and Export-Import Department (staff of two).<sup>139</sup> The oblast administration also has a Department of International Relations which is in charge with protocol, humanitarian and cultural issues. One of the commission of the oblast's Duma oversees the executive branch's foreign policy and provides parliamentary scrutiny if necessary.

The city has a similar administrative system. Two departments within the city administration are crucial for managing Novgorod's external relations. The first one, Department on Industrial Policy and Foreign Economic Relations is responsible for economic co-operation with foreign countries while the Department of Foreign Relations, City Promotion and Tourism runs various co-operative programmes in areas such as culture, education, information, tourism, exchanges, twinning relations, etc.<sup>140</sup> Similar to the oblast's legislative assembly, the city Duma works hand in hand with the executive bodies. One of the vice-chairmen of the Duma and one of its commissions handle foreign activities of the legislature.

Along with purely administrative structures, numerous semi- and non-governmental institutions have been established in the region to promote international contacts and co-operation. For example, the Novgorod Chamber of Commerce and Industry (NCCI) established in April 1994 unites about 100 companies, including the firms with foreign capital. The NCCI provides its members with consulting, information, advertising and other services. The Novgorod Investment Promotion Agency established in August 1997 aims at identifying potential investors, facilitating international projects and PR campaigning abroad. The company Novgorodaudit offers a wide spectrum of audit and consulting services. As mentioned above the local government also co-operates with a number of authoritative foreign consulting firms. A number of institutions such as the Novgorod Business Park, Novgorod Technopark, Novgorod Leasing Company,

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139) Interview with Natalya A. Savushkina, Deputy Chairman of the Oblast Economic Committee, Novgorod Oblast Administration, 11 October 1999.

140) Interviews with Godgildiev and Freidman.

Business and Training Centre for Entrepreneurship and Small Business, "Norman" Business School (Novgorod State University) train the local businessmen and help them to join international projects.<sup>141</sup> Novgorod Support Centre for Non-Government Organisations promotes the development of NGOs by providing them with consulting and training. For a list of addresses, useful for external relations contacts in Novgorod see the appendix.

In the Novgorod region, administrative and non-governmental structures mutually compliment, reinforce and check each other. This was helpful for creating an efficient, sound and transparent decision-making system.

## Conclusions

The Novgorod region is a Russian success story even if it has taken nearly ten years and cost considerable efforts to get some palpable results. Thanks to foreign investment and proactive economic policies of the local government living standards in the oblast are higher and unemployment rate lower than in many other Russian regions. Foreign companies provided the region not only with jobs and stable income but also with new technology and management skills which are crucial for the future of the region. Foreign investors feel secure in the region. The Novgorod oblast got rid of the heavy dependence on the military-industrial complex and became an economically dynamic and forward-looking region. However, it should be done a lot to convert the defence industry of the region and engage it in the full-fledged international co-operation. Defence industrialists are still rather conservative with regard to further opening up to such co-operation and attracting foreign investment.

International co-operation covers all the spectrum of the region's activities ranging from industry and agriculture to humanitarian issues and NGOs. What is important is that collaborative programmes are existing not only on paper but are indeed executed in practice and brought sensible results. The EU member-states and the countries of the Baltic Sea rim are Novgorod's principal partners. Novgorod is also willing to develop co-operation with the US and Asia-Pacific nations. Co-operation with the CIS countries are of less importance than the 'far abroad' which is unusual for other Russian regions.

Unfortunately, European regional and subregional institutions are not active enough in the Novgorod oblast and co-operation exists mostly on the bilateral and company-to-company levels. Apart from the limited activities of the TACIS programme and the EBRD neither the EU nor the CBSS can boast a good record. If the EU is serious about the Northern Dimension the latter should certainly include the Novgorod oblast as one of the driving forces of the Russian reforms at the regional level.

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141) *Investment Climate of Novgorod Oblast*, p. 8-9.

Although Novgorod is a Russian pioneer in attracting foreign investment the current practice is far from being an ideal. Foreign investment is mostly directed to the food and wood-processing industries, transportation and infrastructure while the Novgorod high tech industry's potential remains almost untouched. Many joint ventures produce semi-finished products to be re-exported to the West while the region is interested in a full-cycle production.

The Novgorod oblast is ahead of many Russian regions in investment, tax and land legislation which is beneficial for further development of international co-operation. Moreover, some regions try to copy Novgorod's positive experience with regard to foreign economic strategies. However, numerous obstacles (mostly at the federal level) still remain, including inconsistencies in the tax, customs and budget legislation. It is beyond the region's ability to remove most of these barriers, as the federal legislation or even the Constitution should be changed. This creates 'natural' (put it more precisely: unnatural) limits to the success of the Novgorod experiment. It would be wrong to admit that Novgorod can ignore the general situation in the Russian Federation. On the contrary, the regional economy is intertwined with the country's one and suffers from all economic ups and downs as well as from the federal government's mistakes. Fluctuation of the international political conjuncture (for example, the EU's negative attitude to the Russian policies in Chechnya) can also undermine the region's international initiatives. However, the inflow of foreign capital and the managerial skills obtained help the region to ease the above mentioned negative tendencies.

It is safe to assume that international co-operation will remain Novgorod's top priority in the foreseeable future. This conclusion is based on a solid body of evidence. Both the regional elites and the broad public understand the need to co-operate with foreign countries. The region has all prerequisites for successful development of such co-operation - some natural resources, a developed industrial-technological base, skilled labour force, managers, a united and forward-looking political leadership, a more or less developed normative basis and good relations with the federal centre. It is important to provide the Novgorod region's aspiration and vigour to develop international co-operation with a proper financial and institutional support from its current and potential foreign partners.

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## Appendix: Useful contacts in Novgorod

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